

**Associated  
British Foods  
plc**

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ANNUAL REPORT  
AND ACCOUNTS 2013



# CONTENTS

## Directors' report

### Business review

- 1 2013 highlights
- 2 Group business model and strategy
- 4 Our businesses at a glance
- 6 Business strategies
- 8 Chairman's statement
- 20 Operating review
- 36 Financial review

### Governance

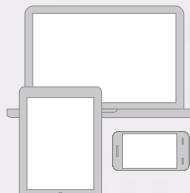
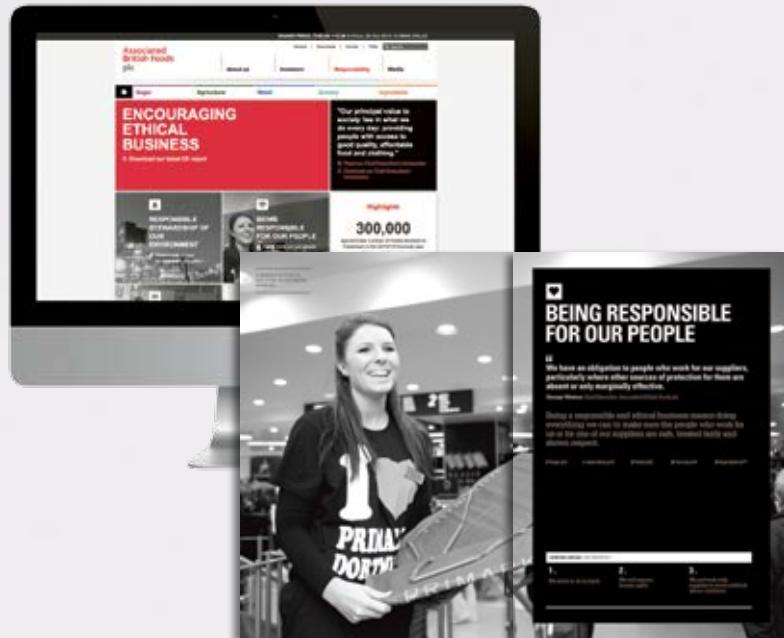
- 40 Corporate responsibility
- 44 Board of directors
- 46 Corporate governance
- 62 Remuneration report
- 76 Other disclosures
- 80 Statement of directors' responsibilities in respect of the annual report and the financial statements
- 81 Independent auditors' report

### Financial statements

- 82 Consolidated income statement
- 83 Consolidated statement of comprehensive income
- 84 Consolidated balance sheet
- 85 Consolidated cash flow statement
- 86 Consolidated statement of changes in equity
- 87 Significant accounting policies
- 92 Accounting estimates and judgements
- 93 Notes forming part of the financial statements
- 127 Company financial statements
- 132 Progress report

### Shareholder information

- 132 Company directory



Our PLC website is available on multiple platforms from mobile devices to laptops. For a more interactive report, go online at [abf.co.uk/ar2013](http://abf.co.uk/ar2013)

For an in-depth look at our sustainable approach to business refer to the Associated British Foods' Corporate Responsibility Report 2013 which is available at [abf.co.uk/responsibility](http://abf.co.uk/responsibility)

# 2013 HIGHLIGHTS

Associated British Foods is a diversified international food, ingredients and retail group with sales of £13.3bn, and 113,000 employees in 47 countries.

- Another year of strong growth and cash generation
- Remarkable performance by Primark
- Grocery much improved
- Record profit for Agriculture
- AB Sugar in line with expectations
- China Sugar and Ingredients rationalisation

<b>Group revenue</b>	<b>Adjusted operating profit*</b>
<b>£13.3bn</b>	<b>£1,185m</b>
<b>Up 9%</b>	<b>Up 10%</b>
<b>Adjusted profit before tax**</b>	<b>Adjusted earnings per share**</b>
<b>£1,096m</b>	<b>98.9p</b>
<b>Up 13%</b>	<b>Up 13%</b>
<b>Dividends per share</b>	<b>Net capital investment</b>
<b>32.0p</b>	<b>£600m</b>
<b>Up 12%</b>	
<b>Net debt reduced to</b>	<b>Operating profit</b>
<b>£804m</b>	<b>£1,093m</b>
	<b>Up 25%</b>
<b>Profit before tax</b>	<b>Basic earnings per share</b>
<b>£876m</b>	<b>74.8p</b>
<b>Up 15%</b>	<b>Up 6%</b>

\* 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.

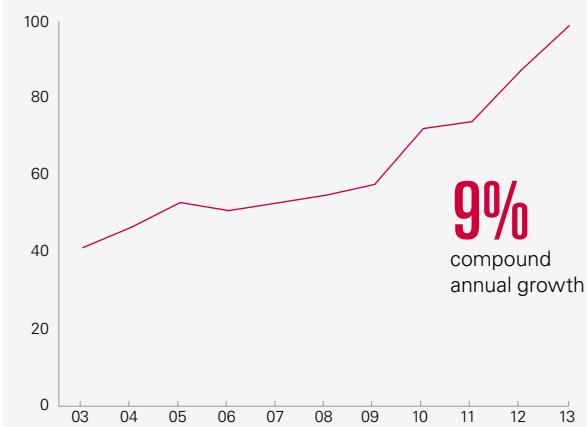
# GROUP BUSINESS MODEL AND STRATEGY

Associated British Foods is a diversified group of food, ingredients and retail businesses selling into more than 100 countries worldwide and with operations in 47 countries across Europe, southern Africa, the Americas, Asia and Australia.

**Our range of activities is broad in product, technology and market scope. Our portfolio of businesses comprises sizeable operations that achieve good revenue and profit growth; mature, cash-generative operations; and smaller enterprises that afford exciting growth potential.**

In our markets, we aim to achieve strong and sustainable positions through a combination of organic growth, acquisition of complementary new businesses and achievement of high levels of operating efficiency. We provide high-quality, value-for-money food and clothing that are central to people's lives.

**10 year adjusted earnings per share growth (pence)**



## Business structure

Our businesses are organised so that they are close to the markets and customers that they serve.

They are managed as five business segments that bring together common industry expertise, operational capability and market intelligence. Operational decisions are made locally because, in our experience, they are most successful when made by the people who have the best understanding of their markets and who have to implement them. The corporate centre aims to provide a framework in which our business leaders have the freedom and decision-making authority to pursue opportunities with entrepreneurial flair. The centre is small and uses short lines of communication to ensure prompt, incisive and unambiguous decision-making. It seeks to ensure that business activities are appropriately monitored and supported.

## BUSINESS STRATEGIES IN MORE DETAIL

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

For more strategic content on our five businesses, [go to page 6](#)

### Strategy

The corporate centre agrees strategy and budgets with the businesses and monitors their performance closely.

The group balance sheet is managed to ensure long-term financial stability, regardless of the state of capital markets, and capital funding is made available to all of our businesses where returns meet or exceed clearly defined criteria. The centre provides selected services where the scale of its operations enables a more cost-effective or efficient delivery, where expertise that might not be available at a business level can be retained by the group, or where the provision of such services would otherwise distract business executives. Such services include investor relations, pensions, insurance, tax and treasury management, where specialist expertise is brought together in one place for the benefit of the group as a whole. The centre also co-ordinates selected value-added capabilities to support the businesses in their local markets such as talent management and development, procurement, and the sharing of best practice in, for example, health and safety or engineering risk management. We operate to high ethical standards as an organisation and expect the same of our employees. We encourage an open and honest culture in all our dealings and ensure that our core values are fully implemented throughout the group.

### Organic growth

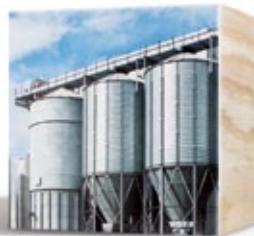
Organic growth is achieved through investment in marketing, in the development of existing and new products and technologies and in targeted capital expenditure to improve efficiency and expand capacity.

We are committed to innovation, the continuous pursuit of improvement and the maintenance of our efficient manufacturing capability.

We aim to operate in a sustainable, ethical, efficient and safe manner. We have a strong culture of continuing operational improvement and focus on delivering exceptional quality and customer service. The group takes a long-term approach to investment and is committed to increasing shareholder value through sound commercial, responsible and sustainable business decisions that deliver steady growth in earnings and dividends.

Acquisitions are made to complement existing business activities and to exploit opportunities in adjacent markets or geographies.

# OUR BUSINESSES AT A GLANCE



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

## Sugar

### Revenue

**£2,677m** 2012: £2,666m

### Adjusted operating profit

**£435m** 2012: £510m

### Adjusted operating profit margin

**16.2%** 2012: 19.1%

### Return on average capital employed

**23.4%** 2012: 26.5%

#### 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 four beet sugar factories in the north east of the country. Continuous investment has raised annual sugar capacity to over 900,000 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.

For more content on Sugar's operations,  
[go to page 22](#)

## Agriculture

### Revenue

**£1,410m** 2012: £1,265m

### Adjusted operating profit

**£47m** 2012: £40m

### Adjusted operating profit margin

**3.3%** 2012: 3.2%

### Return on average capital employed

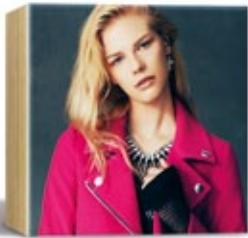
**16.4%** 2012: 16.5%

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 more than 65 countries worldwide.

For more content on Agriculture's operations,  
[go to page 25](#)



## Retail

### Revenue

**£4,273m** 2012: £3,503m

### Adjusted operating profit

**£514m** 2012: £356m

### Adjusted operating profit margin

**12.0%** 2012: 10.2%

### Return on average capital employed

**26.1%** 2012: 19.2%

#### Primark

Primark is a major retail group employing 48,000 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 homewares.

For more content on Retail's operations,  
[go to page 27](#)

## Grocery

### Revenue

**£3,840m** 2012: £3,726m

### Adjusted operating profit

**£232m** 2012: £187m

### Adjusted operating profit margin

**6.0%** 2012: 5.0%

### Return on average capital employed

**15.8%** 2012: 12.2%

#### 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.

For more content on Grocery's operations,  
[go to page 30](#)

## Ingredients

### Revenue

**£1,088m** 2012: £1,067m

### Adjusted operating profit

**£1m** 2012: £27m

### Adjusted operating profit margin

**0.1%** 2012: 2.5%

### Return on average capital employed

**0.1%** 2012: 4.4%

#### Yeast and bakery ingredients

AB Mauri operates globally in yeast and bakery ingredient production with 52 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, lipids, yeast extracts and cereal specialities worldwide with manufacturing facilities in Europe and the US.

For more content on Ingredients' operations,  
[go to page 34](#)

# BUSINESS STRATEGIES

Providing our business leaders with the freedom and decision-making authority to pursue opportunities with entrepreneurial flair.

## Sugar: A world-leading sugar business focused on excellence

**AB Sugar is an advanced manufacturer and has a simple vision to be a world-leading sugar business. We must remain cost competitive whilst exceeding the demanding and diverse needs of our customers, and we must grow sustainably.**

AB Sugar aims to achieve growth through excellence in agriculture and operations including the application of new technologies and the further expansion of co-product opportunities. We seek to ensure cost leadership in our various regional supply chains through: engagement with growers to ensure optimum beet/cane growing whilst providing fair returns to growers; continual improvement in operating performance by maintaining a well-invested asset base; and by seeking out best practice to optimise product quality and the efficiency of the conversion process.

## Agriculture: Driving value for businesses along the food supply chain

**As a unique community of leading agricultural businesses, AB Agri consistently strives to improve the sustainability of food production. We work in partnership with customers to deliver precision food production by optimising resources, thereby enabling the production of more food with a lower environmental impact. AB Agri operates through individual, entrepreneurial businesses empowered to grow their interests independently, and through a strong network of contacts across the entire food supply chain.**

Organic growth is achieved through innovative product development and through extending the business's already broad geographic reach into new territories. Using the diverse breadth of products, services and people within the AB Agri community, the business develops bespoke solutions specifically tailored to its customers' needs. Extending this into new geographies and into new areas that are adjacent to its core capabilities affords further growth opportunities. AB Agri will continue its successful strategy of seeking to make complementary acquisitions to strengthen its portfolio of businesses and its technical capability. It will also continue to collaborate with other businesses in the ABF group to harness new contacts and technologies.

## Retail:

Up-to-the-minute fashion at amazing prices

**Primark offers great value for money which it achieves by: incurring no advertising costs, instead relying on its customers 'doing the talking' about its products; buying in vast quantities and passing on the cost savings to customers; keeping overheads to a minimum but investing in state-of-the-art logistics to enable its stores to replenish stocks quickly; and by not compromising its high quality standards, rigorously testing products at the various stages of production.**

In the world of fashion it is critical that once a style is seen on the fashion show catwalk it reaches the stores as quickly as possible. It can take as little as six weeks from initial design concept to being available on shelf, and merchandise is sourced from all corners of the globe. Although Primark does not own the companies or factories that produce its merchandise, it recognises its responsibility to the workers in those factories, and to its customers, to ensure that its products are made in good working conditions.

## Grocery:

An enviable portfolio of leading food brands

**Each of our Grocery businesses pursues an independent strategy, appropriate to its particular market position and stage of development. As examples, Jordans Ryvita is focused on developing its brands in its core markets, whilst AB World Foods has had considerable success extending its reach into new and emerging markets.**

All of these businesses are committed to the consistent development of their brands, and consumer research is conducted locally and internationally to establish consumer needs and ensure appropriately targeted investment. Our production facilities are well maintained and we take a long-term approach to capital investment, recognising the merits of building for the future. Acquisitions are undertaken when opportunities are presented to either strengthen or complement existing businesses.

## Ingredients:

Technology and innovation to meet customer needs

**Our Ingredients businesses are dedicated to understanding the key requirements of their customers and their end-use markets in order to ensure a relevant supply of ingredients, systems, products and technology that create value. They develop partnership relationships with customers to achieve a genuine understanding of their products, formulations, equipment and processes and the market environment in which the products are sold. They aim to grow by providing outstanding customer service backed by a high level of investment in technology, innovation, research and development.**

Each business has its own business model that determines an appropriate balance of emphasis across the full range of potential sources of competitive advantage: innovative and distinctive products; an efficient and proprietary set of production processes; and compelling customer propositions comprising a blend of product performance and customer-specific services.

# CHAIRMAN'S STATEMENT

This year's results exceeded our expectations... revenue increased by 9%, adjusted operating profit was ahead by 10% and adjusted earnings per share were up 13% on last year.

**In reporting on last year's fine performance I concluded my statement with the expectation that the group would make some further progress this year. This year's results exceeded those expectations with very good growth: revenue increased by 9%, adjusted operating profit was ahead by 10% and adjusted earnings per share were up 13% on last year. This operating performance resulted in a strong cash flow and a healthy reduction in the group's net debt.**

Primark had an outstanding year, increasing profit by 44% and adding a further 800,000 sq ft, or 10%, to its already substantial estate. Grocery margins improved with a recovery in both the baking and meat businesses of George Weston Foods in Australia. The momentum of recent years in AB Agri continued and underlying trading in Ingredients achieved some stabilisation. AB Sugar performed well, delivering a result which, although below last year's high level, was in line with our expectations.

The decline in AB Sugar's profit in 2013 was the result of lower European production and higher beet costs for British Sugar. In June this year, the European Council of Ministers confirmed that EU sugar quotas for domestic production would end in 2017 and the market has already started to react. Pricing for the 2014 financial year is lower as a consequence of the greater availability of sugar globally and an increase in competition. We have worked for a number of years to lower the cost base and improve the efficiency of our

European operations and we are confident of our ability to succeed in this new environment.

Capital expenditure was lower again this year. Investment included the completion of the new yeast plant in Mexico and the South African warehouse and Tanzanian distillery for Illovo, and further expenditure on our programme to reduce the cost base at Allied Bakeries with new bread plants at three of our UK bakeries. We continued to pursue the big retail expansion opportunity in Primark, especially in continental Europe, and we expect this to increase in the coming year.

Cash flow was strong with higher profit and a lower level of capital investment more than offsetting a working capital outflow and higher taxes paid. We are a substantial tax payer, and of the £252m of corporation tax paid by the group during the year, more than half was paid in the UK. Net debt at the year end had reduced to £804m.

Primark has continued to make significant progress with its ethical trade programme. We take this programme extremely seriously and have built a team of some 40 in-country ethical trading specialists, of whom eight are located in Bangladesh. The tragic events in April caused by the collapse of the Rana Plaza building near Dhaka, Bangladesh, were deeply saddening. Our response to these events was based on our determination to alleviate hardship arising from this disaster as quickly as possible. We were able to achieve this as a result of the experience and capability of our in-country team. The operating review

contains considerable detail about the Company's response. The board remains committed to the highest ethical standards, not just at Primark but across all of the group's businesses.

## Corporate responsibility

Our principal value to society lies in what we do every day: providing people with access to good quality, affordable food and clothing. If the rapidly growing global population is to be fed, it will be fed by companies like Associated British Foods, working in developed and emerging economies to encourage reliable and efficient supply. There is a close alignment between our moral obligation and good business practice. We have a modern and efficient food supply chain and we are constantly improving our productivity, investing in new assets, reducing waste and making more from less. Of course we must do this for each succeeding generation, so our actions must look to the longer term and must be sustainable. We consistently invest in our cost base and our distribution reach. We use technology to improve productivity and to assure sources of supply but we must also use it to inform us of the impact of our actions on the environment. We label our products properly and market them appropriately to customers and we constantly strive to improve food safety. Our annual report includes examples of the application of our corporate responsibility philosophy, and much more detail is provided in our latest Corporate Responsibility Report which has been fully refreshed since first publication in 2010 and is available for download from our website.

## Diversity

Our businesses around the world are largely staffed and managed by local teams and our workforce is consequently ethnically rich and diverse. We understand the importance of harnessing and nurturing talent, yet it is clear that women are not as well represented at senior levels within our organisation as they could be. This is a missed opportunity that we have begun to address. There is no common solution and this is reflected in our approach to gender diversity where we have piloted initiatives that can be copied, applied and adapted to local business conditions. While gender is a good place to start in tackling diversity, it is important that we work, not only to increase diversity in all its forms, but to



ensure that it becomes part of our everyday business activity.

#### **Remuneration**

Our remuneration policy aims to reward employees for the performance of those parts of the business for which they are accountable and which they can directly influence. Management incentives are designed to encourage the right decisions being taken in the interests of the long-term health of the business. We seek to reward competitively for good performance but comparison with market data is just one of the factors taken into account when determining remuneration. Close attention is also paid to the nature and degree of autonomy of each role because management appreciate being given the freedom to act which encourages creativity, fosters a spirit of enterprise and ensures decisions are taken as close to our customers as possible. It is this combination of proper pay and job structure which enables us to attract and retain the calibre of management that has delivered these results.

Targets for long-term and short-term incentive arrangements are reviewed annually by the Remuneration committee, having regard to internal and external factors and the relationship between the level of payments made and the performance of the group over a number of years. Our executives understand that they are well remunerated and that this not only reflects the marketplace but also takes into account the performance and growth of the group, the degree of expertise required to fulfil the role and the level of individual experience. Our

executives are properly rewarded for the work that they do and the responsibilities they bear.

Shareholders will note that the directors' remuneration report addresses the new reporting regime, albeit that we are not yet required to meet these standards until next year.

#### **The board**

The board has had the great benefit of a stable group of independent directors since 2007. The Senior Independent Director, Tim Clarke, was appointed in 2004 and has therefore served as a director for nine years. The UK Corporate Governance Code requires that Tim's independence is confirmed by the rest of the board, if he is to continue as an independent director. This they have done and we are delighted that Tim has agreed to continue his distinguished service to the group.

The three other independent directors were appointed in 2006 and 2007 and will complete nine years on the board in 2015 and 2016. Such a significant loss of experience in so short a period is to be avoided and, accordingly, we have decided to make an earlier appointment, expanding the board by one when the search that is currently under way has been completed. It is expected that, in due course, the board will revert to its current size.

#### **Employees**

I would like to thank all our employees for the contribution they have made to the group's success in the past year. The average number of people employed by

the group increased during the year to 113,000 and, at a time of continuing unemployment in many of the markets in which we operate, and despite the continued drive for efficiency within our businesses, we are proud to have provided employment to 7,000 more people this year.

#### **Dividends**

I am pleased to report that a final dividend of 22.65p is proposed, to be paid on 10 January 2014 to shareholders on the register on 6 December 2013. Together with the interim dividend of 9.35p paid on 5 July 2013, this will make a total of 32.0p for the year, an increase of 12%.

#### **Outlook**

We expect a further reduction in profit from AB Sugar next year as EU sugar prices fall and the market rapidly adjusts ahead of regime reform in 2017. Primark's continued expansion together with revenue growth and margin improvement in Grocery are expected to deliver further increases in profit in those businesses. The lower level of borrowings and the retirement of more expensive long-term financing this year will lead to a reduced interest charge. As a result, and at this early stage, we continue to expect adjusted earnings per share for the coming year to be similar to 2013.

**Charles Sinclair**  
**Chairman**

# SUGAR

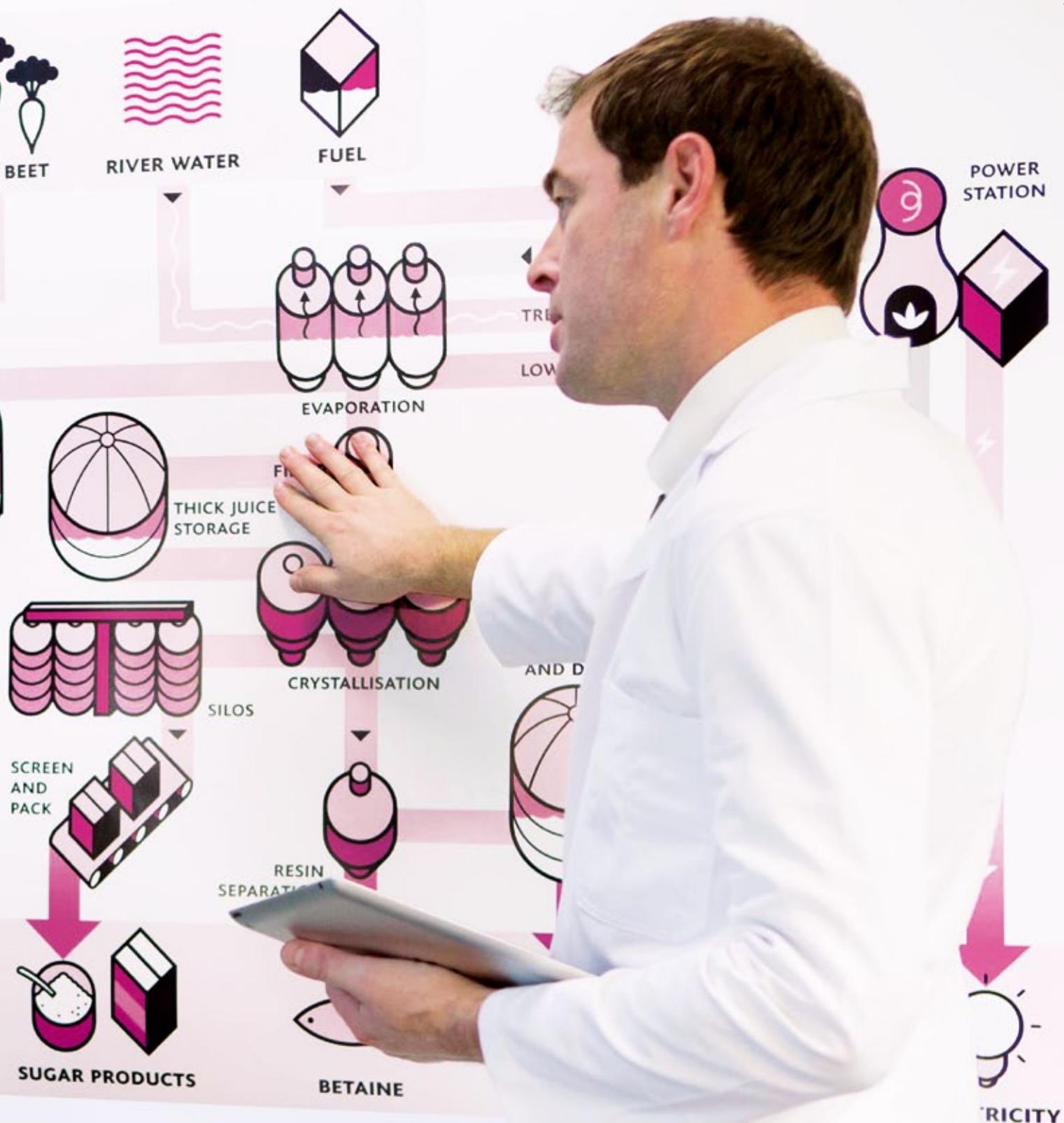
Nothing goes to waste in a sugar factory

As one of the world's leading low-cost producers, AB Sugar has an unwavering focus on continuous improvement and operational excellence. Best practice in agronomy and sugar production is shared across the group with the lessons learned by our more mature operations passed on to those at an earlier stage of development. This accelerates efficiency improvement and enables the business to make the most of every stick of cane and root of beet.

At the heart of the business philosophy is the need to eliminate waste and to generate real value from our range of co-products: cane trash is burned as fuel; stones removed during beet cleaning are used in civil engineering; soil is graded, conditioned and sold as topsoil; lime used in the purification process is sold for soil conditioning; residual vegetable matter, once the sugar has been extracted, is used as animal feed; combined heat and power plants export surplus energy, generated through the conversion process, to the grid; hot water and CO<sub>2</sub> is used to propagate tomatoes; and betaine is produced which is a valuable animal feed supplement.

[Go to page 22](#) for more information





# AGRICULTURE

Our expertise stretches across the landscape

AB Agri operates at the heart of the agricultural industry and its unique breadth and experience enables it to add value and drive profit for businesses along the food, drink and biofuel industry supply chains. Its activities extend from sophisticated research and the highest technical innovation of products, to the provision of compound animal feed, starter feeds and premixes, and include specialist design and delivery of bespoke agricultural supply chain solutions. Through its joint venture, Frontier, it is also the UK's leading crop inputs and grain marketing organisation.

[Go to page 25](#) for more information

## Crop production → Feed manufacturing

### Grain farmers

The UK's largest crop inputs, agronomy advice and grain marketing business, including independent on-farm GPS-guided precision arable services.

### Technical feed ingredients

Sustained investment in R&D stimulates the development of new highly technical and innovative products such as micro-ingredients for animal feeds; including enzymes, yeasts, betaine, buffers and binders.

### Premixes and starter feeds

Manufacturers of high-quality bespoke vitamin/mineral premixes and micro-ingredients supplied with world-class nutrition advice internationally.

FROM  
FARM



→ **Livestock production** ← → **Supply chain solutions** ← → **Expert nutrition advice and analytical services**

**Animal feeds**

Leading manufacturers and marketeers of compound feeds, blends, straights and 'alternative feeds' selling direct to farmers, merchants, blenders, compounders and processors across all species.

Creating value through the implementation of traceability programmes across supply chains with a range of flexible models that enable quantitative measurement, continuous improvement and reporting of sustainability parameters.

Throughout AB Agri's operations the business propositions are underpinned by the provision of world-leading nutrition expertise and analytical services from a dedicated team of highly trained specialists.



**TO  
FORK**



## RETAIL

Amazing fashion,  
Amazing prices

Primark is a dynamic and exciting retail proposition offering up-to-the-minute fashion at amazing prices. This unique product offering, together with an extensive store opening programme, has established Primark as the go-to fashion destination in some of the most sought after retail locations across Europe including London, Madrid, Berlin, Dublin and Lisbon.

Primark stores combine energy, excitement and style to create a second-to-none shopping experience. Take a stroll around one of Primark's flagship stores and see for yourself! Bright, trend-focused feature walls, mannequins pulling together key looks and LED screens all showcase the latest product campaigns and fashion stories. The constant flow of bulging carrier bags leaving the stores is a testament to Primark's mass appeal. The combination of amazing fashion at amazing prices sold in a contemporary and exciting store environment are the key elements that make the Primark proposition unique.

[Go to page 27](#) for more information



## GROCERY

Everyday products  
for people  
everywhere

A well-managed food brand is far more than just a label. It is an indication of quality and a guarantee of consistency that reflects the values of the consumer. Good brands are built using insight and understanding of customers' tastes and cultures to create a bond of trust, often over many years, if not generations. Associated British Foods, through its global businesses, is the owner of an enviable portfolio of leading food brands that reflect the wonderful tastes of food from a diversity of cultures around the world.

**Go to page 30** for more information







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Start/Stop Min Sec Reset



## INGREDIENTS

Innovation,  
technology,  
experience  
and worldwide  
expertise

The baking of bread in one form or another has been undertaken across the planet for thousands of years yet we are still searching for ways to improve its taste, texture and shelf life in response to changing lifestyles and a variety of cultural and regional demands. Our technology extends beyond flour, fats and yeast into the use of dough improvers, conditioners and enzymes, and we provide innovative solutions across the bakery spectrum from major plant bakeries to local artisans.

Although yeast and bakery ingredients were the foundation of our Ingredients division, our businesses now reach into the worlds of brewing, wine making, biotechnology and pharmaceuticals, with expertise in yeast extracts, lipids, esters and speciality proteins.

[Go to page 34](#) for more information



# OPERATING REVIEW

The long-term performance of the group is important to us and this year's growth is in line with the compound annual revenue and profit growth achieved over the last ten years of 10% and 11% respectively.

**I am delighted to report that the group has again delivered a great set of results. The group's revenue increased by 9% to £13.3bn and adjusted operating profit increased by 10% to £1,185m. The long-term performance of the group is important to us and this year's growth is in line with the compound annual revenue and profit growth achieved over the last ten years of 10% and 11% respectively. This success is a direct result of our business model, more description of which is presented in this annual report.**

AB Sugar delivered an excellent profit this year which, although lower than last year, was in line with our expectations. The date and extent of EU sugar regime reform have now been clarified and sugar prices for our next financial year are already reflecting a transition. We have invested significantly in our European sugar assets over the years and the AB Sugar management team has plans for further efficiency improvements. As a result, we have established British Sugar as one of the lowest-cost sugar businesses in the world. Maintaining our dialogue with growers and strengthening our relationship with them will be necessary to build a sustainable and competitive sugar industry for the future.

With the strength of the group's balance sheet and strong cash generation we have every reason to be confident in the continuing development of the group.

The Primark results this year were remarkable with sales increasing by 22% and profit by 44%. Both the autumn/winter and spring/summer ranges sold out this year with little discount, which was testament to the success of our buying teams. Our newly opened and refurbished stores have never looked better and the increase in our selling space in continental Europe was significant. Expansion in our more established markets of the UK and Ireland focused on increasing selling space in major cities. In London, we opened our second store on Oxford Street, and extended our stores in Manchester, Newcastle and Mary Street, Dublin. In continental Europe, we increased

selling space by 25% and were very encouraged by trading in all countries. Each new store opening generated excitement which gives us the confidence to believe that Primark is capable of much further growth and I look forward to the opening of our first store in France.

We were shocked and deeply saddened by the events in April 2013 when the Rana Plaza building in Bangladesh collapsed killing more than 1,100 people. A Primark supplier occupied the second floor of this eight storey building which was also the location of a number of other garment manufacturers. Our response focused on meeting the immediate needs of the victims and, in parallel, organising long-term compensation. We donated food to some 1,300 families shortly after the tragedy, and have since paid short-term financial support of six months' salary to more than 3,600 workers in the building, irrespective of their employer. Primark has committed to provide long-term financial compensation to victims who worked for its supplier, and their dependants. This was an unprecedented undertaking for us and was only possible with the support and close collaboration of international and local stakeholders including NGOs and trade unions.



The garment industry in Bangladesh has also experienced a number of factory fires in recent years. As a result, we signed the Accord on Fire and Building Safety in Bangladesh, a pioneering agreement between almost 100 apparel brands and retailers, international and local trade unions and NGOs. Primark was the first UK brand to sign this accord which is designed to ensure that sustainable improvements are made to working conditions in the garment industry and reinforces our commitment to health and safety in the workplace.

Grocery made good progress this year with revenue growth and profit ahead by 24%, mainly as a result of margin improvement from both good trading and the non-recurrence of restructuring costs. Twinings Ovaltine is our most profitable grocery business and it achieved excellent results, performing well in all of its major markets. I am pleased with the much improved result from George Weston Foods in Australia following the action taken by the management team which delivered higher volumes and lower conversion costs in the meat business and increased sales and margins in the bread business. The results in UK Grocery showed good progress from Jordans, Ryvita, Westmill and AB World Foods, offset by margin

pressure in the bakeries and Silver Spoon.

The management team at AB Agri deserves much credit for its achievements over recent years. These have seen the development of the business into a profitable group that makes a major contribution to agriculture, especially in the UK, focused on providing value-adding animal feed products and services. It is recognised for its innovation and the development of bespoke services to customers, and this year delivered a record profit.

Following last year's appointment of a new chief executive at AB Mauri, our yeast and bakery ingredients business, a number of further management changes have been made during the financial year. Some stabilisation in underlying trading has already been achieved and the new team is engaged in reviewing the cost base and structure of the business.

Although the level of capital expenditure was lower again this year, it still represents a substantial investment in the assets of the group. We completed a number of projects in AB Mauri and AB Sugar and took a major step forward in the programme to equip our UK

bakeries with state-of-the-art bread plants. The rate of selling space expansion at Primark is increasing and we expect capital investment in the coming year to rise. We can fund this comfortably from the high level of cash generated from operations.

### **Summary**

Looking ahead to the next few years we see excellent prospects for Primark and further margin recovery in Grocery. However, this year we have seen an earlier than anticipated weakening of EU sugar prices, ahead of the now confirmed reform of the European sugar regime in 2017, and, as we stated in our September statement, this is expected to reduce AB Sugar's profits further. With the strength of the group's balance sheet and strong cash generation, we have every reason to be confident in the continuing development of the group.

### **George Weston Chief Executive**

# SUGAR

**Revenue**  
**£2,677m Level**

**Adjusted operating profit**  
**£435m -15%**

**Adjusted operating profit margin**  
**16.2% 2012: 19.1%**

**Return on average capital employed**  
**23.4% 2012: 26.5%**

AB Sugar is a leading multinational in the expanding international markets for sugar and sugar-derived 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 is Europe's most efficient processor. Illovo Sugar, in which the group has a 51% stake, is the largest sugar processor in Africa and is one of the world's foremost low-cost producers. We also have substantial businesses in China producing cane sugar in the south and beet sugar in the north east. The group currently operates 31 plants in ten countries and has the capacity to produce over 5 million tonnes of sugar and 600 million litres of ethanol annually. We also have the capacity to generate power sufficient to meet most of our internal needs and, in a number of locations, we export power into the local grid.

As a consumer of a large quantity of agricultural inputs, we have a number of programmes to maximise crop yields whilst also minimising the usage of herbicides, pesticides and water. This applies equally to our out-grower estates, funded jointly with our growers, as well as our own

farms. We seek to ensure the early transfer of technology and best practice across AB Sugar. We are a significant employer in each of our countries of operation, some of which are among the most impoverished in the world. AB Sugar seeks to ensure the wellbeing of all its employees, their families and the wider community and in the developing countries we provide more wide-ranging social support including the provision of hospitals, schooling, housing and healthy living programmes.

**After last year's record performance, AB Sugar delivered revenue and underlying adjusted operating profit in 2013 that were in line with management expectations at the beginning of the year which recognised that reduced European production, as a consequence of lower yields, and higher beet costs in the UK, would lead to a profit decline.**

Production volumes in Africa were ahead of last year and profit benefited from good sales demand and stable pricing. Profitability in China was lower than last year as a result of weak sugar prices throughout the year. Our performance improvement programme is now firmly established across all our businesses with the aim of increasing asset utilisation and reducing costs. The programme seeks to embed continuous improvement within all areas of our businesses by identifying and driving major change initiatives, tailoring capital expenditure to underpin our performance improvement and accelerating the implementation of co-product activities across the group.

British Sugar produced 1.15 million tonnes of sugar, lower than last year's 1.32 million tonnes as a result of poor growing conditions during 2012 which led to lower beet yields and sugar recovery. Sugar prices generally remained strong, consolidating the full year impact of last year's price increases. Co-product prices remained good with animal feed sales supported by exceptionally high wheat prices. These were offset to some extent by low, combined heat and power plant contributions, which were a feature of low electricity prices but high gas prices. We continued to invest in our production facilities with completion, during the year, of several major schemes focused on reducing energy consumption and increasing plant reliability. Looking forward to 2013/14, crop yields are expected to be slightly below average but we expect sugar production to at least achieve sales quota and to meet our bioethanol requirement. Beet costs for the forthcoming financial year were agreed in June 2012 at levels similar to those incurred in the campaign in this financial year.

In Spain, sugar beet volumes were lower than last year with a reduction in the area planted in the north. Heavy rains in the spring led to a delay in the completion of the campaign until the second week of May. Beet yields in both the north and south were very good and partly compensated for the lower volumes. Total beet sugar production was 405,000 tonnes, down from 468,000 tonnes in the previous year. 242,000 tonnes of imported raw sugar were refined at Guadalete and a further 95,000 tonnes were co-refined at the northern beet plants. Significant energy efficiency improvement work was completed during the year substantially reducing the energy cost per tonne of refined white sugar.

**FOCUS ON SUGAR****AB SUGAR CHINA: NEW FACTORY COMMISSIONED**

In north China, successful commissioning of the Zhangbei factory was completed in time for the campaign start of 8 November 2012. This was a tremendous achievement considering the difficult weather conditions experienced in the region during the last two years. Zhangbei achieved weekly processing throughput averages of over 4,200 tonnes/day throughout its campaign.

**AZUCARERA: RECORD YIELDS IN SPAIN****108**

average  
yield in tonnes/ha  
achieved by  
Spanish beet  
growers

Spanish beet growers achieved an average yield of 108 tonnes/ha of adjusted beet, a new European record. This significant achievement can be attributed to the professionalism of growers, research and development investment, knowledge transfer and application of technical factors, such as sowing dates, use of recommended crop varieties and the correct application of water.

**ILLOVO SUGAR: MALARIA IMPROVEMENTS IN MOZAMBIQUE**

Working together with the National Malaria Control Programme, Illovo's programme achieved a 48% reduction in the number of cases of malaria within the Maragra Sugar Estate over a two-year period. This has been extended into the surrounding local community, where a 42% reduction was achieved this year. Illovo continues to implement malaria control measures in all areas of operation where the disease is prevalent.

**5,631**

cases in 2012

**3,291**

cases in 2013

**42%**reduction in cases  
of malaria**BRITISH SUGAR: GRADUATE & APPRENTICE SCHEMES**

Each year, British Sugar invests in the future of over 40 young people through its graduate and apprentice training schemes. The British Sugar graduate schemes last for two years and equip individuals with the knowledge and experience to develop into future business leaders. The scheme received external recognition in 2012/13 through the Times Top 100 and the Guardian UK 300 as a graduate employer of choice.



In June 2013, the European Council of Ministers confirmed that existing quota arrangements would continue until 30 September 2017 when sugar quotas for domestic production would end. Tariffs for sugar imports into the EU are not affected. AB Sugar expects this change to encourage growth in EU production by the most efficient producers of both sugar and isoglucose.

Negotiations with our EU customers regarding prices for the 2013/14 marketing year have been challenging. There has been a higher availability of sugar in the EU as a consequence of the conversion of non-quota sugar to quota, additional tariff rate quotas for imported sugars and low world sugar prices. In addition, competition has increased as other European producers look for new market opportunities ahead of regime change. Both of these factors have created a downward pressure on EU prices. The market is rapidly adjusting ahead of the regime reform in 2017. As a well-invested business, and one of the world's lowest-cost producers, we believe that we are well placed to succeed in this market with higher sugar volumes, albeit at lower prices.

Construction of Vivergo's bioethanol plant in Hull was completed last year and continues to make progress, albeit behind plan. Monthly production volumes are increasing and full production is expected in the new calendar year. The plant uses feed wheat and has the capacity to produce 420 million litres of bioethanol and 500,000 tonnes of high-protein, high-fibre animal feed.

Illovo's sugar production of 1.87 million tonnes for the financial year compared to 1.77 million tonnes last year, reflecting further recovery in the South African crop and good performances from the recently expanded facilities in Swaziland and Zambia. Prices throughout the year were generally stable although increased levels of imports into Tanzania and South Africa have brought some price pressure in these two countries. In Malawi, the

**As a well-invested business, and one of the world's lowest-cost producers, we believe that British Sugar is well placed to succeed in this new environment.**

currency has stabilised and domestic prices were increased in line with inflation. Pressure on prices across the region is expected to increase in the coming year.

The recently completed new custom-designed warehouse and distribution facility in Pietermaritzburg is fully operational and will provide improved storage and logistics benefits to the South African business. Construction

of the new potable alcohol distillery in Tanzania was successfully completed within budget. This plant is now in the final stages of commissioning with the first sales made in October. The three downstream facilities in South Africa all operated well.

In China, sugar production in the south was higher than last year at 500,000 tonnes, principally due to an increase in the planted area, and in the north was in line with last year at 277,000 tonnes. An increase in sugar supply, from high levels of imports and improved domestic production, led to lower sugar prices. With exceptionally high government intervention stockholdings, the price outlook for the new financial year remains challenging. The business sustained a significant loss in the year and embarked upon a major cost reduction and factory efficiency programme. This included, in the first half, the decision to mothball our Baolongshan and Wangkui factories at the end of the campaign, with a non-cash charge of £22m included within adjusted operating profit. In early September we completed the sale of our beet factory at Chifeng where the regional government had announced its intention to redevelop the area. A charge of £15m has been taken as a loss on sale of businesses in the income statement.

# AGRICULTURE

**Revenue**  
**£1,410m +11%**

**Adjusted operating profit**  
**£47m +18%**

**Adjusted operating profit margin**  
**3.3% 2012: 3.2%**

**Return on average capital employed**  
**16.4% 2012: 16.5%**

AB Agri is a major business in UK agriculture and is increasingly operating on a global scale. It supplies feed and 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 agronomy advice and 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 a value-added 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. Working globally it supplies the livestock and pet industries with premixes, enzymes and other technical ingredients and plays a key role in delivering supply chain integrity for retailers and processors.

AB Agri's operations comprise:

- AB Connect – a UK business recently created to unite the

long-established feed businesses of KW, Trident and ABN which supply the UK's food and farming community;

- AB Vista – an international supplier of world-leading feed ingredients and technical services;
- Premier Nutrition – a supplier of high-quality, bespoke, vitamin/mineral premixes, starter feed and micro-ingredients, with world-class nutrition and formulation expertise;
- AB Sustain – a specialist in designing, developing and delivering bespoke sustainable agricultural supply chain solutions for clients;
- AB Agri China – two regionally based businesses: ABNA, which is a high-performance feed manufacturer for the ruminant, pig and poultry sectors, and ABCA, which is a co-product marketing and feed additives business; and
- Frontier – a joint venture which is the UK's leading crop inputs and grain marketing organisation.

## Agriculture had a record year with revenues and profit well ahead of last year driven by a strong performance across the UK businesses and international growth for AB Vista.

The UK livestock sector experienced a mixed year. Dairy farmers saw milk price increases being largely offset by higher costs and poor quality and quantity of forage. Consolidation in the poultry market depressed farm margins and the pig market continued its slow recovery from several years of low margins and high raw material costs. The continuing trend among UK consumers and retailers

to prefer locally produced meat has provided a welcome stimulus to the UK industry and there are some signs of raw material costs beginning to fall.

Our UK feed business, AB Connect, saw strong demand for ruminant feeds, and poultry feed volumes grew in line with increased demand from UK consumers. Our international feed enzyme and micro-ingredients business, AB Vista, continued to grow faster than the market, particularly in North America with the success of our Quantum Blue phytase enzyme, sales of which were up more than 30% on last year. The business also became the second largest global supplier of betaine, a functional micro-ingredient extracted from sugar beet molasses.

Premier Nutrition traded well, particularly in UK poultry, and maintained its market-leading position in UK starter feeds. Further progress was achieved in its developing markets in Asia, and Central and Eastern Europe. AB Sustain's beef and dairy farm carbon footprint models have been improved further and were recertified by The Carbon Trust. In addition, its new biodiversity valuation programme 'Think.Nature' secured an endorsement from Natural England.

China continued to be a challenging market, particularly in pigs and poultry. Progress in poultry was hampered by an avian flu outbreak during the year but growth was achieved in our co-products business. Good raw material procurement and cost management underpinned profit delivery.

Frontier performed well in a year in which the supply of UK grain was poor and of variable quality. A higher volume of wheat imports increased the complexity and cost of the UK cereal supply chain which, together with global price volatility throughout the year, resulted in strong earnings from grain trading. A wet autumn in 2012 lowered wheat plantings thereby reducing demand for fertiliser and crop protection products. However, the cool spring and warm summer of 2013 provided good growing conditions for autumn planted crops and spring cereals creating a better harvest potential than was previously expected.

## FOCUS ON AGRICULTURE

### AB AGRI INNOVATION BOARD: A COMMITMENT TO COLLABORATION AND INVESTING IN R&D

AB Agri's Innovation Board enters its second year, encouraging innovation and sustainability through collaboration and funding. We have made great progress in the first six cross-business projects, with the first project expected to realise commercial benefit early in 2014. With over 70 contributors from our nutrition and commercial teams, across AB Vista, Premier Nutrition, AB Connect, AB Sustain and Frontier, we are excited about how increased collaboration is driving innovative idea generation.

**70+**  
contributors from  
our nutrition and  
commercial teams

### AB CONNECT LAUNCHES NEW BIOETHANOL DISTILLERS' FEEDS

UK farmers welcomed the commencement of production at the Vivergo Fuels bioethanol site. The range of co-products produced by the facility in Saltend, Hull, including dried and liquid protein feeds, will help meet UK feed demand and reduce reliance on less sustainable imported proteins.

AB Connect is responsible for developing new routes to market for the products from the largest single site producer of animal feed anywhere in Europe – producing over half a million tonnes of feed per annum once operating at full capacity.



### PREMIER NUTRITION TAKES FEED ASSURANCE TO NEW LEVELS WITH STATE-OF-THE-ART PREMIX FACILITY

Premier Nutrition has invested heavily to develop the most advanced premix facility which will deliver the highest level of premix assurance to its animal feed customers.

The new pharmaceutical-standard premix facility is designed to deliver unsurpassed levels of assurance through automated enhancements of the ultra-safe and residue-free tumble mixing system. This means that all premixes are delivered with the same level of homogeneity, safety and traceability. The use of NIR analysis of incoming micro-ingredients, precision weighing, residue-free tumble mixing and 'intelligent' packing systems means that Premier Nutrition customers can enjoy complete assurance that every bag of custom-made premix, that they add to their animal feed, delivers the nutritional benefits they have worked hard to formulate.



### QUANTUM BLUE CONTINUES TO DELIVER UNPRECEDENTED PERFORMANCE

AB Vista has experienced major growth since the launch of Quantum Blue. Its strategy to lead the debate on the importance of phytate degradation has shifted industry thinking. Nutritionists are changing how they use phytase, with higher inclusion levels delivering greater value. In addition to gaining new customers, AB Vista has increased the size of the phytase market through this innovative approach.



**Revenue**  
**£4,273m +22%**

**Adjusted operating profit**  
**£514m +44%**

**Adjusted operating profit margin**  
**12% 2012: 10.2%**

**Return on average capital employed**  
**26.1% 2012: 19.2%**

Primark is one of the largest clothing retailers in Europe. It has 257 stores and employs 48,000 people in the UK, Republic of Ireland, Spain, Portugal, Germany, the Netherlands, Belgium and Austria. It was founded in June 1969 in the Republic of Ireland where it continues to trade as Penneys.

With a unique combination of the latest fashion and lean operations, Primark offers customers quality, up-to-the-minute designs at value-for-money prices. Buying and merchandising teams travel internationally to source and buy garments that best reflect each season's key fashion trends. Primark's range includes womenswear, lingerie, childrenswear, menswear, footwear, accessories, hosiery and homewares.

Primark's organic growth has been achieved through a combination of like-for-like growth and increasing selling space. The like-for-like growth reflects investment in buying, merchandising and our success in constantly refreshing the stores to ensure they remain exciting places to shop. The increase in selling space has been driven by capital investment in freehold and leasehold

properties as they have become available, first on the high streets of the UK and Ireland, and more recently on the high streets and in the shopping centres of continental Europe. The rate of growth has accelerated and sales in the last five years have more than doubled. 2006 saw Primark's first foray into continental Europe with the opening of a store in Madrid. The business now has 257 stores across eight countries and operates from 9 million square feet of selling space. Expansion continues apace with the first Primark store in France due to open before Christmas 2013.

**Primark's revenue was 22% ahead of last year at actual exchange rates, which benefited from the recent strengthening of the euro, and was 21% ahead at constant currency.**

This excellent result was driven by an increase in retail selling space, like-for-like sales growth of 5% for the full year, and superior sales densities in the larger new stores. Like-for-like growth during the year was affected by two periods of unseasonable weather; it was flattered at the start of this financial year with the benefit of seasonal autumnal weather compared with an unseasonably warm autumn in 2011, and was subdued during the very cold months of March and April 2013. Trading at other times of the year was strong, building upon the success of the comparable periods in the prior year. Trading in our stores in northern continental Europe was strong throughout the year and like-for-like growth in Spain, which was initially held back by the large number of new store openings, improved later in the year. Sales of the autumn/winter range in the new financial year are encouraging.

This excellent result was driven by an increase in retail selling space, like-for-like sales growth of 5% for the full year, and superior sales densities in the larger new stores.

Operating profit margin in the first half was higher than last year reflecting the benefit of lower cotton prices and lower markdowns. The strong trading over the summer also resulted in lower markdowns in the second half and the margin for the full year exceeded our expectations at 12.0%. A feature of this year was the achievement of satisfactory operating profit margins, more quickly than expected, in northern continental Europe. This was delivered by superior sales densities and a focus on operating costs. Adjusted operating profit was 44% higher than last year at £514m reflecting the strong revenue growth. Movements in exchange rates had no material effect on profit.

Primark is an international brand with a global supply chain sourcing products from a number of countries in Europe and Asia. We have a responsibility to act and trade ethically and we have a duty of care to workers throughout the supply chain.

We are signatories to the United Nations' Guiding Principles on Business and Human Rights. These were launched in 2012 and outline the responsibility of business and government to protect human rights by preventing and remedying the impact of abuse. This year we further strengthened our in-country teams of ethical trading specialists who are critical in supporting sustainable improvements within supplier factories, and providing greater visibility across the supply chain. We conducted 1,825 audits in the last calendar year and ethical trade training continues to be provided to every new Primark employee. We are also developing ways to support workers' livelihoods and wellbeing through longer-term initiatives such as the HERproject, focused on education regarding health and nutrition, and our Sustainable Cotton programme.

This was another very active year for Primark's property team and saw the group extend its operations into Austria for the first time with stores in Innsbruck and Vienna. We opened 16 new stores in total during the financial year, including our second store on London's Oxford Street which has 82,000 sq ft of selling space. We extended and refurbished the stores in Manchester, Newcastle, Chester and Mary Street, Dublin and closed the smaller of our two stores in Lincoln. This added 0.8m sq ft of selling space and brought the total to 257 stores and 9.0 million sq ft at the financial year end.

Our new store design provides an exciting, fashionable and fun shopping experience. Strategically placed mannequins help to inspire customers to choose outfits that are readily available on adjacent fixtures, and prominent signage and wider aisles enable easy navigation through the store. We are also enhancing customer service by providing a higher ratio of fitting rooms and cash

registers to ensure a smoother experience when trying on outfits and paying for them.

The new financial year will see another busy schedule of store openings. We expect to add more than a million square feet of selling space during the year, with an extensive programme of 13 openings in time for Christmas 2013 including five in Spain and our first store in France, which will open in Marseille. We also have plans to open a further four stores in France during the financial year. Although our focus is to develop the business through expansion in our existing countries of operation, we continue to explore territories beyond this geographic footprint in the medium term.

We have invested further to improve the efficiency, and increase the capacity, of our logistics network. A purpose-built depot in Mönchengladbach, in the west of Germany, came into operation in August 2012 with 425,000 sq ft of warehouse space. This increased 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 enabled a more flexible response to the needs of our customers in northern Europe. We also undertook a substantial upgrade of our garment-on-hangers system in Magna Park in the UK, and extensions to the Spanish and German sites are planned for the new financial year to facilitate our growth across continental Europe.

## FOCUS ON RETAIL

### NEW STORE OPENINGS IN 2012/13

**16**

new stores this financial year across the UK, Republic of Ireland and mainland Europe

**257**

stores in total

**58**

stores across mainland Europe

#### SPAIN

Orihuela, La Zenia  
Santander, Valle Real  
Santiago de Compostela  
Valladolid  
Vitoria  
Zaragoza, Puerto Venecia

#### GERMANY

Karlsruhe  
Frankfurt, Zeil

#### AUSTRIA

Innsbruck  
Vienna North (G3)

#### THE NETHERLANDS

Almere

#### UK

Oxford Street East  
Thanet, Westwood Cross  
Peterborough, Queensgate  
Milton Keynes  
West Bromwich

#### UK RELOCATION

Sunderland, Bridges

#### UK CLOSURE

Lincoln

## 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 2012	5,425	157	1,100	35	1,010	38	665	12	8,200	242
Change in year	335	4	230	6	20	-	215	5	800	15
September 2013	5,760	161	1,330	41	1,030	38	880	17	9,000	257
	<b>+6%</b>		<b>+21%</b>		<b>+2%</b>		<b>+32%</b>		<b>+10%</b>	

## BIGGER BETTER STORES

Our newest stores typically have a larger sales area than the average for the Primark estate and also benefit from new space efficient display equipment. When combined with improved visual merchandising, eye-catching inspirational windows and digital video screens showing our product ranges, they deliver an exceptional customer experience.



## NEW AND IMPROVED DIGITAL EXPERIENCE

Primark has developed a completely new non-transactional platform to showcase the brand online via Primark.com to a wide international audience.

This exciting and interactive site enables Primark to promote the breadth of its fashion ranges, the amazing prices, encourage customers to share their latest purchases and help them find their nearest store via an engaging desktop platform and a dedicated mobile site.



## PRODUCT JOURNEY

From trend research and development right through to the shop floor, Primark takes inspiring ideas and brings them to life fast! All produced at a great value price that appeals to the masses.



### Inspiration

Design teams commence research based on a wide range of inspiration including trend forecasts, catwalks, bridge designer ranges, street style and celebrity influences.



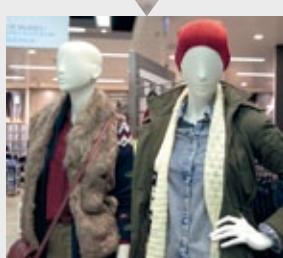
### Development and planning

Once the products are identified they are then developed into a technical pack. The supplier takes the brief specified and puts it into sampling in their in-house sample rooms.



### Production

The buyer receives an initial sample for fitting purposes and, once approved, it becomes the 'final sealer' on which all sizes and details are then based for quality standard and manufacturing purposes.



### Shipping and delivery

Shipping by sea takes up to six weeks from Asia and many products are consolidated at port to ensure maximum cost efficiency.

### In store

Product launch and in store execution. Many of our key lines are supported by in-store point of sale, or window, campaigns.

# GROCERY

**Revenue**  
**£3,840m +3%**

**Adjusted operating profit**  
**£232m +24%**

**Adjusted operating profit margin**  
**6.0% 2012: 5.0%**

**Return on average capital employed**  
**15.8% 2012: 12.2%**

Grocery comprises consumer-facing businesses that manufacture and market a variety of well-known brands both nationally and internationally.

Twinings Ovaltine has the broadest geographical reach, selling premium teas and malted beverages in more than 100 countries. AB World Foods focuses on the creation and development of world flavours and its Patak's and Blue Dragon branded products are sold internationally.

Westmill Foods specialises in supplying UK restaurants and wholesalers with high-quality ethnic foods including rice, spices, sauces, oils, flour and noodles under brands such as Tolly Boy, Rajah, Lucky Boat and Elephant.

Jordans and Ryvita operates in the better-for-you cereal and savoury biscuits categories in the UK but with increasing international presence. Jordans has a heritage of using traditional methods in the production of its wholegrain cereals and cereal bars. Ryvita has built a strong reputation in healthy snacking and is the UK category leader in crispbreads. Allied Bakeries produces a range of bakery products under the Kingsmill, Sunblest, Allinson and Burgen

brands, with flour and semolina produced by sister company, Allied Mills. Speedibake specialises in own-label baked goods for retail and foodservice customers. Our retail sugar business is the market leader in the UK with Silver Spoon and Billington's, complemented by a range of dessert toppings and syrups under the Askeys and Crusha brands.

In Australia, Tip Top is one of the country's most recognised brands, with an extensive range of bread and baked goods and George Weston Foods also manufactures a variety of bacon, ham and meat products including the Don and KR Castlemaine brands. In North America, ACH Foods includes within its range of branded products, Mazola, the leading corn oil in the US, Capullo, a premium canola oil in Mexico and a collection of herbs, spices and corn-derived products.

**Grocery revenue increased by 3% but adjusted operating profit increased by 24%, a substantial improvement over last year with the benefit of the non-recurrence of restructuring costs, a strong performance from Twinings Ovaltine, and underlying growth in George Weston Foods in Australia in the second half.**

Twinings Ovaltine again achieved excellent profit growth driven by higher sales volumes, improved pricing and an increase in total marketing investment with a focus on developing markets. Twinings achieved significant full year sales growth in all of its major markets, and particularly in the US where it was again the fastest growing tea brand. Despite more difficult trading in Thailand, Ovaltine made further progress in its

developing markets of Asia and South America. Further investment was made during the year in cost reduction and efficiency projects across the business, notably at the tea factory in Poland and from the bringing in-house of liquid malt extract production in Thailand.

Allied Bakeries made significant progress this year in driving volume growth and reducing its cost base. A combination of organic volume growth and the new Co-op supply contract, which commenced in April this year, drove an increase in market share and established Kingsmill as the number two bread brand in the UK. Allinson bread benefited from advertising investment which saw the brand back on television for the first time in ten years, and Allinson Wholemeal regained its position as the number one brand in the Premium Wholemeal segment. We continued our capital investment programme to upgrade and modernise the bakeries. The new bread line at our Stockport bakery came on stream in September 2012 and in April this year we opened a new bread line at Walthamstow creating one of the most advanced bakeries in the UK. At West Bromwich another new bread line is on schedule to start commissioning during the autumn of 2013. This is the final stage of a five-year investment journey at West Bromwich, which will leave the site as one of the biggest and most modern in the world. However, the UK bakery market remained intensely competitive and there was some pressure on margins.

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Twinings achieved significant full year sales growth in all of its major markets.

**FOCUS ON GROCERY****UK: TWININGS INFUSIONS: RELAUNCHED WITH GREAT SUCCESS**

The redesign and relaunch of our Infusions range was a major project for Twinings, delivering 23 new products and 47 new packaging designs in 7 months. We developed more than 600 variations of the blends to deliver our best ever tasting Sensations range, and the cross-functional team developed new ways of working and communicating in order to deliver this complicated project to a challenging timeline and on budget.

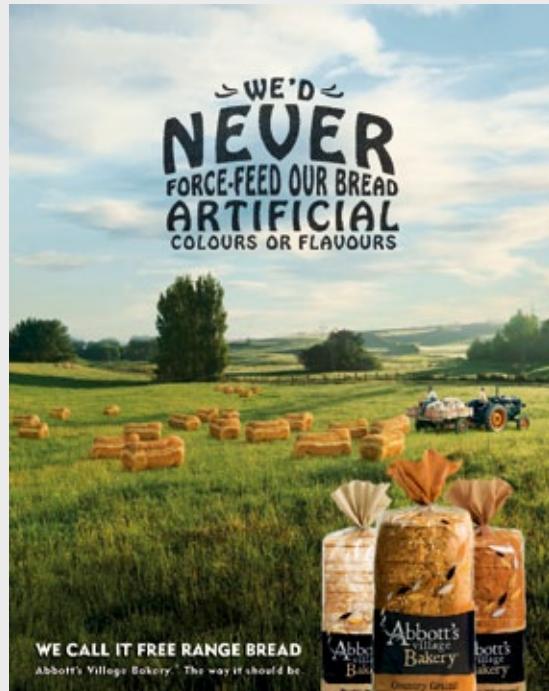
The relaunch of our Infusions range gave us the opportunity to completely transform the healthy teas fixture in our key accounts and this, together with our new designs and new product development, has driven phenomenal growth for both the Twinings brand and the category.

**23**  
new products

**47**  
new packaging designs

**7**  
all delivered in seven months

**644,000**  
more households  
have bought Twinings  
Infusions this year

**AUSTRALIA: ABBOTT'S VILLAGE BAKERY GOES FREE RANGE**

Abbott's Village Bakery was launched in 2009 in order to capture some of the rapidly growing Premium bread segment. However, a continued reliance on price promotions and lack of differentiation meant brand share plateaued.

The consumer trend for more natural products was identified as a key strategic driver within the business. The Abbott's Village Bakery range was reformulated to remove E-numbers in line with this trend, and qualitative and quantitative research was undertaken to ensure taste and appearance were optimised.

In order to communicate the brand differentiation and superior products, a new campaign was developed called 'Free Range Bread'. Results so far have been positive. Abbott's Village Bakery now has its highest volume share of the Premium segment since launch.

The success of the Abbott's Village Bakery relaunch demonstrates that a strong brand, together with consumer-preferred products, can provide a long-term platform for growth.

Silver Spoon's revenue and operating profit were below last year reflecting an especially competitive year within the UK packed sugar market. The long, warm summer resulted in less home baking although Billington's maintained its leading position in brown sugar as a result of increased press advertising and point of sale promotions. In the growing stevia sector, Truvia has become market leader with two product launches including a baking blend. Allinson flour continued to grow strongly, where it is market leader in the bread flour sector, following a brand relaunch and increased distribution.

Jordans and Ryvita both had an excellent year with strong UK sales growth driven by the launch of new pack formats. Jordans achieved its highest market share since its acquisition five years ago. The relaunch of Ryvita crispbread in new foil-fresh packaging drove increased sales, and new varieties of Crackerbread and Thins have recently been introduced. Internationally, both brands achieved good sales growth, particularly in Canada, and in France the introduction of a small in-country marketing team strengthened our presence and drove an increase in market share. For the second year running the business won the 'Waitrose Way' Championing British award for branded products; this year for its pioneering work with British farmers from whom it purchases 80% of its raw materials.

AB World Foods made good progress achieving revenue growth in the UK for Patak's and Blue Dragon. Internationally, a number of new products were launched under these brands with recipes specifically formulated to meet national tastes. Those launched in Canada, Australia and Mexico performed particularly well. Westmill achieved revenue growth in its core brands: Elephant Atta, Lucky Boat noodles,

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## We opened a new bread line at Walthamstow creating one of the most advanced bakeries in the UK.

Tolly Boy basmati rice and Patak's, despite continued weakness in the UK ethnic restaurant and takeaway trade. The Elephant Atta brand, which was acquired in September 2012, traded well and production, warehousing and distribution were all successfully integrated during the year.

At ACH in the US, baking volumes recovered after a warm 2012 winter, and prices were increased to recover higher commodity costs. Flavours secured increased volumes with key customers, and Foodservice made progress as restaurant trade showed some improvement. Investment in new product development continued, supported by a higher level of marketing and advertising expenditure, particularly for the new Weber flavouring products which achieved good distribution. In Mexico, there has been an improvement in the overall economic environment and Capullo volumes increased following its successful relaunch in 2012.

At George Weston Foods in Australia, trading met expectations with recovery and improved profitability in the second half. The bread business achieved margin improvement through a combination of an improved product mix and price increases, despite a challenging trading environment where the major retailers are continuing to promote in-store bakery products. Good progress was made with

cost reduction programmes to offset inflationary pressures. There was also a continued focus on brand building and innovation with Burgen, The One and Abbott's all being relaunched during the year resulting in an increase in market share. The meat business performed in line with expectations, showing a significant improvement over last year with higher volumes and factory productivity gains resulting in improved margins and better customer service. Further efficiencies were achieved in sales distribution and warehousing, and administrative costs were reduced, all of which contributed to improved profitability.

**FOCUS ON GROCERY****US: FLEISCHMANN'S NEW BREAD MIXES RAISE THE ROOF**

Fleischmann's Simply Homemade Bread Mix, a new yeast bread mix that delivers homemade bread in less than an hour, was launched in the US in 2012 and quickly became the number one yeast bread mix, driving baking aisle growth. Simply Homemade's success led Wal-Mart to praise ACH Foods at their annual Baking Vendor Meeting, and to accept new Simply Homemade Pretzel Creations in nearly all of their stores.

**BLUE DRAGON: NOW GOING GLOBAL**

Blue Dragon is now the number one brand of Asian sauces and ingredients in the UK. AB World Foods has begun to develop the Blue Dragon brand in other markets around the world, including Canada, Australia and the US, with considerable success.

In Canada, distribution of the Blue Dragon brand has extended across all retailers from coast to coast, and sales are in double digit growth as a result of effective advertising and promotional support.

In January 2013 the Blue Dragon brand was launched in Australia. This was preceded by local research and recipe formulation to ensure the range met the needs and expectations of Australian consumers.

**No. 1**

Blue Dragon is now the number one brand of Asian sauces and ingredients in the UK

**WHOLESALE: ELEPHANT ATTA ACQUISITION PAYING OFF**

Westmill Foods is the UK's leading producer and wholesaler of authentic world foods. In 2012 Westmill acquired Elephant Atta, the UK's leading chapatti flour brand, first launched for the emerging South Asian market in 1964.

Westmill has also invested heavily in advertising and promotion to ensure that the brand remains the UK's number one choice for chapatti flour, or atta. As well as running TV advertising, the business has engaged with members of the South Asian community in local centres around the UK.

**1964**

the year Elephant Atta was first launched in Britain



# INGREDIENTS

**Revenue**  
**£1,088m +2%**

**Adjusted operating profit**  
**£1m -96%**

**Adjusted operating profit margin**  
**0.1% 2012: 2.5%**

**Return on average capital employed**  
**0.1% 2012: 4.4%**

Ingredients comprises a number of businesses that supply a range of ingredients to food and non-food manufacturers. Together they employ more than 7,000 people in 52 plants in 26 countries.

AB Mauri has a global presence in bakers' yeast with significant market positions in the Americas, Europe and Asia, and is a technology leader in, and supplier of, bread improvers, dough conditioners and bakery mixes. The business employs experts who have an unrivalled knowledge and understanding of the yeast and bakery ingredients business, the equipment, the processes and the raw materials.

ABF Ingredients comprises a range of businesses focusing on high-value ingredients for both food and non-food applications. It has established strong market positions in enzymes, lipids, yeast extracts and cereal specialties. It has manufacturing facilities in Europe and the US.

SPI Pharma is a leader in custom formulation solutions for pharmaceutical and nutraceutical manufacturers in more than 50

countries. It manufactures and markets antacids, excipients and drug delivery systems for tablets and specialises in drug development services. It collaborates with customers to deliver value-added and cost-effective solutions to their problems.

**Revenue for the full year was 2% ahead of last year and underlying operating profit was in line. Adjusted operating profit includes a rationalisation charge of £21m for the cost of closing dry yeast production in Italy following the start-up of the new low-cost dry yeast plant in Mexico earlier in the year, and £5m of accelerated depreciation in China.**

Following the difficulties experienced by the yeast business last year, the performance by AB Mauri this year was steady although markets remain very competitive and raw material costs high. The new management team is undertaking a review of margin improvement opportunities and particularly a number of cost reduction and restructuring initiatives. There were solid performances from HispanoAmerica, Australia, New Zealand and the UK and particularly in the US where the impact of the failure of a major customer was mitigated by business development activities. Trading in China improved and bakery ingredients products made a good contribution.

Commissioning of the new yeast factory in Mexico, which was built to enhance our reach and competitiveness in the global dry yeast market, saw the start of a new phase of business development in Central America and the Caribbean. The

performance of the new yeast factory at Yantai, China met expectations. The recently opened bakery ingredients facility in Cordoba, Spain was designed to develop the growing bakery ingredients market in Iberia and complements our existing yeast manufacturing and marketing business there.

At ABF Ingredients, increased demand in the US for extruded ingredients has resulted in our existing production facility reaching full capacity. A new cereal extrusions factory has been built at Evansville, Indiana which is now being commissioned. Further growth was achieved in bakery, feed and speciality enzymes, with a particularly good response to new products launched last year. The growth achieved by Enzymes since the factory in Finland was expanded in 2009 has resulted in this factory also reaching full capacity, and further expansion is now being planned. The yeast extracts business in China was affected by the reduced availability and high price of sugar beet molasses with limited opportunity to improve profitability through price increases. Production of yeast extracts in China in the current market and with high input costs is uneconomical and we have taken a charge of £72m within the loss on sale and closure of businesses in the income statement, to write down the carrying value of the associated assets and to provide for restructuring costs. We have also written down the value of our yeast assets in India due to increasingly strict regulatory requirements for waste discharge.

In August we completed the disposal of our small US whey protein operation. Although profitable, we have not been able to develop sufficiently differentiated

products and the consolidation of the dairy protein industry presented an opportunity to exit this market. A charge of £26m has been taken as a loss on disposal of the business reflecting a profit on the disposal of the tangible assets net of a write-off of the associated goodwill.

Since the financial year end we have entered into an agreement to acquire, subject to approval by the relevant competition authority, a bakery ingredients business with sales of £50m and operations in western Europe. This business will strengthen AB Mauri's operations in the region by broadening its product range in key craft markets beyond a yeast-only offering.

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Increased demand in the US for extruded ingredients has resulted in the building of a new factory.

[abf.co.uk](http://abf.co.uk) 

#### FOCUS ON AGRICULTURE

#### PHARMABURST: THE MOST WIDELY LAUNCHED ODT PLATFORM

Pharmaburst was the first directly compressible, off-the-shelf, orally disintegrating technology (ODT) on the market. It is the most widely launched ODT platform, used in over 130 formulations for more than 60 commercial products around the world.

Medications developed with Pharmaburst dissolve quickly in the mouth providing convenient, easy, and accurate dosing. It is used in many over-the-counter medicines for pain, allergies, sleep aids, reduction of gastric acid, and nutritional supplements.



#### AB ENZYMES: INVESTING FOR GROWTH



After years of consistent growth, our enzymes business is getting ready for the next phase of capacity expansion on the Finnish manufacturing site in Rajamäki. Following the last big expansion in 2009 and several smaller expansions more recently, the coming years will be used to further complete our manufacturing footprint in Finland. The result will be a facility with world-class capabilities to meet customers' needs, and in fact the Finnish site will be one of the largest enzyme producing factories in the world.

#### MEXICO: VERACRUZ NOW ON STREAM

Our new factory at Veracruz in Mexico is now on stream supplying markets across the Americas and exporting worldwide. Mexico has a population of over 100 million and is the fourth largest market for baked goods worldwide (bigger than the UK, France or Germany).



# FINANCIAL REVIEW

Adjusted earnings per share, which provides a more consistent measure of performance, increased by 13% from 87.2p to 98.9p.

**Group revenue increased by 9% to £13.3bn and adjusted operating profit was up 10% at £1,185m. Movements in foreign currency exchange rates had no material net effect on revenues but at constant exchange rates, adjusted operating profit was 12% ahead of last year. In calculating adjusted operating profit, the amortisation charge on non-operating intangibles, any profits or losses on disposals of non-current assets and any exceptional items are excluded. On an unadjusted basis, operating profit was 25% ahead of last year at £1,093m benefiting from the non-recurrence of last year's exceptional impairment charge of £98m.**

A net loss of £128m arose on the sale or closure of businesses this year of which disposals and closures in our Ingredients segment accounted for £113m and the loss on disposal of our sugar business in Chifeng, north China amounted to £15m. These losses are excluded from the calculation of adjusted earnings. Within the amount charged for the Ingredients business is a loss of £26m in respect of the disposal of our US whey protein operation which was completed in August 2013. This included a profit on the disposal of the tangible assets net of a write-off of the associated goodwill. Although profitable, we have not been able to develop sufficiently differentiated

Net cash flow from operations was very strong again this year, increasing from £1,240m to £1,276m.

products and the consolidation of the dairy protein industry presented an opportunity to exit this market. A charge of £72m was made to write down the carrying value of certain Ingredients assets in China and to provide for restructuring costs, and a charge of £13m was also made to write down the value of our yeast plants in India due to increasingly strict regulatory requirements for waste discharge.

Finance expense less finance income of £87m compared with a net charge of £105m last year. This reduction reflected the group's strong cash flow and the resultant lower average level of net debt during the year. The redemption of British Sugar's £150m 10 1/4% debenture on 4 July 2013 contributed a small saving on the interest charge but, with the group's very low marginal cost of borrowing, this will have a more significant impact in the new financial year.

Profit before tax increased from £761m to £876m. On an adjusted basis, where the amortisation of non-operating intangible assets and any exceptional items are excluded together with any profits or losses on the sale of non-current fixed assets and the sale and closure of businesses, profit before tax increased by 13% to £1,096m.

## Taxation

We recognise the importance of complying fully with all applicable tax laws as well as paying and collecting the right amount of tax in every country in which the group operates. We have had a board-adopted tax policy for many years which is based on seven tax principles that are embedded in the financial and non-financial processes and controls of the group. Our tax principles are included in the appendix to our corporate responsibility report.

The tax charge for the year of £242m included an underlying charge of £265m at an effective rate of 24.2% (2012 – 24.8%) on the adjusted profit before tax. The reduction in the effective rate is a result of the mix of profits earned in different tax jurisdictions and the reduction in the UK corporation tax rate from 24% to 23%, with effect from



**John Bason**  
Finance Director

1 April 2013. Further reductions to 21% and 20% are due to take effect on 1 April 2014 and 1 April 2015 respectively. The legislation to effect these rate changes was enacted before the balance sheet date and as deferred tax is measured at the rates that are expected to apply in the periods when the underlying timing differences reverse, closing UK deferred tax balances have been calculated using a rate of 20%. The tax charge included a credit of £18m from the calculation of deferred tax liabilities reflecting this reduction.

The group is a substantial UK tax payer and although the rate of corporation tax has reduced, out of total tax paid in the year of £252m (2012 – £191m), the amount paid in the UK increased from £107m to £133m as a result of the higher profits earned by our UK businesses.

The overall tax charge for the year benefited from a £29m (2012 – £33m) credit for tax relief on the amortisation of non-operating intangible assets and goodwill arising from previous acquisitions. A tax charge of £6m arose on the property and business disposals.

### Earnings and dividends

Earnings attributable to equity shareholders were £591m, £36m higher than last year, and the weighted average number of shares in issue during the year used to calculate earnings per share was 790 million (2012 – 789 million). Earnings per ordinary share were 6% higher than last year at 74.8p. Adjusted earnings per share, which provides a more consistent measure of performance, increased by 13% from 87.2p to 98.9p.

The interim dividend was increased by 10% to 9.35p and a final dividend has been proposed at 22.65p which represents an overall increase of 12% for the year. The proposed dividend is expected to cost £179m and will be charged next year. Dividend cover, on an adjusted basis, is just over three times.

### Balance sheet

Non-current assets of £6,921m were broadly unchanged from last year. Intangible assets were £188m lower, mainly reflecting the amortisation and impairment charges for the year and foreign exchange translation losses of £30m. Property, plant and equipment increased by £11m with capital expenditure in the year largely offset by depreciation and impairment charges.

Working capital at the year end was £58m higher than last year but average working capital across the year expressed as a percentage of sales showed further improvement. Net borrowings at the year end were £257m lower than last year at £804m as a consequence of the very strong cash flow.

A currency loss of £134m 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, against the rand and the Australian dollar which more than offset the effect of its weakening against the euro and the US dollar. The group's net assets increased by £276m to £6,497m.

Return on capital employed (ROCE) for the group increased from 17.0% to 18.5% this year. Grocery and Primark both delivered an improvement through much higher profits and Agriculture was level with last year, but lower profits resulted in a reduction in the returns for Sugar 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 again this year, increasing from £1,240m to £1,276m. This increase was driven by the higher profit and the addition of non-cash items of amortisation, depreciation and impairment charges which, in total, were slightly higher this year. This was partly offset by a working capital outflow of £97m compared to last year's inflow of £43m and higher corporation taxes paid.

We continued to invest in the future growth of the group but the £600m spent on property, plant and equipment and intangibles net of disposals during the year was a reduction on last year's investment of £707m. Primark spent £228m on the acquisition of new stores and the fit-out of new and existing stores. Expenditure elsewhere included the completion of a number of large projects including the new yeast plant in Mexico, the South African warehouse and the distillery in Tanzania for Illovo. Further expenditure was incurred on our programme to reduce the cost base at Allied Bakeries with new bread lines at three of our UK bakeries. No new acquisitions were made in the period but £75m was paid out, almost all of which related to deferred consideration on acquisitions made in prior years.

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Net borrowings at the year end were £257m lower than last year at £804m.

## Financing

The financing of the group is managed by a central treasury department. The group has total committed borrowing facilities amounting to £2.4bn, which comprise: £710m of US private placement notes maturing between 2014 and 2024; £1.15bn provided under a syndicated, revolving credit facility which matures in July 2015; a £120m loan from the European Investment Bank maturing in January 2015 and almost £400m of local committed facilities in Africa and Spain. During the financial year we repaid, from existing cash resources, US\$120m of private placement notes and British Sugar's £150m 10¾% debenture. At the year end, £1.0bn was drawn down under these committed facilities. The group also had access to £773m of uncommitted credit lines under which £160m was drawn at the year end. Cash and cash equivalents totalled £362m at the year end.

The financial strength and flexibility of the group is enhanced by diversifying our sources of funding and having certainty of finance over a long period. The strength and breadth of the 12 banks in the syndicate reflect the scale and international presence of the group. The syndicated bank finance will be renegotiated, in the ordinary course of events, in the months prior to maturity to ensure the group continues to have access to funding of an appropriate level and duration. The average fixed interest coupon on the private placement notes is 5.3%.

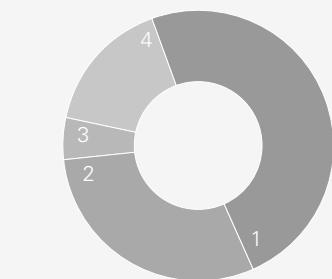
## Pensions

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 £44m compared with last year's deficit of £95m. The UK scheme accounts for 91% of the group's total pension assets and the increase in the market value of these assets during the year was slightly more than the increase in the present value of scheme liabilities. 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. Despite a small surplus at the most recent triennial valuation in 2011, the Company agreed to make the remaining two payments, the last of which was in March 2013. Total contributions to defined benefit plans in the year amounted to £69m (2012 – £71m).

With effect from 15 September 2013 the provisions of IAS 19 Revised will be adopted by the group and the comparative results for the financial year 2013 will be restated as a prior year adjustment. Under the revised Accounting Standard the reported operating profit for 2013 will be reduced by £4m to reflect a change in the treatment of administration costs and the other financial expense will increase by £3m due to the replacement of the

## Total committed borrowing facilities (£m)

Diversified sources of term funding



expected rate of return on assets with the discount rate. There was little difference between the expected rates of return on assets and the discount rates in the group's schemes in 2013 hence the small adjustment.

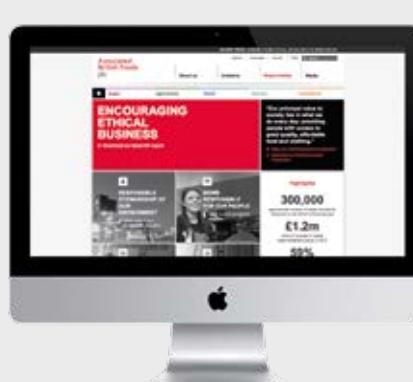
On 1 October 2012 new legislation came into effect which required all eligible UK employees to be automatically enrolled into a qualifying pension scheme. With 40,000 employees in the UK, this was a major exercise for the group. We conducted an extensive awareness campaign in the months leading up to our selected implementation date of 1 February 2013, which resulted in an additional 15,000 employees joining the existing defined contribution section of the Associated British Foods Pension Scheme. The charge for the year for the group's defined contribution schemes, which is equal to the contributions made, amounted to £66m (2012 – £53m).

**John Bason**  
**Finance Director**

# CORPORATE RESPONSIBILITY

"Associated British Foods is both diversified and decentralised. We are successful because we trust the people who run our businesses... The centre engages enthusiastically and deeply with leaders across our portfolio of businesses, but it doesn't dictate what operating companies' agendas or methods should be. The same is true of our CR agenda... Just as the centre engages with our businesses on their commercial progress, so we also engage with our businesses on the progress of their CR work. We firmly believe this is the best way to be effective in taking our social responsibility seriously." **George Weston, Chief Executive**

**ENCOURAGING ETHICAL BUSINESS: DOWNLOAD OUR CORPORATE RESPONSIBILITY REPORT 2013 TODAY**



abf.co.uk/responsibility

The following pages detail just a few of our achievements relating to corporate responsibility. Please refer to the website for more highlights, as well as further details of our accomplishments and case studies. Our latest corporate responsibility report is available online at [www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility).





**RETAIL**

An one of the largest clothing retailers in Europe, and with an international presence, we are committed to the importance and necessity of being a responsible business. This page highlights some of the key areas where we work with our suppliers and our retail partners to ensure that the people who work for us are supported and have fair and equal opportunities.

We also take care to use natural resources efficiently and to build relationships with the communities in which we operate.

18,596	4,818
85%	8,660

**INTRODUCTION**

This section provides an overview of our approach to corporate responsibility and highlights some of the key areas where we work with our suppliers and our retail partners to ensure that the people who work for us are supported and have fair and equal opportunities.

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**RETAIL**

**RESPONSIBLE STEWARDSHIP OF OUR ENVIRONMENT**

This section provides an overview of our approach to corporate responsibility and highlights some of the key areas where we work with our suppliers and our retail partners to ensure that the people who work for us are supported and have fair and equal opportunities.

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**Our corporate responsibility activities are guided by four business principles, outlined below. Please refer to our corporate responsibility report to learn more about how individual businesses have chosen to respond to them.**

## Responsible stewardship of our environment

"We have an obligation to our wider environment which we must protect as a common resource for future generations. We acknowledge that we create a footprint wherever we operate. Sometimes it is deep... We recognise also that some raw materials are produced in an unacceptable manner. We will work with others to avoid using these materials."

**George Weston, Chief Executive**

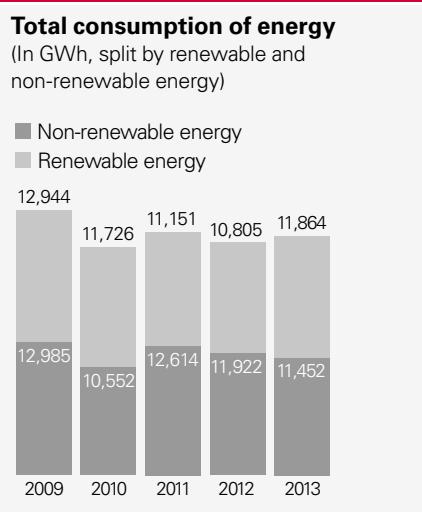
**51%**

proportion of energy obtained from renewable sources in 2013

Our operations have an impact on the environment and we are committed to making this a positive impact wherever possible, and to protecting the resources we need to deliver sustainable business growth. The environmental performance of each segment of the business is regularly reviewed by the board.

Since 2010, we have invested over £182m in environmental improvement activities.

In 2013, our absolute use of energy was 23,316 GWh compared with 22,727 GWh in 2012, a 2.6% increase. Overall, this is a minor increase in the use of energy considering the growth in our business, which demonstrates the positive impact of the investments we have made in energy efficiency.



For a number of years, the proportion of our energy use that has been from renewable sources has been just under half our total energy use. This year 51% of our total energy use has been from renewable sources.

In 2013, the volume of water which entered our premises, excluding water for irrigation and water for our Illovo business, was 42 million m<sup>3</sup>. In addition, Illovo's water usage in manufacturing was in the range of 30 million to 36 million m<sup>3</sup>.

The quantity of packaging used for our products in 2013 was 238,000 tonnes, down 3% from 2012.

There has been a concerted effort to divert the amount of waste we send to landfill. This year over two-thirds of our waste has been recycled or recovered for beneficial use.

### Agriculture: measuring the value of nature

It is well known that the protection of biodiversity, while complex to value and quantify accurately, is essential for future wellbeing and economic development. To address this key issue, AB Sustain has developed Think.Nature. Endorsed by Natural England, this unique model enables the valuation of natural capital at farm level. Farms are benchmarked and provided with advice on how to increase natural capital without negatively affecting productivity.

### Grocery: zero waste sites

Reducing waste to landfill is good for the environment, and good for the bottom line too. Our Jordans and Ryvita Company site and the Twinings Andover factory are both zero waste to landfill sites. Westmill Foods and AB World Foods are following suit to ensure their sites meet this standard by 2015.

### Being responsible for our people

*"What does it mean to us to be a good employer? At one level it means providing a safe working environment as we have to do as a matter of law, but we go beyond that and we continue to be diligent in reducing the injuries sustained by our workforce, often in challenging environments..."*

*We have an obligation to people who work for our suppliers, particularly where other sources of protection for them are absent or only marginally effective. This is particularly true in Primark's sourcing of clothes, but it is also true in Twinings' tea supply chain and in the sourcing of spices. We have an obligation to work to prevent abuse and reduce risk wherever we can*

and we have an obligation to foster good operating standards. When things go wrong, most awfully at Rana Plaza, we also have an obligation to contribute to tackling the consequences of disaster."

**George Weston, Chief Executive**

**450,000**

annual number of patient visits to our free staff medical facilities in Africa

Being a responsible and ethical business means doing everything we can to make sure the people who work for us or our suppliers are safe, treated fairly and shown respect. First and foremost, we ensure our employees, contractors and visitors to our factories, stores, warehouses and offices are safe and do not harm others.

As such, we deeply regret a total of six employee and contractor fatalities in Africa, China and South America in 2013. In each case, we have undertaken an investigation and implemented measures to minimise the likelihood of such incidents recurring.

The prevention of all deaths and serious accidents is an absolute priority throughout the whole of the Associated British Foods group and we are always seeking ways to prevent them. We also work with our suppliers to encourage the same attitude to health and safety in their operations.

# CORPORATE RESPONSIBILITY

CONTINUED

Every business in the Associated British Foods group has applied our Supplier Code of Conduct which is designed to ensure that our suppliers, representatives and other people with whom we deal adhere to our values and standards. As well as being compliant with all local laws, we expect our suppliers and representatives to comply with the Code's 14 principles and to develop relationships with their own supply chains that are consistent with it.

### Retail: the power of partnerships

Primark believes that collaboration with other stakeholders is key to finding sustainable and effective solutions to the challenges faced by the garment industry. Since 2008, Primark has been a member of the Ethical Trading Initiative (ETI), an alliance of companies, trade unions and voluntary organisations that work together to improve the lives of workers who make or produce consumer goods. Primark was pleased to be awarded 'leader' status by the ETI in June 2011 and again in June 2012. This is the highest possible status and reflects continued strong growth in auditing, remediation and training programmes, and extensive external engagement.

### Sugar: looking after the health of workers in Africa

We recognise that living standards and working conditions in Africa can vary and sometimes fall below acceptable standards. As farm labourers make up a significant proportion of Illovo Sugar's workforce in Africa, the business has taken responsibility for creating a comprehensive welfare system to make sure its employees and their dependants are housed and healthy, and have access to education. For instance, Illovo Sugar spends over £4m each year on running four hospitals and 24 health clinics, and providing medical insurance schemes.

### Being a responsible neighbour

**"We have operations in over 200 locations worldwide. Some are in prosperous communities, some are in locations that are very vulnerable. Our management teams in each location must decide what we must do to be welcomed wherever we are and to contribute to the local community wherever we operate."**

George Weston, Chief Executive

# £136m

donations made by the Garfield Weston Foundation in the last three years

We recognise our responsibility to the places in which we operate and encourage our businesses to engage positively with their local communities. Our businesses engage with their neighbours in a variety of ways, big and small, whether it is raising money for local good causes or working in partnership with global NGOs to improve living standards.

At a group level, we are committed to the support of local communities in the UK, where we are headquartered. This support is offered through the Garfield Weston Foundation and demonstrates what being a responsible neighbour means in practice.

The Garfield Weston Foundation was set up in 1958 by the creator of Associated British Foods, the late W Garfield Weston. It is one of the UK's foremost philanthropic organisations and donates money to charitable causes across the UK.

Each year the Foundation distributes the income it receives. Since it began, the Foundation has donated more than £735m and donations have continued

to grow. 2012/13 was a record year, with the Foundation donating over £49m benefiting around 1,500 charities.

The Foundation holds a majority stake (79.2%) in a privately owned holding company, Witton Investments Limited. Witton has a diverse portfolio of investments, its largest being 54.5% of the shares of Associated British Foods plc. The fact that donations have grown is a direct result of the success of the underlying investments such as Associated British Foods.

### Ingredients: Scholarship programmes in South America

AB Mauri recognises the value of offering education and work experience to help people into employment in its sites. In Columbia and Ecuador, it is working with partners to develop local skills in baking and industry. In Uruguay, it offers four internships a year and, already, three former interns are now permanently employed with it. In Mexico, it has a scholarship agreement with a university in Veracruz offering final year students the chance to develop practical skills and, typically, has six students engaged in projects at its sites at any one time.

### Agri: supporting education in Ghana

To help meet a growing need for schooling in Ghana, AB Agri began supporting the Shine Education Centre in Accra in 2006. Since then, the company has provided books and computers as well as child development games and teaching aids for pre-school. It has provided logistical support by combining shipments of AB Agri products from the UK with donations. The centre is now one of the highest achieving schools in Ghana, and the student numbers have swelled from 18 to 277.

"We acknowledge, however, that we cannot fix every problem that exists around us, and that we cannot achieve anything alone. We acknowledge that our agenda and priorities will not always coincide with those of others who also think and care deeply about social and environmental issues. We will always respect other people's agenda and try to learn from them, but we will have confidence in our own, always remembering that in feeding and clothing millions of people we do good every day." **George Weston, Chief Executive**

### **Responsible for promoting good health**

**"I also believe that our principal value to society lies in what we do every day: providing people with access to good quality, affordable food and clothing. People benefit immensely when the real cost of their food comes down; and we are all liberated when we know that food will be safe and plentiful..."**

**We must also use science to improve productivity and to inform us of the effect of a particular food type on the human body. We will label our products properly and market them appropriately to customers and we constantly strive to improve food safety. When we do all this well, then we are a powerful force for good."**

**George Weston, Chief Executive**

We provide affordable and nutritious food and ingredients to millions of people around the world, and recognise we have a part to play in helping people to lead healthy lives.

There is a challenge at the heart of the global food system, with most countries experiencing both increasing levels of obesity and a proportion of the population that remains malnourished. As a business that provides the raw ingredients and finished products that help to feed the world, we have a role to play in combating both obesity and malnutrition.

# **£165,000**

donated by ACH Foods to Share Our Strength's No Kid Hungry campaign, which provides school breakfast and summer meals, and teaches low-income families to cook

Taking responsibility for promoting good health is a principle we put into action every day through our products and businesses. Our first priority is to ensure consumers are empowered to make choices which are right for their lives, so we clearly label all our grocery products with nutritional information.

We are also reformulating our products to improve the nutritional value and reduce salt content.

Through partnerships in the UK, Australia, Spain and South Africa, we are helping to educate people about nutrition and health. In particular, in the UK, our Sugar and Grocery divisions collaborate with the government on helping to improve the health of British consumers.

### **Grocery: product reformulation**

In 2011, all the businesses within Associated British Foods' UK Grocery group agreed to support the principles set out within the UK government's Public Health Responsibility Deal. The businesses pledged to reduce salt content, remove artificial trans fats from all products and improve catering and occupational health standards within Head Office and manufacturing facilities.

At the beginning of 2012, following extensive technical and trials work, Allied Bakeries achieved the salt targets set out within the Public Health Responsibility Deal, a reduction of around 20% since 2007.

### **Sugar: nutrition education**

AB Sugar works with a number of scientific bodies around the world to continue to understand and improve the scientific basis of nutrition and the constituents of a healthy, balanced diet. In the UK, British Sugar has worked with the British Nutrition Foundation to develop a range of educational resources for secondary schools covering areas such as sugar production and processing. Illovo Sugar supports the South African Sugar Association which has developed science-based nutritional information in the area of sugar and health within the medical community. Azucarera supports the Spanish Sugar Institute, and during the last two years has focused on educating a range of stakeholders, predominantly schools, universities and housewives.

To read the full corporate responsibility report, please visit our website at:  
**[www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility)**

# BOARD OF DIRECTORS



## Charles Sinclair

### Chairman (age 65)

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.



## George G Weston

### Chief Executive (age 49)

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 Associated British Foods, he was Managing Director of Westmill Foods, Allied Bakeries and George Weston Foods Limited (Australia).

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



## John Bason

### Finance Director (age 56)

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 in 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.



## Peter Smith

### Independent non-executive director (age 67)

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.



### **Lord Jay of Ewelme GCMG**

#### **Independent non-executive director (age 67)**

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 Electricité de France. He has been an independent member of the House of Lords since 2006. He is also a member of the British Library Advisory Council.

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



### **Timothy Clarke**

#### **Independent non-executive director (age 56)**

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 Nomination and Remuneration committees.



### **Javier Ferrán**

#### **Independent non-executive director (age 57)**

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 Audit, Nomination and Remuneration committees.



### **Emma Adamo**

#### **Non-executive director (age 50)**

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

Other appointments: She is a director of Wittoning Investments Limited, and of the W Garfield Weston Foundation in Canada.

# CORPORATE GOVERNANCE

Associated British Foods has a well-established framework of policies and processes to support its governance objectives. They are underpinned by one of the group's guiding business principles of 'encouraging ethical business'.

## **Chairman's foreword**

Effective corporate governance remains vital to the group's ability to operate successfully on a global basis. Associated British Foods has a well-established framework of policies and processes to support its governance objectives. They are underpinned by one of the group's guiding business principles of 'encouraging ethical business'. These principles are explored in more detail in the Company's newly published corporate responsibility report.

The board is responsible for the long-term success of the group. As Chairman, I lead the board and, in doing so, I recognise the importance of the annual performance evaluation in helping to ensure that the board operates properly in every aspect of its role. This year's evaluation again produced some useful insights

about how we work together, how well our committees function and also about our individual contributions. You will find details of the process, including some key outcomes, on pages 49 and 50 of this report.

Diversity is a key issue for all boards and, at Associated British Foods, we recognise that relevant diversity, including of gender, is vital to our business and its future growth. Our approach to boardroom diversity and to nurturing talent to ensure that we have a truly diverse workforce that both reflects all our customers, and is capable of meeting future business challenges, is discussed both in the Chairman's statement on page 8 and in the Nomination committee report on page 51.

In recent years, there have been a number of reviews and consultations on governance-related matters. The board continues to monitor and take an active interest in developments in this arena. Our statement of compliance with the provisions of the UK Corporate Governance Code is set out below. I am pleased to report that, except in one aspect, the Company has complied with all relevant provisions. We are required, for the year under review, to report against the version of the UK Corporate Governance Code published in 2010 but have taken the revised edition of these guidelines into account where possible in preparing this report.

**Charles Sinclair**  
**Chairman**

## **Compliance with the UK Corporate Governance Code**

As a premium listed company on the London Stock Exchange, the Company reports in accordance with the UK Corporate Governance Code (the 'Code') published in June 2010 which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. The Code is published by the UK Financial Reporting Council ('FRC') and a copy of the Code is available from the FRC website ([www.frc.org.uk](http://www.frc.org.uk)).

An updated version of the Code was published in September 2012 and first applies to companies with financial years commencing after 1 October 2012 (the '2012 Code'). The Company will therefore report in accordance with the revised guidelines in its 2014 annual report, although the revised provisions of the 2012 Code have been taken into account where possible when preparing this report.

The board considers that the Company has, throughout the year ended 14 September 2013, applied the main principles and complied with the provisions set out in the Code, with the following exception:

<b>Code provision</b>	<b>Status</b>	<b>Explanation</b>
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.

## The board

The board is 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 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;
- tax and 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, and report regularly to the board. For further details, please see the 'Board committees' section below.

## Board composition

At the date of this report, the board comprises 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

Emma Adamo is not considered to be independent by the board in view of her relationship with Witton Investments Limited, the Company's majority shareholder. She was appointed in December 2011 to represent this shareholding on the board of the Company. The board considers that the other four 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.

The board recognises that, as at 3 November 2013, Tim Clarke has served nine years as a director of the Company and, in recognition of this length of service, he stepped down as a member of the Audit committee on 11 September 2013. The board has given careful consideration to the matter of Tim Clarke's independence and is mindful that the Code requires that, if a director has served on the board for more than nine years, the board should state its reasons if the director is nevertheless considered to be independent. The length of Tim's service and the consequent knowledge and experience he brings to the role are greatly valued by the board. It is the board's view that Tim Clarke continues to demonstrate the qualities of independence in carrying out his role as a non-executive director and Senior Independent Director, supporting the executive team in an objective and independent manner. Tim Clarke will offer himself for re-election at this year's annual general meeting. Subject to his re-election, Tim will retain his role as Senior Independent Director and the board will continue to keep his independence under review.

Biographical and related information about the directors is set out on pages 44 and 45.

## **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 individual 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 executive directors. During the year, led by the Senior Independent Director, the non-executive directors have met once without the presence of the Chairman to appraise his performance.

# CORPORATE GOVERNANCE CONTINUED

## The non-executive directors

In addition to their overall responsibility for strategy and business results, 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, 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 re-election at the 2013 annual general meeting to be held in December.

## Board meetings

The board held eight meetings during the year.

Senior executives below board level are invited, when appropriate, to attend board meetings and to make presentations on the results and strategies of their business units. Papers for board and committee meetings are generally provided to directors for board and committee meetings a week in advance.

The attendance of the directors at board and committee meetings during the year to 14 September 2013 is shown in the table below.

	<b>Board</b>	<b>Audit committee</b>	<b>Nomination committee</b>	<b>Remuneration committee</b>
Charles Sinclair	8/8	–	1/1	6/6
George Weston	8/8	–	–	–
John Bason	8/8	–	–	–
Emma Adamo	8/8	–	–	–
Tim Clarke <sup>1</sup>	8/8	4/4	1/1	6/6
Javier Ferrán <sup>1</sup>	8/8	–	1/1	6/6
Lord Jay	8/8	4/4	1/1	6/6
Peter Smith	8/8	4/4	1/1	6/6

<sup>1</sup> Javier Ferrán was appointed as a member of the Audit committee on 11 September 2013 in place of Tim Clarke who stepped down with effect from the same date.

## Board committees

The board has established three principal board committees to which it has delegated certain of its responsibilities. These are the Audit committee, the Nomination 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 62. 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 are available on the Company's website ([www.abf.co.uk](http://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 advised 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 Companies Act 2006;
- 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.

## Directors' insurance

The Company has in place appropriate directors' and officers' liability insurance cover in respect of legal action against its executive and non-executive directors, amongst others.

**Board business**

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

<b>Strategy</b>	Holding an annual meeting to focus on group strategy.
<b>Governance and risk</b>	<p>Approving the Company's full year and interim results.</p> <p>Making a recommendation on the 2012 final dividend and approving the 2013 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 both regular divisional food safety updates and an annual groupwide update.</p> <p>Participating fully in the annual board performance evaluation and receiving a report on the same.</p> <p>Reviewing the composition of the principal board committees.</p> <p>Receiving regular updates on regulatory matters.</p>
<b>Performance monitoring</b>	<p>Receiving regular reports to the board from the Chief Executive.</p> <p>Receiving, on a rolling basis, senior management presentations from each of the group business areas.</p> <p>Approving the group budget for the 2013/14 financial year.</p> <p>Undertaking an annual goodwill and property, plant and equipment impairment review.</p> <p>Receiving regular feedback on directors' meetings held with institutional investors.</p> <p>Receiving reports from the Audit committee chairman.</p>
<b>Corporate responsibility</b>	<p>Receiving an update from the Chief Executive on his strategy for corporate responsibility within the group.</p> <p>Receiving regular management reports on health, safety and environment issues.</p> <p>Receiving an update on Primark's response to the Rana Plaza collapse, Bangladesh.</p>
<b>People</b>	Considering senior succession planning and people activities.
<b>Various</b>	Undertaking appropriate preparations for the holding of the annual general meeting and, subsequently, discussing issues arising from that meeting.

**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 annually with the aim of improving the effectiveness of the board and its members and the performance of the group.

Following last year's externally facilitated evaluation, this year's review, which took place in the final quarter of the financial year, was led by the Senior Independent Director, Tim Clarke, together with non-executive director, Emma Adamo.

**Process**

A discussion guide was prepared and circulated to each director and the Company Secretary. This included the following topics, which formed the basic agenda around which each discussion was framed:

- board structure, organisation and dynamics, including the mix of skills, experience, knowledge and diversity (including gender diversity), the clarity of leadership given to the organisation's purpose, direction and values, how well the board works as a unitary body, the environment for effective debate and decision-making;
- board efficiency and effectiveness, including agenda content, the quality of divisional presentations, the adequacy of time given to reflective discussion, and leadership by the Chairman;
- strategic review and debate;
- risk management and governance;
- people issues including management development, succession planning, and remuneration strategy;
- business performance, including the quality of reporting measures and the level of information flowing to the board;
- the board committees, including whether all key issues were being addressed, the quality and clarity of information provided, the depth of debate and the effectiveness of the chairman in each case; and
- improvements in board effectiveness made in 2013, and key issues and improvements needed for 2014.

Tim Clarke and Emma Adamo undertook a confidential, unattributable interview with each director, the Company Secretary and each other based on the discussion guide.

Following the meetings, Tim Clarke and Emma Adamo produced a written report, which was discussed with each of the Chairman and the Chief Executive before being sent to board members and discussed at the following board meeting.

It was widely recognised from the many positive responses to this year's exercise that good progress had been made in implementing proposals arising out of the previous internal evaluation in 2011 as well as from the 2012 externally facilitated review.

# CORPORATE GOVERNANCE CONTINUED

## Actions implemented arising from 2012 evaluation include:

Objective	
<b>Synergy</b>	Research of possible synergies within the group, particularly the Ingredients division, was considered.
<b>Strategy</b>	Good progress made by the board, as a forum for constructive debate, over the key area of strategy for the group as a whole, including the role of the corporate centre (which is described in the Group business model and strategy section on pages 2 and 3 of this annual report).
<b>Risk management</b>	Greater emphasis was placed on understanding non-financial risks in the businesses.
<b>Succession planning</b>	General consensus reached on desirability of further diversity at board level both in terms of gender and international perspectives.

Based on the response and results of the 2013 evaluation, the directors' view overall was that the board was working very effectively as a unitary body and that the board's principal committees were also continuing to function efficiently and effectively. Each of the directors was considered to be making a valuable contribution and full commitment, including of time, to their respective roles.

A list of recommended action points arising from this year's evaluation is being implemented under the direction of the Chairman including actions set out in the table below.

## Areas identified for action from 2013 evaluation include:

Objective	
<b>Board impact</b>	Agenda to be shaped to give sufficient prominence to certain key business issues identified in the evaluation, namely the expansion of Primark; the development of the food portfolio; the implications of EU sugar regime reform; and enhancing the performance of Ingredients and GWF.
<b>Corporate responsibility</b>	Additional time to be made available on the board agenda to address further development of groupwide CR agenda, its divisional implications and associated communication challenges.
<b>Risk management</b>	Recognition of need for increased focus on key existential risks arising from competitive, regulatory, health or CR issues in each business division.
<b>Major investments</b>	Extended information to be provided to the board in the area of key market demand and competitive dynamics when a major investment or proposal is under consideration.
<b>Succession planning</b>	Nomination committee to meet more regularly to progress board succession and contingency plans.

## Board development

The Chairman, with the support of the Company Secretary, is responsible for the induction of new directors and the continuing development of directors. Training and development is provided to all directors at board and committee meetings. During the year under review, this included updates on reforms of the legal framework for directors' remuneration in quoted companies and implications of the revised UK Corporate Governance Code. 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, board members received regular corporate governance updates in their board packs. Non-executive directors make periodic visits to group operations including on occasion making visits to the group's overseas businesses.

## Engaging with shareholders

The board works to engage effectively with the Company's shareholders so that both its objectives and those of shareholders are understood.

The Company announces its achievements and prospects to shareholders by way of the interim results 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 board 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 financial analysts on a regular basis throughout the year to discuss the Company's business strategy and current performance. 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.

The Company Secretary acts as a focal point for communications on matters of corporate governance and corporate responsibility.

## Annual general meeting (AGM)

The AGM will be held on Friday, 6 December 2013 at 11.00 am at the Congress Centre in London. The board views the AGM as a valuable 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 retail business, Primark.

The Notice of meeting, 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](http://www.abf.co.uk)). Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting, 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 Code to present a fair, 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 80 of this annual report and accounts.

The independent auditors' report on page 81 includes a statement by the auditors about their reporting responsibilities. The board recognises that its responsibility to present a fair, 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**

A description of the Company's business model for sustainable growth is set out in the Group business model and strategy section on pages 2 and 3 and in the Business strategies section on pages 6 and 7. These sections provide 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 consistent 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 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 can be viewed on the Investors section of the Company's website ([www.abf.co.uk](http://www.abf.co.uk)).

## Meetings

The committee met once during the year under review.

## Committee activities during the year

During the year, the committee considered board succession planning matters. The Code provides that length of tenure is a factor to consider when determining the independence of non-executive directors. This year, when reviewing the re-election of directors at the AGM, the committee gave careful consideration to the fact that Tim Clarke has served nine years as a director of the Company as at 3 November 2013. It is the board's view, in line with that of the committee, that Tim continues to demonstrate the qualities of independence in carrying out his role as a non-executive director and as Senior Independent Director, supporting the executive team in an objective and independent manner.

The committee will continue to keep the composition of the board under review in the year ahead and consider and develop plans for orderly succession and progressive refreshing of the board.

The committee also considers the membership of the key committees. During the year, the committee made a recommendation to the board that Javier Ferrán be appointed as a member of the Audit committee in place of Tim Clarke, in recognition of Tim's length of tenure. The board approved this recommendation on 11 September 2013.

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 performance evaluation, that all members of the board are devoting sufficient time to their duties.

The performance of the committee was evaluated as part of the annual board performance evaluation and was found to be operating effectively.

## Diversity

The board recognises the benefits of achieving diversity throughout the group's businesses. The main focus of debate in the UK recently has been on gender diversity, following the publication of Lord Davies' report, 'Women on Boards' in 2011. The board has continued to follow this important debate on the representation of women in the boardroom and gender diversity was, again, a specific area considered in this year's board performance evaluation exercise.

It is also recognised that a genuinely diverse board comprises individuals with a range of personal attributes, perspectives, skills, experience and backgrounds, as well as representing differences in nationality, race and gender. It therefore remains the board's policy to make new appointments based on merit. It is also the policy of the board that, while candidates for future board appointments will be considered from the widest possible pool, executive search agencies will be asked to ensure that half of the candidates they put forward for consideration are women.

Looking beyond the board to the group's wider workforce, a number of programmes and initiatives have been launched across the group's businesses since 2011 with the aim of overcoming the barriers that women may face in the workplace. The objective is to run businesses which attract and retain the best female talent by creating a culture which welcomes,

promotes and develops women in the workplace. There has been the recognition that, in some of the group's businesses, women are under-represented at the most senior management level. The series of programmes and initiatives has been created to address the group's gender diversity objectives and they signal its long-term commitment to gender equality.

## Audit committee report

### Members

During the year and at the date of this report:

**Peter Smith** (Chairman)

**Tim Clarke** (until 11 September 2013)

**Lord Jay**

**Javier Ferrán** (from 11 September 2013)

### 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 the 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. Accordingly Tim Clarke retired from the committee with effect from 11 September 2013 and Javier Ferrán was appointed on that date.

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 four meetings with the external auditors without any executive members 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 can be viewed on the Investors section of the Company's website ([www.abf.co.uk](http://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, any proposed changes to them, and the adequacy of their disclosure in the annual report;
- the integrity of the financial statements, including a review of important accounting issues, areas of complexity and the actions, estimates and judgements of management in relation to financial reporting. The committee had a particular focus on the carrying value of property, plant and equipment and intangible assets, and the disclosure of restructuring and closure costs;

- any significant adjustments to financial reporting arising from the audit;
- litigation and contingent liabilities affecting the group; and
- potential tax contingencies, compliance with statutory tax obligations and the group's tax policy.

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 their Audit committee 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;
- reports on fraud perpetrated against the group; and
- the group's approach to IT, cyber security and whistleblowing.

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 requires authorisation by the chairman of the Audit committee and the Group Finance Director prior to its commencement. Individual assignments of 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:

# CORPORATE GOVERNANCE CONTINUED

- 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 Quality Review Team of the Financial Reporting Council (FRC).

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.

Richard Pinckard was appointed as KPMG lead audit partner for the financial year ended September 2012 and is expected to continue as lead audit partner until the conclusion of the 2016 audit. Upon his appointment Mr Pinckard undertook a detailed review of the external audit arrangements across the group including a review of senior audit executives, and he presented

his findings and recommendations to the Audit committee. As part of the normal partner rotation arrangements, no changes were necessary in the current year but four divisional audit executives were changed last 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 LLP be appointed as the Company's external auditor for 2013/14. KPMG Audit Plc (a fellow KPMG group company) has instigated an orderly wind-down of business.

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 became effective for the Company on 15 September 2013 and, as suggested in the FRC's transitional arrangements with respect to audit tendering, it is likely that the Company will put its audit out to tender to coincide with completion of the current five-yearly cycle of partner rotation. The committee will take into account, when determining its tendering arrangements, the UK Competition Commission's recent decision to introduce mandatory audit tendering at ten-year intervals, and the associated transitional provisions.

The total fees paid to KPMG Audit Plc for the year ended 14 September 2013 were £8.9m of which £2.8m 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;
- 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 an independent external service provider 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/responsibility](http://www.abf.co.uk/responsibility).

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
<b>Product safety</b>	Reputational damage caused by food hygiene or product safety incidents. Non-compliance with regulatory requirements. Public concerns over materials used in packaging and ingredients in products.	Food safety is put before economic considerations. Our businesses employ quality control specialists and operate strict policies to ensure consistently high standards are maintained in our operations and in the sourcing and handling of raw materials. Food safety systems are regularly reviewed for efficacy and legal compliance. We participate in independent food health and safety audits. Quality and food safety audits are undertaken at our manufacturing sites. Documented and tested product recall procedures are embedded in all our businesses and are regularly reviewed. We proactively monitor the regulatory and legislative environment as well as emerging scientific research.
<b>Health and nutrition</b>	Health concerns over fat, salt and calorie content of foods. Responding correctly to the spectrum of food poverty and malnutrition versus obesity. Inappropriate advertising to children.	Recipes are regularly reviewed and reformulation is conducted to improve the nutritional value of products, with a focus on reducing fat, salt and calorie content where possible. Our UK Grocery group has signed the UK government's 'Public Health Responsibility Deal' and associated pledges to reduce salt, remove trans fats and promote healthy eating and lifestyle options to our employees. All of our grocery products are labelled with nutritional information. 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. We are looking further to continue programmes related to health and nutrition, and to develop partnerships to help educate people about health and nutrition.
<b>Workplace health and safety</b>	Potential for fatal accidents and serious injuries to employees, contractors and visitors. Loss of healthy workforce and supply chain due to diseases such as HIV/AIDS, TB and malaria in high-risk countries.	Group health and safety policy and practices are embedded with a strong ethos of workplace safety across the group. We maintain a programme of audits to verify implementation and support continuous improvement. Accountable senior executives and specialists are appointed. We provide health and safety training and continue to share guidance and best practice with our businesses. We have extended the internal and external auditing of health, safety and management reporting. We continue to invest in health and safety management.

## People

<b>Issue</b>	<b>Risk</b>	<b>Mitigation</b>
<b>Employee rights</b>	<p>Non-compliance with internationally recognised standards.</p> <p>Inability to recruit and retain high-calibre people at all levels necessary to achieve business performance targets and maintain profitable growth.</p> <p>Maintaining our duty of care to employees, contractors and workers in our supply chain.</p>	<p>We aim to ensure compliance with the United Nations Universal Declaration of Human Rights in the management of all our businesses.</p> <p>Employees throughout the group are recruited, trained and rewarded according to performance alone.</p> <p>Whistleblowing policy and procedures in place.</p> <p>We will consider how our approach to managing employee rights can be shared with principal suppliers.</p>
<b>Management succession</b>	<p>Failure to plan for succession to key roles could lead to a lack of management continuity and suboptimal operational or financial performance.</p>	<p>Each business has a succession plan which is reviewed with group management twice a year, and with the board, annually.</p> <p>Development of our senior managers is co-ordinated by the Group HR Director and the Head of Executive Development.</p> <p>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.</p>
<b>Suppliers and supply chain reliability</b>	<p>Damage to brands caused by supply chain weakness, e.g. poor conditions for workers.</p> <p>Problems with supply reliability caused by natural disasters and other incidents.</p> <p>Understanding the sustainability and responsible business practices of our suppliers.</p>	<p>Maintain programme of supplier audits where appropriate. Extensive audit programme for labour standards of suppliers.</p> <p>We have introduced a Supplier Code of Conduct which is being implemented across all our businesses, tailored to their requirements.</p> <p>We continue to work, in partnership with suppliers and NGOs, to improve working conditions, e.g. via training.</p> <p>Refocus on worker safety and safe working conditions. We have built up an intensive programme of ethical audits in Primark's supply chain.</p> <p>Primark has maintained its classification as a leader, by the Ethical Trade Initiative, and we are mapping second tier suppliers (subcontractors).</p> <p>The Grocery division conducted an independent review of the environmental and ethical risks in its supply chains to increase understanding.</p> <p>External communication and transparency on the management of our supply chain in Primark and Grocery has been enhanced.</p> <p>Business continuity and disaster recovery plans are regularly reviewed.</p>
<b>Ethical business practices</b>	<p>Unacceptable business practices which contravene our Business Principles.</p> <p>Reputational damage through the irresponsible business practices of individuals.</p> <p>Penalties imposed through bribery, corruption or unfair competition.</p>	<p>All businesses are signed up to the group's Business Principles and Anti-Bribery and Corruption Policy.</p> <p>A programme of training and compliance has been implemented for all employees.</p> <p>Appointment of anti-bribery and corruption specialists.</p> <p>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.</p>

## Environment

<b>Issue</b>	<b>Risk</b>	<b>Mitigation</b>
<b>Environment management including climate change</b>	<p>Long-term increase in energy prices.</p> <p>Physical threats to operations from climate change, e.g. flooding.</p> <p>Climate change impact altering growth rates of raw materials we use.</p> <p>Increasing cost to operations to adapt to climate change and mitigate impact.</p> <p>Negative impact on the environment and the communities which depend on land used by our operations.</p>	<p>Compliance with the group's Environment Policy and annual reporting of environmental impact.</p> <p>Best available techniques are employed to reduce energy consumption – statutory requirement for all sites subject to the EU's Pollution Prevention and Control regime.</p> <p>Agricultural raw materials are sourced from a wide range of geographical locations and suppliers.</p> <p>We have a continued focus on reducing our environmental impact and implementing changes to our operations to maximise opportunities such as recycling more waste and using more renewable sources of fuel.</p> <p>We have implemented infrastructural protections against weather-related risks such as floods.</p> <p>Measuring and reporting our Greenhouse Gas emissions for the group in 2014. Measuring the CO<sub>2</sub>e emissions of our transport for the first time.</p> <p>Substantial investment is made to improve environmental risk management, with a focus on reducing CO<sub>2</sub>e emissions when investing in new capital projects.</p>
<b>Air pollution</b>	<p>Unacceptable impact on environment.</p> <p>Offence caused to local communities by emissions to air from factories.</p>	<p>Establish effective procedures across our business to contain or minimise emissions.</p> <p>Plant and process changes are assessed in advance before authorisation is sought. Comply with emission standards in country of operation, as a minimum.</p> <p>Continue to monitor procedures and swiftly redress non-compliance.</p>
<b>Disposal of waste and effluent</b>	<p>Legal sanction and reputational damage because of non-compliance with regulations and licences.</p> <p>Negative impact on the local environment.</p> <p>Managing quality of water discharge.</p> <p>Increasing cost of waste and managing responsible waste disposal.</p>	<p>Responsibility is assigned to senior executives in all businesses and specialists employed. Comply with standards in country of operation, as a minimum.</p> <p>Groupwide focus on segregating all waste so that more can be reused or recycled wherever practicable. Work with waste contractors to help us measure the amount of waste disposed or sent for beneficial use.</p> <p>Improvements in the packaging of our products resulting in less waste.</p> <p>Continued investment in our effluent treatment plants and the treatment of waste water.</p> <p>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.</p>

## Environment

<b>Issue</b>	<b>Risk</b>	<b>Mitigation</b>
<b>Water use and availability</b>	<p>Securing access to sources of water and maintaining water availability for all.</p> <p>Ensuring good practices in sharing and managing water supplies with local communities.</p> <p>Potential increasing cost of water.</p> <p>Operating in water stress areas.</p>	<p>Water-intensive sites in areas of water stress identified, and efforts focused on water reduction in these areas.</p> <p>Investing heavily in the quality of our water usage data to enable improved measurement and management of water use and water quality.</p> <p>Investment in irrigation systems.</p> <p>We published our first Water Disclosure in 2013 to the Carbon Disclosure Project. Illovo published its first Water Disclosure in 2012.</p> <p>Look to build long-term partnerships to address water issues at a local level.</p> <p>Finalise the standardised approach to water measurement across the group so that we can target investment and build an effective water risk management programme.</p>
<b>Resource efficiency</b>	<p>Unnecessary costs from inefficient use of natural resources.</p> <p>Maintaining a sustainable supply of raw materials.</p>	<p>Use of raw materials optimised.</p> <p>Use of packaging minimised consistent with food safety and product protection.</p> <p>Fuel consumption in transport is minimised.</p>
<b>Use of commodities such as palm oil, soya and cocoa</b>	<p>Damage to the environment and communities reliant on commodities.</p> <p>Damage to the reputation of the business from unsustainable sourcing of certain commodities.</p>	<p>Group commitment that all businesses will use Certified Sustainable or Identity Preserved palm oil by 2015.</p> <p>Membership of various industry bodies to collaborate on solutions including the Roundtable on Responsible Soya. Twinings is a founder member of the Ethical Tea Partnership.</p> <p>Commissioned independent assessment of commodity and country risks.</p> <p>Planning review of suppliers and sourcing strategy for certain high risk commodities.</p>
<b>Genetically modified (GM) crops</b>	Consumer concern over use of GM food ingredients.	<p>Continue to label all food containing genetically modified ingredients.</p> <p>Continue to monitor consumer trends.</p> <p>Consultation with other businesses, governments and industry bodies regarding GM products and undertake further research to gain deeper insight into the issue.</p>

## Financial and regulatory

<b>Issue</b>	<b>Risk</b>	<b>Mitigation</b>
<b>Competition rules</b>	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.
<b>Global economic slowdown and changing consumer demand</b>	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.
<b>Financial, currency and commodity risks</b>	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 113 to 123.
<b>Tax compliance</b>	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.
<b>IT security breach</b>	Data loss or theft. Business disruption.	Group IT Security policies and procedures are rolled out across the businesses. Employee awareness campaigns are undertaken to highlight key activities to minimise IT security risks. Technical security controls are in place over key IT platforms. An experienced Head of IT Security has been appointed. He is tasked with identifying security risks and working with the businesses to implement mitigating controls. Internal audit reviews of compliance with policies and procedures are undertaken.

## Financial and regulatory

<b>Issue</b>	<b>Risk</b>	<b>Mitigation</b>
<b>Loss of a major site</b>	The loss of one of our key sites could present significant operational difficulties.	Our businesses have in place business continuity plans to manage the impact of such an event and group insurance programmes to mitigate the financial consequences.
<b>Regulatory and political</b>	Failure to recognise political or cultural differences in the many countries in which we operate could directly impact the success of our operations.  Proposals to end sugar quotas in 2017.	We remain vigilant to future changes and the risk presented by operating in 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.
<b>Major capital projects and acquisitions</b>	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

## Annual statement by the Remuneration Committee Chairman

Associated British Foods is a group of businesses that trade all over the world, both in international and domestic markets. That diversity extends to size, margin, growth rates and returns, as well as to products. Businesses are expected to grow in the long term, but are subject to short-term pressures which prevent this from time to time. Recent years have seen strong overall growth from the group and the remuneration achieved by directors and many managers has reflected that. Given the diversity of the group, growth does not occur uniformly across all businesses in every year and we know that one of our bigger businesses, European Sugar, will come under pressure in coming years. However, to achieve its strategic objectives ABF is always willing to invest for the long term, where necessary at the expense of annual results.

The committee's approach to remuneration is that it should be kept as simple as possible. Our practice is to ensure that remuneration directly reflects individual accountabilities for business results. We seek to reward at the median of the relevant market, and we believe that pay should be managed fairly, given the importance of long-term profit development over short-term results. Our framework for executive remuneration is based on a set of guiding principles, such as a belief in 'line of sight' and 'doing the right thing'. This framework has been largely unchanged for a number of years. The two executive directors are an integral part of a flat pyramid of management whose remuneration is dealt with in a consistent manner. The only change to be made in the new financial year will be the replacement, if approved, of the current share plan which comes to the end of its ten-year term in December.

One of ABF's strategic objectives is to deliver long-term growth in earnings which makes earnings per share the natural measure of performance over the long term. The committee debates each year the appropriate range of growth which should properly incentivise and reward directors and management in the long term and also whether, and to what extent, targets should be flexed to accommodate unexpected events which disrupt short-term plans and alter longer-term outcomes. These debates are rarely easy to resolve but are usually determined by reference to the individual's accountability for the business, whether the event was beyond the individual's control and whether actions taken were in the long-term interests of the business. As a matter of fact, discretion on fairness issues is often debated but only used in limited circumstances.

As chairman of the committee, I invite the larger institutional shareholders each year to discuss their views on the group's remuneration, along with strategy and governance. Those who have taken up the invitation over the past year have expressed confidence with the way in which the group has managed remuneration, and discussion has been characterised by informed enquiry and open debate. Remuneration is one of those subjects on which every shareholder has a point of view. I hope that our principles of clarity, relative simplicity, accountability and fairness help to explain what the committee does and enable shareholders to support the committee's work.

**Charles Sinclair**  
Remuneration Committee Chairman

## Remuneration policy

### Role of the committee in relation to remuneration policy

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 Remuneration committee has reviewed its remuneration practices and reporting in light of the government's new remuneration reporting reforms. These reforms come into operation for financial years ending on or after 30 September 2013 and so will not become effective for the group until 2014. In the meantime the committee has decided to make a number of substantial changes to the 2013 Remuneration report in order to provide shareholders with additional information about the remuneration of directors and rewards for Company performance.

In summary, the remit of the Remuneration committee is to:

- determine and agree the framework or broad policy for the remuneration of the executive directors and the Chairman of the Company (in his absence);
- 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 and monitor the operation of any Company share plans; 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.

The committee will apply discretion, where necessary and by exception, to ensure that there are no unintended consequences from the operation of the remuneration policy. The committee exercised discretion in 2012 for the first time in many years, when it determined that as a result of an exceptional asset impairment charge it would be appropriate to reduce the vesting under the Executive Share Incentive Plan. This year, the committee has again exercised discretion in order to reflect the underperformance of investments in a particular sector.

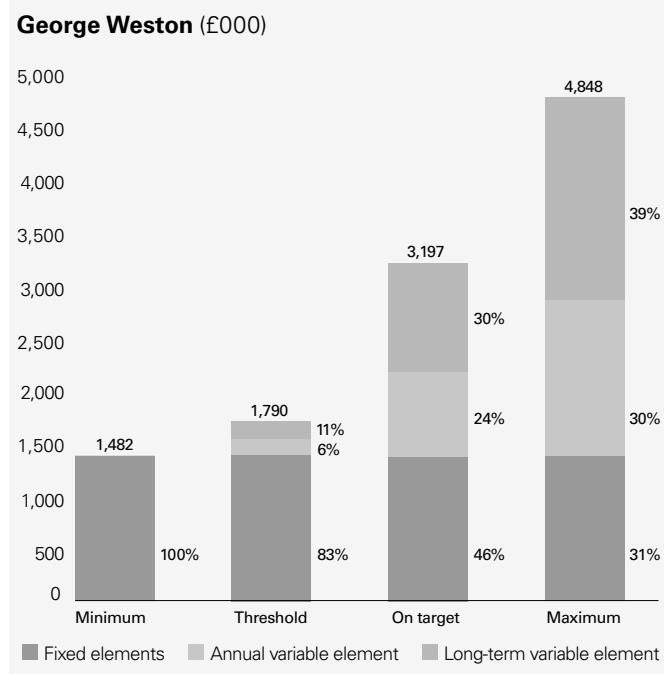
In setting the remuneration policy, the committee seeks to act in the best interests of the Company. The committee chairman engages with a number of our largest shareholders to understand any concerns they may have about the approach to remuneration. Whilst the views of employees are not explicitly sought, employees are able to feed back their opinions through employee opinion surveys or directly to the Company's management.

### Executive directors

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 group achievement; and
- reflect the diversity of the group's interests.

The remuneration of executive directors is determined by



#### Notes

<sup>1</sup> Fixed elements include base salary, benefits and pension.

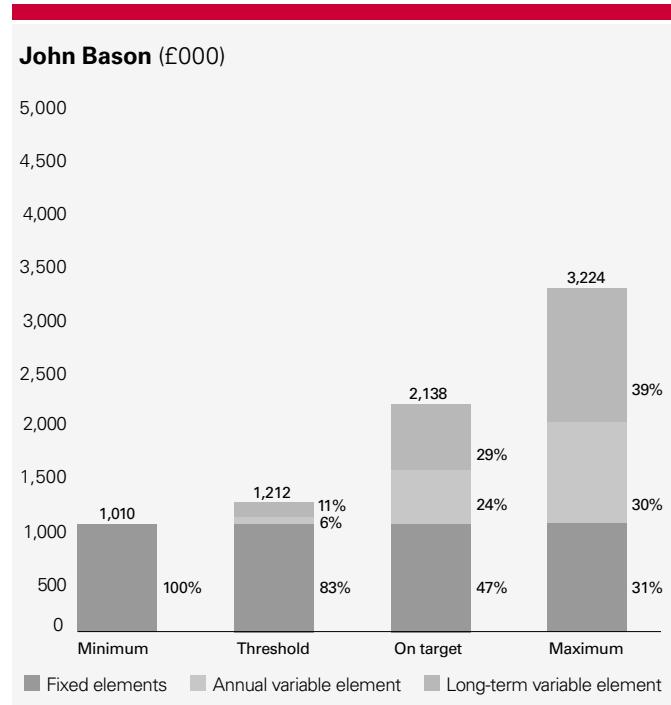
<sup>2</sup> Annual variable element – bonus is calculated on base salary at end of financial year.

<sup>3</sup> Long term incentive – value is calculated on base salary at the date of allocation, and excludes subsequent share price movements.

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 around 1.8 to 1 for 'on target' performance and 3.5 to 1 for maximum performance. No increase in incentive awards is proposed for 2013/14.

For 2012/13, the composition of the executive directors' remuneration packages for fixed, threshold, 'on target' and maximum performance is set out below:



# REMUNERATION REPORT CONTINUED

## Summary of remuneration policy for executive directors

Element and purpose	Operation and link to business strategy	Maximum opportunity	Changes effective for 2013–14																								
<b>Base salary</b>																											
To provide core reward for the role.	<p>Base salaries are normally reviewed on an annual basis or following a significant change in responsibilities.</p> <p>Salaries are reviewed in relation to median market data for comparable companies in terms of size, market sector and complexity. The committee also receives an annual update from the Group HR Director concerning the level of increases awarded to UK employees across the group.</p> <p>The committee considers the impact of any base salary increase on the total remuneration package.</p>		Annual review of base salary with increase in line with other UK executives across the group.																								
<b>Annual performance bonus</b>																											
To encourage and reward the attainment of challenging financial targets and the achievement of personal performance objectives over a one-year period.	<p>Group financial performance is assessed against adjusted operating profit and average working capital as a percentage of sales.</p> <p>These metrics have been chosen because they are prime financial measures used across the whole group on a day-to-day basis to drive and monitor performance.</p> <p>Targets are set at the start of each financial year. Budgeted adjusted operating profit is positioned 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%.</p> <p>In the event of unusual or unforeseen circumstances occurring after budgets have been set, the Remuneration committee retains discretion to make adjustments, up or down, to respond to events and to encourage executives to make the right business decisions regardless of timing or the effect on incentives.</p> <p>Individual personal objectives are also set each year. These may be specific short-term goals or milestones towards medium or long-term objectives, but are closely aligned to the overall strategy of the group. Following the end of the financial year, the Chairman reviews the performance of the Chief Executive against these objectives and makes a recommendation to the Remuneration committee about the appropriate level of payout for the personal element. Similarly, the Chief Executive makes a recommendation to the Remuneration committee regarding the Finance Director following an assessment of his performance.</p>	<p>150% of base salary, of which 130% is based on financial results and 20% on personal performance.</p> <p>'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 a total 'on target' of 78.3%.</p>	None.																								
<p>The structure and value of the overall annual bonus is as follows:</p> <table border="1" data-bbox="346 1702 1017 1843"> <thead> <tr> <th></th> <th>Payout based on operating profit only</th> <th>Modification to payout based on average working capital</th> <th>Overall financial payout</th> <th>Personal element</th> <th>Total bonus</th> </tr> </thead> <tbody> <tr> <td>Maximum</td> <td>108.3%</td> <td>x1.2</td> <td>130%</td> <td>20.0%</td> <td>150.0%</td> </tr> <tr> <td>On target</td> <td>65.0%</td> <td>x1.0</td> <td>65%</td> <td>+ 13.3%</td> <td>= 78.3%</td> </tr> <tr> <td>Threshold</td> <td>15.0%</td> <td>x0.8</td> <td>12%</td> <td>0.0%</td> <td>12.0%</td> </tr> </tbody> </table> <p>The committee has not introduced malus or clawback to the plan rules as it is a discretionary scheme and the committee retains the discretion to reduce or cancel payments.</p>					Payout based on operating profit only	Modification to payout based on average working capital	Overall financial payout	Personal element	Total bonus	Maximum	108.3%	x1.2	130%	20.0%	150.0%	On target	65.0%	x1.0	65%	+ 13.3%	= 78.3%	Threshold	15.0%	x0.8	12%	0.0%	12.0%
	Payout based on operating profit only	Modification to payout based on average working capital	Overall financial payout	Personal element	Total bonus																						
Maximum	108.3%	x1.2	130%	20.0%	150.0%																						
On target	65.0%	x1.0	65%	+ 13.3%	= 78.3%																						
Threshold	15.0%	x0.8	12%	0.0%	12.0%																						

## Summary of remuneration policy for executive directors

Element and purpose	Operation and link to business strategy	Maximum opportunity	Changes effective for 2013–14				
<b>Long-term incentives</b>							
To reward long-term business growth, promote executive retention and align the interests of executives and shareholders.	<p>Executive directors are eligible to participate in the Associated British Foods Executive Share Incentive Plan 2003 (the 'Share Incentive Plan'). The plan provides for annual allocations of conditional shares, which vest over a three-year period, subject to agreed performance targets being satisfied.</p> <p>Under the terms of the current Share Incentive Plan, an allocation of conditional shares will be made on or after 25 November 2013 for the new performance period September 2013 to September 2016.</p>	<p>200% of base salary at allocation</p> <table border="1" data-bbox="1171 586 1267 714"> <tr> <td>Award as % of base salary</td> </tr> <tr> <td>Max 200%</td> </tr> <tr> <td>On target 100%</td> </tr> <tr> <td>Min 20%</td> </tr> </table>	Award as % of base salary	Max 200%	On target 100%	Min 20%	New plan to be put to shareholders at 2013 AGM.
Award as % of base salary							
Max 200%							
On target 100%							
Min 20%							
<b>Measures</b>							
Group performance is measured against an absolute range of compound annual growth in adjusted earnings per share (eps).							
This measure was chosen because it:							
<ul style="list-style-type: none"> <li>• reflects the group's objective of sustained long-term earnings growth;</li> <li>• is a measure which is well understood both by participants and shareholders;</li> <li>• is a published figure with limited adjustments; and</li> <li>• encompasses the diverse nature of the group.</li> </ul>							
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.							
<b>Targets</b>							
Targets are set by the committee at the beginning of each three-year performance period, taking into account the state of the markets in which the group operates as well as the scale of investments made in the pursuit of long-term growth.							
The 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. In determining a fair but stretching target, the committee also considers the results of the long-term incentive scheme to date, market expectations and internal forecasts for the next few years.							

## Summary of remuneration policy for executive directors

Element and purpose	Operation and link to business strategy	Maximum opportunity	Changes effective for 2013–14
<b>Long-term incentives continued</b>			
<b>New plan</b>			
<p>The 'Associated British Foods Executive Share Incentive Plan 2003' is a ten-year-plan which expires in December 2013, so a new 'Associated British Foods Long Term Incentive Plan' will be put to shareholders for approval at the 2013 annual general meeting. If approved, any share allocations made after 6 December 2013 will be made under the terms of the new plan.</p> <p>Conditional shares already allocated for the three-year performance periods 2010–13, 2011–14, 2012–15 and 2013–16 will vest under the terms of the Executive Share Incentive Plan 2003.</p>			
<b>Shareholding requirement</b>			
To demonstrate commitment to the Company by aligning personal interests to the success of the group and its shareholders.	<p>Executive directors are required 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, from the beginning of the 2013/14 financial year executives will be required to retain at least 50% of any post-tax shares vesting each year, 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.</p>		Expectation to build shareholding.
<b>Pension</b>			
To provide a competitive retirement benefit in line with best practice standards adopted by major companies in the United Kingdom and continental Europe.	<p>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. The scheme is designed to provide retirement benefits of around two-thirds of final pensionable salary at normal retirement age. John Bason has a two-thirds promise at age 62. Executives employed after October 2002 benefit from a defined contribution arrangement, with a Company contribution of 25% of base salary.</p> <p>Both pension schemes are HM Revenue &amp; Customs approved.</p> <p>Following 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.</p> <p>Where a UK-based pension arrangement is not possible, or is not tax efficient, a cash supplement equivalent to the normal company pension contribution may be paid in lieu.</p> <p>The current 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.</p>	Company contribution for senior executives under the ABF DC scheme is a maximum of 25% of base salary.	None.

## Summary of remuneration policy for executive directors

Element and purpose	Operation and link to business strategy	Maximum opportunity	Changes effective for 2013–14
<b>Benefits</b>			
To provide a competitive and cost-effective benefits package appropriate to role and location.	<p>The benefits provided include, but are not limited to, death in service payment, permanent health insurance, company car plus private fuel, family healthcare and, where relevant, fees to maintain professional memberships. Executives are also provided with the technology that they require to efficiently and effectively carry out their roles.</p> <p>In addition to the above, if a new executive director were to relocate from another country, additional support would be provided. The nature of this potential ongoing support is detailed in the recruitment and promotion arrangements section below.</p> <p>As for other employees, we reimburse executives for expenses necessarily incurred in the normal course of business.</p>		None.
<b>Recruitment and promotion arrangements</b>			
To secure the appointment or promotion of high-calibre executive directors.	<p><b>Salary</b> Starting salary will be based on a combination of market information, internal relativities and individual experience. Thereafter, salary progression will depend on the initial agreed base salary and the normal review process.</p> <p><b>Variable pay</b></p> <p><b>(i) For external appointments</b> The Company may offer additional cash and/or share-based elements when it considers these to be in the best interest of the Company. Such payments would take account of the remuneration relinquished when leaving a former employer and would reflect the nature, time horizons and performance requirements attaching to that remuneration.</p> <p>Where existing incentive or other arrangements are being bought out, this will be done wherever possible by tying in any new arrangement to achievement against group targets in either/both the annual performance bonus and long-term incentives.</p> <p><b>Annual performance bonus</b> If appropriate, some level of bonus, particularly during the first year in post, may be guaranteed in order to encourage the executive to move. This underpinning may be used as part of a buyout of existing arrangements.</p> <p><b>Long-term incentives</b> As shares under the normal long-term incentive scheme will not be released for up to three years, some cash-based interim long-term arrangement may be provided, but the level will not be more than would otherwise have been paid. This may be used as part of the buyout of existing arrangements.</p> <p><b>(ii) For internal appointments</b> Any variable pay elements awarded in respect of the prior role may be allowed to pay out according to the terms of the scheme, adjusted as relevant to take account of the new appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.</p>		Maximum level of ongoing variable pay will be in line with normal policy.

# REMUNERATION REPORT CONTINUED

## Summary of remuneration policy for executive directors

Element and purpose	Operation and link to business strategy	Maximum opportunity	Changes effective for 2013–14
<b>Recruitment and promotion arrangements continued</b>			
	<p><b>Relocation</b>                      It is expected that a new recruit will establish a home base near the corporate head office. Where required, the Company will pay:</p> <ul style="list-style-type: none"> <li>actual relocation costs and other reasonable expenses relating to moving house; and</li> <li>disturbance allowance of up to 5% of base salary, of which £8,000 will be tax-free for qualifying expenditure;</li> </ul> <p>And either</p> <ul style="list-style-type: none"> <li>reasonable legal and estate agent fees and stamp duty for buying and/or selling a family home; and</li> <li>appropriate rental costs for up to six months to facilitate a new recruit joining quickly and smoothly.</li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>reasonable ongoing rental costs for recruits whose family home remains overseas. In this case, where possible, recruits will be expected to rent out their family home to offset the additional cost of providing accommodation.</li> </ul> <p><b>School fees</b>                      The Company will consider paying school fees for dependent children of an executive director in cases where there are cultural or language requirements.</p> <p><b>Flights home</b>                      Where an executive is recruited from outside the UK the Company will pay for one business class return fare per annum each for the executive, his/her partner and dependent children in order to maintain family or other links with his/her home country.</p>		
<b>Retention arrangements</b>			
To allow the Company to retain top executive talent.	The Remuneration committee seeks to reward executives within its agreed remuneration framework or broad policy. However, in exceptional circumstances the committee may agree an additional ad hoc cash payment in order to respond to the potential loss of executive talent.		
<b>Executive directors serving as non-executive directors</b>			
To encourage self-development and allow for the introduction of external insight and practice.	The Remuneration committee has determined that, with the consent of the Chairman, executive directors may serve as non-executive directors of other companies in an individual capacity and will retain any fees earned.		

### Comparison of remuneration policy for executive directors and executives below the board

Whilst the Company is not required to disclose how the pay of executive directors compares with that of those below the board, we believe that it is helpful to set their pay in a wider context. First line reports to the Chief Executive and other senior executives are 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 around 1.2 to 1 for 'on-target' performance and 2.25 to 1 for maximum performance.

### Annual bonus

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 reflecting our 'line of sight' principle, i.e. what can be directly influenced and the area of work for which each executive is accountable. Adjusted operating profit and working capital are used as the prime financial measures across all businesses as they are common metrics which are used across the whole group on a day-to-day basis to drive and monitor business performance.

The Remuneration committee regularly reviews the annual performance bonus plans for other groups of senior executives below board level to ensure that remuneration packages remain at a level sufficient to attract and retain high-calibre individuals.

### **Long-term incentives**

Senior executives below board level are also eligible to receive conditional share allocations under the Share Incentive Plan. 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. Again this reflects our 'line of sight' principle. The actual level of long-term share awards received by divisional executives therefore depends on the level of performance achieved in each business.

In unusual circumstances, where realistic three-year targets cannot be set (for example where there is exceptional business discontinuity or in a business recovery situation), an alternative mechanism may be used to calculate long-term achievement or consistent progress against shorter-term goals. This alternative process, the 'Accumulator', determines the appropriate level of share award to be paid over the normal performance period by averaging the actual financial performance achieved in each of the three years of the LTIP period. The Accumulator is used very selectively and its use is agreed on a year-by-year basis.

### **Shareholding requirement**

The Remuneration committee believes that all 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 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.

Other executives participating in the Share Incentive Plan are also 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.

### **Summary of remuneration policy for 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.

The Remuneration committee (under the chairmanship of the Senior Independent Director) reviews the Chairman's fees. In addition to his fee, the Chairman also receives private medical insurance for himself and his spouse.

Fees for both the Chairman and other non-executive directors were last increased on 1 December 2012.

Element	Purpose	Operation
<b>Chairman</b>		
Fees	To attract and retain a high-calibre chairman by providing a competitive core reward for the role.	The Chairman is paid a single fee for all his responsibilities. The level of this fee is reviewed every other year by the committee (in the absence of the Chairman) and the executive directors. Fees are paid in cash on a monthly basis.
Benefits	To provide market competitive benefits.	Private medical insurance (for Chairman and spouse).
<b>Non-executive directors</b>		
Fees	To attract and retain high-calibre non-executive directors by offering market competitive fees.	Fees are paid on a per annum basis and are not varied for the number of days worked. The Chairman and executive directors review non-executive directors' fees periodically in the light of fees payable in comparable companies. The Senior Independent Director and chairman of the Audit committee are paid an additional fee to reflect their extra responsibilities. Fees are paid in cash on a quarterly basis.

# REMUNERATION REPORT CONTINUED

## Directors' service agreements

It is the Company's policy that all executive directors have rolling contracts with 12-month notice periods and that all non-executive directors have rolling contracts with six-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 annual general meeting, all directors are standing for re-election in compliance with the UK Corporate Governance Code. Contracts are available for inspection at the Company's offices. Contracts and service agreements are not reissued when base salaries or fees are changed. Pension arrangements for both the current executive directors have also been amended, as described in the policy table, without reissuing their contracts.

## Executive directors' service contracts and provisions relating to their termination

Notice periods	Executive directors have rolling contracts with 12-month notice periods.  The Remuneration committee takes the view that this arrangement is in line with the practice of many comparable companies.
Pay in lieu	Executive directors' service contracts also provide for payment in lieu of notice at the Company's discretion. Appointments may be terminated with immediate effect and (except in the case of gross misconduct), in lieu of the unexpired notice period, payments may be made in monthly instalments or as a lump sum as appropriate.
Pension and benefits	The Company may also make a series of monthly payments in respect of benefits and pension provision (or at the Company's discretion, a lump sum). Any monthly payments would be reduced to take account of amounts received from alternative employment in line with the mitigation provisions.
Annual bonus	There is no automatic entitlement to accrued bonus on termination. If an executive director ceases to be employed before, or is under notice when, the results for the financial year are published, then no award will be made unless the committee determines otherwise. It is not our intention to make any payments in circumstances that amount to 'payment for failure', but in cases of redundancy, ill health, permanent disability, death in service or retirement with the agreement of the Company, the committee will consider making a payment for the financial year in which the termination took place. Any agreed payment will be made in the December following the year end.
Long-term incentive	If an executive director leaves the Company due to dismissal or resignation prior to the date when shares are due to vest, all conditional share awards will be cancelled and no shares granted for any of the long-term incentive plans in operation. There will be no contractual right to these shares or any cash equivalent.  If the executive leaves the Company due to retirement with the agreement of the Company, redundancy, permanent disability or death in service, consideration will be given to releasing shares at the normal release date for any LTIP which is due to mature during that year. In such cases, grants will be subject to normal performance calculations at year end and will be prorated for length of service in completed months during the three-year period of the LTIP. Such consideration will be at the discretion of the Remuneration committee. All LTIPs which are not due to mature during the year will lapse.
Repatriation	Except in a case of gross misconduct, where an executive has been recruited from overseas and has been relocated to the UK at the start of his/her employment, the Company will pay for his/her repatriation.
Mitigation	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.

## Annual report on remuneration

### Remuneration committee members

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

<b>Charles Sinclair</b>	Chairman
<b>Tim Clarke</b>	Senior Independent Director
<b>Peter Smith</b>	Chairman of Audit committee
<b>Lord Jay</b>	
<b>Javier Ferrán</b>	

The committee met on six occasions during the year and all members were present at each of the meetings.

### Remuneration committee advisors and fees

Following a competitive tender in 2003, Towers Watson (then Towers Perrin) was selected to provide independent market information and remuneration advice to the Remuneration committee. The committee has retained Towers Watson in this role because it values continuity of advice over the long term and the robust data provided. The committee remains satisfied that the advice from Towers Watson is independent, thoughtful and challenging.

Towers Watson is a member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting. Towers Watson does not provide any other consulting services to the Company.

The fees paid to Towers Watson for committee assistance over the past financial year totalled £82,970.

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

George Weston	Group Chief Executive
Des Pullen	Group HR Director

No director (including the Group Chief Executive or Chairman) participates in discussions relating to their own remuneration.

#### **Statement on shareholder voting**

At the last AGM in December 2012 the voting results on the remuneration resolution 'To receive and approve the directors' Remuneration report for the year ended 15 September 2012' were as follows:

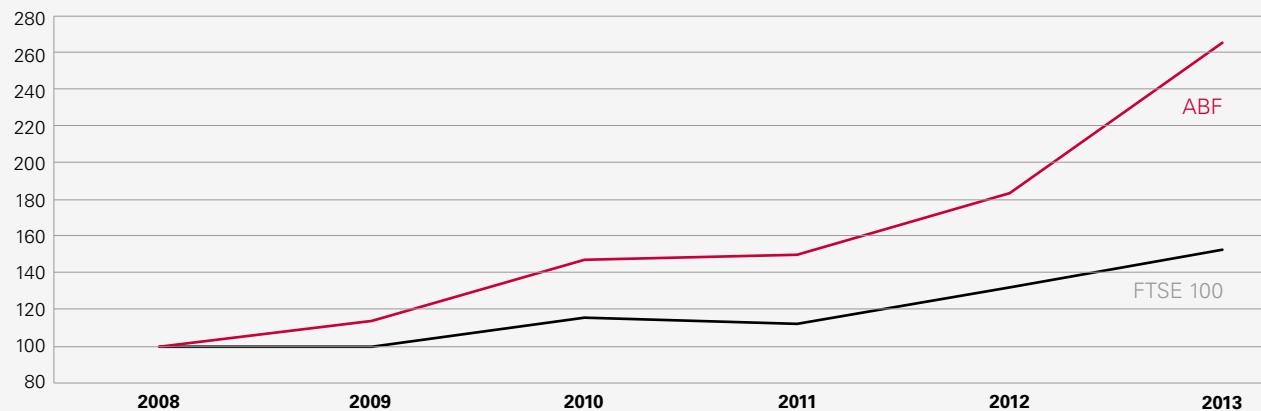
- (i) the total number of votes cast in relation to the resolution was 652,929,365 – 644,285,996 'for' and 8,643,369 'against'
- (ii) the percentage 'for' was 98.68% and the percentage 'against' was 1.32%
- (iii) the number of abstentions was 3,685,613

#### **TSR performance and Chief Executive's pay**

The performance graph below illustrates the performance of the Company over the past five years from September 2008 to September 2013, 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.

In addition, the graph provides a five-year summary of the total remuneration of the Group Chief Executive over the same period showing a breakdown of each of the elements of variable pay within the total remuneration figure. For the purpose of calculating the value of the remuneration of the Group Chief Executive, data has been collated on a basis consistent with the 'single figure' methodology as defined by the Department for Business Innovation & Skills.

**Year-on-year TSR – ABF v FTSE 100 (2008 = 100)**



	2008	2009	2010	2011	2012	2013
Total remuneration (single figure, £000)	2,540	3,879	3,182	3,861	5,251	
Annual variable pay (£000)	1,165	1,266	438	864	1,219	
Potential maximum annual variable pay (£000)	1,290	1,310	1,373	1,425	1,466	
Annual variable pay (% of maximum)	90%	97%	32%	61%	83%	
Long-term variable pay – shares vesting as % of maximum	0%	99.12%	83.80%	97.42%	85.00%	

At close of business on 13 September 2013, the last trading day before the end of the financial year, the market value of the Company's ordinary shares was 1809p. During the previous 12 months, the market value ranged from 1284p to 2031p.

#### **Comparison of the Group Chief Executive's remuneration with the remuneration of other employees and other Company measures**

Associated British Foods is very geographically dispersed and therefore subject to very different pay markets, so it is difficult to make sensible comparisons with all employees across the group. As indicated previously, the salaries of executive directors are reviewed in line with UK executives and in December 2012, when the target salary increase for all executives was between 2.5% and 3.0%, the Chief Executive received a salary increase of 2.84%.

# REMUNERATION REPORT CONTINUED

In order to drive and reward performance, and to align better the interests of executives and shareholders, the executive directors have a greater proportion of their total reward package at risk than other employees. This means that in years of very good performance, the Chief Executive's package increases more than that of most other employees. However it should be noted that the LTIP portion of the Chief Executive's 2012/13 total remuneration reflects a 75% share price appreciation over the past three-year period, a benefit shared by other shareholders.

A year-on-year comparison of the relative importance of pay and significant income distributions to shareholders and others is shown below:

<b>Expenditure</b>	<b>2013 £m</b>	<b>2012 £m</b>	<b>Year-on-year difference</b>
Pay spend for the group	<b>1,943</b>	1,760	10%
Dividends relating to the period	<b>253</b>	225	12%
Income taxes paid	<b>252</b>	191	32%

## Directors' service contracts

Details of the service contracts of directors who served during the year ended 14 September 2013 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
<b>Executive directors</b>					
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
<b>Non-executive directors</b>					
Charles Sinclair	01.10.08	21.04.09	6 months	6 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

## Directors' remuneration in 2013

### Base salary and fees

Executive directors' salaries were reviewed on 1 December 2012 in accordance with normal policy and were increased in line with average increases for UK executives across the group.

	Dec 2012	Dec 2011	Increase
George Weston	977,000	950,000	2.84%
John Bason	643,000	625,000	2.88%

Executive directors' salaries are next subject to review on 1 December 2013.

The fees of the Chairman and non-executive directors, which were last reviewed on 1 December 2010, were reviewed on 1 December 2012 and increases made as follows:

	Dec 2012	Dec 2010	
Charles Sinclair	350,000	335,000	Chairman
Tim Clarke	82,500	72,500	Senior Independent Director
Peter Smith	82,500	72,500	Chairman, Audit committee
Javier Ferrán	65,000	60,000	
Lord Jay	65,000	60,000	
Emma Adamo	65,000	60,000 <sup>1</sup>	

<sup>1</sup> From date of appointment, 9 December 2011

Non-executive directors' fees are next subject to review on 1 December 2014.

### Annual bonus

In December 2013 there will be a payout of 112.23% of salary to executive directors in respect of the financial element of the annual bonus for the 2012/13 financial year. This reflects the very strong performance of the group with adjusted operating profit above expectations and working capital as a percentage of sales also ahead of target:

	Actual <sup>1</sup>	Below bonus threshold	Worse than target	Target	Better than target	Maximum
Group operating profit	£1,185m					✓
Group average working capital as a percentage of sales	13.82%					✓

<sup>1</sup> No discretion was applied in relation to the incentive outcomes detailed above.

Following a review of individual performance against specific objectives for the 2012/13 financial year in accordance with the normal policy, the Remuneration committee has determined that George Weston will receive 12.5% and John Bason 13.5% of base salary for the personal element of the annual bonus. Individual objectives set for each of the executive directors were closely aligned to the overall strategy of the group and will not be disclosed because of the commercial sensitivity. These percentage awards both represent good overall performance with major objectives or milestones having been attained, although some minor objectives were not achieved.

### Long-term incentives

For the three-year performance period ended September 2012, the compound annual growth in adjusted earnings per share was 14.76%, against a target range of 5% to 11%. The Remuneration committee determined that as a result of an exceptional asset impairment charge it would be appropriate for them to apply their discretion under the Executive Share Incentive Plan 2003 to reduce the vesting proportion from 100% to 97.42%. Therefore, executive directors received 97.42% of the conditional shares allocated in 2009.

For the three-year performance period ended September 2013, the compound annual growth in adjusted earnings per share was 11.06%, against a target range of 5% to 11%. However, the committee has again decided to exercise its discretion under the Executive Share Incentive Plan 2003 and has reduced the share vesting from 100% to 85% in order to reflect the underperformance of investments in the Ingredients businesses.

In November 2013 executive directors will therefore receive 85% of the conditional shares allocated in 2010 – George Weston will receive 137,928 shares and John Bason 92,584 shares.

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

	Date of award	Market price at date of award (p)	Number of conditional allocations awarded	Face value (£'000)	End of three-year performance period	Vesting date	Shares vested during the year	Market price at date of vesting (p)	Value vested (£'000)	Number of conditional allocations as at 14.09.13
George Weston	23.11.09	833.5	128,974	1,075	15.09.12	23.11.12	125,646	1442.7	1,813	–
	20.12.10	1076.0	162,268	1,746	14.09.13	23.11.13	–	–	–	162,268
	23.11.11	1098.4	166,606	1,830	13.09.14	24.11.14	–	–	–	166,606
	23.11.12	1433.4	132,552	1,900	12.09.15	23.11.15	–	–	–	132,552
John Bason	23.11.09	833.5	86,608	722	15.09.12	23.11.12	84,373	1442.7	1,217	–
	20.12.10	1076.0	108,922	1,172	14.09.13	23.11.13	–	–	–	108,922
	23.11.11	1098.4	109,614	1,204	13.09.14	24.11.14	–	–	–	109,614
	23.11.12	1433.4	87,205	1,250	12.09.15	23.11.15	–	–	–	87,205

The Remuneration committee has recently reviewed the long-term incentive plan performance targets and has determined that for the 2013–16 performance period, allocations should again be measured against an absolute range of 5% to 11% compound annual growth in adjusted earnings per share. In setting this target, 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 committee believes that the 5% to 11% compound annual growth range remains achievable but stretching over the next three-year period.

As far as other participants are concerned, 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 in accordance with our 'line of sight' principle. The level of share awards for these executives therefore depends on the level of performance achieved in each business. In November 2012, 55 senior executives, excluding the executive directors (77.5% of all eligible participants), received a release of shares.

This year, 58 senior executives, excluding the executive directors, (80.6% of all eligible participants) will receive a release of shares in November 2013.

### 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.

# REMUNERATION REPORT CONTINUED

## Total directors' interests in shares

The directors of the Company as at 14 September 2013 had the following interests in the shares of the Company notifiable under the Disclosure and Transparency Rules.

		Conditional	Beneficial	<b>Total as at 14 September 2013</b>	Total as at 15 September 2012
<b>Non-executive directors</b>					
<b>Charles Sinclair</b>	Associated British Foods plc, ordinary shares of 5 <sup>15/22</sup> p	–	<b>12,760</b>	<b>12,760</b>	12,760
<b>Tim Clarke</b>	Associated British Foods plc, ordinary shares of 5 <sup>15/22</sup> p	–	<b>4,000</b>	<b>4,000</b>	4,000
<b>Lord Jay</b>	Associated British Foods plc, ordinary shares of 5 <sup>15/22</sup> p	–	<b>1,000</b>	<b>1,000</b>	500
<b>Javier Ferrán</b>	Associated British Foods plc, ordinary shares of 5 <sup>15/22</sup> p	–	<b>2,400</b>	<b>2,400</b>	2,400
<b>Peter Smith</b>	Associated British Foods plc, ordinary shares of 5 <sup>15/22</sup> p	–	<b>2,000</b>	<b>2,000</b>	2,000
<b>Emma Adamo<sup>3</sup></b>	Witton Investments Limited, ordinary shares of 50p Associated British Foods plc, ordinary shares of 5 <sup>15/22</sup> p	– –	<b>1,322</b> <b>466,234</b>	<b>1,322</b> <b>466,234</b>	1,322 466,234
<b>Executive directors</b>					
<b>George Weston<sup>3</sup></b>	Witton Investments Limited, ordinary shares of 50p Associated British Foods plc, ordinary shares of 5 <sup>15/22</sup> p	– <b>461,426</b>	<b>2,446</b> <b>3,384,482</b>	<b>2,446</b> <b>3,845,908</b>	23,681 3,782,217 <sup>1</sup>
<b>John Bason</b>	Associated British Foods plc, ordinary shares of 5 <sup>15/22</sup> p	<b>305,741</b>	<b>81,718</b>	<b>387,459</b>	365,481 <sup>2</sup>

<sup>1</sup> Total of 3,324,369 shares in 2012 Remuneration report restated to include conditional allocations as at 15 September 2012.

<sup>2</sup> Total of 60,337 shares in 2012 Remuneration report restated to include conditional allocations as at 15 September 2012.

<sup>3</sup> George Weston and Emma Adamo are directors of Witton Investments Limited. Witton Investments Limited together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares in Associated British Foods plc as at 14 September 2013.

The interests above remained the same at 5 November 2013.

## Pensions

The table below shows 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 14 September 2013.

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 14.09.13 £000 (F)	Value of accrued pension at 15.09.12 £000 (G)	Total change in value during period £000 (H)
George Weston	36	27	442	21	281	5,653	5,105	527
John Bason	25	20	257	21	335	5,024	4,493	510

### 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.
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 (£21k).

## Benefits

The taxable value of a fully expensed company car, private medical insurance, life assurance, annual medical check-up, home and mobile telephone costs and the reimbursement of reasonable business expenses is included in the table of directors' remuneration below.

## Summary of directors' remuneration – single figure table

The remuneration paid to all directors for the year to 14 September 2013 was as follows:

	Salary or fees £000	Benefits £000	Pensions £000	Annual bonus <sup>4</sup> £000	Long-term incentive <sup>5</sup> £000	2013 Single figure <sup>6</sup> £000	2012 Single figure <sup>6</sup> £000	2013 total remuneration <sup>7</sup> £000	2012 total remuneration <sup>7</sup> £000
<b>Non-executive directors</b>									
Charles Sinclair	346	1 <sup>1</sup>	–	–	–	<b>347</b>	333	<b>347</b>	333
Tim Clarke	81	–	–	–	–	<b>81</b>	72	<b>81</b>	72
Lord Jay	64	–	–	–	–	<b>64</b>	60	<b>64</b>	60
Javier Ferrán	64	–	–	–	–	<b>64</b>	60	<b>64</b>	60
Peter Smith	81	–	–	–	–	<b>81</b>	72	<b>81</b>	72
Emma Adamo	64	–	–	–	–	<b>64</b>	46	<b>64</b>	46
<b>Executive directors</b>									
George Weston	948	14 <sup>2</sup>	520	1,219	2,550	<b>5,251</b>	3,861	<b>2,181</b>	1,796
John Bason	617	16 <sup>3</sup>	377	808	1,712	<b>3,530</b>	2,633	<b>1,441</b>	1,193

<sup>1</sup> The value of Charles Sinclair's benefits comprised £1,000 taxed as benefits-in-kind.

<sup>2</sup> The value of George Weston's benefits comprised £13,000 taken in cash and £1,000 taxed as benefits-in-kind.

<sup>3</sup> The value of John Bason's benefits comprised £13,000 taken in cash and £3,000 taxed as benefits-in-kind.

<sup>4</sup> The annual bonus will be paid in December 2013 for the financial year 2012/13. Performance targets and weightings were as detailed on pages 72 and 73. None of the incentive was subject to deferral.

<sup>5</sup> The award under the long-term incentive plan has been estimated using the average mid-market closing price over the last quarter of the 2012/13 financial year (17 June to 13 September 2013) of 1849p. The award will be made on 25 November 2013 and a figure recalculated for the actual share price will be presented in the 2014 remuneration report. Information relating to performance targets, weightings and outcomes can be found on page 73.

<sup>6</sup> The 'single figure', as defined by the Department for Business Innovation & Skills, includes the elements previously included in total directors' remuneration (salary or fees, benefits and annual bonus) as well as an amount for accrued pension benefits and long-term incentives. This is presented for both years for the first time.

<sup>7</sup> Total remuneration on the basis previously presented in the Remuneration report.

## 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 2012/13 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

The Remuneration committee has made major changes to the structure and content of the 2013 Remuneration report in recognition of the government's new reporting requirements set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013. The requirements under these Regulations will be implemented in full in the 2014 report, with the Policy section first subject to a binding vote at the 2014 annual general meeting of the Company.

The current 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 the 2013 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 Remuneration report for 2012/13 above entitled 'Total directors' interests in shares', 'Long-term incentives', 'Pensions' and 'Summary of directors' remuneration'.

By order of the board

**Paul Lister**

**Company Secretary**

5 November 2013

# 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 14 September 2013 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 8 and 9;
- Our businesses at a glance on pages 4 and 5;
- Group business model and strategy on pages 2 and 3 and business strategies on pages 6 and 7;
- Operating review on pages 20 to 35, which includes a review of the external environment, and performance measures;
- Financial review on pages 36 to 39;
- Corporate responsibility on pages 40 to 43;
- Principal risks and uncertainties described on pages 56 to 61;
- details of the principal operating subsidiaries set out on page 125; and
- information on essential contracts or arrangements on page 78.

## 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 8 and 9 and the Operating review on pages 20 to 35.

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 125.

The audited financial statements of the group and Company appear on pages 82 to 131.

## Results and dividends

The consolidated income statement is on page 82. Profit for the financial year attributable to equity shareholders amounted to £591m.

The directors recommend a final dividend of 22.65p per ordinary share, to be paid, if approved, on 10 January 2014 which, together with the interim dividend of 9.35p per share paid in July, amounts to 32.0p for the year. Dividends are detailed on page 98.

## 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 £3.1m (2012 – £3.4m). No political donations were made during the year.

## Financial instruments

Details of the group's use of financial instruments, together with information on our risk objectives and policies and our exposure to price, credit, liquidity, cash flow and interest rate risks, can be found in note 24 on pages 113 to 123.

## 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 this Prompt Payment Code, and copies of it, can be found at [www.promptpaymentcode.org.uk](http://www.promptpaymentcode.org.uk).

## Employees

During the year under review, the group employed an average of 112,652 people worldwide (2012 – 106,243) of whom 40,071 (2012 – 37,536) were employed in the UK. The group abides by the following principles, recognising that people are its most important resource:

- equal opportunities – the group is committed to offering equal opportunities in recruitment, training, career development and promotion to all people, 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. Our health and safety policy is available on the Company's website at [www.abf.co.uk](http://www.abf.co.uk);
- harassment – sexual, mental or physical harassment in the workplace will not be tolerated. It is expected that incidents of harassment will 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 group 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."

The group remunerates fairly with respect to skills, performance, its peers and local conditions;

- communication – employees and their representatives are briefed and consulted on all relevant matters on a regular basis in order to take their views into account in 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
- 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.

The group encourages an open culture in all its dealings between employees and people with whom it comes into contact. Effective and honest communication is essential if malpractice and wrongdoing are to be dealt with effectively. The group's whistleblowing procedure sets out guidelines for individuals who feel they need to raise certain issues in confidence with the Company or their own business. Every effort is made to protect the confidentiality of those who raise concerns, and employees may come forward without fear for their position.

### **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 by Witton Investments Limited are given in note 28 on page 125.

As at 31 October 2013, 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.	31,794,121	4.016	30 September 2013

### **Power to issue shares**

At the last annual general meeting ('AGM'), held on 7 December 2012, 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 this year's AGM to be held on 6 December 2013. No such shares have been issued. The directors propose to renew this authority at the 2013 AGM 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 2013 AGM 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 5 November 2013 appear on pages 44 and 45. All the directors are standing for 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 require directors to retire and submit themselves for election at the first AGM following appointment and all directors who held office at the time of the two preceding AGMs 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. The Articles notwithstanding, all directors will stand for re-election at the AGM this year in compliance with the UK Corporate Governance Code.

# OTHER DISCLOSURES CONTINUED

## **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 AGM 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, US\$120m of these notes were repaid in March 2013. In the event of a change in ownership of the Company, the Company is obliged to make an offer of immediate repayment to the remaining note holders; and
- in October 2013, the group entered into a three-year contract for the supply of electricity to the UK business.

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 companies 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 3,600 identical but individual contracts with sugar beet growers. Similarly, AB Azucarera Iberia in Spain has some 4,700 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 111; and
- details of share schemes set out on page 112, 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 81.

## **Auditors**

In accordance with Section 489 of the Companies Act 2006, KPMG LLP is proposed as statutory auditor of the Company and a resolution for its appointment is to be proposed at the forthcoming AGM.

**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.

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 8 and 9;
2. Operating review on pages 20 to 35, which includes a review of the external environment, future development and performance measures;
3. Financial review on pages 36 to 39;
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 56 to 61.

On behalf of the board

**Charles Sinclair**  
**Chairman**

**George Weston**  
**Chief Executive**

**John Bason**  
**Finance Director**

5 November 2013

# 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, Directors' Remuneration Report and Corporate Governance Statement 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 weeks ended 14 September 2013 set out on pages 82 to 131. The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

## Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 80, 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 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 Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## 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 14 September 2013 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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 80, in relation to going concern;
- the part of the Corporate governance statement on page 46 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**

**(Senior Statutory Auditor)**

for and on behalf of KPMG Audit Plc,  
Statutory Auditor

Chartered Accountants  
15 Canada Square  
London  
E14 5GL

5 November 2013

# CONSOLIDATED INCOME STATEMENT

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

	Note	2013 £m	2012 £m
<b>Continuing operations</b>			
<b>Revenue</b>			
Operating costs before exceptional items	1	<b>13,315</b>	12,252
Exceptional items	2	(12,235)	(11,302)
	2	—	(98)
Share of profit after tax from joint ventures and associates	11	<b>1,080</b>	852
Profits less losses on disposal of non-current assets		27	(6)
<b>Operating profit</b>		<b>1,093</b>	873
Adjusted operating profit	1	<b>1,185</b>	1,077
Profits less losses on disposal of non-current assets		—	(6)
Amortisation of non-operating intangibles	8	(92)	(100)
Exceptional items	2	—	(98)
Profits less losses on sale and closure of businesses	21	(128)	(9)
<b>Profit before interest</b>		<b>965</b>	864
Finance income	4	<b>13</b>	9
Finance expense	4	(100)	(114)
Other financial (expense)/income	4	(2)	2
<b>Profit before taxation</b>		<b>876</b>	761
Adjusted profit before taxation		<b>1,096</b>	974
Profits less losses on disposal of non-current assets		—	(6)
Amortisation of non-operating intangibles	8	(92)	(100)
Exceptional items	2	—	(98)
Profits less losses on sale and closure of businesses	21	(128)	(9)
Taxation – UK		(113)	(91)
– Overseas (excluding tax on exceptional items)		(129)	(116)
– Overseas (on exceptional items)		—	29
	5	(242)	(178)
<b>Profit for the period</b>		<b>634</b>	583
<b>Attributable to</b>			
Equity shareholders		<b>591</b>	555
Non-controlling interests		<b>43</b>	28
<b>Profit for the period</b>		<b>634</b>	583
Basic and diluted earnings per ordinary share (pence)	7	<b>74.8</b>	70.3
Dividends per share paid and proposed for the period (pence)	6	<b>32.0</b>	28.5

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

	2013 £m	2012 £m
<b>Profit for the period recognised in the income statement</b>	<b>634</b>	583
<b>Other comprehensive income</b>		
Actuarial gains/(losses) on defined benefit schemes	24	(99)
Deferred tax associated with defined benefit schemes	(5)	23
Items that will not be reclassified to profit or loss	19	(76)
Effect of movements in foreign exchange	(114)	(241)
Net (loss)/gain on hedge of net investment in foreign subsidiaries	(20)	11
Deferred tax associated with movements in foreign exchange	2	3
Reclassification adjustment for movements in foreign exchange on subsidiaries disposed	7	–
Current tax associated with movements in foreign exchange	–	(4)
Movement in cash flow hedging position	6	(21)
Deferred tax associated with movement in cash flow hedging position	(2)	4
Items that are or may be subsequently reclassified to profit or loss	(121)	(248)
<b>Other comprehensive income for the period</b>	<b>(102)</b>	(324)
<b>Total comprehensive income for the period</b>	<b>532</b>	259
<b>Attributable to</b>		
Equity shareholders	526	281
Non-controlling interests	6	(22)
<b>Total comprehensive income for the period</b>	<b>532</b>	259

# CONSOLIDATED BALANCE SHEET

AT 14 SEPTEMBER 2013

	Note	2013 £m	2012 £m
<b>Non-current assets</b>			
Intangible assets	8	<b>1,581</b>	1,769
Property, plant and equipment	9	<b>4,552</b>	4,541
Biological assets	10	<b>97</b>	89
Investments in joint ventures	11	<b>182</b>	174
Investments in associates	11	<b>36</b>	40
Employee benefits assets	12	<b>52</b>	18
Deferred tax assets	13	<b>273</b>	189
Other receivables	14	<b>148</b>	151
<b>Total non-current assets</b>		<b>6,921</b>	6,971
<b>Current assets</b>			
Inventories	15	<b>1,581</b>	1,500
Biological assets	10	<b>112</b>	109
Trade and other receivables	14	<b>1,342</b>	1,236
Derivative assets	24	<b>27</b>	33
Cash and cash equivalents	16	<b>362</b>	391
<b>Total current assets</b>		<b>3,424</b>	3,269
<b>Total assets</b>		<b>10,345</b>	10,240
<b>Current liabilities</b>			
Loans and overdrafts	17	<b>(394)</b>	(538)
Trade and other payables	18	<b>(1,881)</b>	(1,752)
Derivative liabilities	24	<b>(38)</b>	(50)
Income tax		<b>(166)</b>	(150)
Provisions	19	<b>(47)</b>	(98)
<b>Total current liabilities</b>		<b>(2,526)</b>	(2,588)
<b>Non-current liabilities</b>			
Loans	17	<b>(772)</b>	(914)
Provisions	19	<b>(30)</b>	(38)
Deferred tax liabilities	13	<b>(424)</b>	(366)
Employee benefits liabilities	12	<b>(96)</b>	(113)
<b>Total non-current liabilities</b>		<b>(1,322)</b>	(1,431)
<b>Total liabilities</b>		<b>(3,848)</b>	(4,019)
<b>Net assets</b>		<b>6,497</b>	6,221
<b>Equity</b>			
Issued capital	20	<b>45</b>	45
Other reserves	20	<b>175</b>	175
Translation reserve	20	<b>440</b>	532
Hedging reserve	20	<b>(13)</b>	(17)
Retained earnings		<b>5,486</b>	5,099
<b>Total equity attributable to equity shareholders</b>		<b>6,133</b>	5,834
Non-controlling interests		<b>364</b>	387
<b>Total equity</b>		<b>6,497</b>	6,221

The financial statements on pages 82 to 126 were approved by the board of directors on 5 November 2013 and were signed on its behalf by:

**Charles Sinclair**  
Chairman

**John Bason**  
Director

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

	2013 £m	2012 £m
<b>Cash flow from operating activities</b>		
Profit before taxation	<b>876</b>	761
Profits less losses on disposal of non-current assets	–	6
Profits less losses on sale and closure of businesses	<b>128</b>	9
Finance income	(13)	(9)
Finance expense	<b>100</b>	114
Other financial expense/(income)	2	(2)
Share of profit after tax from joint ventures and associates	(13)	(27)
Amortisation	<b>130</b>	122
Depreciation	<b>405</b>	394
Impairment of property, plant and equipment	27	92
Impairment of operating intangibles	4	6
Impairment of goodwill	<b>10</b>	–
Net change in the fair value of biological assets	(26)	(28)
Share-based payment expense	<b>15</b>	8
Pension costs less contributions	(29)	(38)
Increase in inventories	(112)	(125)
(Increase)/decrease in receivables	(158)	3
Increase in payables	<b>173</b>	165
Purchases less sales of current biological assets	(2)	(3)
Increase/(decrease) in provisions	<b>11</b>	(17)
Cash generated from operations	<b>1,528</b>	1,431
Income taxes paid	(252)	(191)
<b>Net cash from operating activities</b>	<b>1,276</b>	1,240
<b>Cash flows from investing activities</b>		
Dividends received from joint ventures and associates	11	11
Purchase of property, plant and equipment	(593)	(700)
Purchase of intangibles	(22)	(13)
Purchase of non-current biological assets	(1)	(1)
Sale of property, plant and equipment	<b>15</b>	6
Purchase of subsidiaries, joint ventures and associates	(75)	(45)
Sale of subsidiaries, joint ventures and associates	<b>35</b>	2
Loans to joint ventures	(4)	24
Purchase of non-controlling interests	(1)	–
Interest received	<b>10</b>	10
<b>Net cash from investing activities</b>	<b>(625)</b>	(706)
<b>Cash flows from financing activities</b>		
Dividends paid to non-controlling interests	(29)	(23)
Dividends paid to equity shareholders	(232)	(200)
Interest paid	(107)	(108)
Financing:		
Decrease in short-term loans	(258)	(533)
(Decrease)/increase in long-term loans	(23)	298
Sale of shares in subsidiary undertakings to non-controlling interests	1	4
Movements from changes in own shares held	(10)	–
<b>Net cash from financing activities</b>	<b>(658)</b>	(562)
<b>Net decrease in cash and cash equivalents</b>	<b>(7)</b>	(28)
Cash and cash equivalents at the beginning of the period	<b>245</b>	291
Effect of movements in foreign exchange	5	(18)
<b>Cash and cash equivalents at the end of the period</b>	<b>243</b>	245

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

	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 17 September 2011		45	175	712	–	4,816	5,748	427	6,175
<b>Total comprehensive income</b>									
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
Items that will not be reclassified to profit or loss		–	–	–	–	(76)	(76)	–	(76)
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
Items that are or may be subsequently reclassified to profit or loss		–	–	(180)	(17)	(1)	(198)	(50)	(248)
Other comprehensive income		–	–	(180)	(17)	(77)	(274)	(50)	(324)
<b>Total comprehensive income</b>		–	–	(180)	(17)	478	281	(22)	259
<b>Transactions with owners</b>									
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
<b>Total transactions with owners</b>		–	–	–	–	(195)	(195)	(18)	(213)
Balance as at 15 September 2012		45	175	532	(17)	5,099	5,834	387	6,221
<b>Total comprehensive income</b>									
Profit for the period recognised in the income statement		–	–	–	–	591	591	43	634
Actuarial gains/(losses) on defined benefit schemes		–	–	–	–	26	26	(2)	24
Deferred tax associated with defined benefit schemes		–	–	–	–	(5)	(5)	–	(5)
Items that will not be reclassified to profit or loss		–	–	–	–	21	21	(2)	19
Effect of movements in foreign exchange		–	–	(86)	–	–	(86)	(28)	(114)
Net loss on hedge of net investment in foreign subsidiaries		–	–	(13)	–	–	(13)	(7)	(20)
Deferred tax associated with movements in foreign exchange		–	–	–	–	2	2	–	2
Reclassification adjustment for movements in foreign exchange on subsidiaries disposed		–	–	7	–	–	7	–	7
Movement in cash flow hedging position		–	–	–	6	–	6	–	6
Deferred tax associated with movement in cash flow hedging position		–	–	–	(2)	–	(2)	–	(2)
Items that are or may be subsequently reclassified to profit or loss		–	–	(92)	4	2	(86)	(35)	(121)
Other comprehensive income		–	–	(92)	4	23	(65)	(37)	(102)
<b>Total comprehensive income</b>		–	–	(92)	4	614	526	6	532
<b>Transactions with owners</b>									
Dividends paid to equity shareholders	6	–	–	–	–	(232)	(232)	–	(232)
Net movement in own shares held		–	–	–	–	5	5	–	5
Dividends paid to non-controlling interests		–	–	–	–	–	–	(29)	(29)
<b>Total transactions with owners</b>		–	–	–	–	(227)	(227)	(29)	(256)
<b>Balance as at 14 September 2013</b>		<b>45</b>	<b>175</b>	<b>440</b>	<b>(13)</b>	<b>5,486</b>	<b>6,133</b>	<b>364</b>	<b>6,497</b>

# SIGNIFICANT ACCOUNTING POLICIES

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

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 14 September 2013 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 5 November 2013.

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 127 to 131.

## Basis of preparation

The going concern basis has been applied in these accounts. 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 92.

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 other than for presentational items, 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 14 September 2013. 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 2013. The results of Illovo are included for the period to 30 September 2013 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 20 to 35. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 36 to 39. In addition, the Principal risks and uncertainties on pages 56 to 61 and note 24 on pages 113 to 123 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.

## 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, other comprehensive income and net assets 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 and requiring the venturers' unanimous consent for strategic financial and operating decisions.

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

Where the group's share of losses exceed its interest in a joint venture or associate, the carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of an investee.

## Business combinations

On the acquisition of a business, 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 where significant 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

# SIGNIFICANT ACCOUNTING POLICIES CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

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.

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 92.

## **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 together with the related tax effect.

## **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 principally 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 14 SEPTEMBER 2013

## Goodwill

Goodwill is defined under 'Business combinations' on pages 87 and 88. 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 16 September 2012):

- Amendments to IAS 1 *Presentation of Financial Statements*, which amend only the presentation of other comprehensive income and the statement of changes in equity; and
- Amendments to IAS 12 *Income Taxes*.

The group will implement IAS 19 *Employee Benefits* Revised in 2014. This makes changes to measurement and disclosure requirements for defined benefit post-employment arrangements. The first principal measurement change is that the expected return on plan assets and the interest charge on scheme liabilities will be replaced by a net interest expense or income calculated by applying the liability discount rate to the net pension asset or liability. The second principal change is that scheme administration costs will now be expensed as incurred and the reserve for scheme expenses included within scheme liabilities will be removed.

The new standard applies for the first time in the 2014 financial year, but with retrospective effect from the 2012 balance sheet date. If applied in 2013, the impact would have been an increase of £4m in service cost and an increase of £3m in net pension finance costs. Net actuarial gains in 2013 of £24m would have been replaced with net actuarial gains of £32m. The £95m net pension liability in the 2012 balance sheet is replaced by a net liability of £67m, and the £44m net pension liability in the 2013 balance sheet is replaced by a net liability of £15m.

The group is also assessing the impact of the following revised standards and interpretations or amendments that are not yet effective. Where already endorsed by the EU, these changes will be adopted on the effective dates noted. Where not yet endorsed by the EU, the adoption date is less certain. These revised standards are not currently expected to have a material impact on the group's reported profit, earnings per share, net assets or disclosures (all effective from 15 September 2013 unless otherwise stated):

- Certain elements of *Annual Improvements to IFRSs 2009-2011*;

- Amendments to IFRS 7 *Financial Instruments: Disclosures* effective 2014 and 2016 financial years (partially endorsed by the EU);
- IFRS 9 *Financial Instruments: Classification and Measurement* effective 2016 financial year, which amends the classification and measurement for financial assets and liabilities (not yet endorsed by the EU);
- IFRS 10 *Consolidated Financial Statements* effective 2015 financial year;
- IFRS 11 *Joint Arrangements* effective 2015 financial year;
- IFRS 12 *Disclosure of Interests in Other Entities* effective 2015 financial year;
- IFRS 13 *Fair Value Measurement* effective 2014 financial year;
- IAS 28 *Investments in Associates and Joint Ventures* effective 2015 financial year;
- Amendments to IAS 32 *Financial Instruments: Presentation* effective 2014 and 2015 financial year; and
- Amendments to IAS 34 *Interim Financial Reporting* effective 2014 financial year.

# ACCOUNTING ESTIMATES AND JUDGEMENTS

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

In applying the accounting policies detailed on pages 87 to 91, 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 to the extent that it is probable that sufficient taxable profits will be available 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 £44m being recognised as at 14 September 2013. 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.

## 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.

For the 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 14 SEPTEMBER 2013

## 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, enzymes, lipids, yeast extracts and cereal specialities.
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	
	2013 £m	2012 £m	2013 £m	2012 £m
<b>Operating segments</b>				
Grocery	<b>3,840</b>	3,726	<b>232</b>	187
Sugar	<b>2,677</b>	2,666	<b>435</b>	510
Agriculture	<b>1,410</b>	1,265	<b>47</b>	40
Ingredients	<b>1,088</b>	1,067	<b>1</b>	27
Retail	<b>4,273</b>	3,503	<b>514</b>	356
Central	—	—	(50)	(48)
	<b>13,288</b>	12,227	<b>1,179</b>	1,072
Businesses disposed:				
Ingredients	<b>27</b>	25	<b>6</b>	5
	<b>13,315</b>	12,252	<b>1,185</b>	1,077
<b>Geographical information</b>				
United Kingdom	<b>5,728</b>	5,248	<b>715</b>	638
Europe & Africa	<b>3,790</b>	3,328	<b>386</b>	325
The Americas	<b>1,282</b>	1,216	<b>103</b>	95
Asia Pacific	<b>2,488</b>	2,435	(25)	14
	<b>13,288</b>	12,227	<b>1,179</b>	1,072
Businesses disposed:				
The Americas	<b>27</b>	25	<b>6</b>	5
	<b>13,315</b>	12,252	<b>1,185</b>	1,077

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 1. Operating segments continued

For the 52 weeks ended 14 September 2013

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Total £m
Revenue from continuing businesses	3,851	2,808	1,410	1,193	4,273	(247)	13,288
Internal revenue	(11)	(131)	–	(105)	–	247	–
External revenue from continuing businesses	3,840	2,677	1,410	1,088	4,273	–	13,288
Businesses disposed	–	–	–	27	–	–	27
Revenue from external customers	3,840	2,677	1,410	1,115	4,273	–	13,315
Adjusted operating profit before joint ventures and associates	224	450	35	(7)	514	(50)	1,166
Share of profit after tax from joint ventures and associates	8	(15)	12	8	–	–	13
Businesses disposed	–	–	–	6	–	–	6
Adjusted operating profit	232	435	47	7	514	(50)	1,185
Amortisation of non-operating intangibles	(19)	(21)	(1)	(51)	–	–	(92)
Profits less losses on sale and closure of businesses	–	(15)	–	(113)	–	–	(128)
Profit before interest	213	399	46	(157)	514	(50)	965
Finance income						13	13
Finance expense						(100)	(100)
Other financial expense						(2)	(2)
Taxation						(242)	(242)
<b>Profit for the period</b>	<b>213</b>	<b>399</b>	<b>46</b>	<b>(157)</b>	<b>514</b>	<b>(381)</b>	<b>634</b>
Segment assets (excluding joint ventures and associates)	2,666	2,432	319	1,159	2,677	187	9,440
Investments in joint ventures and associates	33	34	99	52	–	–	218
<b>Segment assets</b>	<b>2,699</b>	<b>2,466</b>	<b>418</b>	<b>1,211</b>	<b>2,677</b>	<b>187</b>	<b>9,658</b>
Cash and cash equivalents						362	362
Deferred tax assets						273	273
Employee benefits assets						52	52
<b>Segment liabilities</b>	<b>(539)</b>	<b>(398)</b>	<b>(121)</b>	<b>(207)</b>	<b>(619)</b>	<b>(112)</b>	<b>(1,996)</b>
Loans and overdrafts						(1,166)	(1,166)
Income tax						(166)	(166)
Deferred tax liabilities						(424)	(424)
Employee benefits liabilities						(96)	(96)
<b>Net assets</b>	<b>2,160</b>	<b>2,068</b>	<b>297</b>	<b>1,004</b>	<b>2,058</b>	<b>(1,090)</b>	<b>6,497</b>
Non-current asset additions	165	158	10	70	220	6	629
Depreciation	108	86	7	49	151	4	405
Amortisation	37	37	3	53	–	–	130
Impairment of property, plant and equipment	–	8	–	19	–	–	27
Impairment of operating intangibles	–	4	–	–	–	–	4
Impairment of goodwill	–	10	–	–	–	–	10
Impairment of property, plant and equipment on closure of business	–	3	–	74	–	–	77
Impairment of goodwill on sale of business	–	14	–	–	–	–	14
<b>Geographical information</b>			United Kingdom £m	Europe & Africa £m	The Americas £m	Asia Pacific £m	Total £m
Revenue from external customers			5,728	3,790	1,309	2,488	13,315
Segment assets			3,863	3,096	1,022	1,677	9,658
Non-current asset additions			260	209	51	109	629
Depreciation			177	102	28	98	405
Amortisation			35	26	39	30	130
Impairment of property, plant and equipment			–	19	–	8	27
Impairment of operating intangibles			–	–	–	4	4
Impairment of goodwill			–	–	–	10	10
Impairment of property, plant and equipment on closure of business			–	–	–	77	77
Impairment of goodwill on sale of business			–	–	–	14	14

## 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	1,138	3,503	(231)	12,227
Internal revenue	(8)	(142)	(10)	(71)	–	231	–
External revenue from continuing businesses	3,726	2,666	1,265	1,067	3,503	–	12,227
Businesses disposed	–	–	–	25	–	–	25
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	17	356	(48)	1,045
Share of profit after tax from joint ventures and associates	8	(4)	13	10	–	–	27
Businesses disposed	–	–	–	5	–	–	5
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)
<b>Profit for the period</b>	<b>73</b>	<b>483</b>	<b>39</b>	<b>(32)</b>	<b>356</b>	<b>(336)</b>	<b>583</b>
Segment assets (excluding 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
<b>Segment assets</b>	<b>2,709</b>	<b>2,557</b>	<b>362</b>	<b>1,409</b>	<b>2,423</b>	<b>182</b>	<b>9,642</b>
Cash and cash equivalents						391	391
Deferred tax assets						189	189
Employee benefits assets						18	18
<b>Segment liabilities</b>	<b>(573)</b>	<b>(413)</b>	<b>(104)</b>	<b>(204)</b>	<b>(526)</b>	<b>(118)</b>	<b>(1,938)</b>
Loans and overdrafts						(1,452)	(1,452)
Income tax						(150)	(150)
Deferred tax liabilities						(366)	(366)
Employee benefits liabilities						(113)	(113)
<b>Net assets</b>	<b>2,136</b>	<b>2,144</b>	<b>258</b>	<b>1,205</b>	<b>1,897</b>	<b>(1,419)</b>	<b>6,221</b>
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	–	–	–	–	–	92
Impairment of operating intangibles	6	–	–	–	–	–	6
Impairment of property, plant and equipment on closure of business	–	–	–	3	–	–	3
<b>Geographical information</b>							
		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		–	–	–	92		92
Impairment of operating intangibles		–	–	–	6		6
Impairment of property, plant and equipment on closure of business		–	–	–	3		3

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 2. Operating costs

	Note	2013 £m	2012 £m
<b>Operating costs</b>			
Cost of sales before exceptional items (including amortisation of intangibles)		<b>10,095</b>	9,292
Exceptional items <sup>1</sup> charged to cost of sales		–	98
Distribution costs		<b>1,314</b>	1,273
Administration expenses		<b>826</b>	737
		<b>12,235</b>	11,400
<b>Operating costs are stated after charging/(crediting):</b>			
Employee benefits expense	3	<b>1,943</b>	1,760
Amortisation of non-operating intangibles	8	<b>92</b>	100
Amortisation of operating intangibles	8	<b>38</b>	22
Profits less losses on disposal of non-current assets		–	6
Depreciation of owned property, plant and equipment	9	<b>405</b>	394
Impairment of property, plant and equipment	9	<b>27</b>	92
Impairment of operating intangibles	8	<b>4</b>	6
Impairment of goodwill	8	<b>10</b>	–
Operating lease payments under property leases		<b>155</b>	122
Operating lease payments for hire of plant and equipment		<b>14</b>	14
Other operating income		(22)	(20)
Research and development expenditure		<b>25</b>	23
Fair value gains on financial assets and liabilities held for trading		(14)	(30)
Fair value losses on financial assets and liabilities held for trading		<b>15</b>	27
Foreign exchange gains on operating activities		(30)	(50)
Foreign exchange losses on operating activities		<b>31</b>	52

<sup>1</sup> Refer to accounting policy on page 88.

In 2012, an exceptional charge of £98m was made to impair property, plant and equipment assets (£92m) and operating intangible assets (£6m) in the Australian meat business. An exceptional tax credit of £29m arose on the recognition of the resultant deferred tax asset. There were no such items in 2013.

Auditors' remuneration		2013 £m	2012 £m
<b>Fees payable to the Company's auditor and its associates in respect of the audit</b>			
Group audit of these financial statements		<b>0.6</b>	0.6
Audit of the Company's subsidiaries' financial statements		<b>5.3</b>	5.1
Total audit remuneration		<b>5.9</b>	5.7
<b>Fees payable to the Company's auditor and its associates in respect of non-audit related services</b>			
Audit-related assurance services		<b>0.3</b>	0.3
Tax compliance services		<b>0.6</b>	0.8
Tax advisory services		<b>1.2</b>	1.1
Information technology services		<b>0.1</b>	0.3
All other services		<b>0.6</b>	0.3
Total non-audit related remuneration		<b>2.8</b>	2.8
<b>Fees payable to the Company's auditor and its associates in respect of the group's pension schemes</b>			
Audit of the pension schemes		<b>0.2</b>	0.2
		<b>0.2</b>	0.2

**3. Employees**

	2013	2012
<b>Average number of employees</b>		
United Kingdom	<b>40,071</b>	37,536
Europe & Africa	<b>49,247</b>	45,301
The Americas	<b>4,036</b>	3,822
Asia Pacific	<b>19,298</b>	19,584
	<b>112,652</b>	106,243

	Note	£m	£m
<b>Employee benefits expense</b>			
Wages and salaries		<b>1,640</b>	1,507
Social security contributions		<b>180</b>	159
Contributions to defined contribution schemes	12	<b>66</b>	53
Charge for defined benefit schemes	12	<b>42</b>	33
Equity-settled share-based payment schemes		<b>15</b>	8
		<b>1,943</b>	1,760

Details of directors' remuneration, share options and pension entitlements are shown in the Remuneration report on pages 62 to 75.

**4. Interest and other financial income and expense**

	Note	2013 £m	2012 £m
<b>Finance income</b>			
Cash and cash equivalents		<b>13</b>	9
		<b>13</b>	9
<b>Finance expense</b>			
Bank loans and overdrafts		<b>(42)</b>	(52)
All other borrowings		<b>(54)</b>	(57)
Finance leases		<b>(1)</b>	(1)
Other payables		<b>(2)</b>	(1)
Unwinding of discount on provisions		<b>(1)</b>	(3)
		<b>(100)</b>	(114)
<b>Other financial income/(expense)</b>			
Expected return on employee benefit scheme assets	12	<b>140</b>	147
Interest charge on employee benefit scheme liabilities	12	<b>(139)</b>	(142)
Net financial income from employee benefit schemes		<b>1</b>	5
Net foreign exchange losses on financing activities		<b>(3)</b>	(3)
Total other financial (expense)/income		<b>(2)</b>	2

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 5. Income tax expense

	2013 £m	2012 £m
<b>Current tax expense</b>		
UK – corporation tax at 23.5% (2012 – 25.1%)	<b>143</b>	108
Overseas – corporation tax	<b>145</b>	110
UK – overprovided in prior periods	<b>(9)</b>	(6)
Overseas – overprovided in prior periods	<b>(10)</b>	(2)
	<b>269</b>	210
<b>Deferred tax expense</b>		
UK deferred tax	(21)	(14)
Overseas deferred tax	2	(20)
UK – underprovided in prior periods	–	3
Overseas – overprovided in prior periods	(8)	(1)
	<b>(27)</b>	(32)
<b>Total income tax expense in income statement</b>	<b>242</b>	178
<b>Reconciliation of effective tax rate</b>		
Profit before taxation	<b>876</b>	761
Less share of profit after tax from joint ventures and associates	<b>(13)</b>	(27)
<b>Profit before taxation excluding share of profit after tax from joint ventures and associates</b>	<b>863</b>	734
Nominal tax charge at UK corporation tax rate of 23.5% (2012 – 25.1%)	<b>203</b>	184
Benefit of lower tax rates	(34)	(19)
Expenses not deductible for tax purposes	24	3
Profits/losses on disposal of assets covered by tax exemptions or unrecognised capital losses	39	2
Deferred tax not recognised	37	14
Adjustments in respect of prior periods	(27)	(6)
	<b>242</b>	178
<b>Income tax recognised directly in equity</b>		
Deferred tax associated with defined benefit schemes	5	(23)
Deferred tax associated with share-based payments	–	2
Deferred tax associated with movement in cash flow hedging position	2	(4)
Deferred tax associated with movements in foreign exchange	(2)	(3)
Current tax associated with movements in foreign exchange	–	4
	<b>5</b>	(24)

The UK corporation tax rate was reduced from 24% to 23% with effect from 1 April 2013, and further reductions to 21% and 20% are due to take effect on 1 April 2014 and 1 April 2015 respectively. The legislation to effect these rate changes was enacted before the balance sheet date and UK deferred tax has therefore been calculated using a rate of 20%. This rate change results in an £18m reduction in the tax charge in the income statement.

The tax credit of £29m arising on the exceptional impairment charge in 2012 was included within the overseas deferred tax credit.

Deferred taxation balances are analysed in note 13.

## 6. Dividends

	2013 pence per share	2012 pence per share	2013 £m	2012 £m
2011 final	–	16.85	–	133
2012 interim	–	8.50	–	67
2012 final	<b>20.00</b>	–	<b>158</b>	–
2013 interim	<b>9.35</b>	–	<b>74</b>	–
	<b>29.35</b>	25.35	<b>232</b>	200

The 2013 interim dividend was declared on 23 April 2013 and paid on 5 July 2013. The 2013 final dividend of 22.65 pence, total value of £179m, will be paid on 10 January 2014 to shareholders on the register on 6 December 2013.

Dividends relating to the period were 32.0 pence per share totalling £253m (2012 – 28.5 pence per share totalling £225m).

## 7. Earnings per share

The calculation of basic earnings per share at 14 September 2013 was based on the net profit attributable to equity shareholders of £591m (2012 – £555m), and a weighted average number of shares outstanding during the year of 790 million (2012 – 789 million). The calculation of the weighted average number of shares excludes the shares held by the Employee Share Ownership Plan Trust on which the dividends are being waived.

Adjusted earnings per ordinary share, which exclude the impact of profits less losses on disposal of non-current assets and sale and closure of businesses, amortisation of non-operating intangibles, exceptional items, and any 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 incentives. The diluted, weighted average number of shares is 790 million (2012 – 789 million). There is no difference between basic and diluted earnings.

	2013 £m	2012 £m
<b>Adjusted profit for the period</b>	<b>781</b>	688
Disposal of non-current assets	–	(6)
Sale and closure of businesses	<b>(128)</b>	(9)
Exceptional items	–	(98)
Tax effect on above adjustments	<b>(6)</b>	31
Amortisation of non-operating intangibles	<b>(92)</b>	(100)
Tax credit on non-operating intangibles amortisation and goodwill	<b>29</b>	33
Non-controlling interests' share of amortisation of non-operating intangibles net of tax	<b>7</b>	16
<b>Profit for the period attributable to equity shareholders</b>	<b>591</b>	555
	2013 pence	2012 pence
<b>Adjusted earnings per share</b>	<b>98.9</b>	87.2
Disposal of non-current assets	–	(0.8)
Sale and closure of businesses	<b>(16.2)</b>	(1.1)
Exceptional items	–	(12.4)
Tax effect on above adjustments	<b>(0.8)</b>	3.9
Amortisation of non-operating intangibles	<b>(11.7)</b>	(12.7)
Tax credit on non-operating intangibles amortisation and goodwill	<b>3.7</b>	4.2
Non-controlling interests' share of amortisation of non-operating intangibles net of tax	<b>0.9</b>	2.0
<b>Earnings per ordinary share</b>	<b>74.8</b>	70.3

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 8. Intangible assets

	Non-operating					Operating		
	Goodwill £m	Technology £m	Brands £m	Customer relationships £m	Grocer agreements £m	Other £m	Other £m	Total £m
<b>Cost</b>								
At 17 September 2011	1,363	248	349	109	189	9	182	2,449
Acquisitions – externally purchased	–	–	–	–	–	–	46	46
Acquired through business combinations	8	–	34	2	–	–	–	44
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
Acquisitions – externally purchased	–	–	–	–	–	–	40	40
Acquired through previous business combinations	2	–	–	–	–	–	–	2
Reversal of deferred consideration	(7)	–	–	–	–	–	–	(7)
Businesses disposed	(27)	–	–	–	–	–	–	(27)
Other disposals	–	–	–	–	–	–	(21)	(21)
Effect of movements in foreign exchange	(22)	(8)	(3)	(2)	(26)	(1)	(4)	(66)
<b>At 14 September 2013</b>	<b>1,266</b>	<b>227</b>	<b>370</b>	<b>102</b>	<b>140</b>	<b>7</b>	<b>225</b>	<b>2,337</b>
<b>Amortisation and impairment</b>								
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
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
Amortisation for the year	–	50	23	4	15	–	38	130
Impairment	10	–	–	–	–	–	4	14
Impairment on sale of business	14	–	–	–	–	–	–	14
Disposals	–	–	–	–	–	–	(13)	(13)
Effect of movements in foreign exchange	–	(10)	(4)	(2)	(17)	(1)	(2)	(36)
<b>At 14 September 2013</b>	<b>29</b>	<b>227</b>	<b>208</b>	<b>96</b>	<b>98</b>	<b>7</b>	<b>91</b>	<b>756</b>
<b>Net book value</b>								
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
<b>At 14 September 2013</b>	<b>1,237</b>	–	<b>162</b>	<b>6</b>	<b>42</b>	–	<b>134</b>	<b>1,581</b>

### Impairment

As at 14 September 2013, the consolidated balance sheet included goodwill of £1,237m (2012 – £1,315m). 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:

CGU or group of CGUs	Primary reporting segment	Discount rate	2013 £m	2012 £m
ACH	Grocery	9.1%	<b>241</b>	237
AB Mauri	Ingredients	11.5%	<b>341</b>	347
Twinings Ovaltine	Grocery	9.6%	<b>119</b>	119
Capullo	Grocery	13.7%	<b>58</b>	58
Illovo	Sugar	13.8%	<b>137</b>	161
AB World Foods	Grocery	11.4%	<b>78</b>	84
North China Sugar	Sugar	13.0%	<b>46</b>	67
Other*	Various	Various	<b>217</b>	242
			<b>1,237</b>	1,315

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

## **8. Intangible assets continued**

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, industry and market risk. The rates used were in a range between 9.1% and 13.8% (2012 – between 8% and 12.8%).

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 3.5% (2012 – between 0% and 3%).

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 some of its different businesses around the world. This resulted in an indicator of impairment risk under the 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. Key drivers of the forecast improvement in performance include improved reach and competitiveness in the global dry yeast market from the newly commissioned yeast factory in Mexico, implementation of a global review of margin improvement opportunities, particularly on cost reduction, which is already under way, and continuing growth in the global bakery ingredients business. Headroom was \$103m on a CGU carrying value of \$1,195m. The discount rate used was 11.5% and would have to increase to more than 12.1% before value in use fell below the CGU carrying value. Estimates of long-term growth rates beyond the forecast periods were 2.5%–3% per annum dependent on location.

In North China Sugar, a £10m goodwill and £4m operating intangible impairment were charged to adjusted operating profit in the year as a consequence of the decision to mothball the Baolongshan and Wangkui factories at the end of the campaign. £14m was charged against goodwill as a loss on sale of business in the year in respect of the sale of the Chifeng beet factory, completed in early September. Current forecasts for the remaining North China Sugar business continue to support the carrying value of the assets, but the achievement of these forecasts depends on significant improvements in a variety of operational parameters, including agricultural yields, factory volumes and sugar prices. Management has reviewed detailed forecasts for this business taking those issues into account, and has concluded that no impairment is required. Headroom was £2m on a CGU carrying value of £221m. The discount rate used was 13.0%. 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 14 SEPTEMBER 2013

## 9. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
<b>Cost</b>					
At 17 September 2011	2,144	3,162	1,254	177	6,737
Acquisitions – externally purchased	100	146	267	196	709
Interest capitalised	–	–	–	2	2
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
Acquisitions – externally purchased	102	125	176	181	584
Interest capitalised	–	–	–	4	4
Businesses disposed	(1)	(12)	–	–	(13)
Other disposals	(8)	(132)	(20)	–	(160)
Transfers from assets under construction	49	229	7	(285)	–
Effect of movements in foreign exchange	(20)	(97)	14	–	(103)
<b>At 14 September 2013</b>	<b>2,298</b>	<b>3,286</b>	<b>1,630</b>	<b>150</b>	<b>7,364</b>
<b>Depreciation and impairment</b>					
At 17 September 2011	366	1,482	424	–	2,272
Depreciation for the year	52	214	128	–	394
Impairment	37	55	–	–	92
Impairment on closure of business	1	2	–	–	3
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
Depreciation for the year	53	209	143	–	405
Impairment	8	19	–	–	27
Impairment on closure of business	30	47	–	–	77
Businesses disposed	(1)	(5)	–	–	(6)
Other disposals	(5)	(116)	(19)	–	(140)
Effect of movements in foreign exchange	(8)	(57)	3	–	(62)
<b>At 14 September 2013</b>	<b>502</b>	<b>1,688</b>	<b>622</b>	<b>–</b>	<b>2,812</b>
<b>Net book value</b>					
At 17 September 2011	1,778	1,680	830	177	4,465
At 15 September 2012	1,751	1,582	958	250	4,541
<b>At 14 September 2013</b>	<b>1,796</b>	<b>1,598</b>	<b>1,008</b>	<b>150</b>	<b>4,552</b>
				2013 £m	2012 £m
Net book value of finance lease assets				11	12
Land and buildings at net book value comprise:					
– freehold				1,388	1,365
– long leasehold				313	290
– short leasehold				95	96
				1,796	1,751
Capital expenditure commitments – contracted but not provided for				215	225

## Impairment

In North China Sugar, £8m (comprising £2m land and buildings, and £6m plant and machinery) was charged to adjusted operating profit in the year as a consequence of the decision to mothball the Baolangshan and Wangkui factories at the end of the campaign.

In the Ingredients and Europe & Africa segments, £19m (comprising £6m land and buildings, and £13m plant and machinery) was charged to adjusted operating profit in the year following start-up of the new low-cost dry yeast plant in Mexico and consequent closure of dry yeast production in Italy. The net book value of property, plant and equipment in the Italian business after the impairment was £17m.

In the Ingredients and Asia Pacific segments, £74m (comprising £29m land and buildings, and £45m plant and machinery) was charged to loss on closure of business to write down the carrying value of £61m of Ingredients assets in China and £13m of Ingredients assets in India (see note 21 for further details). In North China Sugar, £3m was charged to loss on sale of business in respect of the disposal of the sugar business in Chifeng (£1m land and buildings, and £2m plant and machinery).

**10. Biological assets**

	Current			Non-current
	Growing cane £m	Other £m	Total £m	Cane roots £m
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
Transferred to inventory	(112)	(23)	(135)	—
Purchases	—	2	2	1
Changes in fair value	124	22	146	15
Effect of movements in foreign exchange	(10)	—	(10)	(8)
<b>At 14 September 2013</b>	<b>103</b>	<b>9</b>	<b>112</b>	<b>97</b>

**Cane roots**

	2013	2012
<b>Area under cane as at the end of the period (hectares)</b>		
South Africa	<b>8,729</b>	8,477
Malawi	<b>20,031</b>	20,594
Zambia	<b>16,848</b>	17,113
Swaziland	<b>8,646</b>	8,646
Tanzania	<b>9,565</b>	9,676
Mozambique	<b>5,900</b>	6,000
	<b>69,719</b>	70,506

**Growing cane**

The following assumptions have been used in the determination of the estimated sucrose tonnage at 14 September 2013:

	South Africa	Malawi	Zambia	Swaziland	Tanzania	Mozambique
Expected area to harvest (hectares)	5,210	19,504	16,370	8,144	9,565	5,752
Estimated yield (tonnes cane/hectare)	72.4	105.3	118.3	102.3	81.0	93.2
Average maturity of cane	56.0%	66.7%	66.7%	66.7%	50.0%	66.7%

The following assumptions were used in the determination of the estimated sucrose tonnage at 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%	50.0%	66.7%

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 11. Investments in joint ventures and associates

	Joint ventures			Associates		
	Shares £m	Goodwill £m	Total £m	Shares £m	Goodwill £m	Total £m
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
Acquisitions	2	–	2	–	–	–
Profit for the period	10	–	10	3	–	3
Dividends received	(6)	–	(6)	(5)	–	(5)
Effect of movements in foreign exchange	2	–	2	(2)	–	(2)
<b>At 14 September 2013</b>	<b>164</b>	<b>18</b>	<b>182</b>	<b>35</b>	<b>1</b>	<b>36</b>

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	
	2013 £m	2012 £m	2013 £m	2012 £m
Non-current assets	<b>241</b>	233	<b>18</b>	22
Current assets	<b>275</b>	287	<b>135</b>	125
Current liabilities	<b>(179)</b>	(198)	<b>(116)</b>	(107)
Non-current liabilities	<b>(173)</b>	(166)	<b>(2)</b>	(1)
Goodwill	<b>18</b>	18	<b>1</b>	1
Net assets	<b>182</b>	174	<b>36</b>	40
Revenue	<b>1,322</b>	1,273	<b>88</b>	85
Expenses	<b>(1,311)</b>	(1,243)	<b>(82)</b>	(81)
Taxation	<b>(1)</b>	(5)	<b>(3)</b>	(2)
Profit for the period	<b>10</b>	25	<b>3</b>	2

## 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 14 September 2013. 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, and although the Scheme was in surplus at the time of the most recent valuation, the Company made the final payment in March 2013.

### Overseas schemes

The group also operates defined benefit pension schemes in a number of overseas businesses, which 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 91% (2012 – 90%) of the group's plan assets and 89% (2012 – 88%) of the group's scheme liabilities. The financial assumptions used to value the UK pension schemes under IAS 19 are:

	2013 %	2012 %	2011 %
Discount rate	<b>4.7</b>	4.6	5.1
Inflation	<b>3.5</b>	3.1	3.3
Rate of increase in salaries	<b>4.5</b>	4.1	4.3
Rate of increase for pensions in payment	<b>3.3</b>	2.9	3.1
Rate of increase for pensions in deferment (where provided)	<b>3.0</b>	2.6	2.8

The mortality assumptions used to value the UK pension schemes are derived from the S1NA generational mortality tables with improvements in line with the 2009 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:

<b>Life expectancy from age 65 (in years)</b>	2013		2012	
	Male	Female	Male	Female
Member aged 65 in 2013 (2012)	<b>22.7</b>	<b>24.8</b>	22.6	24.7
Member aged 65 in 2033 (2032)	<b>25.0</b>	<b>27.2</b>	24.8	27.1

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

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

### 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 asset of £28m (2012 – £4m liability) plus the overseas schemes' net pension liability of £72m (2012 – £91m liability) totals a liability of £44m (2012 – £95m). This equates to the employee benefits asset of £52m (2012 – £18m) and liability of £96m (2012 – £113m) 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:

<b>UK schemes</b>	2013 %	2013 £m	2012 %	2012 £m	2011 %	2011 £m
Expected long-term rates of return:						
Equities	<b>6.7</b>	<b>1,133</b>	6.3	961	6.7	827
Government bonds	<b>3.7</b>	<b>849</b>	3.3	896	3.7	631
Non-government bonds	<b>4.7</b>	<b>527</b>	4.6	638	5.1	939
Property	<b>5.2</b>	<b>163</b>	4.8	103	5.2	102
Other	<b>0.5</b>	<b>260</b>	0.5	117	0.5	7
Total market value of plan assets		<b>2,932</b>		2,715		2,506
Present value of scheme liabilities		( <b>2,904</b> )		(2,719)		(2,490)
Net pension asset/liability)		<b>28</b>		(4)		16
Unfunded liability included in the present value of scheme liabilities above		( <b>23</b> )		(19)		(17)

The plan assets, scheme liabilities and aggregate net deficit of the plans were respectively £2,405m, £2,434m and £29m in 2010 and £2,135m, £2,211m and £76m in 2009.

The sensitivities regarding the principal assumptions used to measure UK scheme liabilities at 14 September 2013 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 1.5%
Rate of mortality	reduce by one year	increase by 2.8%

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 12. Employee entitlements continued

Overseas schemes	2013 %	2013 £m	2012 %	2012 £m	2011 %	2011 £m
Expected long-term rates of return:						
Equities	<b>7.2</b>	<b>137</b>	7.2	139	8.0	128
Government bonds	<b>3.1</b>	<b>61</b>	3.7	33	4.7	36
Non-government bonds	<b>3.9</b>	<b>66</b>	3.7	56	3.5	53
Property	<b>4.6</b>	<b>4</b>	4.3	4	5.2	6
Other	<b>6.7</b>	<b>33</b>	4.0	56	5.9	59
Total market value of plan assets		<b>301</b>		288		282
Present value of scheme liabilities		(361)		(371)		(334)
Aggregate net deficit of the plans		(60)		(83)		(52)
Irrecoverable surplus (a)		(12)		(8)		(8)
Net pension liability		(72)		(91)		(60)
Unfunded liability included in the present value of scheme liabilities above		(41)		(38)		(34)

The plan assets, scheme liabilities and aggregate net deficit of the plans were respectively £285m, £342m and £57m in 2010 and £238m, £242m and £4m in 2009.

(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:

	2013 £m	2012 £m
Charged to operating profit:		
Defined benefit plans		
Current service cost	(42)	(34)
Gain on curtailment	–	1
Defined contribution plans	(66)	(53)
Total operating cost	(108)	(86)
Reported in other financial income/(expense):		
Expected return on assets	140	147
Interest charge on liabilities	(139)	(142)
Net financial income from employee benefit schemes	1	5
Net impact on the income statement (before tax)	(107)	(81)

The actual return on scheme assets was a gain of £292m (2012 – £294m).

## 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 2013, the benefits paid in respect of unfunded plans was £nil (2012 – £nil). Company contributions to funded defined benefit plans are subject to periodic review. In 2013, contributions to funded defined benefit plans amounted to £69m (2012 – £71m). Contributions to defined contribution plans amounted to £66m (2012 – £53m).

Total contributions to funded plans and benefit payments by the group in respect of unfunded plans are currently expected to be approximately £42m in 2014 (2013 – £67m).

### Other comprehensive income

Amounts recognised in other comprehensive income:

	2013 £m	2012 £m
Actual return less expected return on pension scheme assets	<b>152</b>	147
Experience gains and losses arising on scheme liabilities	<b>(9)</b>	204
Changes in assumptions underlying the present value of scheme liabilities	<b>(113)</b>	(450)
Change in unrecognised surplus	<b>30</b>	(99)
Net actuarial gain/(loss) recognised in other comprehensive income (before tax)	<b>24</b>	(99)

Cumulative actuarial losses from 19 September 2004 reported in other comprehensive income are £410m (2012 – cumulative actuarial losses of £434m).

### Reconciliation of change in assets and liabilities

	2013 assets £m	2012 assets £m	2013 liabilities £m	2012 liabilities £m	2013 net £m	2012 net £m
Asset/(liability) at beginning of year	<b>3,003</b>	2,788	<b>(3,090)</b>	(2,824)	<b>(87)</b>	(36)
Current service cost	–	–	<b>(42)</b>	(34)	<b>(42)</b>	(34)
Employee contributions	<b>9</b>	9	<b>(9)</b>	(9)	–	–
Employer contributions	<b>69</b>	71	–	–	<b>69</b>	71
Benefit payments	<b>(132)</b>	(137)	<b>132</b>	137	–	–
Gain on curtailments	–	–	–	1	–	1
Financial income	<b>140</b>	147	–	–	<b>140</b>	147
Financial expense	–	–	<b>(139)</b>	(142)	<b>(139)</b>	(142)
Actuarial gain/(loss)	<b>152</b>	147	<b>(122)</b>	(246)	<b>30</b>	(99)
Effect of movements in foreign exchange	<b>(8)</b>	(22)	<b>5</b>	27	<b>(3)</b>	5
Asset/(liability) at end of year	<b>3,233</b>	3,003	<b>(3,265)</b>	(3,090)	<b>(32)</b>	(87)

### History of experience gains and losses

	2013	2012	2011	2010	2009
Difference between the expected and actual return on scheme assets					
– amount (£m)	<b>152</b>	147	4	236	(203)
– percentage of scheme assets	<b>4.7%</b>	4.9%	0.1%	8.8%	8.6%
Experience gains and losses on scheme liabilities					
– amount (£m)	<b>(9)</b>	204	67	(15)	5
– percentage of scheme liabilities	<b>0.3%</b>	6.6%	2.4%	0.5%	0.2%
Total amount included in other comprehensive income					
– amount (£m)	<b>30</b>	(99)	9	(37)	(231)
– percentage of scheme liabilities	<b>0.9%</b>	3.2%	0.3%	1.3%	9.4%

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 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 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
Amount charged/(credited) to the income statement	(21)	2	6	–	(12)	17	(8)
Amount charged/(credited) to other comprehensive income	–	–	5	2	(2)	–	5
Effect of change in tax rate on income statement	(12)	(2)	–	–	(3)	(2)	(19)
Effect of movements in foreign exchange	(2)	(3)	–	–	(3)	4	(4)
<b>At 14 September 2013</b>	<b>144</b>	<b>92</b>	<b>(15)</b>	<b>(2)</b>	<b>13</b>	<b>(81)</b>	<b>151</b>

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:

	2013 £m	2012 £m
Deferred tax assets	<b>(273)</b>	(189)
Deferred tax liabilities	<b>424</b>	366
	<b>151</b>	177

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. Other deferred tax assets totalling £82m (2012 – £45m) have not been recognised on the basis that their future economic benefit is uncertain.

In addition, there are temporary differences of £2,514m (2012 – £2,098m) 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**

	2013 £m	2012 £m
<b>Non-current – other receivables</b>		
Loans and receivables	144	147
Other non-current investments	4	4
	<b>148</b>	151
<b>Current – trade and other receivables</b>		
Trade receivables	1,033	980
Other receivables	126	138
Accrued income	24	19
	<b>1,183</b>	1,137
Prepayments and other non-financial receivables	<b>159</b>	99
	<b>1,342</b>	1,236

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 £15m (2012 – £16m) in respect of finance lease receivables, with £12m in non-current loans and receivables and £3m in current other receivables (2012 – £13m in non-current loans and receivables and £3m in current other receivables). Minimum lease payments receivable are £4m within one year and £12m between one and five years (2012 – £3m within one year, £13m between one and 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**

	2013 £m	2012 £m
Raw materials and consumables	348	378
Work in progress	29	38
Finished goods and goods held for resale	1,204	1,084
	<b>1,581</b>	1,500
Write down of inventories	<b>(78)</b>	(66)

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 16. Cash and cash equivalents

	Note	2013 £m	2012 £m
<b>Cash</b>			
Cash at bank and in hand		<b>231</b>	233
Cash equivalents		<b>131</b>	158
Cash and cash equivalents	24	<b>362</b>	391
<b>Reconciliation to the cash flow statement</b>			
Bank overdrafts	17	(119)	(146)
Cash and cash equivalents in the cash flow statement		<b>243</b>	245

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	2013 £m	2012 £m
<b>Current loans and overdrafts</b>			
Secured redeemable debenture stock		–	150
Secured loans		<b>51</b>	23
Unsecured loans and overdrafts		<b>343</b>	365
		<b>394</b>	538
<b>Non-current loans</b>			
Secured loans		<b>44</b>	69
Unsecured loans		<b>716</b>	833
Finance leases	25	<b>12</b>	12
		<b>772</b>	914
	24	<b>1,166</b>	1,452

	Note	2013 £m	2012 £m
10 <sup>3</sup> /4% secured redeemable debenture stock		–	150
Secured loans			
– USD floating rate		<b>9</b>	–
– USD fixed rate		<b>1</b>	–
– EUR floating rate		<b>21</b>	–
– RMB floating rate		–	11
– Other floating rate		<b>64</b>	81
Unsecured loans and overdrafts			
– Bank overdrafts	16	<b>119</b>	146
– GBP floating rate		<b>123</b>	122
– GBP fixed rate		<b>160</b>	160
– USD floating rate		<b>4</b>	1
– USD fixed rate		<b>531</b>	597
– EUR floating rate		<b>34</b>	32
– EUR fixed rate		<b>17</b>	17
– RMB floating rate		<b>57</b>	111
– RMB fixed rate		<b>7</b>	6
– Other floating rate		<b>5</b>	5
– Other fixed rate		<b>2</b>	1
Finance leases (fixed rate)		<b>12</b>	12
		<b>1,166</b>	1,452

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

	2013 £m	2012 £m
Trade payables	903	824
Accruals	753	681
	<b>1,656</b>	1,505
Deferred income and other non-financial payables	225	247
	<b>1,881</b>	1,752

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 15 September 2012	20	80	36	136
Created	21	–	15	36
Unwinding of discount	–	1	–	1
Utilised	(6)	(71)	(5)	(82)
Released	–	(7)	(6)	(13)
Effect of movements in foreign exchange	–	–	(1)	(1)
<b>At 14 September 2013</b>	<b>35</b>	<b>3</b>	<b>39</b>	<b>77</b>
Current	21	1	25	47
Non-current	14	2	14	30
	<b>35</b>	<b>3</b>	<b>39</b>	<b>77</b>

Provisions were all financial liabilities in both years (see note 24).

### Restructuring

Restructuring provisions relate to the cash costs, including redundancy, associated with the group's announced reorganisation plans, of which a majority will be utilised in 2013/14.

### 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 <sup>15/22</sup> p each 000	Nominal value £m
<b>Issued and fully paid</b>		
At 15 September 2012 and 14 September 2013	791,674	45

At 14 September 2013, the Company's issued share capital comprised 791,674,183 ordinary shares of 5<sup>15/22</sup>p 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 14 SEPTEMBER 2013

## 21. Acquisitions and disposals

### 2013

During 2013, the group completed no new business combinations. Cash flow on purchase of subsidiaries, joint ventures and associates of £75m comprised £71m of deferred consideration in respect of previous business combinations, a £2m investment in a joint venture and a £2m adjustment to goodwill for a previous acquisition. Goodwill and deferred consideration were both reduced by £7m in respect of deferred consideration for previous acquisitions no longer payable.

Loss on sale and closure of businesses of £128m comprised £113m for disposals and closures in the Ingredients segment and £15m for the loss on disposal of the sugar business in Chifeng, north China in September 2013, where the regional government had announced its intention to redevelop the area. Included within the amount charged in the Ingredients segment is a loss of £26m in respect of the disposal of our US whey protein operation, which was completed in August 2013. Cash consideration for the US disposal was £20m, tangible assets disposed amounted to £8m and goodwill disposed was £27m. Provisions made were £4m and foreign exchange differences recycled from equity were £7m. A charge of £72m was made to write down the carrying value of certain Ingredients assets in China and to provide for restructuring costs as a result of uneconomic market conditions, and a charge of £13m was also made to write down the value of yeast plants in India as a result of increasingly strict regulatory requirements for waste discharge. Cash flow on sale of subsidiaries, joint ventures and associates of £35m comprised £20m in respect of the US whey protein business and £15m of deferred consideration received for previous 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.

## 22. Share-based payments

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

### 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 in the Remuneration report on pages 62 to 75.

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

	Balance outstanding at the beginning of the year	Granted/awarded	Vested	Expired/lapsed	Balance outstanding at the end of the year
2013	5,175,939	2,067,195	(1,273,950)	(955,719)	5,013,465
2012	5,373,360	1,944,957	(1,046,375)	(1,096,003)	5,175,939

Ordinary shares 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 14 September 2013 the Trust held 1,995,073 (2012 – 2,769,023) ordinary shares of the Company. The market value of these shares at the year end was £36m (2012 – £35m). The Trust has waived its right to dividends. Movements in the year were releases under the Share Incentive Plan of 1,273,950 and purchases of 500,000 (2012 – releases under the Share Incentive Plan of 1,046,375).

### Fair values

The weighted average fair value of grants for the Share Incentive Plan was determined 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 1,345 pence (2012 – 1,022 pence) and the weighted average share price was 1,446 pence (2012 – 1,099 pence). The dividend yield used was 2.5%.

### 23. Analysis of net debt

	At 15 September 2012 £m	Cash flow £m	Non-cash items £m	Exchange adjustments £m	At 14 September 2013 £m
Cash at bank and in hand, cash equivalents and overdrafts	245	(7)	–	5	<b>243</b>
Short-term borrowings	(392)	258	(135)	(6)	<b>(275)</b>
Loans over one year	(914)	23	135	(16)	<b>(772)</b>
	(1,061)	274	–	(17)	<b>(804)</b>

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 of £119m are included as a component of cash and cash equivalents for the purpose of the cash flow statement. Non-cash movements previously shown net within cash flow have been shown separately.

### 24. Financial instruments

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

	2013 £m	2012 £m
<b>Financial assets</b>		
Cash and cash equivalents	<b>362</b>	391
<b>Loans and receivables:</b>		
Trade and other receivables	<b>1,183</b>	1,137
Other non-current receivables (fair value 2013 – £143m; 2012 – £147m)	<b>148</b>	151
<b>At fair value through profit or loss:</b>		
Derivative assets not designated in a cash flow hedging relationship:		
– currency derivatives	<b>1</b>	2
– commodity derivatives	–	8
<b>Designated net investment hedging relationships:</b>		
Derivative assets designated as net investment hedging instruments:		
– currency derivatives	<b>6</b>	–
<b>Designated cash flow hedging relationships:</b>		
Derivative assets designated and effective as cash flow hedging instruments:		
– currency derivatives	<b>11</b>	17
– commodity derivatives	<b>9</b>	6
<b>Total financial assets</b>	<b>1,720</b>	1,712
<b>Financial liabilities</b>		
<b>Financial liabilities at amortised cost:</b>		
Trade and other payables	<b>(1,656)</b>	(1,505)
Secured redeemable debenture stock	–	(150)
Secured loans	<b>(95)</b>	(92)
Unsecured loans and overdrafts (fair value 2013 – £1,153m; 2012 – £1,332m)	<b>(1,059)</b>	(1,198)
Finance leases (fair value 2013 – £10m; 2012 – £10m)	<b>(12)</b>	(12)
Provisions	<b>(77)</b>	(136)
<b>At fair value through profit or loss:</b>		
Derivative liabilities not designated in a cash flow hedging relationship:		
– currency derivatives	<b>(4)</b>	(4)
– commodity derivatives	–	(8)
<b>Designated cash flow hedging relationships:</b>		
Derivative liabilities designated and effective as cash flow hedging instruments:		
– currency derivatives	<b>(33)</b>	(35)
– commodity derivatives	<b>(1)</b>	(3)
<b>Total financial liabilities</b>	<b>(2,937)</b>	(3,143)
<b>Net financial liabilities</b>	<b>(1,217)</b>	(1,431)

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

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 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 judgments 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.

### 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.

	2013				2012			
	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	783	–	18	18	536	–	19	19
Commodity derivatives	264	6	3	9	110	10	4	14
	<b>1,047</b>	<b>6</b>	<b>21</b>	<b>27</b>	646	10	23	33
Financial liabilities								
Currency derivatives	1,450	–	(37)	(37)	1,396	–	(39)	(39)
Commodity derivatives	22	–	(1)	(1)	70	(8)	(3)	(11)
	<b>1,472</b>	<b>–</b>	<b>(38)</b>	<b>(38)</b>	1,466	(8)	(42)	(50)

## 24. Financial instruments continued

### 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.

	2013			2012		
	Currency derivatives £m	Commodity derivatives £m	Total £m	Currency derivatives £m	Commodity derivatives £m	Total £m
Opening balance	14	–	14	(4)	1	(3)
Losses/(gains) recognised in the hedging reserve	26	(5)	21	(38)	19	(19)
Amount removed from the hedging reserve and included in the income statement due to settlement of contracts:						
– revenue	1	–	1	22	–	22
– cost of sales	(2)	(1)	(3)	–	(15)	(15)
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	(22)	(3)	(25)	39	(5)	34
Deferred tax	(1)	3	2	(4)	–	(4)
Closing balance	16	(6)	10	14	–	14
Cash flows are expected to occur:						
– within six months	15	(6)	9	10	–	10
– between six months and one year	3	–	3	4	–	4
– between one and two years	(2)	–	(2)	–	–	–
	16	(6)	10	14	–	14

Of the closing balance of £10m, £13m is attributable to equity shareholders and £(3)m to non-controlling interests (2012 – £17m attributable to equity shareholders and £(3)m to non-controlling interests). Net movements in the year of £(4)m (2012 – £17m) are wholly attributable to equity shareholders in both years.

### d) Financial risk identification and management

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

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

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

The group sources and sells products and manufactures goods in many 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 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.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 24. Financial instruments continued

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 generally 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:

	2013 £m	2012 £m
Euro	<b>17</b>	17
US dollar	<b>532</b>	597
	<b>549</b>	614

A net foreign exchange loss of £26m (2012 – gain of £11m) on retranslation of these loans has been taken to the translation reserve on consolidation. Of this balance a loss of £19m was attributable to equity shareholders and a loss of £7m to non-controlling interests (2012 – £12m gain to equity shareholders and £1m loss to non-controlling interests). The group also held currency forwards that have been designated as hedges of its net investment in Australian dollars, whose fair value of £6m (2012 – £nil) has been credited to the translation reserve.

### 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.

## **24. Financial instruments continued**

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 14 September 2013, £730m (63%) (2012 – £943m and 65%) of total debt was subject to fixed rates of interest. Following the redemption in July 2013 of the £150m secured redeemable debenture stock, the majority of the group's fixed rate debt is the US private placement loans of £710m (2012 – £774m).

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.

#### **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 14 SEPTEMBER 2013

## 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:

	2013				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
<b>Financial assets</b>					
Cash and cash equivalents	7	13	4	6	30
Trade and other receivables	–	25	46	12	83
	<b>7</b>	<b>38</b>	<b>50</b>	<b>18</b>	<b>113</b>
<b>Financial liabilities</b>					
Trade and other payables	(5)	(209)	(27)	(10)	(251)
Unsecured loans and overdrafts	(11)	(533)	(17)	(2)	(563)
	<b>(16)</b>	<b>(742)</b>	<b>(44)</b>	<b>(12)</b>	<b>(814)</b>
<b>Currency derivatives</b>					
Gross amounts receivable	41	1,122	134	131	1,428
Gross amounts payable	(47)	(127)	(537)	(103)	(814)
	<b>(6)</b>	<b>995</b>	<b>(403)</b>	<b>28</b>	<b>614</b>
	<b>(15)</b>	<b>291</b>	<b>(397)</b>	<b>34</b>	<b>(87)</b>
	2012				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
<b>Financial assets</b>					
Cash and cash equivalents	3	20	3	8	34
Trade and other receivables	–	27	50	11	88
	<b>3</b>	<b>47</b>	<b>53</b>	<b>19</b>	<b>122</b>
<b>Financial liabilities</b>					
Trade and other payables	(3)	(142)	(22)	(10)	(177)
Unsecured loans and overdrafts	(4)	(598)	(19)	–	(621)
	<b>(7)</b>	<b>(740)</b>	<b>(41)</b>	<b>(10)</b>	<b>(798)</b>
<b>Currency derivatives</b>					
Gross amounts receivable	50	882	38	68	1,038
Gross amounts payable	(66)	(151)	(686)	(28)	(931)
	<b>(16)</b>	<b>731</b>	<b>(648)</b>	<b>40</b>	<b>107</b>
	<b>(20)</b>	<b>38</b>	<b>(636)</b>	<b>49</b>	<b>(569)</b>

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2013	2012	2013	2012
US dollar	<b>1.56</b>	1.57	<b>1.59</b>	1.62
Euro	<b>1.19</b>	1.21	<b>1.19</b>	1.23
Rand	<b>14.37</b>	12.67	<b>15.76</b>	13.35
Renminbi	<b>9.68</b>	9.98	<b>9.71</b>	10.26
Australian dollar	<b>1.56</b>	1.53	<b>1.72</b>	1.54

### 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.

## 24. Financial instruments continued

	2013 impact on profit for the year £m	2013 impact on total equity £m	2012 impact on profit for the year £m	2012 impact on total equity £m
<b>10% strengthening against other currencies of</b>				
Sterling	(1)	(1)	–	(2)
US dollar	(5)	44	3	21
Euro	1	(54)	2	(71)
Other	1	(3)	1	3

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

	2013 impact on profit for the year £m	2012 impact on profit for the year £m
<b>10% strengthening of sterling against</b>		
US dollar	(6)	(4)
Euro	(18)	(13)
Rand	(2)	1
Renminbi	16	3
Australian dollar	1	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 14 September 2013. The group considers its maximum exposure to credit risk to be:

	2013 £m	2012 £m
Cash and cash equivalents	362	391
Loans and receivables (see note 24a)	1,331	1,288
Financial assets at fair value through profit and loss		
– derivative assets	1	10
Designated net investment hedging relationships		
– derivative assets	6	–
Designated cash flow hedging relationships		
– derivative assets	20	23
	1,720	1,712

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

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

### Trade and other receivables

Concentrations of credit risk are limited as a result of the group's large and diverse customer base. The group has 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.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 24. Financial instruments continued

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

	2013 £m	2012 £m
UK	<b>460</b>	405
Europe & Africa	<b>234</b>	241
The Americas	<b>149</b>	141
Asia Pacific	<b>340</b>	350
	<b>1,183</b>	1,137

Trade receivables can be analysed as follows:

	2013 £m	2012 £m
Not overdue	<b>894</b>	850
Up to 1 month past due	<b>126</b>	107
Between 1 and 2 months past due	<b>15</b>	22
Between 2 and 3 months past due	<b>6</b>	6
More than 3 months past due	<b>27</b>	32
Provision for doubtful debts	<b>(35)</b>	(37)
	<b>1,033</b>	980

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:

	2013 £m	2012 £m
Opening balance	<b>37</b>	38
Amounts provided for during the year	<b>7</b>	9
Amounts released during the year	<b>(5)</b>	(3)
Amounts utilised during the year	<b>(3)</b>	(6)
Effect of movements in foreign exchange	<b>(1)</b>	(1)
Closing balance	<b>35</b>	37

No trade and other receivables (2012 – 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.

### 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.

## 24. Financial instruments continued

### h) Liquidity risk

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

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

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

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

	Note	2013								
		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
		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		Contracted amount £m
<b>Non-derivative financial liabilities</b>										
Trade and other payables	18	(1,649)	(7)	–	–	–	–	(1,656)	(1,656)	
Secured loans	17	(39)	(12)	(37)	(7)	–	–	(95)	(95)	
Unsecured loans and overdrafts	17	(345)	(28)	(157)	(165)	(557)	(1,252)	(1,059)		
Finance leases	25	(1)	–	(1)	(2)	(38)	(42)	(12)		
Provisions	19	(42)	(5)	(6)	(24)	–	(77)	(77)		
<b>Derivative financial liabilities</b>										
– Currency derivatives (net payments)		(20)	(18)	–	–	–	(38)	(37)		
– Commodity derivatives (net payments)		(10)	(4)	(3)	–	–	(17)	(1)		
<b>Total financial liabilities</b>		<b>(2,106)</b>	<b>(74)</b>	<b>(204)</b>	<b>(198)</b>	<b>(595)</b>	<b>(3,177)</b>	<b>(2,937)</b>		

	Note	2012								
		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
		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		Contracted amount £m
<b>Non-derivative financial liabilities</b>										
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)		
<b>Derivative financial liabilities</b>										
– Currency derivatives (net payments)		(29)	(10)	–	–	–	(39)	(39)		
– Commodity derivatives (net payments)		(22)	(6)	(1)	–	–	(29)	(11)		
<b>Total financial liabilities</b>		<b>(1,996)</b>	<b>(247)</b>	<b>(217)</b>	<b>(352)</b>	<b>(598)</b>	<b>(3,410)</b>	<b>(3,143)</b>		

The above tables do not include forecast data for liabilities which may be incurred in the future but which were not contracted at 14 September 2013.

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 14 SEPTEMBER 2013

## 24. Financial instruments continued

### i) Borrowing facilities

The group has substantial borrowing facilities available to it. The undrawn committed facilities available at 14 September 2013, in respect of which all conditions precedent have been met, amounted to £1,364m (2012 – £1,384m):

	2013			2012		
	Facility £m	Drawn £m	Undrawn £m	Facility £m	Drawn £m	Undrawn £m
£1.15bn syndicated facility	<b>1,150</b>	–	<b>1,150</b>	1,150	–	1,150
US private placement	<b>710</b>	<b>710</b>	–	774	774	–
British Sugar secured redeemable debenture stock	–	–	–	150	150	–
European Investment Bank	<b>120</b>	<b>120</b>	–	120	120	–
Illovo	<b>228</b>	<b>130</b>	<b>98</b>	202	97	105
Azucarera	<b>149</b>	<b>34</b>	<b>115</b>	156	32	124
Other	<b>1</b>	–	<b>1</b>	7	2	5
	<b>2,358</b>	<b>994</b>	<b>1,364</b>	2,559	1,175	1,384

Uncommitted facilities available at 14 September 2013 were:

	2013			2012		
	Facility £m	Drawn £m	Undrawn £m	Facility £m	Drawn £m	Undrawn £m
Money market lines	<b>100</b>	–	<b>100</b>	100	–	100
Illovo	<b>90</b>	<b>50</b>	<b>40</b>	112	72	40
China banking	<b>452</b>	<b>59</b>	<b>393</b>	528	158	370
Other	<b>131</b>	<b>51</b>	<b>80</b>	134	35	99
	<b>773</b>	<b>160</b>	<b>613</b>	874	265	609

In addition to the above facilities there are also £406m (2012 – £253m) 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 (2012 – £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 £710m of private placement notes in issue to institutional investors in the US and Europe. At 14 September 2013, these had an average remaining duration of 5.6 years and an average fixed coupon of 5.3%. The other significant core committed debt facilities comprise a £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 38.

## 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 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 for land and buildings, and plant and machinery, under operating leases.

Sublease receipts of £7m (2012 – £7m) 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 £66m (2012 – £43m).

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

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

	2013 £m	2012 £m
Within one year	<b>174</b>	166
Between one and five years	<b>670</b>	608
After five years	<b>2,040</b>	1,959
	<b>2,884</b>	2,733

### Finance leases

Finance lease liabilities are payable as follows:

	2013 minimum lease payments £m	2013 interest £m	2013 principal £m	2012 minimum lease payments £m	2012 interest £m	2012 principal £m
Within one year	<b>1</b>	<b>1</b>	–	1	1	–
Between one and five years	<b>3</b>	<b>2</b>	<b>1</b>	3	2	1
After five years	<b>38</b>	<b>27</b>	<b>11</b>	38	27	11
	<b>42</b>	<b>30</b>	<b>12</b>	42	30	12

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 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 14 September 2013, group companies have provided guarantees in the ordinary course of business amounting to £777m (2012 – £833m).

## 27. Related parties

The group has a controlling related party relationship with its parent company, Witton Investments Limited, 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	2013 £'000	2012 £'000
Charges to Witton Investments Limited in respect of services provided by the Company and its subsidiary undertakings		<b>338</b>	330
Dividends paid by Associated British Foods and received in a beneficial capacity by:			
(i) trustees of the Garfield Weston Foundation	1	<b>8,277</b>	7,143
(ii) directors of Witton Investments Limited who are not trustees of the Foundation		<b>1,297</b>	1,120
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Witton Investments Limited	2	<b>30</b>	21
(iv) a member of the Weston family employed within the Associated British Foods group	3	<b>864</b>	746
Sales to fellow subsidiary undertakings on normal trading terms	4	<b>2</b>	135
Sales to companies with common key management personnel on normal trading terms	5	<b>16,538</b>	14,710
Commissions paid to companies with common key management personnel on normal trading terms	5	<b>787</b>	300
Amounts due from a company with common key management personnel	5	<b>2,227</b>	1,531
Sales to joint ventures on normal trading terms	6	<b>18,488</b>	18,177
Sales to associates on normal trading terms	6	<b>19,460</b>	17,598
Purchases from joint ventures on normal trading terms	6	<b>397,449</b>	292,687
Purchases from associates on normal trading terms	6	<b>20,805</b>	21,898
Amounts due from joint ventures	6	<b>163,170</b>	152,136
Amounts due from associates	6	<b>1,790</b>	898
Amounts due to joint ventures	6	<b>30,806</b>	24,808
Amounts due to associates	6	<b>1,059</b>	2,398

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 14 September 2013 was the beneficial owner of 683,073 shares (2012 – 683,073 shares) in Witton Investments Limited representing 79.2% (2012 – 79.2%) of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 14 September 2013 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 44 and 45. Their interests, including family interests, in the Company and its subsidiary undertakings are given on page 74. Key management personnel are considered to be the directors, and their remuneration is disclosed within the Remuneration report on page 75.
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 £15m (2012 – £16m) of finance lease receivables (see note 14) and £130m (2012 – £126m) of loan receivables. The remainder of the balance is trading balances. The loan receivables are all non-current (2012 – all non-current), and all but £3m (2012 – £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 14 September 2013 Witton Investments Limited together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares (2012 – 431,515,108) representing in aggregate 54.5% (2012 – 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
<b>Manufacturing activities</b>		<b>Manufacturing activities</b>	
AB Agri Limited	UK	Hebei Mauri Food Co., Ltd	China
AB Azucarera Iberia, S.L. Sociedad Unipersonal	Spain	Illovo Sugar Limited (51%)	South Africa
AB Brasil Industria e comercio de Alimentos LTDA	Brazil	Illovo Sugar (Malawi) Limited (39%)	Malawi
AB Calsa S.A. de C.V.	Mexico	Jacksons of Piccadilly Limited	UK
AB Enzymes GmbH	Germany	Kilombero Sugar Company Limited (28%)	Tanzania
AB Enzymes Oy	Finland	Maragra Acucar SARL (46%)	Mozambique
ABF Grain Products Limited	UK	Mauri Fermentos II, SA (96%)	Portugal
AB Food & Beverages Australia Pty Ltd	Australia	Mauri Maya Sanayi A.S.	Turkey
AB Food & Beverages Philippines, Inc.	Philippines	Mauri Products Limited	UK
AB Food & Beverages (Thailand) Limited	Thailand	Patak's Foods Limited	UK
AB (Harbin) Food Ingredients Company Limited	China	PGP International, Inc.	US
AB Mauri (Canada) Limited	Canada	Premier Nutrition Products Limited	UK
AB Mauri Food Inc.	US	R. Twining and Company Limited	UK
AB Mauri Food, S.A.	Spain	Shanghai AB Food & Beverages Co., Ltd	China
AB Mauri India (Private) Limited	India	SPI Pharma Inc.	US
AB Mauri Italia S.p.A.	Italy	The Billington Food Group Limited	UK
AB Mauri Malaysia Sdn. Bhd.	Malaysia	The Jordans & Ryvita Company Limited	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	Zambia Sugar plc (42%)	Zambia
AB World Foods Limited	UK		
ACH Food Companies, Inc.	US		
Alimentos Capullo, S.de R.L.de C.V.	Mexico	<b>Retailing activities</b>	
Anzchem Pty Limited	Australia	Lojas Primark Portugal-Exploracao, Gestao e Administracao de Espacos Comerciais S.A.	Portugal
Bo Tian Sugar Industry Company Limited	China	Primark	Republic of Ireland
British Sugar (Overseas) Limited	UK	Primark Austria Ltd & Co.KG	Austria
British Sugar plc	UK	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	<b>Investment and other activities</b>	
Germain's (UK) Limited	UK	AB Exploration Limited	UK
Guangxi Bo Hua Food Co., Ltd (71%)	China	A.B.F. Holdings Limited	UK
Guangxi Boqing Food Co., Ltd (60%)	China	ABF Investments plc	UK
Guangxi Boxuan Food Co., Ltd (70%)	China	ABF Overseas Limited	UK
Harbin Mauri Yeast Co., Ltd (85%)	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. Otherwise, each subsidiary operates mainly in its country of incorporation.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 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 %
<b>Joint ventures</b>			
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	£96,027,000	47
Stratas Foods LLC	US	US\$2	50
Unifern & Co. KG GmbH	Germany	€2	50
<b>Associates</b>			
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 14 SEPTEMBER 2013

	Note	2013 £m	2012 £m
<b>Fixed assets</b>			
Intangible assets	1	<b>19</b>	24
Investments in subsidiaries	2	<b>647</b>	640
		<b>666</b>	664
<b>Current assets</b>			
Debtors			
– due within one year	3	<b>3,656</b>	3,232
– due after one year	3	<b>923</b>	1,113
Cash at bank and in hand		<b>160</b>	162
		<b>4,739</b>	4,507
<b>Creditors:</b> amounts falling due within one year			
Bank loans and overdrafts – unsecured		(154)	(81)
Other creditors	4	<b>(2,940)</b>	(2,666)
		<b>(3,094)</b>	(2,747)
<b>Net current assets</b>		<b>1,645</b>	1,760
<b>Total assets less current liabilities</b>		<b>2,311</b>	2,424
<b>Creditors:</b> amounts falling due after one year			
Bank loans – unsecured		(706)	(817)
Amounts owed to subsidiaries	4	<b>(1,188)</b>	(1,228)
		<b>(1,894)</b>	(2,045)
<b>Net assets excluding pension liability</b>		<b>417</b>	379
Net pension liability		(17)	(15)
<b>Net assets</b>		<b>400</b>	364
<b>Capital and reserves</b>			
Issued share capital	5	<b>45</b>	45
Capital redemption reserve	5	<b>2</b>	2
Profit and loss reserve	5	<b>353</b>	317
<b>Equity shareholders' funds</b>		<b>400</b>	364

The financial statements on pages 127 to 131 were approved by the board of directors on 5 November 2013 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 14 SEPTEMBER 2013

	2013 £m	2012 £m
Profit for the financial year	<b>263</b>	209
Net movement in own shares held	<b>5</b>	8
Actuarial loss on defined benefit pension scheme	–	(1)
Dividends	(232)	(200)
<b>Net increase in equity shareholders' funds</b>	<b>36</b>	16
Opening equity shareholders' funds	<b>364</b>	348
<b>Closing equity shareholders' funds</b>	<b>400</b>	364

# ACCOUNTING POLICIES

FOR THE 52 WEEKS ENDED 14 SEPTEMBER 2013

## 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 comprise 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. 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 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.

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 14 SEPTEMBER 2013

## 1. Intangible assets – goodwill

	£m
<b>Cost</b>	
At 15 September 2012 and 14 September 2013	<b>71</b>
<b>Amortisation</b>	
At 15 September 2012	47
Provided during the year	5
<b>At 14 September 2013</b>	<b>52</b>
<b>Net book value</b>	
Net book value at 15 September 2012	24
<b>Net book value at 14 September 2013</b>	<b>19</b>

## 2. Investments in subsidiaries

	£m
At 15 September 2012	640
Additions	12
Disposals	(5)
<b>At 14 September 2013</b>	<b>647</b>

£7m of the additions relate to an increase in the Company's investment in ABF Investments plc. £5m relates to the allocation of shares under the Share Incentive Plan to employees of the Company's subsidiaries as part of an investment restructuring that included the disposal of the Company's £5m investment in Chibnalls Holdings Limited.

There were no provisions for impairment in either year.

## 3. Debtors

	2013 £m	2012 £m
<b>Amounts falling due within one year</b>		
Amounts owed by subsidiaries	3,635	3,213
Other debtors	5	6
Corporation tax recoverable	16	13
	<b>3,656</b>	3,232
<b>Amounts falling due after one year</b>		
Amounts owed by subsidiaries	923	1,113

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

## 4. Other creditors

	2013 £m	2012 £m
<b>Amounts falling due within one year</b>		
Other taxation and social security	1	1
Accruals and deferred income	49	35
Amounts owed to subsidiaries	2,890	2,630
	<b>2,940</b>	2,666
<b>Amounts falling due after one year</b>		
Amounts owed to subsidiaries	1,188	1,228

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 14 SEPTEMBER 2013

## 5. Capital and reserves

	Ordinary shares of 5 <sup>15/22</sup> p each 000	Nominal value £m
<b>Issued and fully paid</b>		
At 15 September 2012 and 14 September 2013	791,674	45

At 14 September 2013, the Company's issued share capital comprised 791,674,183 ordinary shares of 5<sup>15/22</sup>p each, carrying one vote per share.

	Share capital £m	Capital redemption reserve £m	Profit and loss reserve £m	Total £m
At 15 September 2012	45	2	317	364
Profit for the year	–	–	263	263
Net movement in own shares held	–	–	5	5
Dividends	–	–	(232)	(232)
<b>At 14 September 2013</b>	<b>45</b>	<b>2</b>	<b>353</b>	<b>400</b>

### 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 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 14 September 2013, the Trust held 1,995,073 (2012 – 2,769,023) ordinary shares of the Company. The market value of these shares at the year end was £36m (2012 – £35m). 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 £117m of guarantees in the ordinary course of business as at 14 September 2013 (2012 – £107m).

## 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	2013 £'000	2012 £'000
Charges to Witton Investments Limited in respect of services provided by the Company		<b>338</b>	330
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	<b>8,277</b>	7,143
(ii) directors of Witton Investments Limited who are not trustees of the Foundation	1	<b>1,297</b>	1,120
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Witton Investments Limited	1	<b>30</b>	21
(iv) a member of the Weston family employed within the Associated British Foods group	1	<b>864</b>	746
Charges to non-wholly owned subsidiaries	2	<b>1,212</b>	929
Interest income earned from non-wholly owned subsidiaries	2	<b>1,417</b>	568
Interest paid to non-wholly owned subsidiaries	2	<b>202</b>	330
Amounts due from non-wholly owned subsidiaries	2	<b>17,009</b>	58,475
Amounts due to non-wholly owned subsidiaries	2	—	33,700

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 75.

### Employees

The Company had an average of 122 employees in 2013 (2012 – 116).

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, and although the Scheme was in surplus at the time of the most recent valuation, the Company made 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

	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m
Revenue	9,255	10,167	11,065	12,252	<b>13,315</b>
Adjusted operating profit	720	909	920	1,077	<b>1,185</b>
Exceptional items	–	–	–	(98)	–
Amortisation of non-operating intangibles	(82)	(81)	(83)	(100)	<b>(92)</b>
Profits less losses on disposal of non-current assets	(1)	(9)	5	(6)	–
Inventory fair value adjustment	(12)	–	–	–	–
Profits less losses on sale and closure of businesses	(65)	28	–	(9)	<b>(128)</b>
Finance income	17	12	9	9	<b>13</b>
Finance expense	(95)	(88)	(101)	(114)	<b>(100)</b>
Other financial income/(expense)	13	(8)	7	2	<b>(2)</b>
Profit before taxation	495	763	757	761	<b>876</b>
Taxation	(112)	(194)	(180)	(178)	<b>(242)</b>
Profit for the period	383	569	577	583	<b>634</b>
Basic and diluted earnings per ordinary share (pence)	45.5	69.3	68.7	70.3	<b>74.8</b>
Adjusted earnings per share (pence)	57.7	72.2	74.0	87.2	<b>98.9</b>
Dividends per share (pence)	21.0	23.8	24.75	28.5	<b>32.0</b>

## COMPANY DIRECTORY

### Associated British Foods plc

Registered office  
Weston Centre  
10 Grosvenor Street  
London W1K 4QY  
Company registered in England, number 293262

### Company Secretary

Paul Lister

### Registrars and transfer office

Equiniti  
Aspect House  
Spencer Road  
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  
5 July 2013

Final dividend to be paid  
10 January 2014

Annual general meeting  
6 December 2013

Interim results to be announced  
23 April 2014

### Website

[www.abf.co.uk](http://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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