



Annual Report and Accounts

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Associated British Foods is a diversified international food, ingredients and retail group with sales of £15.6bn, 137,000 employees and operations in 50 countries across Europe, southern Africa, the Americas, Asia and Australia.

Our purpose is to provide safe, nutritious, affordable food and clothing that is great value for money.

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FINANCIAL HEADLINES

Group revenue

£15.6bn

Actual: +1%
Constant currency: +3%

Adjusted operating profit

£1,404m

Actual: +3%
Constant currency: +5%

Adjusted profit before tax

£1,373m

Up 5%

Adjusted earnings per share

134.9p

Up 6%

Dividends per share

45.0p

Up 10%

Gross investment

£1,165m

Net cash

£614m

Operating profit

£1,344m

Up 1%

Profit before tax

£1,279m

Down 19%

Basic earnings per share

127.5p

Down 16%

Adjusted operating profit is stated before the amortisation of non-operating intangibles, profits less losses on disposal of non-current assets, transaction costs and amortisation of acquired inventory fair value adjustments. These items, together with profits less losses on the sale and closure of businesses, are excluded from adjusted profit before tax and adjusted earnings per share. Constant currency is derived by translating the 2017 results at 2018 average exchange rates.

REVIEW OF THE YEAR ONLINE:

 www.abf.co.uk/ar2018

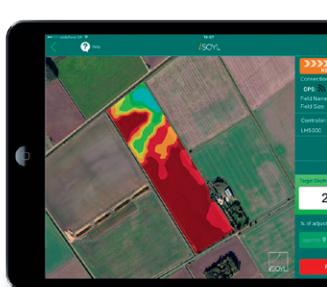
WELCOME

...to the Associated British Foods Annual Report and Accounts. Read about what our diverse businesses have been up to in the past year.



Everyday food products enjoyed all over the world

14 GROCERY



Adding value by improving the sustainability of food production

30 AGRICULTURE

Quality, up-to-the-minute designs at value-for-money prices

42 RETAIL

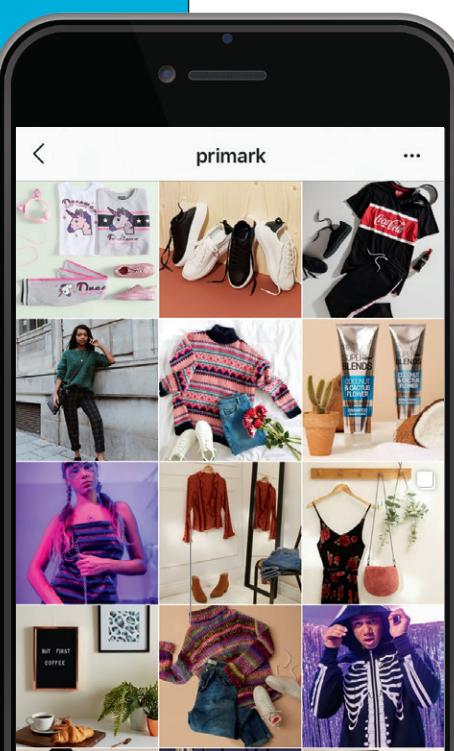
A world-leading sugar business focused on excellence

22 SUGAR



Providing innovative, high-quality ingredients globally

36 INGREDIENTS



OUR DIVERSE BUSINESSES

01

GROCERY

GLOBAL GROWTH FOR OUR BRANDS

Revenue

£3,420m 2017: £3,381m

Adjusted operating profit

£335m 2017: £303m

International

Twinings and Ovaltine are our global hot beverage brands. Mazzetti is a leading balsamic vinegar brand.

Europe

Silver Spoon and Billington's sugars, Jordans and Dorset cereals, Ryvita, Kingsmill, Patak's and Blue Dragon.

The Americas

In the US, Mazola is the leader in corn oil and we sell a range of baking brands through retail and foodservice channels. Capullo is a premium canola oil in Mexico.

Australia

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

02

SUGAR

CHANGE IN THE EU SUGAR REGIME

Revenue

£1,730m 2017: £2,034m

Adjusted operating profit

£123m 2017: £249m

Europe

Our UK beet sugar factories typically produce well over 1 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.

Southern Africa

Illovo is Africa's largest sugar producer with agricultural and production facilities in six countries. Typical annual sugar production is 1.7 million tonnes.

China

We operate two beet sugar factories in the north east of the country, with annual sugar production capacity of over 180,000 tonnes.



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AGRICULTURE

REVENUE WELL AHEAD

Revenue

£1,350m 2017: £1,191m

Adjusted operating profit

£59m 2017: £50m

AB Agri operates at the heart of the agricultural industry. 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.

The business employs 2,400 people around the world and markets products in more than 65 countries.

04

INGREDIENTS

SUBSTANTIAL PROFIT GROWTH, INTERNATIONALLY

Revenue

£1,467m 2017: £1,492m

Adjusted operating profit

£143m 2017: £126m

Yeast and bakery ingredients

AB Mauri operates globally in yeast and bakery ingredients production with 52 plants in 25 countries supplying plant and artisanal bakers and the foodservice and wholesale channels. It is a technology leader in bread improvers, dough conditioners and bakery mixes.

Speciality ingredients

ABF Ingredients focuses on high-value ingredients for food and non-food applications. It manufactures and markets enzymes, lipids, yeast extracts and cereal specialities worldwide with manufacturing facilities in Europe and the US.

05

RETAIL

EXPANSION CONTINUES APACE

Revenue

£7,477m 2017: £7,053m

Adjusted operating profit

£843m 2017: £735m

Primark

Primark is a major retail group employing 75,000 people. It operates stores in the UK, Republic of Ireland, Spain, Portugal, Germany, the Netherlands, Belgium, Austria, France, Italy and the US.

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, beauty and homeware.



WE CONTINUED TO INVEST FOR THE FUTURE OF OUR BUSINESSES

Michael McLintock
Chairman



This is my first annual report to shareholders having succeeded Charles Sinclair as Chairman in April and I am pleased to report a year of progress for the group with revenues 1% higher than last year at £15.6bn and adjusted operating profit ahead 3% at £1,404m. At constant currency, revenue was 3% ahead and adjusted operating profit was 5% ahead. Net finance expense was lower than last year following favourable interest rate movements, and the group's effective tax rate reduced from 22.4% last year to 21.3% this year, benefiting from the reduction in the US federal corporate tax rate. Adjusted earnings per share increased by 6% to 134.9p.

We continued to invest for the future of our businesses with a gross investment of £1,165m. Capital expenditure in our existing businesses reached £868m, driven by selling space expansion in Primark, and spend to increase capacity and enhance efficiency in our food businesses. We acquired Acetum, the leading producer of high-quality balsamic vinegar from Modena, Italy, in October 2017 for £284m on a debt-free basis.

Primark, Grocery, Ingredients and Agriculture each had very successful and profitable years, delivering significant increases in adjusted operating profit at constant currency which, combined, were 15% ahead of last year. The end of the EU sugar regime has been expected for some years now and the decline in operating profit for AB Sugar this year was primarily a consequence of the transition to a deregulated EU sugar market, which is now much more competitive. The strength and breadth of the group enabled us to absorb a major reduction in profit at AB Sugar and still achieve progress in profit for the group overall.

This year Primark delivered its most significant profit growth in recent years. Expansion continued apace with the opening of a net 15 stores across eight countries. Our merchandise assortment was well received all year, stock levels were tightly managed and, with improved exchange rates for purchasing, profit margin improved. Primark has the potential for growth in all of its existing markets, and the opening of Birmingham Pavilions next year, at 160,000 sq ft, will make it our largest store. In the medium term our plans to add further stores in the US, and to enter a number of markets in central and eastern Europe, should support our current rate of selling space expansion.

Although the group's working capital increased this year, which included an increase in sugar stocks, operating cash inflow remained strong. After the purchase of Acetum, the closing net cash position was £614m which was slightly lower than last year end.

Statutory operating profit for the period was £1,344m, up 1% on last year. Last year included the benefit of a one-time profit on the sale of businesses, namely the group's US herbs and spices business and south China cane sugar operations. Taking this into account, statutory profit before tax was down 19% at £1,279m and basic earnings per share down 16% to 127.5p.

Corporate responsibility

Our purpose is to provide safe, nutritious, affordable food and clothing that is great value for money. In doing these things well, we know we are doing good every day and contributing to making millions of people's lives better.

Our approach to corporate responsibility is not dictated from the centre. Instead, our individual businesses are empowered to identify what their priorities are and how to make improvements, year-on-year. We have experts working within each business who guide the policies, processes and practices that allow them to operate responsibly and ethically over the long term.

Our standalone Corporate Responsibility Update details the activities undertaken by each of our businesses and can be found on our website at:



www.abf.co.uk/responsibility

Remuneration

Ruth Cairnie was appointed Chair of the Remuneration committee in April this year, recognising feedback from many of our investors that this role should be held by an independent non-executive director rather than the Company Chairman. Ruth has recently contacted our largest shareholders to request their feedback on our remuneration approach as we prepare for our review of executive remuneration policy in 2019, where we also will take account of changes to the UK Corporate Governance Code.

The board

In September we welcomed Graham Allan to the board as an independent non-executive director and we look forward to working with him. Graham was formerly the Group Chief Executive of Dairy Farm International Holdings Limited and President and Chief Executive Officer at Yum! Restaurants International. He became a member of the Audit and Remuneration committees on appointment.

After 12 years as a director on our board, Javier Ferrán has decided to stand down at the forthcoming annual general meeting. Accordingly, he will not be seeking re-election as a director. Javier has provided outstanding guidance and support throughout his time on the board, and his contribution has been greatly valued. On behalf of the board, I would like to thank him for his time and commitment throughout these years. He will be missed. Ruth Cairnie will take on the responsibilities of Senior Independent Director.

Tim Clarke retired as a director on 30 November 2017 after 13 years on the board. Charles Sinclair has already described the tremendous value of Tim's contribution in last year's annual report.

Charles Sinclair retired as Chairman of the Company on 11 April 2018, and I paid tribute to his exceptional contribution to the group in our interim results announcement in April. On becoming Chairman, I succeeded Charles as Chairman of the Nomination committee and have stepped down from the Audit committee.

Employees

I would like to thank all our employees for their contribution to the group's success in the past year. These results are a testament to the resourcefulness of our employees who, often operating in difficult market conditions, have shown unwavering dedication and commitment.

Dividends

I am pleased to report that a final dividend of 33.3p is proposed to be paid on 11 January 2019, to shareholders on the register on 14 December 2018. Together with the interim dividend of 11.7p paid on 6 July 2018, this will make a total of 45.0p for the year, an increase of 10%. We expect to continue our existing progressive dividend policy and maintain a comfortable level of cover.

Outlook

We plan to continue to invest in opportunities to expand our businesses, especially in Primark, Twinings Ovaltine and Ingredients. Primark's selling space expansion will continue and, if margins are in line with the current year, we expect an increase in Retail profit. In Grocery we expect an improvement in profit from a margin increase in our Australian and UK businesses and a full year contribution from Acetum. The profit at AB Sugar will be significantly lower, reflecting the full year effect of the current level of EU sugar prices which will represent a further reduction on the average prices achieved this year.

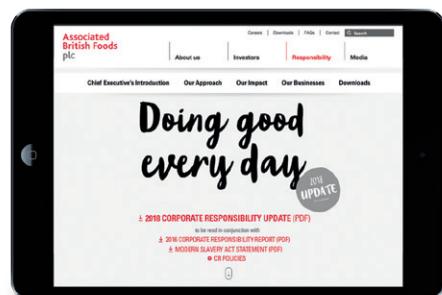
At current exchange rates we expect no material translation or transactional effect on profit but the sterling exchange rate can be expected to be volatile given a period of intense Brexit negotiations.

Taking these factors into account, at this early stage, we expect adjusted earnings per share for the group for the coming year to be in line with this year.

Michael McLintock

Chairman

**REVIEW OUR CORPORATE
RESPONSIBILITY UPDATE ONLINE:**



www.abf.co.uk/responsibility



ANOTHER YEAR OF PROGRESS FOR THE GROUP

George Weston
Chief Executive

Gross investment this year reached nearly £1.2bn as we pursued opportunities to develop our businesses through expansion of capacity and lowering of costs through efficiency. Strong profit performances were delivered by each of Primark, Grocery, Agriculture and Ingredients and these more than offset the profit decline in Sugar. At constant currency, group revenue increased by 3% to £15.6bn and adjusted operating profit of £1,404m was 5% higher than last year.

In Grocery the largest profit contributor is Twinings Ovaltine and this business increased its profit significantly. George Weston Foods in Australia continued to improve its margin through cost reduction and successful new products and Acetum made a meaningful first year contribution. Allied Bakeries made an unacceptable loss, the cost of wheat rose significantly this summer, and we are working to mitigate this loss through cost savings and price discussions with our customers.

Improvement in Ingredients continued this year with a 23% increase in profit and margin reached 9.7%. Since 2015 profit has nearly doubled.

The world market sugar price reduced this year and, following the end of the EU sugar regime in October 2017, European prices fell significantly during the transition to a deregulated market. For some time we have been preparing for this new world of lower and more volatile sugar prices. AB Sugar has delivered, and we expect it to continue to deliver, significant cost reduction across all of its businesses in the pursuit of sustainable low-cost production. The focus at British Sugar is to enhance its lowest-cost status amongst EU producers and we would expect it to deliver a shareholder return on its assets over the medium term. Our management in Spain will be addressing the unsustainably high-cost dynamics of the business over the coming year. Illovo is the largest producer of sugar in Africa and delivered another highly profitable result while continuing to develop its domestic and regional sales.

Primark delivered strong growth in profit, driven by sales 5% ahead and an increase in margin from 10.4% to 11.3%. Like-for-like sales declined by 2.1%. We continued to develop our consumer offering. The performance in the UK was striking with a significant increase in our share of the total clothing market. However, unseasonable weather in three distinct periods during the year held like-for-like sales back, especially in the Eurozone.

Workplace health and safety

Our priority is to safeguard the safety and wellbeing of all our employees and those who work with us. I am saddened to report four fatalities this year which all arose from vehicle or traffic accidents. Our immediate response was to support the families and co-workers affected, and we have thoroughly investigated the circumstances of these events. We have improved our processes and safeguards over many years, and health and safety will remain a key focus for all of our operations.

Withdrawal of the UK from the EU

The consequences for the group of the UK's decision to leave the EU should be seen in the context of the diversity of our operations and geographical footprint, combined with a business model that has discrete Primark supply chains for the UK and Eurozone and which, wherever possible, aligns food production with the end markets for our products. Changes in legislation and trade agreements could provide significant opportunities for the food industry to replace imported food and build export markets and, for UK agricultural policy particularly, they have the potential to benefit our group. We continue to engage at all levels with a number of UK Government departments to ensure that the full range of opportunities and risks, as they affect us, are recognised.

In common with many other businesses, we share a concern about the risk of abrupt changes to the UK's customs procedures. We therefore welcome the Government's intention to have a transition period beyond March 2019 in which to implement the necessary systems and processes.

While we continue to regard the possibility of the UK leaving the EU in March 2019 without any form of transition period as highly unlikely, those businesses that might expect to see some disruption in these circumstances are making the preparations necessary to ensure this disruption is minimised. We do not expect these preparations to materially impact the financial performance of the group.

George Weston
Chief Executive

STORIES FROM ACROSS THE GROUP

GROCERY

An Italian tradition.
Bottled.

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SUGAR

10 years of transformation

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AGRICULTURE

Driving food sustainability through data

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INGREDIENTS

Half proved,
wholesome taste

39



RETAIL

Soaring high on social media

48



A DIVERSIFIED INTERNATIONAL GROUP

BUSINESS STRUCTURE



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

02 AT A GLANCE

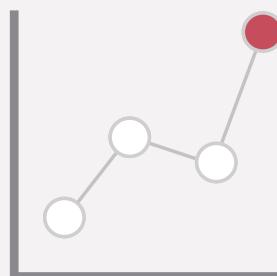
STRATEGY



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

12 BUSINESS STRATEGIES

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.

14 OPERATING REVIEW

OUR PEOPLE



We believe that an ethical business is primarily built by its people, not through codes of practice or words on a page.

52 CORPORATE
RESPONSIBILITY

The group is 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.

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, legal support, 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.

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.

We pride ourselves in being a first-class employer and we work actively to develop capability and create opportunities for employee progression. As a result, people tend to stay with the group for a long time and build exciting careers. Whether through formal training and apprenticeships, cross-fertilisation of skills between roles, or mentoring, we encourage and support everybody to thrive at work.

Being part of Associated British Foods means being part of a community that respects human rights and celebrates diversity. We recognise the United Nations Guiding Principles on Business and Human Rights and aim to adhere to the core ILO conventions and all relevant laws relating to working conditions and employment. We strive to promote diversity and generate new and equal opportunities, a good example being our Gender Diversity Task Force which has a clear and simple goal: 'No Barriers to Talent'.

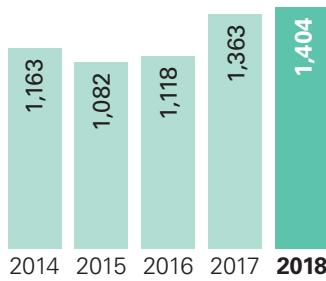
The task force aims to optimise talent by embedding practices into our core processes that enable women to develop on an equal footing to their male colleagues. We invest in our people to ensure they are equipped to deliver and excel at work, with a key focus on training and development across the group. Business-specific examples of such activities are highlighted throughout this report and also in our 2016 Corporate Responsibility Report and the 2018 update.

We use key performance indicators (KPIs) to measure our progress in delivering the successful implementation of our strategy and to monitor performance.

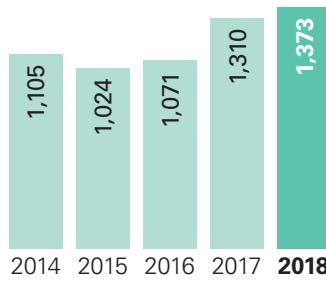
MEASURING OUR PERFORMANCE

FINANCIAL

Adjusted operating profit (£m)

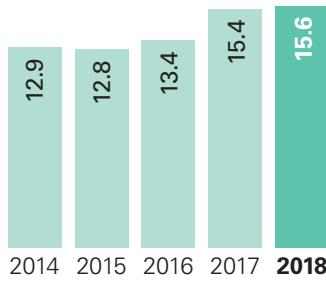


Adjusted profit before tax (£m)



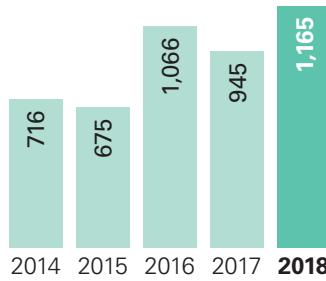
Adjusted profit and earnings measures are used to provide a consistent indicator of underlying performance year-on-year and are aligned with incentive targets.

Group revenue (£bn)



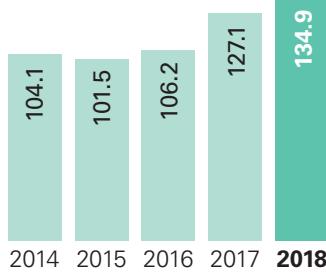
Monitoring of revenue provides a measure of business growth. Constant currency comparisons are also used to provide greater clarity of underlying performance.

Gross investment (£m)

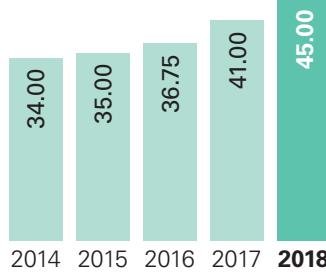


A measure of the commitment to the long-term development of the business through expenditure on property, plant and equipment, intangible assets, biological assets and the acquisition of new businesses or minority interests in existing operations.

Adjusted EPS (pence)



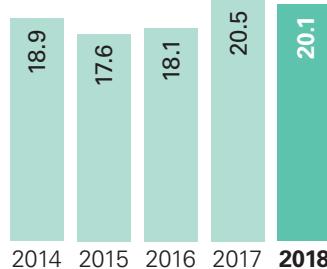
Dividend per share (pence)



The group's organic growth objective aims to deliver steady growth in earnings and dividends over the long term. Adjusted earnings per share is a key management incentive measure.

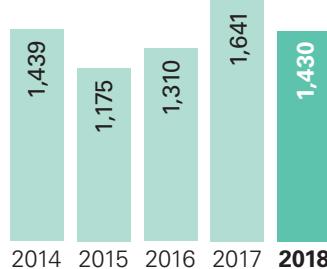
Adjusted operating profit is stated before the amortisation of non-operating intangibles, profits less losses on disposal of non-current assets, transaction costs and amortisation of acquired inventory fair value adjustments. These items, together with profits less losses on the sale and closure of businesses, are excluded from adjusted profit before tax and adjusted earnings per share.

Return on capital employed (%)



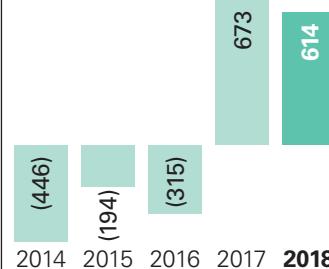
Adjusted operating profit expressed as a percentage return on the average capital employed in the business throughout the year.

Cash generation (£m)



Net cash generated from operating activities is monitored to ensure that profitability is converted into cash for future investment and as a return to shareholders.

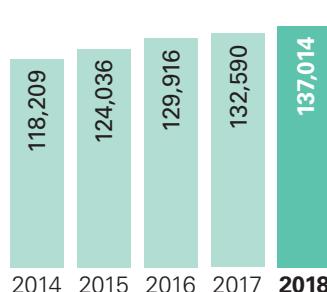
Net cash/(debt) (£m)



Cash and cash equivalents less loans and other borrowings. This measure is used to monitor the group's liquidity and capital structure and, where relevant, to calculate ratios associated with the group's bank covenants.

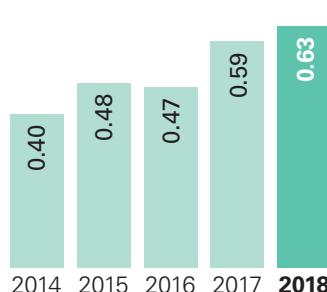
NON-FINANCIAL

Number of employees



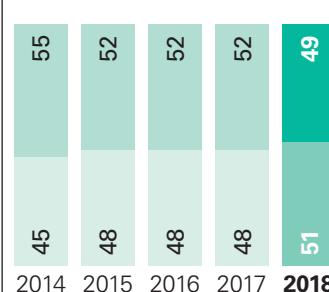
A measure of the scale and growth of the group – the average number of people employed during the financial year with a contract of employment, whether full-time, part-time, contractor or seasonal worker.

Reportable Injury rate (%)



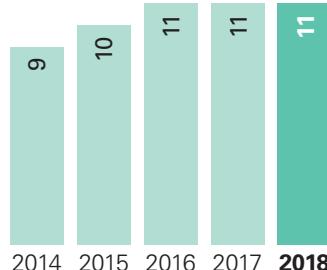
A measure of the group's management of the health and safety of its workforce – the number of injuries resulting from an accident arising out of, or in connection with, work activities that were required to be reported to external regulatory authorities, divided by the average number of employees.

Gender balance in workforce – all employees (%)



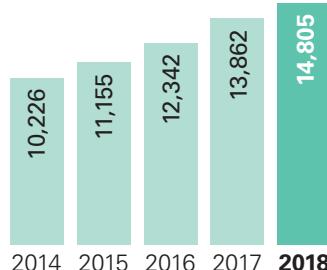
A measure of the gender balance of all employees in the group with a contract of employment, whether full-time, part-time, contractor or seasonal worker.

Number of countries of operation (Primark)



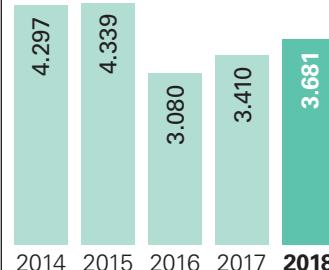
The number of countries and the retail selling space from which Primark operates are measures of the breadth, scale and growth of the business.

Primark selling space (sq ft 000)



Each business develops KPIs that are relevant to its operations. These are regularly monitored and, in the case of adjusted operating profit and return on capital employed, are variously used as local management incentive measures. Additional performance measures, both financial and non-financial, are detailed by business segment in the operating review and in the Corporate Governance Update.

Tonnes of sugar produced (m)



A measure of the scale and development of the group's sugar operations.



Five business segments that bring together common industry expertise, operational capability and market intelligence.

Despite their diversity, each of our businesses has at its heart the core principle that the group produces safe, nutritious, affordable food and clothing that is great value for money.

EMPOWERING OUR BUSINESSES

01 GROCERY

Each of our Grocery businesses pursues an independent strategy, appropriate to its particular market position and stage of development. Some are focused on developing brands in their core markets, whilst Jordans, Dorset and AB World Foods for example have had considerable success extending their 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.

02 SUGAR

AB Sugar is one of the world's largest and most diverse sugar producers and has a simple vision to be the world's leading sugar business.

Whilst sugar is at the heart of what we do, the sugar production process provides opportunities to do more than simply manufacture an ingredient. We are an innovative and advanced manufacturer, producing a wide range of sugar and co-products. Additionally, we are an energy and power supplier and, as part of the wider agri-business value chain, we are an important contributor to the economy across all our locations.

Our success has been built on continued development and innovation to meet the changing needs of our customers, to improve our operations and to work with our growers to ensure sustainable, efficient, agricultural production. We seek to drive continuous improvement in everything we do and are committed to developing our people to build capability and capacity across all our locations for the future.

Operating review,
Sugar
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03 AGRICULTURE

AB Agri is a unique group of leading agricultural businesses operating across the entire food supply chain. It has a detailed understanding of agriculture's importance in our changing world and the ambition to drive ever greater production efficiency has been the core philosophy for over 30 years. AB Agri operates through individual, entrepreneurial businesses empowered to grow their interests independently, and through a strong network of contacts across the entire supply chain.

Organic growth is achieved through innovative product development and by extending the business's already broad geographic reach into new territories and new areas adjacent to its core capabilities. Using the diverse breadth of products, services and people within the AB Agri community, the business develops bespoke solutions tailored to its customers' needs. 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.

04 INGREDIENTS

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.

Operating review,
Retail
page 42



05 RETAIL

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 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.

Operating review,
Ingredients
page 36



GROCERY

01

ABOUT GROCERY

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 high-quality ethnic foods including rice, spices, sauces, oils, flour and noodles sold under brands such as Rajah, Lucky Boat and Elephant.

Jordans, Dorset and Ryvita operate in the better-for-you cereal and savoury biscuits categories with increasing international presence. Jordans has a heritage of using traditional methods in the production of its wholegrain cereals and cereal bars. Dorset's award-winning muesli and granolas are renowned for the quality of their natural ingredients.

Ryvita has 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. Silver Spoon and Billington's are our two retail sugar brands in the UK, complemented by a range of dessert toppings and syrups under the Askeys and Crusha brands. HIGH5 and Reflex Nutrition are brands in the sports nutrition sector.

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. ACH Foods includes within its range of branded products, Mazola, the leading corn oil in the US, and Capullo, a premium canola oil in Mexico. Acetum, acquired in 2017 and trading under the Mazzetti brand, is the leading Italian producer of Balsamic Vinegar of Modena.

AN ITALIAN TRADITION. BOTTLED.

See page 18 to read more



01

ONGOING BUSINESSES

REVENUE

£3,420m

2017: £3,381m

Actual fx: +1%
Constant fx: +4%

ADJUSTED OPERATING PROFIT

£335m

2017: £303m

Actual fx: +11%
Constant fx: +14%

ADJUSTED OPERATING PROFIT MARGIN

9.8%

2017: 9.0%

RETURN ON AVERAGE CAPITAL EMPLOYED

25.9%

2017: 24.7%

EVERYDAY FOOD PRODUCTS ENJOYED ALL OVER THE WORLD

Grocery revenues were ahead of last year and adjusted operating profit was well ahead, driven by strong growth in Twinings Ovaltine, improved margin at George Weston Foods in Australia and the first year of contribution from Acetum.

Twinings Ovaltine made excellent progress in profit. Ovaltine revenue growth was especially strong, led by the brand's largest markets: Thailand, where growth was achieved in both ready-to-drink and powder products and Switzerland, due to the success of new product launches and increased distribution. In addition, good sales growth was achieved in other markets, including China, Brazil, Nigeria and Vietnam. Twinings benefited from new launches in the herbal tea segment in the UK, US, Australia and Italy and the launch of a new concept of Cold Infuse teas in the UK and Australia in the last quarter. Much progress has been made in recent years in reducing the operating costs of the Twinings tea supply chain, and we have announced that production at the Jinqiao, China site will cease in early 2019, with consolidation into our existing site in Poland.

At Allied Bakeries losses remained unacceptable, although some progress has been made with cost reduction programmes and price increases. Against a background of a continued increase in the market share of private label bread, investments in the Kingsmill and Allinson's brands have included new product launches for Super Seeds and premium craft loaves. Speedibake opened an expanded doughnut facility in the year and continued its focus on cost control. Wheat prices increased significantly over the summer as a consequence of a reduction in global production. The impact of this on our costs will be reflected in our ongoing discussions with our customers.

Silver Spoon enjoyed increased sales in ice cream accompaniments in the extended period of warm weather over the summer, and increased sales of the Billington's premium sugar brand through the Baking Mad website.

Jordans has continued to drive international expansion, delivering strong revenue growth in Australia, New Zealand, Canada and Brazil. In a challenging UK crispbread market, with a large shift towards private label, Ryvita launched a range of protein-enhanced variants. A new production facility was opened at Bardney providing additional crispbread capacity and improved efficiency.

At AB World Foods, Patak's continued to deliver market share growth following the launch of paste pots, endorsed by Jamie Oliver, while Blue Dragon extended international sales growth in Canada, Scandinavia and Australia. Westmill Foods' premium market-leading atta flour, Elephant, was successfully relaunched with a strong brand presence during Ramadan, while continued strong demand for noodles will be met by an expanded production facility in Manchester, investment in which is well underway.

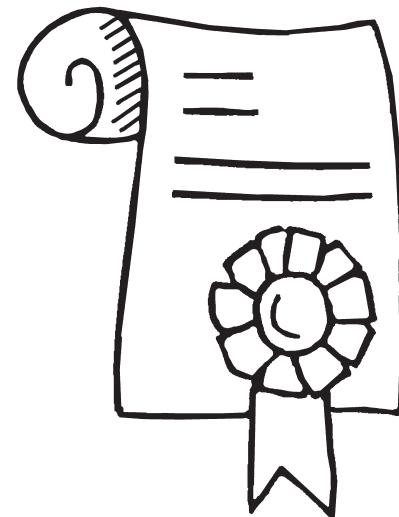
In our sports nutrition businesses, the HIGH5 hydration brand was relaunched during the year with sales driven through event sponsorship, while our protein brand, Reflex, continued to drive sales in eastern Europe and the Middle East.

Acetum, the Modena-based balsamic vinegar business acquired last October, is progressing well. We have focused on continued international expansion, further development of the Mazzetti brand, and on price increases to cover inflation of grape must prices following a poor European grape harvest in 2017.

A taste of business for graduates



Find out more at
www.abf.co.uk/responsibility



From day one, Grocery graduate trainees get a true taste of the business.

The Grocery group graduate programme was launched in 2006 to employ, develop and retain high-calibre individuals with leadership potential. It takes on around 25 recruits every year across seven functions, with each function having a scheme tailored to its priorities. Natasha's 18-month supply chain scheme included roles as a manufacturing team leader, project commissioning manager, purchasing planner and health and safety advisor. Graduates in HR, by comparison, have two 12-month placements in different businesses, one in a head office environment, another in manufacturing. By involving such different placements across diverse Grocery businesses, participants experience a broad learning journey and maximise their development opportunities.

“

The scheme gives you a real role with real responsibility designed to **challenge** you and give you the opportunity to show what you're capable of. I now have a range of new **skills**, broad **business understanding** and a **wide internal network**.”

Natasha Newman, AB World Foods trainee



ACH performed well with favourable oil margins and the Heart Healthy advertising campaign increasing consumer demand for Mazola corn oil, resulting in share gains, while distribution was also expanded in Walmart, Sam's Club and other retail chains. The increased contribution from this was partially offset by higher freight costs.

At George Weston Foods in Australia, Tip Top grew margin and operating profit primarily through ongoing cost reduction, strong sales of Thins and price increases on its branded bread range: The One, Sunblest and Abbotts. The Don KRC meat business significantly improved operating profit through improvements in factory performance, and also launched the nitrite-free All Naturals ham and bacon range.

On 17 September 2018 we completed the acquisition of Yumi's Quality Foods, an Australian manufacturer of chilled dips and snacks. Yumi's was founded by the Friedman brothers Benjamin (Yumi) and his brother Michael, both of whom will remain in the business, and specialises in dairy- and gluten-free dips, aioli, vegetarian snacks, mayonnaise and smoked fish for everyday consumption and entertaining. In the year ended 30 June 2018 the business generated sales of A\$51m.

WAKING UP WATER[®]

Twinings has again used masterful innovation to extend its customer base, and the opportunities for drinking great tea, with the launch of the UK's first cold water infusion.

CHANGING THE WAY WE DRINK WATER

Cold Infuse is available in six delicious natural flavours, from Rose Lemonade to Coconut and Pineapple. Supporting the trend for drinking more water – particularly on the move – consumers just drop a Cold Infuse bag into their water bottle, shake it, wait for five minutes, and then enjoy. It is aimed at health conscious 22- to 45-year-olds, so extending the brand's core, older demographic.

The product's UK launch, Twinings' biggest for five years, was supported by a major advertising campaign, including engaging billboards, social and digital media, ads on London Underground, sampling, and in-store tasting. A similarly high-profile introduction in Australia followed.

Cold Infuse was developed in a two-year collaboration between Twinings' UK and Australia teams, with extensive qualitative and quantitative consumer research into all aspects of the product – from flavours to packaging format and design.



22-45

Aimed at health conscious 22- to 45-year-olds

AN ITALIAN TRADITION.



In October 2017 we completed the acquisition of Acetum S.p.A, the leading Italian producer of 'Balsamic Vinegar of Modena'.

BOTTLED.

A PASSION FOR QUALITY

Traditional balsamic vinegar production in Italy can be traced back to the Romans, and it is now produced only in the Modena region to a 'Denominazione d'Origine Protetta' (or DOP) standard. This super premium vinegar is made only of grape must that is aged for a minimum of 12 years in a succession of seven decreasing sized barrels, each one made of a different wood (called a 'battaria'). The volumes which can be produced are very small, and the retail price correspondingly high (over £100 for 100ml).

Acetum is one of the biggest producers of this 'Tradizionale' vinegar, as well as the balsamic with which most consumers in Europe and the US are familiar, which is made from a blend of grape must and wine vinegar in varying proportions. Balsamic vinegar production of this type has been granted official European Protected Geographical Indication (PGI) status due to its unique manufacturing tradition and provenance. It has a number of characteristics that align closely with modern consumer preferences, being derived from natural sources, with a long heritage and rich provenance.

Founded by Cesare Mazzetti and Marco Bombarda, who remain as directors of the business, Acetum operates five high-quality manufacturing sites in the Emilia Romagna region, employing 150 people. It is the global leader in balsamic vinegar, and one of the world's leading producers of speciality vinegars for retail. The Mazzetti brand is present in many global markets, and is brand leader in Germany, Australia and Holland. ABF plans to build on this success by utilising its extensive global footprint to support the growth of the business and its products in other international markets.

"ABF has a great reputation for nurturing family businesses and I look forward to working together in the future and sharing our expertise."

Cesare Mazzetti, Founder



KEEPING HEARTS HEALTHY



Mazola, the leading corn oil brand, is growing market share in the US market by driving awareness of corn oil's superior contribution to heart health.

HEARTFELT GROWTH

Mazola led a 2.1% annual increase in corn oil consumption from 2014 to 2017, reversing a previous decline. This impressive growth far outstripped that of soy bean, canola and olive oils and, with Mazola representing 10% of the US cooking oils market, bodes well for the brand's expansion in the future.

The turnaround in demand for corn oil followed an ACH-backed clinical study into the comparative impact of corn oil and extra virgin olive oil in lowering 'bad' cholesterol. Researchers found corn oil reduced low-density lipoprotein (LDL) cholesterol by almost 11%, against just 3.5% for olive oil, when consumed by a group of healthy men and women over a three-week period. Overall, study participants experienced an 8.2% decrease in total cholesterol with corn oil compared to just 1.8% with olive oil. The significant differences in response reflect, in part, the much higher level of naturally-occurring – and cholesterol-lowering – plant sterols in corn oil, compared with olive oil.

TRANSFORMING PERCEPTIONS

Mazola has successfully showcased the study findings, which were published in respected scientific journals, to transform perceptions of corn oil. Using an integrated media campaign it has raised consumer understanding of the health benefits of corn oil, which had often been considered less beneficial than the Mediterranean diet-staple, olive oil.

The century-old brand is particularly targeting health-focused consumers, while continuing to maintain its strong, long-established bonds with the wider Hispanic community. This year's awareness-raising programme has included promotional activity in city centre shopping areas, sponsorship of a popular health TV show, and a strong social, digital, and TV media presence.



11%

Researchers found corn oil reduced LDL cholesterol by almost 11%



BREAD WINNERS



Leading bakery brand Tip Top has redefined the bread market in Australia with a trio of innovations defined by consumer insight.



A SLICE OF BREAD HEAVEN

In a mature bread market, the business has re-engaged consumers, thereby driving significant sales and profit growth. In particular, in October 2014, Tip Top created an online Bakery Conversations community to build its understanding of consumer motivations and behaviours. It then worked with this 3,000-strong community to support innovation, test products, and evaluate marketing campaigns.

CONSUMER INSIGHTS

Tip Top used learnings from its consumer community to develop the Abbott's Village Bakery gluten-free range, available in soy & linseed, rustic white and mixed seeds variants. The range has been a huge hit since its October 2016 launch with many consumers – whether gluten intolerant or just keen to reduce their gluten intake – reporting that it tastes just like regular bread. After only eight months, Abbott's Village Bakery became the leading gluten-free brand, capturing 30% market share as consumers gave its soft large slices a 59% edge over competitor lines. The product is now delivering profitable growth for Tip Top and retailers by bringing consumers back to bread.

Tip Top also drew on insights from the Bakery Conversations community to transform its core Abbott's Village Bakery premium range. With feedback showing that consumers crave new and different tastes and textures in bread, in mid-2018 Tip Top introduced its Sensations range. With creative recipes like pumpkin, sunflower seeds & caramelised onion, toasted soy, chickpea & quinoa, and sundried tomato & basil, Sensations has captivated consumers and driven incremental purchases. At a significant premium to the core Abbott's Village Bakery range, Sensations is also delivering value growth for the category and brand.

30%

market share captured by the leading gluten-free brand, Abbott's Village Bakery



THE BEST THING SINCE SLICED BREAD

In another innovative move, in 2017 Tip Top launched a new soft bread format, Sandwich Thins, which are available in 99-calorie, six-slice packs. Thins are presented as a lunchtime alternative to 'toast, top or fill' and are proving particularly popular for schoolchildren's lunchboxes. Thins are driving the growth in the sandwich alternatives segment and attracting more new shoppers than leading wraps brands. All three Thins variants – original, wholemeal and lightly seeded – are in the top four for penetration in the segment. Tip Top will extend the Sandwich Thins concept this autumn with an Abbott's Village Bakery-branded line.

By successfully focusing on health, convenience and premiumisation, Tip Top has delivered new ways to excite consumers about bread, grow the category, and deliver strong value for the business.



SUGAR

02

ABOUT SUGAR

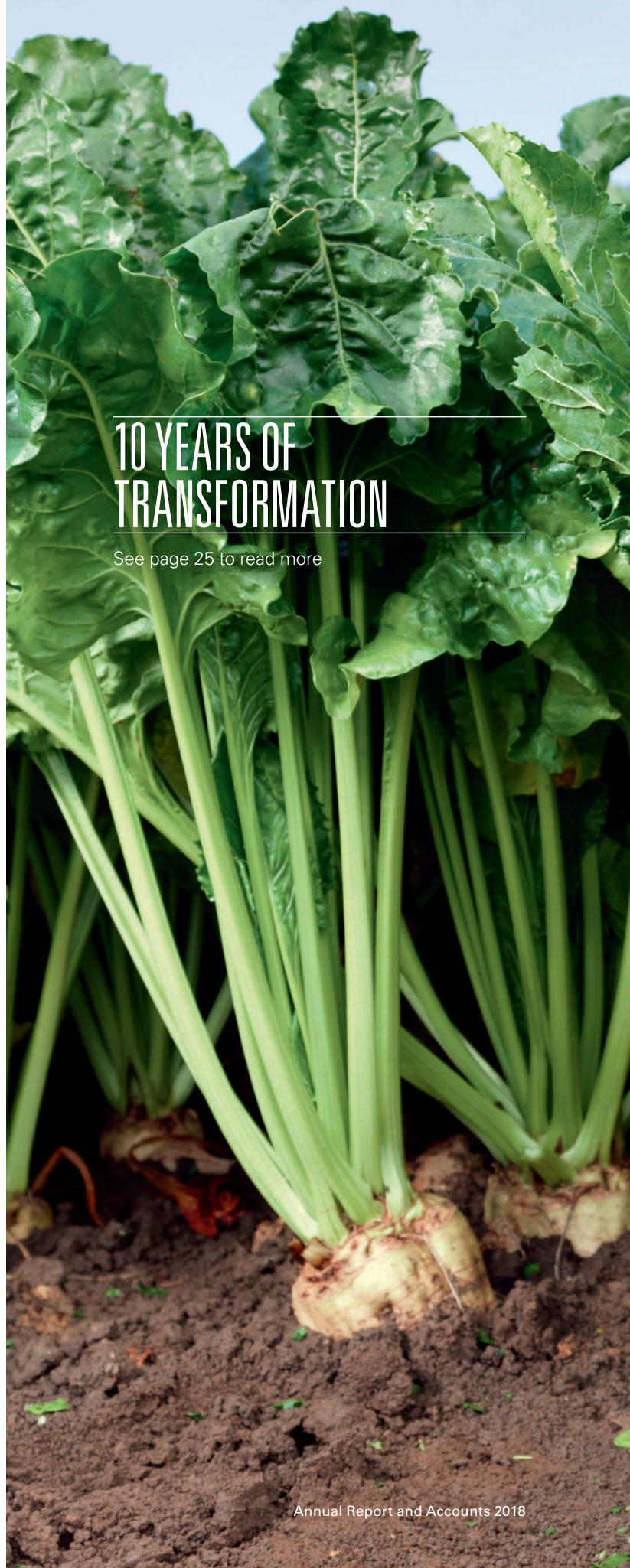
AB Sugar is a leading producer of sugar and sugar-derived co-products in southern Africa, the UK, Spain, and north east China. We operate 24 plants in ten countries with the capacity to produce some 4.5 million tonnes of sugar annually and are a significant employer. Our products are sold into industry sectors including food and drink, pharmaceutical, industrial, agricultural, power and energy.

In the EU, Azucarera is the largest producer in Iberia and British Sugar is the sole processor of the UK sugar beet crop. Illovo Sugar is the biggest sugar processor in Africa and in June 2016, ABF acquired full ownership putting both AB Sugar and Illovo Sugar into a stronger position to navigate the complex sugar landscape whilst capitalising on Africa's growth markets. We have a beet sugar business in north China that has achieved a strong record of performance improvement in agriculture and production efficiencies, resulting in sugar beet production being cost-competitive with that of cane.

Our success has been built on continued development and innovation to meet the changing priorities of our customers, to continually improve our operations and to work with our growers to ensure sustainable, efficient agricultural production.

As a global business, we operate in a diverse and continually changing environment with many opportunities and challenges. Although we have a global portfolio, we operate with a local heart, working together to do what is right for the location and market. As we evolve to meet the world's changing needs – customers, growers and others – it is our role to ensure we use resources responsibly, build strong rural economies and ensure thriving healthy communities.

By drawing upon everything we have learnt over many decades as a sugar producer, we continue to embrace innovation and strive to create more from less by working collaboratively across our group and with our stakeholders.



10 YEARS OF TRANSFORMATION

See page 25 to read more



02

ONGOING BUSINESSES

REVENUE

£1,730m

2017: £2,034m

Actual fx: -15%
Constant fx: -13%

ADJUSTED OPERATING PROFIT

£123m

2017: £249m

Actual fx: -51%
Constant fx: -49%

ADJUSTED OPERATING PROFIT MARGIN

7.1%

2017: 12.2%

RETURN ON AVERAGE CAPITAL EMPLOYED

7.5%

2017: 15.7%

A WORLD-LEADING SUGAR BUSINESS FOCUSED ON EXCELLENCE

Revenue and adjusted operating profit for ongoing businesses at AB Sugar were substantially lower than the previous year due primarily to lower EU prices which adversely affected our UK and Spanish businesses. Our African business, Illovo, had another successful year and continued to be highly profitable. We have shut down operations at the Vivergo bioethanol plant and the operating losses of this business are shown separately under businesses disposed in the segmental analysis.

We remained focused on delivering significant cost reduction across all of our businesses through our ongoing performance improvement programme, and efficiencies continued to be identified in production and procurement.

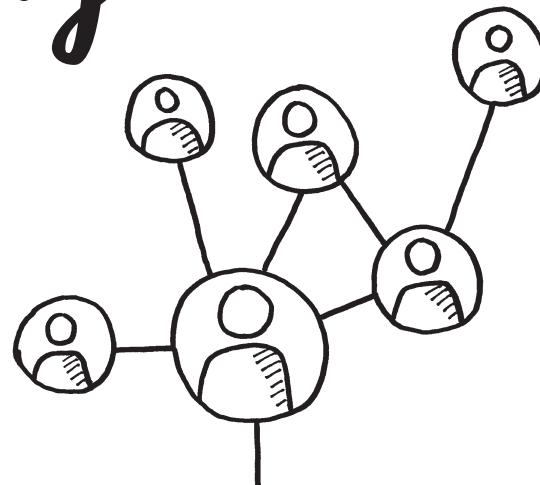
The global supply of sugar has moved into surplus and the world market sugar price reduced this year. The EU sugar regime ended in October 2017 with the consequent removal of sales quotas. This structural change increased the supply of sugar in the EU market and prices were expected to fall as a result. EU prices have actually fallen faster and more significantly than expected as a consequence of substantially higher EU sugar production in 2017/18, following an increase in crop area and higher than average beet yields. In our next financial year we will see the full year effect of the current level of EU sugar prices, which will represent a further reduction on those prices achieved this year. The effect of these lower prices on our UK and Spanish businesses will be only partially offset by continuing performance improvement initiatives and, in line with previous guidance, the profit at AB Sugar will be significantly lower than that achieved this year.

In the UK, sugar production increased considerably to 1.37 million tonnes reflecting record beet yields and an increase in crop area. The latest sugar production estimate for 2018/19 is a reduction to some 1.05 million tonnes as a consequence of late drilling this spring followed by the unusually dry summer. British Sugar stocks are expected to decline next year as a result.

Looking to the financial year 2019/20, a reduction in beet price has been agreed with our farmers and we expect sugar production to be affected by a lower crop area to be planted in spring 2019. NFU Sugar and British Sugar are disappointed by the UK Government's decision to reject the emergency application for the use of neonicotinoids as a seed treatment from next year. We believe that this decision is ill-founded and disproportionate.

In Spain, beet sugar production is expected to be slightly ahead of last year at 0.4 million tonnes. The Guadelete refinery operated for a much-reduced period this year, with sales supported by stocks carried forward from the previous season. Despite a good operating performance, at current sugar prices our Spanish business is expected to make a substantial loss in our next financial year. Management will be addressing the unsustainably high cost base in this new sugar environment.

Building online communities across AB Sugar



Find out more at
www.abf.co.uk/responsibility

Employees from across AB Sugar's operations are developing their skills and knowledge by sharing challenges, solutions and successes via online communities.

These communities – part of a programme of initiatives driving collaboration across AB Sugar's five businesses – create teams of people in related roles and functions. For example, a chemical engineer in one part of the business could answer a technical query posted earlier by a colleague whom they had never met on another continent. As well as enabling online colleague interaction, the sites also help employees develop through more structured means, such as webinars and the facilitation of face-to-face meetings.

Since the first communities were established in 2012, the number of regular employee users has grown to 2,000, representing a staggering 21,000 years of combined experience, with a 25% increase in the past year alone. This year saw 2,000 posts, 3,000 replies and 190,000 page views.

2,000
regular employee users

190,000
page views



Sugar production at Illovo increased to 1.7 million tonnes from 1.64 million tonnes last year. Favourable weather conditions, improved irrigation and crop management more than offset lower yields in Zambia. Illovo remained focused on building domestic and regional sales. The consumer offering was developed further in a number of markets, with investment in the local brand and the introduction of pack sizes at affordable prices for our consumers.

In China, our two factories at Zhangbei and Qianqi completed an excellent campaign, producing 166,000 tonnes of sugar. Major success in further mechanising agricultural operations and the adoption of better beet storage methods improved beet quality and delivered a much higher operating profit for the year. The crop area for the 2018/19 campaign remains in line with expectations but lower sugar prices are expected to reduce the operating profit next year.

We have shut down operations at the Vivergo bioethanol plant in Hull. The current market conditions, particularly high wheat costs and low bioethanol prices, made the operation uneconomic and we do not see these conditions improving for the foreseeable future. A charge has been included in the loss on closure of businesses line in the income statement, as set out in note 21, and the operating losses are separately disclosed under businesses disposed in the segmental analysis.

Germaine's, our seed treatment and enhancement business, continued to develop new products, particularly in the US, where expansion of the plant at Gilroy, California, is progressing as planned.

10 YEARS OF TRANSFORMATION

AB Sugar China has transformed the efficiency and sustainability of the sugar beet industry in China by putting a strong partnership with growers at the heart of its strategy.

TRANSFORMING CHINA'S SUGAR BEET INDUSTRY

2017/18 proved to be a milestone for AB Sugar China with beet yields higher than ever, an unprecedented number of growers renewing their contracts with the business, and grower satisfaction reaching peak levels.

The picture was very different when the businesses were acquired 11 years ago. In 2007, grower commitment to sugar beet was weak because of the appeal of other more lucrative crops. Yields were low, with minimal mechanisation, poor skills and an agricultural labour force becoming more scarce with migration to the cities.





AB Sugar China has transformed its approach to the growers. This cultural change, set out in the 2011 Grower Centric Agriculture Strategy, is rooted in a commitment to understanding growers' needs and helping them develop their output and skills. In doing so, both the grower and processor benefit from the increased profitability of the crop.

BUILDING INSIGHTS

The most fundamental early insight was that traditional farming methods were not sustainable for growers or processors. Based on this understanding, growers were given help to improve their approach and output. To free growers from the insecurity of fluctuating prices and so encourage them to become sugar beet growers, the business introduced guaranteed purchase prices. To help growers develop their skills and approach we now support them at each stage of the process. We help them choose the right type and amount of fertiliser for managing soil health and methods for controlling disease. With high smartphone penetration, such expertise is increasingly communicated digitally via WeChat, the dominant social media platform in China. Loyalty programmes offer further benefits such as weekly account manager visits and free technical guides.

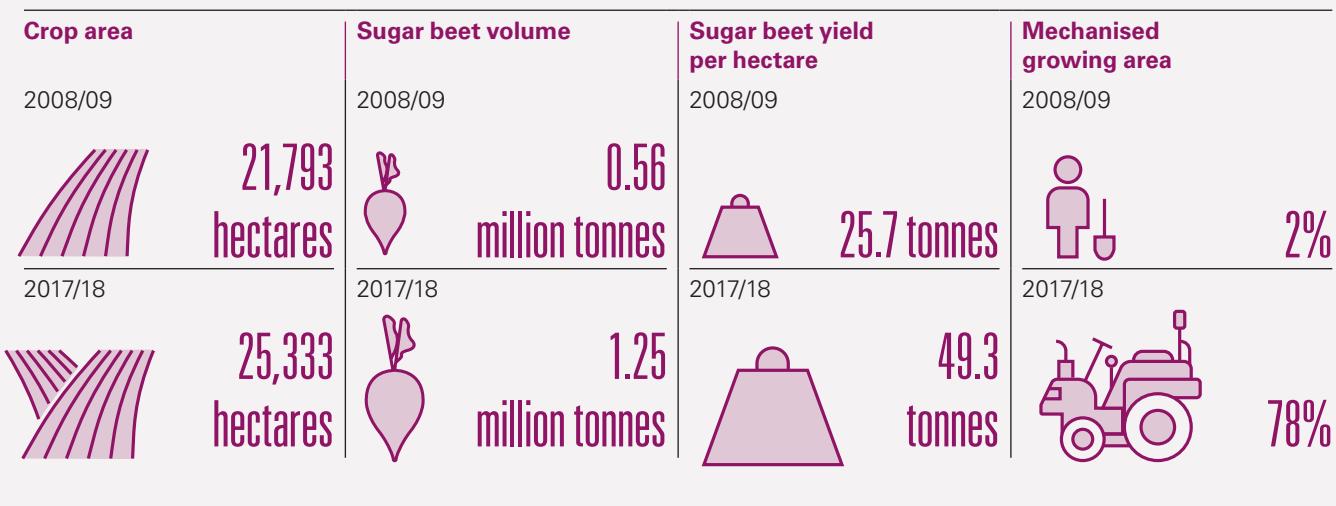
TRANSFORMING AGRICULTURE

Mechanisation has been a key element in developing growers' performance. A decade ago, limited resources, lower yields and productivity for sugar beet relative to some other crops, and a perception that small plots, then very common, did not require mechanisation resulted in many growers being unwilling to invest in sugar beet machinery.

AB Sugar China stepped in to subsidise mechanisation, investing time, expertise and finance in sourcing and developing equipment that suited the size and nature of local growers. This pump-priming helped to vastly increase efficiency, resolve labour shortages and enable land consolidation.



A transformative decade for AB Sugar China



Understanding and supporting growers is a priority at all levels of the business. Senior Chinese management regularly visit growers and teams follow a service-based approach, in contrast to the more traditional transactional style, working in partnership with growers, business-wide.

In generating grower insights, the business also calls on expertise from outside the company. In December 2017, external researchers carried out a qualitative study of growers' perceptions of AB Sugar China. While they found generally high levels of satisfaction, some areas of improvement, such as how sugar beet is transported post-harvest, were identified and are now being addressed.

LOOKING AHEAD

In its next decade, AB Sugar China intends to hit further stretching targets, from cutting the cost of sucrose per tonne to reducing its wider environmental footprint. Its achievements to date, from aligning the competitiveness of sugar beet with that of sugar cane, to encouraging growers to remain on the land, put it in a good position to succeed.

Far left: A centre pivot used to irrigate sugar crops
Below: A Chinese farmer showcasing the benefit of mechanisation



READY FOR A NEW SUGAR MARKETPLACE

A PASSION FOR QUALITY

The reform of the EU sugar industry, completed in October 2017, creates both opportunities and challenges for British Sugar. The lifting of production quotas and minimum beet prices opens up new opportunities for the business to grow domestically and export on the global stage. British Sugar currently supplies roughly 50% of the UK sugar market, with the rest being served in equal proportion by imported beet sugar and imported cane sugar, which is then refined in the UK. However, competition is increasing in all geographies – domestic, European and international – and to succeed in these volatile commodity markets, competitiveness is key.

British Sugar has been preparing for this tough new environment for more than a decade.

The business has consistently invested in its operations to drive efficiency improvements, reduce energy costs and emissions, and improve operational flexibility. It has consistently invested capital over this time to make its factories in Bury St Edmunds, Cantley, Newark and Wissington as efficient and productive as possible.

25%

yield improvements
in the past ten years

British beet sugar production is already highly efficient and a sustained focus on research and development and targeted initiatives has resulted in compound yield improvements of 25% over the past ten years. British Sugar is now one of the world's lowest cost sugar beet processors. It is further honing its packaging, warehousing and logistics operations to ensure they deliver the quality and flexibility of service and formats that UK and international customers want, now and in the future.



British Sugar has transformed its logistics operations

British Sugar is further strengthening its supply chain to boost its competitiveness, as the industry transitions from regulation to liberalisation.

FLEXIBLE OPERATIONS

British Sugar has created a flexible factory operating model by assigning dedicated roles to each of its four sugar production plants with, for example, Bury St Edmunds, in Suffolk, focusing on retail customers, while Newark, in Nottinghamshire, specialises in bulk deliveries for food and drink manufacturing while being able to flex these roles if required. This centre of excellence approach enables each factory to develop its specialisms, while being able to work closely together to deliver an integrated customer service.

The business is simplifying and automating operating processes at the four factories to reduce costs and further improve efficiency. Such investment is, among other advances, enabling the production of a wider variety of packaging formats to meet diverse and changing customer preferences; three locations now provide 50kg bags of sugar, for example, whereas they were previously produced at just one. This expansion in capability increases the attractiveness of British Sugar's offering in the world market, where the 50kg format is in particular demand. In another move to develop its international customer base, British Sugar is developing its site at Cantley, near the Norfolk coast, as its key export hub given its proximity to Felixstowe.

50kg

bags of sugar provided
at three locations



Above and right:
British Sugar's
Wissington warehouse
production plant

AUTOMATED WAREHOUSING

In another significant investment, British Sugar is fully automating the warehouse at its Wissington sugar production plant in Norfolk, one of Europe's largest sugar factories. This will see intelligent software automatically programming the movement of pallets in and out of the warehouse based on customer orders and the production schedule, enabling a swift response to changing customer needs and supporting future growth. To further reduce the need for, and costs of, additional warehousing, British Sugar is also planning to increase its own storage capacity. In the meantime, faster lorry-loading times have eased pressure on storage space.



TRANSFORMING LOGISTICS

In recognition of the central role that efficient delivery plays in customer satisfaction, and the significant cost of haulage, British Sugar is transforming its logistics operations. The business has strengthened the size and expertise of its logistics team, is working with its haulier partners to extend logistics operations, and is developing its understanding of customer delivery preferences to ensure it meets their needs.

WINNING IN THE MARKET

British Sugar's supply chain improvement programme drew on best practice from within and outside the business, and on insights into the development of the global sugar industry. It involved close collaboration between the business's commercial and operations teams; an integrated approach that underpins British Sugar's core strategy of winning in the market by always exceeding customer expectations and providing the products and service they want.

One year on from the full liberalisation of the beet sugar industry, the programme has helped British Sugar achieve another significant step towards its goal of becoming the firm supplier of choice for its customers.

AGRICULTURE

03

ABOUT AGRICULTURE

AB Agri occupies a position across the agri-food supply chain. Its focus is to add value and deliver profit for partners all along that chain by improving the sustainability of food production. This is achieved by investing in research and development, driving the use of technology and exploring how data can deliver insight and enable improvements. A top three player in almost all the markets in which it operates, it continues to expand its global footprint and is rapidly becoming a major international agri-business. AB Agri's core capabilities include:

Specialised feed ingredients

Offering pioneering feed ingredients, additive products and technical services to the global animal feed industry as well as high-quality, bespoke, vitamin/mineral premixes, starter feeds and micro-ingredients developed through world-class expertise in nutrition and product formulation.

Co-product innovation and marketing

The UK's largest and most progressive marketer of food, drink and energy industry co-products.

Finished feed manufacture

A major international manufacturer and supplier of pig, poultry and dairy feeds, with 28 production sites in the UK, continental Europe and China. We work closely with major processors and producers to benchmark productivity and performance and develop tailored feeds and new feeding regimes to improve performance for every customer.

Supply chain solutions

Working exclusively with major brands and retailers for more than 15 years, we create value through the implementation of continuous improvement programmes, working across food, agriculture and natural resource supply chains in over 65 countries.

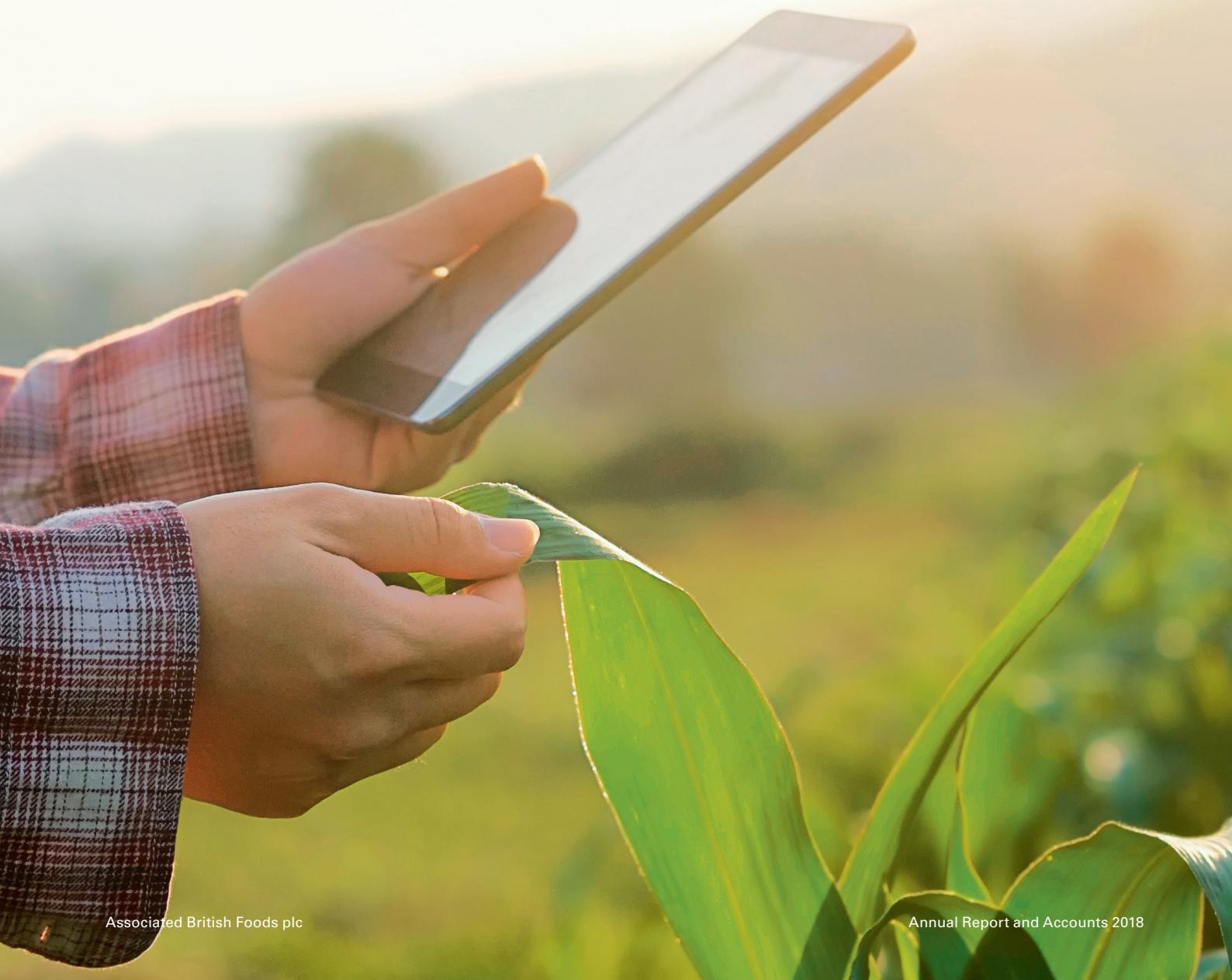
Commodity risk management

Providing customers with in-depth insight on global commodity markets, we are also the UK's leading grain trading and crop inputs company through Frontier Agriculture, our joint venture with Cargill plc.



DRIVING FOOD SUSTAINABILITY THROUGH DATA

See page 34 to read more



03

ADDING VALUE BY IMPROVING THE SUSTAINABILITY OF FOOD PRODUCTION

ONGOING BUSINESSES

REVENUE

£1,350m

2017: £1,191m

Actual fx: +13%
Constant fx: +14%

ADJUSTED OPERATING PROFIT

£59m

2017: £50m

Actual fx: +18%
Constant fx: +23%

ADJUSTED OPERATING PROFIT MARGIN

4.4%

2017: 4.2%

RETURN ON AVERAGE CAPITAL EMPLOYED

15.7%

2017: 14.3%

AB Agri revenues were well ahead of last year, with growth in all businesses, and with a consequent increase in operating profit.

In the UK, compound feed and premix sales grew significantly and the large sugar beet crop increased the availability of co-products which provided more volume for Trident Feeds. Higher vitamin costs drove an increase in feed prices. A new premix factory at Fradley Park, Staffordshire, opened at the end of the financial year. Operating profit at Frontier was held back by limited grain trading opportunities following a smaller UK wheat crop, while its crop inputs business delivered a record performance with high demand during the growing season in spring and early summer.

AB Vista continued to build international sales and share in the feed enzyme market and is now a leader in the phytase segment. Sales in the ruminant segment and in North America showed good growth but were held back by a reduced demand by the Vietnamese pig industry.

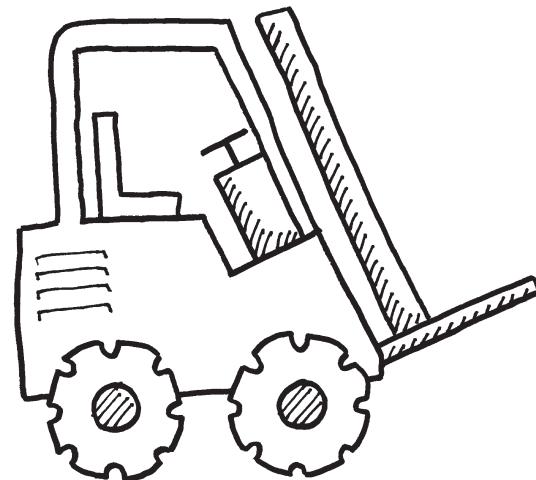
Starter feed exports to continental Europe by our Primary Diets business in the UK grew strongly, especially to Poland, Germany, Denmark and Italy. Agrokorn, our Danish speciality protein business acquired in 2016, continued to grow. Our compound feed business in China had another good year and entered the new markets of sheep and duck feed. Our flaked maize plant in Rudong and a new premix mill were both completed during the year.

CORPORATE RESPONSIBILITY

State-of-the-art safety



Find out more at
www.abf.co.uk/responsibility



Premier Nutrition's state-of-the-art Staffordshire factory puts safety firmly to the fore.

The AB Agri business's new Fradley Park facility incorporates the latest technology and industrial design to ensure product and operator safety. The automated production line is system-driven, reducing the need for manual handling with, for example, pallets being stacked automatically rather than by hand. Safe movement of staff and visitors is a priority, with a pedestrian-free delivery yard, forklift truck thoroughfares and a separate charging area.

To further ensure product safety, the factory is built to food industry standards. This includes separate dirty and clean changing areas, a full kitchen/eating suite, and personal protective equipment storage facilities. There is also seamless traceability, with barcode technology monitoring all movement – from the arrival of raw materials to product despatch.

Before the factory's July 2018 opening, Premier Nutrition conducted more than 3,500 tests to ensure it met its high health and safety, product safety and environmental standards.

3,500

tests to ensure it met its health and safety, product safety and environmental standards



Our Fradley Park facility in Staffordshire

GENERATING SUSTAINABLE SOLUTIONS



Our agriculture businesses continue to develop efficient ways that benefit our customers.



EMPOWERING WASTE

Amur, AB Agri's anaerobic digestion business, turns food waste into renewable energy. Anaerobic digestion is the breakdown of organic matter without oxygen to produce flammable gases. These gases can be burned in an engine to produce heat and electricity, or cleaned up and used in the same way as natural gas, to heat our homes and cook our food.

Amur's Yorkshire-based anaerobic digestion plant was launched in November 2016 and constitutes a key element of AB Agri's commitment to being a circular business: it now converts 52,000 tonnes of food waste each year into 35,000 MWh of bio-methane gas for the local grid. The residue from this process goes back onto fields as fertiliser, completing the full cycle.

Amur has also turned its expertise into a business model: it provides product innovation, testing and consulting services, helping the UK anaerobic digestion industry to grow and develop. In particular, Amur helps its customers improve the performance of their facilities, by optimising gas yields and supplying consistent feedstock that drives industry standards. Running its own plant and test laboratories gives Amur credibility and understanding of its customers' needs. It also enables the business to trial and test innovative products such as feedstock, of which Amur sells 39,000 tonnes each year to third-party sites generating an estimated additional 27,000 MWh of bio-methane.

52,000
tonnes of food waste can be converted into 35,000 MWh of methane gas

DRIVING FOOD SUSTAINABILITY THROUGH DATA

AB Agri is helping customers across the agri-food supply chain to deliver business improvements with the smart use of new technology.



UNLOCKING THE VALUE OF DATA

From farm to fork, AB Agri is using its advanced technology and rich data to boost performance for its agri-food customers. One such example is SOYL precision farming, part of AB Agri's Frontier Agriculture business. SOYL uses innovative software, robust data, expert advice and technical support to help farmers improve crop production.

Currently, only one-third of land in the UK used to grow cereals applies precision technology to indicate where, and in what measure, inputs such as seeds and fertiliser need to be applied – despite clear evidence of both value creation for farmers, and of the more responsible use of resources which result. To help unlock this value, SOYL has mapped 1 million hectares of land and is using the resulting

data to provide insight. Case studies show that applying nitrogen fertilisers variably to wheat crops, based on SOYL's satellite imagery, can deliver a typical yield improvement of between 4% and 7%. For a farm with 100 hectares of wheat yielding 8 tonnes/hectare, a switch to variable rate nitrogen fertiliser application could generate an uplift in sales of up to £10,000 annum.

4%–7%

typical yield improvement based on SOYL satellite imagery

SOYL is increasingly putting such insight into farmers' hands, via apps and other digital products. For example, growers can see their precision farming data live via a web-based data management tool, monitor issues via a field scouting app and directly transfer variable rate application maps to, and execute them from, a tractor cab.

MAKING LIGHT WORK

Another of AB Agri's innovative businesses, Aunir, part of the AB Vista business, uses light – specifically near infrared (NIR) analysis – to test the nutritional, chemical and physical properties of ingredients and products.

NIR technology offers many benefits over traditional analytical methods. It requires little or no sample preparation, is chemical-free, and provides reliable and precise results in seconds, thus enabling customers to make quick decisions. It is widely used for quality control in animal feed but Aunir has taken its application to new heights. Its cutting-edge technology, extensive online databases and processing power enable it to perform complex analysis that can help make the whole agri-food supply chain more efficient.

Its services include helping customers:

- check the quality of feed ingredients online against a database of more than 4 million data points;
- measure the nutrient and energy content of forage, to establish what livestock eat; and
- assess animal performance, and allow the feed to be balanced to optimise animal production while reducing nutrient losses into the environment.



Aunir has made NIR technology even more user-friendly by offering portable 'NIR4' devices. These handheld tools enable farmers to quickly and cheaply test the quality of animal feed on-farm and, if necessary, immediately balance its nutrient base, without needing to revert to a laboratory.

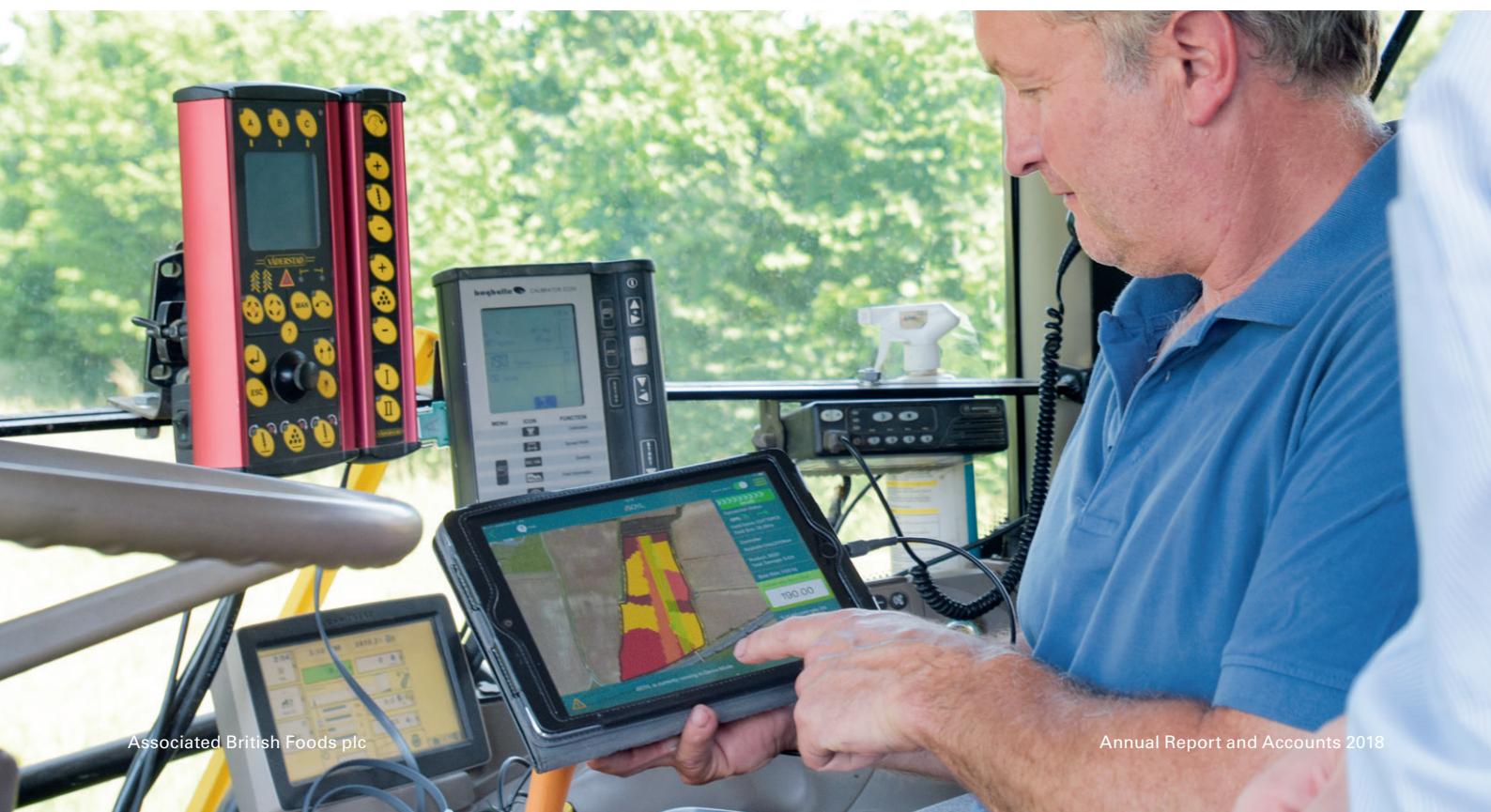
350,000

samples analysed to create in excess of 4 million data points

DRIVING FOOD SUSTAINABILITY

By investing in research and development, driving the use of new technology and using data to deliver insight, AB Agri companies like SOYL and Aunir are delivering sustainable food production, adding value and delivering profit for partners across the global agri-food supply chain.

Digital products seamlessly connect farmers with information about their land



INGREDIENTS

04

ABOUT INGREDIENTS

Ingredients comprises a number of businesses that supply a range of ingredients to food and non-food manufacturers, which together employ 8,000 people.

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 extensive knowledge and understanding of the yeast and bakery ingredients business, the equipment, the processes and the raw material.

ABF Ingredients operates a global footprint with production facilities in Europe, the Americas and India and customers in more than 50 countries. It comprises businesses focusing on high-value ingredients for food, feed, pharmaceutical and industrial applications: AB Enzymes; Abitec (specialty lipids and surfactants); Ohly (yeast extracts and seasoning powders); PGP International (extruded ingredients and specialty rice flours); and SPI Pharma (pharmaceutical excipients and antacids).

**HALF PROVED,
WHOLESMOME TASTE**

See page 39 to read more



04

PROVIDING INNOVATIVE, HIGH-QUALITY INGREDIENTS GLOBALLY

ONGOING BUSINESSES

REVENUE

£1,467m

2017: £1,492m

Actual fx: -2%
Constant fx: +6%

ADJUSTED OPERATING PROFIT

£143m

2017: £126m

Actual fx: +13%
Constant fx: +23%

ADJUSTED OPERATING PROFIT MARGIN

9.7%

2017: 8.4%

RETURN ON AVERAGE CAPITAL EMPLOYED

18.1%

2017: 15.4%

At constant currency, Ingredients' revenues were 6% ahead of last year. Adjusted operating profit was well ahead of last year again, delivering a further increase in margin.

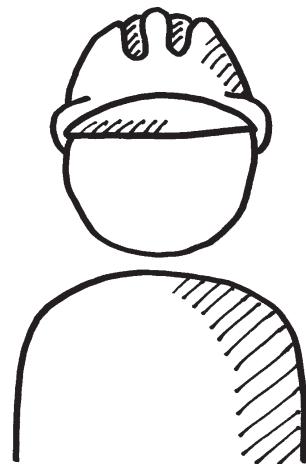
AB Mauri delivered another year of sustained growth, in both yeast and bakery ingredients, through continued improvements in operational performance. Significant progress was made in our multi-year investment programme aimed at developing our capabilities in bakery ingredients technology. The goal of this investment is to provide the baker with optimal solutions for their present and future product needs.

North America benefited from cost reductions in yeast manufacturing, sustained growth in bakery ingredients and a full year of ownership of the Speciality Blending business acquired in 2017. Our Latin American businesses have grown despite ongoing economic difficulties and competitive pressures. The operation in Argentina opened its new bakery ingredients plant in Lanus in the year. Trading performance in EMEA continued to be strong and further investments were made in research and development. In June 2018 the acquisition was completed of Holgran, a supplier of malted grains, and Fleming Howden, an Edinburgh-based blender and distributor of bakery ingredients.

ABF Ingredients delivered an outstanding performance with another year of strong profit growth. Gross profit margins improved in all five businesses as a result of a favourable product mix, with sales managed towards markets with higher margins. In our enzymes businesses, innovative products serving the bakery, pulp and paper and detergents markets delivered the sales growth. The increase in enzyme production capacity at the Rajamäki site in Finland was utilised as planned to satisfy the growth in customer demand.

Abitec, our speciality lipids business in North America, continued to perform well. SPI Pharma sustained its growth in excipients and drug delivery solutions driven by the ongoing expansion in the market for pharmaceutical reformulations. Our US protein extrusion business, PGP International, continued to develop its sales of protein crisps which are used in the rapidly expanding health bar and gluten-free segments in the US.

Recognising great safety performance



Find out more at
www.abf.co.uk/responsibility

Innovative safety initiatives are being shared across ABF Ingredients, following a programme spanning all of its businesses.

The Safety Recognition Programme, which aims to acknowledge, encourage and share best practice, was launched simultaneously by the CEOs of ABF Ingredients' five businesses in August 2017. Locations were asked to submit schemes showing solid evidence of sustainable health and safety improvements which could be replicated in all businesses. Safety forms part of our People section in the corporate responsibility logo illustrated opposite.

Six different sites were recognised by the senior leadership team. The winners, who each made donations to local charities, included:

- the ABITEC site in Janesville, USA, which has had no Lost Time Injuries for four years due to a strong safety culture that is fully embraced by all team members; and

- PGP International, which was recognised for its 'buddy safety system', which sees each new starter wearing a red strip on their hard hat so that everyone knows they need safety guidance. They are buddied up with a more experienced operator who wears a yellow strip on their hat and coaches them on day-to-day tasks.



HALF PROVED, WHOLESOME TASTE



We are enabling artisanal bakers in Brazil to offer a wider choice of products more conveniently and easily.

THE PROOF OF A GREAT LOAF

AB Mauri Brazil's Panesse range of pre-proved bread products has captured a loyal retail and consumer base and a trio of food quality awards – just 18 months after launch.

Panesse's superior quality ingredients deliver a thin, crunchy crust and a delicious, aerated crumb. As well as tasting great, due to the product's 40-hour fermentation process, it is very easy to digest.

The premium brand targets both the craft baker and the consumer, with the combined promise of convenience and quality. Bakers can buy chilled Panesse dough, which they bake on their premises and sell in branded wrappers. Consumers, meanwhile, can purchase frozen part-baked loaves in supermarkets to finish at home.



THE BREAD SOMMELIER

Panesse, which has been launched initially in São Paulo, is helping AB Mauri Brazil raise the bar of the bread category – as evidenced by its brand slogan 'the bread sommelier'. Further testimony to its superiority has come from the International Taste & Quality Institute which, in April 2018, presented 'Superior taste awards' to three Panesse products. Whole Grain won the highest possible score – three golden stars – and was judged as having 'exceptional taste'. The Traditional and Grain variants received two stars and were assessed as having 'remarkable taste'.

Panesse was developed over three years in a collaboration between AB Mauri's global research and technology centre in Made, the Netherlands, and its Brazilian team. It is another example of the track record of the business in supplying innovative and high-quality products to artisanal bakers.



AN ENERGY FOR INNOVATION



Rising demand for healthy foods, and strong innovation, has delivered significant growth for PGP International (PGPI), one of the ABF Ingredients businesses.

THE INGREDIENTS FOR GROWTH

California-based PGPI is a leading manufacturer of extruded protein and grain crisps, and of rice and rice flour products. Its ingredients are used by major food companies in the US and beyond in granola, energy and nutrition bars, snacks, confectionery, baked foods, and speciality cereals.

EXTRUDED CRISPS

PGPI makes its extruded crisps from soy, pea and rice protein, as well as from quinoa, sorghum and a number of ancient grains. Packed with nutritional ingredients, the crisps come in various sizes, densities and textures, tailored to customer needs. Innovation is constant, with our highly skilled product development teams working closely with customers to explore and create new processes to develop new, and enhance existing, recipes.

Our protein crisp sales have grown significantly to satisfy the increased demand for plant-based protein due to the potential health benefits.





RICE PRODUCTS

PGPI offers a wide variety of rice flours and meals – including certified organic and GMO-free lines – made from different types of rice in many particle sizes. Its gluten-free rice flour products are used largely in bakery mixes, cereals and healthy snacks.

Sales of PGPI rice products have experienced significant growth, driven by the growing demand for gluten-free products. This demand extends beyond those consumers with a gluten intolerance, with many people now turning to gluten-free products because they consider them healthier and more natural. The business is recognised by the Gluten Free Certification Organisation, with its products containing half the already low level of gluten allowed by the US Food and Drug Administration.



VERSATILITY

The versatility of these products also increases their attraction. Its pea protein crisps can, for example, be used in nutrition bars, incorporated into clusters or simply added to breakfast cereals. And while their high-protein, energy-boosting effects make them an ideal ingredient for nutrition foods, their light flavour means they are versatile enough to incorporate in confectionery and desserts. PGPI's rice flour products are similarly versatile; its glutinous (sweet) short grain rice flour, for instance, is a strong stabiliser and thickener, survives freeze-thawing processes, and breakage during packaging.

Such versatility, along with PGPI's innovation strengths and the rising interest in healthy food, has helped PGPI to achieve three years of positive growth.



RETAIL

05

ABOUT RETAIL

Primark is one of the largest clothing retailers in Europe. It has 360 stores and employs over 75,000 people in the UK, Republic of Ireland, Spain, Portugal, Germany, the Netherlands, Belgium, Austria, France, Italy and the US. It was founded in June 1969 in the Republic of Ireland where it continues to trade as Penneys.

Primark's organic growth has been mainly achieved through increased selling space. Investment in buying, merchandising and our success in constantly refreshing our stores ensures 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 and the US. 2006 saw Primark's first foray into continental Europe with the opening of a store in Madrid and it now operates from 14.8 million sq ft of selling space across 11 countries.

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, beauty and homeware.

SOARING HIGH ON SOCIAL MEDIA

See page 48 to read more

Casual summer
by Lucy, Will
and James



Bought from London,
Oxford Street



GIVE 'EM PRI**M**ARKS!

A photograph of three young adults (two women and one man) sitting on a red velvet couch against a dark, textured background. They are all smiling and laughing. A blue diamond-shaped graphic in the bottom right corner contains the number '58' and a white downward-pointing arrow.

58

05

REVENUE

£7,477m

2017: £7,053m

Actual fx: +6%
Constant fx: +5%

ADJUSTED OPERATING PROFIT

£843m

2017: £735m

Actual fx: +15%
Constant fx: +13%

ADJUSTED OPERATING PROFIT MARGIN

11.3%

2017: 10.4%

RETURN ON AVERAGE CAPITAL EMPLOYED

28.2%

2017: 27.3%

QUALITY, UP-TO-THE-MINUTE DESIGNS AT VALUE-FOR-MONEY PRICES

Sales at Primark were 6% ahead of last year at actual exchange rates and 5.2% ahead at constant currency, driven by increased selling space offset by a 2.1% decline in like-for-like sales. Operating profit margin increased to 11.3% from 10.4% and, as a consequence, adjusted operating profit was 13% ahead at constant currency.

Primark performed particularly well in the UK: sales were 5.3% ahead of last year, like-for-like sales growth for the full year was 1.2% and our share of the total clothing market increased significantly. This was achieved in a market which declined year-on-year. Like-for-like growth was strong in the first half of the year and was marginally down in the second half in a much weaker market and which compared to an exceptionally strong second half last year. Sell-through of the summer range was strong, and, as a result, markdowns were lower than expected. Early trading of our new autumn/winter range has been encouraging.

Our store in central Belfast was sadly destroyed by fire in August. The safety and well-being of our customers, colleagues and construction team was the most important consideration, and all were evacuated safely and quickly. Our store is housed in an iconic building which is much loved by the people of Belfast. We will shortly re-establish a trading presence in Belfast with the opening of a store in Commonwealth

House and are committed to working with the authorities to restore Bank Buildings over the longer term. The full replacement cost of the building and resulting business interruption is insured.

Sales in the Eurozone were 4.7% ahead of last year at constant currency and like-for-like sales fell by 4.7%. Sales growth was achieved in Spain, Portugal and Germany and was especially strong in France, Belgium and Italy. Adjusting for cannibalisation from new store openings, we estimate that the like-for-like decline was 3.6%. This decline was driven by unseasonable weather during three distinct periods this year, especially in northern Europe, and by soft trading in a weak German market.

We are very pleased with our US performance in the second half of this year. Our ninth store, which opened in Brooklyn in July, has been trading very strongly. Our existing stores delivered like-for-like growth in the second half including those stores with reduced selling space, at Freehold and Danbury, with a consequent benefit to store profitability. We have signed agreements for two further stores: American Dream, New Jersey is planned to open in 2019 and Sawgrass Mills, Florida in 2020. We are working on adding further stores in the medium term in the eastern region of the US which would be serviced from our existing US warehouse.

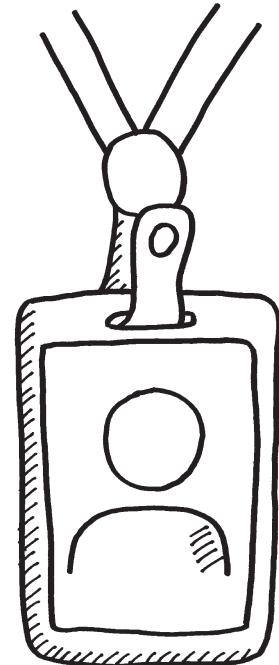
	Year ended 15 September 2018		Year ended 16 September 2017	
	# of stores	sq ft 000	# of stores	sq ft 000
UK	185	7,125	182	6,835
Spain	45	1,764	44	1,675
Germany	27	1,686	22	1,401
Republic of Ireland	37	1,087	37	1,083
Netherlands	19	902	18	849
France	13	649	11	562
US	9	507	8	485
Portugal	10	348	9	300
Belgium	6	292	5	227
Austria	5	242	5	242
Italy	4	203	4	203
	360	14,805	345	13,862

CORPORATE RESPONSIBILITY

Growing Talent



Find out more at
www.abf.co.uk/responsibility



Primark's success reflects the ambition, innovation and hard work of its people – and its continued investment in developing their skills.

In 2018, the business introduced the Make Your Primark process. This aims to ensure all employees understand their priorities, how they contribute to business success, and that managers can effectively structure performance and personal development conversations with employees.

As part of Make Your Primark, managers have three structured conversations with individuals every year. In the first, they agree a set of goals that reflect the needs of both the business and competency-based employee development objectives. In the second, they review progress towards these goals. In the third, they acknowledge and celebrate goal achievement. To help managers approach such conversations effectively, Primark delivered an Effective Conversations learning workshop for more than 1,500 leaders from across the business.

1,500

leaders attended Primark's Effective Conversations learning workshop from across the business



Social media continues to underpin Primark's loyal fashion following with total followers growing to nearly 13 million, up from 10 million last year. Primark's social media channels aim to inspire, and enable its followers to keep up-to-date on all the latest products, create wish lists, receive styling advice, and upload outfit posts to Primania.

Operating profit margin in the second half of the year was well ahead of the first half, and last year, and was driven by the benefit of the weakening of the US dollar exchange rate on purchases and by better buying. Following a very successful sell through of our summer ranges the level of markdowns in the second half was lower than expected, although above the unusually low level in the comparative period last year. These factors together drove the improvement in full year margin from 10.4% to 11.3%.

Looking ahead to next year, forward exchange contracts have been secured against all merchandise in the first half, and the weaker US dollar exchange rate for these contracts will deliver a higher first half margin compared to the first half of this year. Assuming that purchases for the spring/summer range are secured at current exchange rates we would expect a lower second half margin. The full year operating margin in Primark at this stage is expected to be broadly in line with this year. However, the exchange rate applicable to purchases in the second half will be sensitive to sterling exchange rate volatility which is likely to arise given a period of intense Brexit negotiations.

Retail selling space increased by a net 0.9 million sq ft this year with 15 net new stores. This brings the total estate to 360 stores, trading from 14.8 million sq ft which compared to 13.9 million sq ft a year ago. Selling space increased by a gross 1 million sq ft with 16 new stores added; five stores were added in Germany; four in the UK; two in France and one each in Portugal, Belgium, Spain, the Netherlands and the US. A small store at Lisnagelvin, Londonderry, in Northern Ireland was closed and selling space in the US stores in Freehold and Danbury was reduced.

In the next financial year, we are planning to add over 1 million sq ft of net additional selling space. Germany, France, Spain and the UK will see the most space added and overall, we will add a net 15 new stores. We will move to new premises at Birmingham Pavilions which, at 160,000 sq ft, will become our largest store in the whole estate. We have already opened large new stores in Berlin in Germany; Toulouse in France; and Seville and Almeria in Spain. Other large new stores to open later in the year will be: Bordeaux in France; Brussels in Belgium; Utrecht in the Netherlands; and Milton Keynes in the UK.

Our first store in Slovenia will open in 2019 in Ljubljana, taking Primark to its twelfth country. We are planning to enter a number of other markets in central and eastern Europe over the coming years, and have signed the lease for our first store in Poland, Warsaw.

NEW STORE OPENINGS

UK: Charlton, Staines, Burnley, Westfield – London

Spain: Valencia

Portugal: Algarve

France: Le Havre, Metz

Belgium: Antwerp

The Netherlands: Tilburg

Germany: Bielefeld, Münster, Stuttgart Königstraße, Munich PEP, Ingolstadt

US: Brooklyn

RELOCATIONS

UK: Oxford, Rotherham, Grimsby, Kingston, Norwich

Spain: Islazul Madrid

THE MAGICAL WORLD...



... OF BRAND LICENSING



Superheroes, dastardly villains and boy wizards have flown from the screen to the high street, thanks to Primark's unbeatable range of licensed products.



EXPONENTIAL GROWTH

The business sells a huge range of licensed products, covering global brands such as Warner Bros, Disney and Marvel; major TV series, such as Love Island and Game Of Thrones; classic superbands, such as the Beatles and the Rolling Stones; and leading computer games.

Licensed products make a huge contribution to Primark's success – one that has grown exponentially over the past five years. They feature across all store categories. Although other retailers sell products under similar licences, Primark's competitive prices, innovative designs and swift translation of concepts from screen to store, give it a particular edge.

This year's 90th birthday of Mickey Mouse, for example, has inspired a winning collection of products across the store. A House of Mouse homeware range extends from fairy lights and mugs to stationery and lamps (all with very large ears), while #Mickey90 adorns children's, men's and women's fashion and accessories ranges. Meanwhile, other beloved Disney characters, such as the Aristocats and Bambi, were the stars of a hugely popular 2018 spring fashion collection.

90

Mickey Mouse celebrated his 90th birthday this year



UNIQUE EXPERIENCES

The brand's commitment to developing a unique experience around its licensed products is a further draw: the recently opened store near Disneyland Paris, at Val d'Europe, for example, has a magical department for all things Disney – from princess ball gowns to cosy nightwear.

Fans of Harry Potter, meanwhile, can enter the boy wizard's world at Primark stores in Boston, Dublin, Madrid, Antwerp and Oxford Street East, London. White owls carry letters overhead against a night sky; Gryffindor, Ravenclaw, Slytherin and Hufflepuff house flags are suspended from the ceiling; trunks and suitcases are stacked in every corner; and there are more Harry Potter-themed clothes, bags, soft furnishings and shoes than you could shake a wand at. Customers are kept spellbound online: Primark's website features a 'store safari' video tour of the Oxford Street East Potter area; a Facebook video reveals how to achieve a Harry Potter bedroom makeover, and Instagram clips capture the wizarding clothing range.



A SHOPPING DESTINATION

By building on the existing allure of much-loved characters with novel online and physical shopping experiences, innovative must-have products and competitive prices, Primark's licensed products are helping to make the store even more of a shopping destination.



SOARING HIGH ON SOCIAL MEDIA

13M

BROOKLYN

CUSTOMER-FOCUSED CONTENT

Primark puts the customer at the heart of all its digital content. Reflecting insights from customer research, the language and tone are friendly and informal, subjects extend beyond Primark products to include broader lifestyle interests, from health to celebrity, and the varied formats cover everything from video city guides to beauty tutorials.

In spring 2018 social media played a huge part in creating excitement ahead of the opening of Primark's ninth US store, in Brooklyn, New York. Customers were invited to a pop-up shop on Long Island, where they could model and be photographed wearing Primark products. The customer portraits were then posted and shared across social media and used in in-store advertising in the Brooklyn Primark. The campaign was widely covered in mainstream media.

One of our many customer influencers who helped generate a social media buzz around the opening of Brooklyn Primark

Primark's engaging digital sites are attracting huge customer numbers to the brand's physical stores.

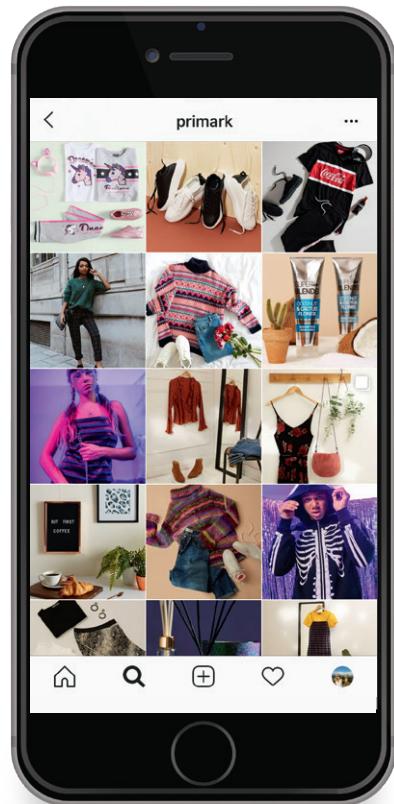
Two million people visit the brand's website every week and, in the UK, Primark is among the top ten most-visited fashion retailer sites. The brand has also built up a community of nearly 13 million on its social media sites including Facebook and Instagram. Such high visitor levels are particularly striking given the fact that, unlike many retail brands, Primark does not sell online.





SOCIAL MEDIA IMPACT

Primark's social media leadership is delivering clear results in the physical as well as virtual worlds.



INFLUENCER PARTNERSHIPS

Primark partners with around 1,000 key influencers, who help promote the brand's products on their own online channels. These include both nationally- and internationally-renowned celebrities and individuals with a more local or niche following. Sponsored product collaborations with celebrities – such as a recent activewear range developed with online fitness guru, Alice Liveing – also generate significant social media coverage.

To extend this online community, Primark encourages customers to share and tag the brand in their photos and images. For example, following the Brooklyn customer photo shoot, people who posted their favourite, PrimarkUSA-tagged shot on Instagram, had the chance of featuring in a campaign photo. In

another move to extend user engagement, in late 2018, as part of an increased focus on video channels, Primark extended its practice of replying to Facebook and Twitter posts to include Instagram too.

1,000

key influencers have partnered with Primark



Mainstream media have celebrated Primark's championing of body diversity in their campaigns





STRONG PROFIT PERFORMANCES WERE DELIVERED BY EACH OF PRIMARK, GROCERY, AGRICULTURE AND INGREDIENTS

John Bason
Finance Director



Group performance

Group revenue increased by 1% to £15.6bn and adjusted operating profit was 3% higher at £1,404m. In calculating adjusted operating profit, the amortisation charge on non-operating intangibles, profits or losses on disposal of non-current assets, transaction costs and amortisation of acquired inventory fair value adjustments are excluded. The acquired inventory fair value adjustments arose on balsamic vinegar inventory at Acetum: in accordance with accounting standards, inventory on hand at acquisition was recorded at fair value, some £69m more than the book value. This fair value adjustment is charged to the income statement as the related inventory is sold, with a charge of £23m in the year. On an unadjusted basis, operating profit was 1% higher than last year at £1,344m.

With over 60% of the group's operating profit earned outside the UK, the strengthening of sterling against most of our trading currencies, other than the euro, resulted in a loss on translation this year of £22m. US dollar weakness against the euro had a favourable transactional effect on Primark's largely dollar-denominated purchases, particularly in the second half. The movement in sterling across the year resulted in a negative transactional effect in the first half moving to a favourable effect in the second half.

Next year we expect no material translation benefit at current exchange rates. The weaker US dollar exchange rate will have a favourable transactional effect on Primark's margin in the first half and, assuming current exchange rates continue, we would expect a lower margin in the second half. However, the exchange rate applicable to purchases in the second half will be sensitive to the sterling exchange rate volatility which is likely to arise given a period of intense Brexit negotiations.

Net financing costs reduced from last year, following favourable interest rate movements affecting non-sterling denominated borrowings in southern Africa and an increase in yields on our cash deposits. Last year included the benefit of a profit on the sale of businesses and, taking this into account, statutory profit before tax was down 19% to £1,279m. On our adjusted basis, which excludes these items, profit before tax rose by 5% to £1,373m.

Acquisitions and disposals

In October 2017 we acquired Acetum S.p.A, the leading Italian producer of Balsamic Vinegar of Modena for a net consideration of £284m including debt assumed. In June 2018 our UK Ingredients business acquired Holgran, a supplier of malted grains, and Fleming Howden, an Edinburgh-based blender and distributor of bakery ingredients.

AB Agri acquired a small aerial survey and informatics company based in the UK.

In October 2018 we shut down operations at Vivergo, AB Sugar's bioethanol plant in Hull. A charge has been included for this in the loss on closure of businesses line in the income statement.

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. Our board-adopted tax strategy is based on seven tax principles that are embedded in the financial and non-financial processes and controls of the group. This tax strategy is available on the group's website at:

www.abf.co.uk/documents/pdfs/policies/abf_tax_strategy.pdf

This year's tax charge of £257m included a charge of £292m at an effective rate of 21.3% (2017 – 22.4%) on the adjusted profit before tax. The lower effective tax rate in the year is primarily due to the reduction in the US federal corporate tax rate from 35% to 21% with effect from 1 January 2018. The current and deferred impact reduced the group's effective tax rate by 1% in the financial year. We expect next year's effective tax rate for the group to be similar to the current year.

The total tax charge for the year benefited from a credit of £35m (2017 – £15m) for tax relief on the amortisation on non-operating intangible assets, amortisation of fair value adjustments on acquired inventory and goodwill arising from business combinations. The credit this year included £18m on the remeasurement of the group's US goodwill deferred tax liability following the US tax reform. Last year the total tax charge included a charge of £87m arising on the disposal of businesses.

Earnings and dividends

Earnings attributable to equity shareholders in the current year were £1,007m and the weighted average number of shares in issue during the year, which is used to calculate earnings per share, was 790 million (2017 – 790 million). Given the substantial profit on sale of businesses last year, earnings per ordinary share were 16% lower than last year at 127.5p. Adjusted earnings per share, which provides a more consistent measure of trading performance, increased by 6% from 127.1p to 134.9p.

The interim dividend was increased by 3% to 11.7p and a final dividend has been proposed at 33.3p which represents an overall increase of 10% for the year. The proposed final dividend is expected to cost £263m and will be charged next year. Dividend cover, on an adjusted basis, reduced to 3.0 times.

Balance sheet

Non-current assets of £8.4bn were £0.8bn higher than last year driven by capital expenditure ahead of depreciation, the acquisition of Acetum and an increase in employee benefits assets as the UK defined benefit pension scheme moved further into surplus.

Average working capital as a percentage of sales increased from 6.5% last year to 7.2% this year, while working capital at the year end was also higher than last year, due principally to higher inventory levels and lower sales at AB Sugar. Net cash at the year end was £614m compared with net cash at the end of last year of £673m reflecting net cash generated during the year less the purchase of Acetum, including debt acquired.

The group's net assets increased by £0.9bn to £9.3bn. Return on capital employed for the group, which is calculated by expressing adjusted operating profit as a percentage of the average capital employed for the year, was lower this year at 20.1% compared with 20.5% last year. The reduction

in the return at AB Sugar more than offset increases in Retail, Grocery, Ingredients and Agriculture.

Cash flow

Net cash inflow from operating activities declined to £1,430m with a working capital outflow of £153m this year compared to last year's inflow of £126m. Gross capital expenditure was in line with last year and amounted to £868m. Primark spent £434m of this which mainly comprised the fit-out of new and existing stores. Expenditure in the food businesses remained at a similar level to last year. £23m was realised from the sale of property, plant and equipment. The net cash outlay on acquisitions was £297m, including debt assumed, and related principally to the acquisition of Acetum.

Tax paid in the year amounted to £297m, a reduction from £356m in the previous year which included £92m arising on business disposals.

Financing

The financing of the group is managed by a central treasury department. The group has total committed borrowing facilities amounting to £1.9bn, which comprise: £0.6bn of US private placement notes maturing between 2019 and 2024, with an average fixed rate coupon of 4.6%; £1.2bn provided under a syndicated, revolving credit facility which matures in July 2021; and £0.1bn of local committed facilities in Africa. At the year end, £639m was drawn down under these committed facilities. The group also had access to £524m of uncommitted credit lines under which £125m was drawn at the year end. Cash and cash equivalents totalled £1.4bn at the year end.

Pensions

The group's defined benefit pension schemes were in surplus by £435m at the year end compared with a surplus last year of £126m. The UK scheme accounts for 91% of the group's gross pension assets and this year's surplus of £530m compared with a surplus of £233m last year. The major drivers of the year-on-year improvement were the increase in long-term bond yields, which are used to value defined benefit pension obligations for accounting purposes, and superior investment returns.

The most recent triennial valuation of the UK scheme was undertaken as at 5 April 2017 which determined a surplus of £176m on a funding basis. As a result there is no requirement to agree a recovery plan with the trustees.

The charge for the year for the group's defined contribution schemes, which was equal to the contributions made, amounted to £77m (2017 – £79m). This compared with the cash contribution to the defined benefit schemes of £39m (2017 – £36m).

New accounting standards

The accounting policies during this financial year, and details of the impact of the adoption of new accounting standards in future financial years, are set out in the Significant Accounting Policies.

During the next financial year the group will adopt two new accounting standards: IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. We have completed our review of the requirements of these standards compared to our current accounting policies and have concluded that no material impact will arise on adoption. Grocery revenue will reduce by some £30m next year as certain payments to customers which were previously expensed as incurred are instead deducted from revenue. This will have the effect of increasing Grocery operating margin by approximately 10 basis points. There will be no impact on the timing or amount of operating profit. On transition, comparatives will not be restated.

IFRS 16 *Leases* will take effect from our 2020 financial year. This will be the most significant accounting change for our group in many years. It will affect many aspects of the group accounts, including operating profit, earnings per share and net debt, as well as return on capital employed. It will not change overall cash flows, nor the economic effect of the leases to which the group is party. We plan to transition using the modified retrospective approach, in line with the majority of other major listed international groups. On transition, comparatives will not be restated. We will provide an update on our progress in our 2019 interim report, followed by fuller details of the expected impact on the group's results and financial position in the 2019 annual report.

John Bason
Finance Director

Our purpose is to provide safe, nutritious, affordable food and clothing that is great value for money. In doing these things well, we know we are doing good every day by contributing to making millions of people's lives better.

HOW WE DO BUSINESS

Associated British Foods started out as a bakery business in 1935. A great deal has changed in that time but what has remained constant is the essence of Associated British Foods. By this we mean the ethical way in which we operate.

We believe we have a duty of care in the way we do business, including: how we employ people and develop careers; ethical and environmental standards in our many supply chains; health and safety; appropriate funding of pensions; and to conserve and where possible enhance the environments in which we operate.

We aim to match our high moral expectations with the autonomy that we give to each business and the individuals employed within them. Of course, there are some requirements common to all businesses, such as ensuring that our people stay safe at work, but the best and most ethical course of action will differ according to particular markets or businesses. We recognise that the people best placed to make a decision are those who understand the local circumstances and will apply our ethical mindset.

This year, for instance, our Sugar business has set a series of commitments for how it will continually improve its sustainability performance by 2030. These include a commitment to reduce its end-to-end supply chain water and CO₂ footprints by 30% and another to ensure all its plastic packaging is reusable, recyclable, biodegradable or compostable.

While they all operate differently, our businesses have common areas of

interest: in their individual way, they each aim to make a positive difference to people's lives and to reduce their impact on our environment.

We publish a full corporate responsibility report every three years, most recently in 2016. To read this, and our 2017 and 2018 updates, please visit our website:

 www.abf.co.uk/responsibility/cr_downloads

ENGAGING WITH EXTERNAL STAKEHOLDERS

As a diversified international food, ingredients and retail group with 137,000 employees and operations in 50 countries across Europe, southern Africa, the Americas, Asia and Australia we take our responsibilities to wider society seriously.

We aim to clearly communicate the positive impact of our business, as well as explain our approach to addressing both global and local social and environmental challenges. The chief executive of each of our businesses is required to submit an annual risk survey identifying all relevant risk. To inform this process, we engage with a large number of external stakeholders, some at a group level and some at the level of our individual businesses, depending on the subject in focus.

Overleaf we provide a number of examples of these engagements focused at a group level.

Non-financial reporting information statement

The Companies Act 2006 requires the Company to disclose certain non-financial reporting information within the annual report and accounts. Accordingly, the disclosures required in the Company's Non-financial information statement can be found on the following pages in the Strategic report (or are incorporated into the Strategic report by reference for these purposes from the pages noted):

- Information on our Anti-bribery and Corruption Policy (page 58)
- Information on our Whistleblowing Policy (page 58 and page 78 in the Audit committee report)
- Information on our approach to human rights (page 59)
- Information on social matters (page 59)*
- Information on our Environment Policy (page 54)*
- Information on our employees (page 56)
- Information on diversity (page 57 and page 75 in the Nomination committee report)

* Further information on these can also be found in the 2018 Corporate Responsibility Update.

Environment, Social and Governance (ESG) assessments

With an increase in investor interest in ESG-related issues, we are engaging more than ever with both individual investors and investor-related ESG research agencies on these topics. We strive to strike the right balance between communicating around areas of specific interest to these stakeholders, and clearly representing the range of complex issues a company such as ours addresses every day. We work hard to engage with both investors and ESG research agencies to explain when our information does not fit neatly into a survey or standard question set.

Environment

Every year we share our performance in addressing climate change, water and deforestation risk via CDP, and request that our reports are publicly available on their website, www.cdp.net, as well as our own.

This enables external stakeholders – particularly investors – to review our response to these areas of environmental impact and how we are managing the risks or opportunities associated with changes in the availability of natural resources.

Human rights

We engage with a number of organisations on issues around human rights, including the Corporate Human Rights Benchmark (CHRB) and KnowTheChain. We recognise the importance of these initiatives in providing comparable assessments of business progress, and we continue to address the challenge of effectively reflecting the complexity of our diverse business within these assessments.

People

We pride ourselves on being a first-class employer and we work actively to develop capability and create opportunities for employee progression. We devote hundreds of thousands of hours in training our people, as well as millions of pounds to keep them safe. We were pleased to be one of 34 responding companies to the pilot phase of the Workforce Disclosure Initiative and have now submitted our response to the second survey.

Social

We engage with a wide range of NGOs on social matters, primarily at the level of our individual businesses due to the often local and subject-specific nature of these engagements. We have outlined many of these engagements in our Corporate Responsibility Update, primarily focused within the Our Supply Chain and Our Neighbours sections.



50%
of the ENERGY we used
came from renewable
fuel sources

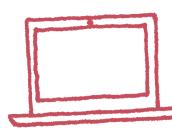


82%
of our waste was
RECYCLED

43,600 people
in OUR SUPPLY CHAIN
have been helped by
health initiatives
we've funded

We DONATED FOOD
that provided over
2.6 million
meals to people
in need

Our online
NUTRITION EDUCATION
CAMPAIGNS received over



270,000 views

We provided **OUR PEOPLE**
with **1,686,384**
hours of
training
in the last year



We provided over **14,000**
hours of **training**
for our **SUPPLIERS**
and their workers



ENVIRONMENT

We manage and measure our environmental performance across a range of issues with a particular focus on the impacts of our energy use and resultant greenhouse gas (GHG) emissions, our water use and the generation and disposal of waste. We are responding to changes in the natural environment, particularly variable weather patterns, to safeguard the availability of raw materials for all users.

Our board reviews the group and divisional environmental performance and plans annually. In parallel, our group risk management process incorporates environmental risks and opportunities; where potentially major risks are identified, these are raised to the board throughout the year via the group's risk procedures.

As a minimum, our businesses comply with current environmental legislation of the countries in which they operate. However, our global Environment Policy, which was updated in 2016, places the expectation on our businesses that they minimise any negative impacts and continuously consider and implement activities, voluntary commitments and internationally recognised management systems to reduce environmental risks.

The responsibility for achieving compliance with this policy is devolved to the chief executive officer of each of our businesses. Environmental specialists work at the local level to identify opportunities for short- and long-term solutions to changes in the climate and the availability of natural resources which may impact their direct operations and suppliers.

Each year, we provide an update on our environmental performance at the group and divisional level. We also disclose our approach towards climate change, water and deforestation risk via investor-led indices such as CDP, a not-for-profit global disclosure system for environmental management. Further detail and examples from our businesses of managing their environmental impact, can be found in our 2018 Corporate Responsibility Update. This, our full Environment Policy and CDP reports, can be found on our website:

 www.abf.co.uk/responsibility

We engaged Ernst & Young to provide limited assurance over the reliability of 14 KPIs for the year ended 31 July 2018. These are marked with the symbol Δ in these pages.

Acting on climate change

Climate change is a major global challenge, with shifting weather patterns having the potential to threaten food security, increase costs, and change consumption habits putting pressure on natural resources.

As a group with global reach, Associated British Foods' businesses have an important role to play in supporting the transition to a low-carbon economy where global warming is limited to less than two degrees Celsius. We can have an impact by investing in renewable fuel sources and other initiatives at the local level which mitigate our contribution to climate change through our factories, warehouses, transport networks, stores, offices and agricultural activities.

Our businesses also collaborate with their customers, suppliers and others in their value chain to find solutions to shared climate issues such as irregular weather patterns and security of water supply. In addition, as our understanding of the potential medium- and long-term impacts of climate change on our operating models is increasing, our

businesses are considering ways of adapting to different scenarios, which may have fundamental impacts on their ways of working.

Greenhouse gas emissions

Overall, our scope 1, 2 and 3 GHG emissions this year are 4.97 million tonnes of CO₂e which is a 2% decrease on the 5.06 million tonnes CO₂e generated last year. Scope 1 emissions are from energy we generate, owned transport, agriculture, on-site waste water treatment and air conditioning. Also included are the emissions from our production processes such as bread baking, fermentation to make yeast and ethanol production. Scope 1 emissions account for 65% of our total in-scope emissions.

We also report our emissions classified as 'out of scope' which are CO₂ emissions resulting from the use of renewable fuels. As these are considered to be net zero or carbon neutral, they are reported separately. Our Sugar division contributes just over 99% of the group's out of scope emissions from the use of bagasse and other renewable fuels.

Our greenhouse gas emissions

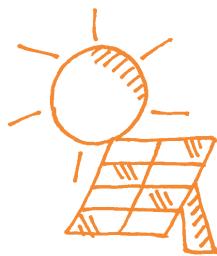
	2018 emissions (000 tCO ₂ e)	2017 emissions (000 tCO ₂ e)
Scope 1 – combustion of fuel and operation of facilities	3,159	3,152
Scope 1 – generation and use of renewables	69	65
Scope 1 Total	3,228	3,217
Scope 2 – emissions from purchased electricity, heat or steam (location method)	925	1,026
Scope 3 – indirect emissions from use of third-party transport	813	814
Total emissions (Scopes 1, 2 & 3)	4,966	5,057
Out of scope emissions	3,711	3,652

266 tonnes per £1m of revenue 276 tonnes per £1m of revenue

Emissions are calculated in alignment with the WRI/WBCSD GHG Protocol Corporate Accounting and Reporting Standard Revised and have been calculated using carbon conversion factors published by BEIS in August 2018, other internationally recognised sources and bespoke factors based on laboratory calculations at selected locations. This includes all activities where we have operational control. Location based renewable energy has been calculated in accordance with the March 2015 WRI/WBCSD GHG Scope 2 Guidance on procured renewable energy. We are unable to report a market-based emission this year but will look to do so in the future. For 2017 and 2018, Scope 3 emissions are our third-party transport emissions only. See 'Our CR Reporting Guidance 2018' for more detail.

Our greenhouse gas emissions by division

	2018 emissions (000 tCO ₂ e)		2017 emissions (000 tCO ₂ e)	
	Sugar	Other	Sugar	Other
Total emissions (Scopes 1, 2 & 3)	2,785	2,181	2,869	2,188
Out of scope emissions	3,711	0.24	3,651	0.29



Scope 1, 2 and 3 GHG emissions (000 tonnes CO₂e)

2014	5,242
2015	5,629
2016	5,258
2017	5,057
2018Δ	4,966

Energy use

In 2018, our absolute use of energy was 23,200 GWh Δ, which is slightly less than the 23,300 GWh we used in 2017. Our Sugar businesses consumed 82% of the group's energy this year.

Some of our sites are deemed 'energy positive' which means that they have the ability to generate energy on-site which is surplus to their needs. When this happens, they export it to the national grid or other organisations. In 2018, we exported 825 GWh of energy which is a 3% reduction compared with last year. Over 790 GWh of our exported energy, 96% of the total, was electricity generated mainly by our sugar and yeast factories in CHP plants which create steam and electricity. In fact, our British Sugar sites contributed 84% of the total exported electricity. Of our total exported energy, 4% was biogas generated by AB Agri's UK anaerobic digestion plant which operated for its first full year throughout 2018.

Energy consumption (GWh) and proportion from renewable sources

2014	25,400	54%
2015	25,000	50%
2016	22,800	49%
2017	23,300	49%
2018Δ	23,200	50%

Water usage

In 2018, we abstracted just over 837 million m³ Δ of water for our use. This is a 3% increase compared with 2017. With improved weather conditions for most of our agricultural sites, increased levels of water were available to irrigate crops. However, some of our businesses have again experienced water challenges this year including continued drought, floods and irregular rainfall. Illovo's water use accounts for 96% of the group's total water during the year.

Our businesses continue to invest in initiatives to reduce water abstraction per tonne of product and reuse water in our operations. This year, over 228 million m³ of water has been reused by our operations which is a 13% increase compared with last year.

Water abstracted (million m³)

2014	1,200
2015	925*
2016	800
2017	811
2018Δ	837

* Data restated. Please see 'Our CR Reporting Guidance 2018' for more detail.

Waste management

We have generated over 770,000 tonnes Δ of waste this year. Last year, we reported 1.2 million tonnes of waste but have since identified an error in this figure. This was due to double-counting the recycled and non-hazardous waste generated by our sugar factories in China and, on adjustment, we should have reported 1 million tonnes in 2017 for the group. This means there has been a 23% decrease compared with 2017. Hazardous and non-hazardous waste sent for disposal decreased by 15% and recycled waste decreased by 24% this year to 631,000 tonnes Δ. As a proportion of the total amount, waste which was recycled, recovered or had another beneficial use was 82% of our total waste.

Waste disposed (000 tonnes) and proportion recycled

2014	1,100	84%
2015	862*	78%
2016	1,000	78%
2017	1,000*	83%
2018Δ	770	82%

* Data restated. Please see 'Our CR Reporting Guidance 2018' for more detail.

Packaging

The quantity of packaging used for the containment, protection and safety of our products this year was 256,000 tonnes Δ. This is a 6% increase from 2017. During the year we have increased the number of sites and acquired a new business which have contributed to this increased packaging figure. A number of our businesses have also adapted their product mix this year in response to consumer demand and this has, in part, led to an increase in packaging materials used. For example, market requirements for smaller bags of food and ingredients to reduce food waste and costs have resulted in increased packaging for some of our businesses. However, our businesses are making progress in finding alternative packaging materials which weigh less or require less bulk.

Quantity of packaging used (000 tonnes)

2014	230
2015	238
2016	248
2017	243
2018Δ	256

Environmental compliance

In 2018, we received 64 environmental complaints about our operations, 16 fewer than last year. We also received four environmental fines Δ totalling £33,000 Δ. These were due to the treatment of waste water, management of on-site waste, gas emissions and dust control. The sites have addressed the issues and liaised with the local authorities and regulators to ensure standards are met consistently.

PEOPLE

Our priority is to safeguard the safety and wellbeing of all our employees and those who work with us.

We also want our employees to have opportunities to grow and progress as part of an enjoyable career. While our approach to human resource management is decentralised, with flexibility given to each of the businesses, as a group we abide by the following principles:

- we are committed to providing a safe and healthy workplace to protect all employees, contractors and visitors from foreseeable work hazards and reach zero-harm;
- we are committed to offering equal opportunities in recruitment, training, career development and promotion to all people, whatever their disability, sex, age, race, religion or sexual orientation. We also proactively support our people when they are pregnant or new parents;
- 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;
- sexual, mental or physical harassment in the workplace will not be tolerated. It is expected that incidents of harassment are reported to the appropriate human resources director;
- employees and their representatives are briefed and consulted on all relevant matters on a regular basis in order to take their views into account with regard to decision-making and to achieve a common awareness of all the financial and economic factors affecting the performance of the group. Information relevant to the employees is provided systematically to employees; and
- 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.

View all Company policies at:

 www.abf.co.uk/responsibility

Number of employees

2014	118,209
2015	124,036
2016	129,916
2017	132,590
2018	137,014

Safety

Loss of life in our operations is entirely unacceptable and we are deeply saddened to report four fatalities Δ this year. Two contractors in our cane operations in Malawi were fatally injured by moving vehicles in two separate incidents. An employee was involved in an accident while travelling on his motorbike in our Zambian cane estate. An employee in New Zealand was also involved in a traffic accident on a public road.

Our first priority was to support their families and co-workers. Following all the tragic events, we have thoroughly investigated the causes so that we learn from what happened; implementing new corrective and preventative processes where needed.

As well as sharing the investigations with all people at the sites, our health and safety managers have shared the findings with their colleagues across the group so that we all reinvigorate our focus to work with no loss of life.

Our approach to safety

Within each business, we have safety-conscious leaders who create a safe working culture. They are supported by formal safety committees at all our sites; management and employee representatives work together to identify and solve significant safety and ill-health issues and to further promote a strong safety culture for employees and on-site contractors. Over the year, innovative approaches, such as the use of internal social media or safety awards, have been implemented to continuously engage employees in safe working practices.

Each business manages their safety programmes to suit their type of operation which ranges from labour-intensive agricultural operations employing seasonal workers to pharmaceutical laboratories with highly skilled employees. However, all businesses must comply with the group's Health and Safety Policy and

annually report to Associated British Foods' board their performance and progress on safety indicators. Where serious incidents occur, or performance does not improve, our business level chief executive officers and safety management are required to implement action plans to address these issues.

The Health and Safety Policy is available on our website at www.abf.co.uk/responsibility. Below, we share information from the last financial year on our safety performance. Further detail, including examples of safety programmes, can be found in the 2018 Corporate Responsibility Update.

Injuries to employees and contractors

This year, 73% of our factories and stores achieved a year's operation without any Reportable Injuries and 63% did not have a Lost Time Injury. During 2018, we recorded 833 Lost Time Injuries to employees Δ which is an 8% increase compared with last year. The number of injuries equates to a Lost Time Injury rate of 0.80%. There was an increase in the Reportable Injuries to employees, from 594 in 2017 to 663 this year, which equates to 0.63% of our employees having a Reportable Injury. The board of Associated British Foods receives regular updates on the business level safety trends and ensures the chief executive officers of each business are accountable when improvements in performance are required.

Reportable Injury Rate

2014	0.40%
2015	0.48%
2016	0.47%
2017	0.59%
2018	0.63%

Health and safety fines

During 2018, we received four safety fines Δ totalling £4,000 Δ for breaches of safety regulations. This is a 33% reduction on the number of fines received last year and a 95% decrease on the associated costs. All the businesses involved are required to report to the Associated British Foods' Safety and Environment Manager when and how remedial actions are implemented.

Investing in safety

Our businesses invested over £30m in safety risk management over the last 12 months. This includes investments in improving working in confined spaces and at height, fire risk assessments and equipment upgrades, dust monitoring and air quality, improvements to lighting and safety signage and emergency first aid training.

Our goals remain to eliminate fatalities and continuously improve our safety performance.

Promoting diversity

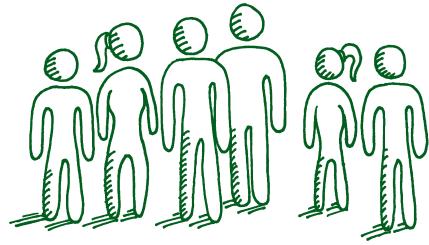
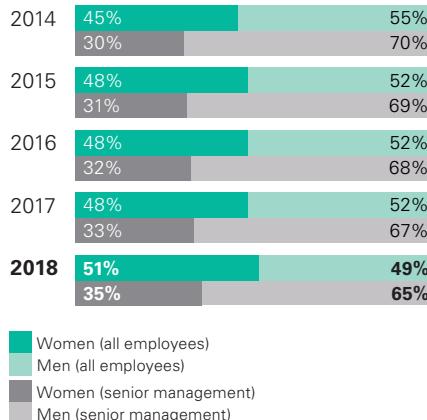
We recognise that diversity is essential for introducing different perspectives into debate and decision-making. For details on diversity as it relates to the board of the Company, please see page 75.

Looking beyond the board to the group's wider workforce, we recognise that true diversity can only be achieved when the entire workforce is committed to delivering it. Given the decentralised nature of the group, policies to promote diversity in the workforce are developed and implemented locally within each of the businesses. However, there are a number of ongoing initiatives across Associated British Foods which aim to promote diversity:

- a groupwide gender diversity task force includes representation from across the businesses and has, as one of its principal objectives, the aim of ensuring that there are no barriers preventing talented people from succeeding;

- senior and high-potential women are invited to join the Women's Business Forum, which meets several times a year providing a chance for networking, learning and support for personal career development;
- the group's Two-way Mentoring Programme aims to grow the talent pipeline by matching high-potential women and men, nominated by their business units, with senior leaders around the group who support their career development and broaden their business experience. In return the senior leaders have the opportunity to learn about another business or function, understand the perspectives of women working within them and develop their own listening and coaching skills; and
- managers being trained in 'unconscious bias', which aims to build awareness and challenge commonly-held myths around diversity.

Gender balance in workforce



Gender Pay Gap reporting

This year, for the second time, we have chosen to report on the gender pay gap that relates to our total employee population in Great Britain as at 5 April 2018. Please note that more than half of our workforce is employed outside Great Britain and is therefore not included in this analysis. In addition, and as required by the UK Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, we submit data for our relevant legal entities to the UK Government through their website.

The situation remains largely unchanged since last year: at the mean, women's hourly pay rate is 32% lower than that of men; and women's mean bonus pay rate is 51% lower than men's.

Overall, the gender balance of Associated British Foods is fairly equal, with women making up 51% of our total global workforce. However, like most companies, women are less well represented at the top – they hold three quarters of the roles in the lowest paid quartile yet only just over a third of the roles in the upper pay quartile. This is partly influenced by the fact that we have a large number of retail staff on relatively low pay and a higher proportion of these are women.

Gender balance at the top of the group changes slowly because we have a stable senior team, who are mostly men, with long tenure. This also means that more men than women receive a bonus.

Gender metrics

Associated British Foods plc board directors are not included in the table below. We currently have two women and seven men on the Company's board.

	Total employees*	Men in workforce	Women in workforce	Percentage of workforce who are women	Number of senior management roles**	Number of men in senior management roles	Number of women in senior management roles	Percentage of senior management who are women
Grocery	16,882	11,312	5,570	33%	900	566	334	37%
Sugar	32,542	27,421	5,121	16%	198	143	55	28%
Agri	2,388	1,719	669	28%	327	209	118	36%
Ingredients	6,770	5,058	1,712	25%	548	403	145	26%
Retail	78,016	21,300	56,716	73%	261	136	125	48%
Central	416	250	166	40%	55	38	17	31%
TOTAL	137,014	67,060	69,954	51%	2,289	1,495	794	35%

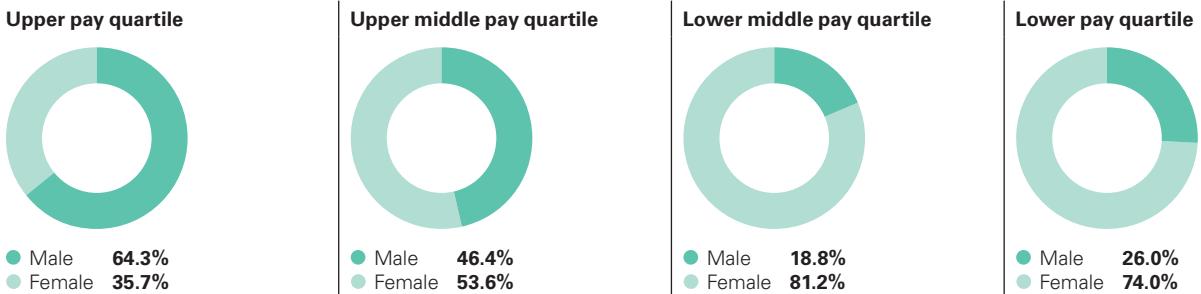
* Full-time, part-time and seasonal/contractors. ** Includes directorships of subsidiary undertakings.

PEOPLE CONTINUED

Gender Pay Gap reporting

At the mean, women's hourly pay rate is 32.3% lower than that of men	At the median, women's hourly pay rate is 31.3% lower than that of men	At the mean, women's bonus pay rate is 50.6% lower than that of men	At the median, women's bonus pay rate is 48.1% higher than that of men
17.6% of men received a bonus		5.5% of women received a bonus	

Proportion of men and women in each pay quartile



Gender pay and bonus gaps are calculated by comparing the mean (average) and median (central value in the data list) measures for women to that of men and identifying the percentage difference between the two.

The presence of these senior men in the bonus pool has a distorting effect on the mean bonus gap. The median bonus demonstrates a gap in favour of women. This difference also reflects the varying composition of bonuses across our different businesses.

Across our businesses, we are investing in programmes that will help to close this gap (see previous section) and acknowledge that this will take time to achieve. In 2017 and 2018, 23% of the people who report to members of our executive committee were women, data we have shared with the Hampton-Alexander report.

Anti-Bribery and Corruption Policy
We are committed to maintaining the highest standards of ethics and compliance with all relevant laws wherever we do business. Compliance with anti-bribery and anti-corruption laws is an essential part of this.

We maintain a robust compliance system which is designed to respect both the spirit and the letter of anti-bribery and corruption laws, and anyone who represents us is required to do the same.

Our Anti-Bribery and Corruption Policy and related procedures apply to all our people. They set out the behaviours and principles required and contain guidance on issues such as engaging new suppliers and other third parties, and the giving and receiving of gifts, hospitality and entertainment.

To ensure the effective implementation of our policy and procedures, each business has its own designated Anti-Bribery and Corruption Officer and we have monitoring systems in place at various levels within the group including global risk assessments. In addition, all relevant employees are required to complete an e-learning course on the subject when they join the Company and at regular intervals thereafter, and those who work in higher risk roles are also required to attend regular face-to-face training. We encourage our people to report any concerns that they may have and a confidential and independent whistleblowing service is in place to facilitate this.

A copy of the group's Anti-Bribery and Corruption Policy is available at:

 www.abf.co.uk/responsibility

Whistleblowing Policy

Effective and honest communication is essential if malpractice and wrongdoing are to be dealt with effectively. Our Whistleblowing Policy provides guidelines for people who feel they need to raise certain issues in confidence. It is designed to protect those raising a genuine concern, in line with the Public Interest Disclosure Act 1998 or other jurisdictional legislation.

We have a whistleblowing telephone hotline in place, managed by Expolink, which can be used by our people, or others, wherever they work in the world. Any calls made to the hotline are disseminated to the senior management team responsible for investigating issues raised. A thorough investigation is then undertaken and any remedial action agreed as necessary.

A copy of the group's Whistleblowing Policy is available at:

 www.abf.co.uk/responsibility

HUMAN RIGHTS AND SOCIAL

The group's intention has always been to do the right thing for our people and the wider community. Examples of how this works in practice can be found in the 2018 Corporate Responsibility Update.

Human rights

We provide opportunities that promote human rights and dignity every day through the employment we create, both directly and indirectly in our global supply chains, and through the positive contribution our products make to people's lives.

We engage and collaborate with a broad range of interested and concerned stakeholder groups, seeking to remain sensitive to the risks of adverse human rights impacts resulting from our products, services and operations. While respecting all human rights throughout the business, including those relating to working conditions and employment, we know we must focus our efforts where we have the greatest potential or actual

impact. Last year, in alignment with the United Nations Guiding Principles on Business and Human Rights (UNGPs) we shared detail of our activities to respect human rights through our operations, supply chain and business relationships.

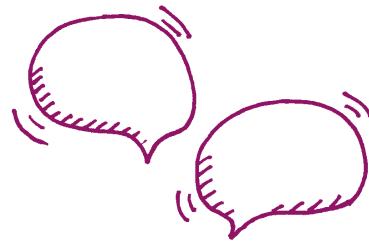
Our approach to human rights is set out in our groupwide Modern Slavery and Human Trafficking Statement and is primarily led by our Supplier Code of Conduct and Whistleblowing Policy.

This year, we are pleased that more of our businesses have produced independent statements in accordance with the UK Modern Slavery Act. Furthermore, many of them are openly engaging with a range of stakeholders on issues relating to human rights. You can find links to all of these statements via the Responsibility pages of our website:



www.abf.co.uk/responsibility

Many of our businesses have engaged in activities that align with the



internationally recognised framework of the UNGPs:

- **Policy:** AB Agri published a human rights policy outlining its commitment to respecting human rights. Primark updated its supplier code of conduct to encompass more stringent criteria surrounding human rights.
- **Due diligence:** Twinings has sought to understand the actual and potential human rights risks throughout the value chain and our Sugar businesses conducted due diligence to understand the different risks across their various operations (see case studies).
- **Remedy:** Over the last few years, Primark has been working to review, revise and improve its approach to remedy and the grievance mechanisms it has to offer.

Case study: Twinings' work to assess risks to human rights

The scope and size of Twinings' Social Impact Team has grown year-on-year, allowing the business to devote more resources to assessing working conditions associated with the supply of high-profile and high-risk commodities.

The team recently worked with a global sustainability organisation to undertake a human rights assessment of its whole operations and supply chain. They worked with human rights experts to map Twinings' value chain against every human rights risk (as defined in the International Bill of Rights) and consider how each group could be negatively impacted. This was complemented and enhanced with a thorough document review and interviews to explore how human rights risks manifest in specific areas of the value chain.

Over the coming year, Twinings will review and integrate the recommendations in the report to attempt to mitigate the salient risks identified. In addition, it continues to address these issues through its Sourced with Care programme which aims to improve the quality of life in the communities from which it sources.

Case study: Increased transparency at Primark

As it does not own any factories, Primark's suppliers manufacture products on its behalf. Primark is very selective about who it works with and, to ensure its products meet its high ethical and environmental expectations, every factory that supplies to it must commit to meeting internationally recognised standards before the business places an order.

This year, it published information about the factories which manufacture products for Primark on its website. The factories featured on Primark's Global Sourcing Map are Primark's suppliers' production sites which represent over 95% of Primark products for sale in Primark stores. A factory is detailed on the Map only after it has produced products for Primark for a year and has become an established supplier. The Global Sourcing Map includes information about suppliers' factories in the 28 countries from which Primark sources product and includes details of individual factory names, addresses as well as the number of workers and gender split of the workforce.

You can find the map via this link:



www.primark.com/en/our-ethics/people-production/global-sourcing-map

Case study: Understanding risks of modern slavery in our Sugar businesses

Our Sugar businesses have undertaken a mapping exercise to identify the potential modern slavery risks. This is a consequence of previous mapping and risk identification processes working with experts, customers and local stakeholders. The mapping identified areas in each business's value chain which have potential risks:

- British Sugar – Bought-in products;
- Azucarera – Purchasing of raw cane sugar for its refinery in Guadalete;
- Illovo Sugar Africa – Services supplied to our growers; and
- AB Sugar China – Services supplied to our growers.

In addition to their readiness to work with stakeholders and communities, they will give additional focus to these potential risk areas above, working with the individual businesses in the region and continue to update our knowledge through risk mapping to reflect emerging challenges in the future.

EFFECTIVE RISK MANAGEMENT

Our approach to risk management

The delivery of our strategic objectives and the sustainable growth (or long-term shareholder value) of our business, is dependent on effective risk management. We regularly face business uncertainties and it is through a structured approach to risk management that we are able to mitigate and manage these risks, and embrace opportunities when they arise.

The diversified nature of our operations, geographical reach, assets and currencies are important factors in mitigating the risk of a material threat to the group's sustainable growth and long-term shareholder value. However, as with any business, risks and uncertainties are inherent in our business activities. These risks may have a financial, operational or reputational impact. Our structured and robust approach to risk management means we are able to mitigate and manage these risks and maximise opportunities when they arise.

The board is accountable for effective risk management; agreeing the principal risks facing the group and ensuring they are successfully managed. The board undertakes an annual assessment of the principal risks, including those that would threaten the business model, future performance, solvency or liquidity. The board also monitors the group's exposure to risks as part of the performance reviews conducted at each board meeting. Financial risks are specifically reviewed by the Audit committee.

Each year, the Audit committee on behalf of the board reviews the effectiveness of the group's approach to risk management including the internal control procedures and resources devoted to them.

Our decentralised business model empowers the management of our businesses to identify, evaluate and manage the risks they face, on a timely basis, to ensure compliance with relevant legislation, our business principles and group policies.

Our businesses perform risk assessments which consider materiality, risk controls and specific local risks relevant to the markets in which they operate. The collated risks from each business are shared with the respective divisional chief executives who present their divisional risks to the group executive.

The group's Director of Financial Control receives the risk assessments on an annual basis and, with the Group Finance Director, reviews and challenges them with the divisional chief executives. These risks and their impact on business performance are reported during the year and are considered as part of the monthly management review process.

Group functional heads including Legal, Treasury, Tax, IT, Pensions, HR, Procurement and Insurance also provide input to this process, sharing with the Director of Financial Control their view of key risks and what activities are in place or planned to mitigate them.

A combination of these perspectives with the business risk assessments create a consolidated view of the group's risk profile. A summary of these risk assessments is then shared and discussed with the Group Finance Director and Chief Executive at least annually.

The Director of Financial Control holds meetings with each of the non-executive directors seeking their feedback on the reviews performed and discussing the key risks and mitigating activities. Once all non-executive directors have been consulted, a board report is prepared summarising the full process and providing an assessment of the status of risk management across the group. The key risks, mitigating controls and relevant policies are summarised and the board confirms the group's principal risks. These are the risks which could prevent Associated British Foods from delivering its strategic objectives. This report also details when formal updates relating to the key risks will be provided to the board throughout the year.

Key areas of focus this year

Effective risk management processes and internal controls

We continued to seek improvements in our risk management processes to ensure the quality and integrity of information and the ability to respond swiftly to direct risks. During the year, the Audit committee on behalf of the board conducted reviews on the effectiveness of the group's risk management processes and internal controls in accordance with the UK Corporate Governance Code.

Our approach to risk management and systems of internal control is in line with the recommendations in the Financial Reporting Council's (FRC) revised guidance 'Risk management, internal control and related financial and business reporting' (the Risk Guidance). The board is satisfied that internal controls were properly reviewed and key risks are being appropriately identified and managed.

Brexit

In 2016, we identified the UK's decision to leave the European Union as having had some immediate impact on our results as a consequence of the effect on currency markets.

As the UK Government continues its negotiations, uncertainty remains as to the extent to which our operations and financial performance will be affected in the longer term. At a group and business

level, we have continued to prepare for changes in legislation, trade agreements and working practices in order to take advantage of the changing commercial landscape and to mitigate risk.

We have contributed to government-led consultations on the potential changes and their likely impact on businesses and markets to help inform the exit strategy.

Our principal risks and uncertainties

The directors have carried out a robust assessment of the principal risks facing Associated British Foods, including those that would threaten its business model, future performance, solvency or liquidity. Outlined below are the group's principal risks and uncertainties and the key mitigating activities in place to address them. These are the principal risks of the group as a whole and are not in any order of priority.

Associated British Foods is exposed to a variety of other risks related to a range of issues such as human resources and talent, community relations, the regulatory environment and competition. These are managed as part of the risk process and, a number of these are referred to in our 2018 Corporate Responsibility Update. Here, we report the principal risks which we believe are likely to have the greatest current or near-term impact on our strategic and operational plans and reputation.

They are grouped into external risks, which may occur in the markets or environment in which we operate, and operational risks, which are related to internal activity linked to our own operations and internal controls.

The 'Changes since 2017' describe our experience and activity over the last year.

EXTERNAL RISKS

RISK TREND	MITIGATION	CHANGES SINCE 2017
UNCHANGED ➔ MOVEMENT IN EXCHANGE RATES AND INFLATION <p>Context and potential impact Associated British Foods is a multinational group with operations and transactions in many currencies.</p> <p>Changes in exchange rates give rise to transactional exposures within the businesses and to translation exposures when the assets, liabilities and results of overseas entities are translated into sterling upon consolidation.</p>	<p>Our businesses which are impacted by exchange rate volatility and currency depreciation constantly review their currency-related exposures.</p> <p>Board-approved policies require businesses to hedge all transactional currency exposures and long-term supply or purchase contracts which give rise to currency exposures, using foreign exchange forward contracts.</p> <p>Cash balances and borrowings are largely maintained in the functional currency of the local operations.</p> <p>Cross-currency swaps are used to align borrowings with the underlying currencies of the group's net assets (refer to note 24 to the financial statements for more information).</p>	<p>Sterling has strengthened against most of our major trading currencies this year, other than the euro, resulting in a loss on translation this year of £22m.</p> <p>Although Primark covers its currency exposure on purchases of merchandise denominated in foreign currencies when orders are placed, this hedging activity typically covers a period of only six months. US dollar weakness against the euro has had a favourable transactional effect on Primark's largely dollar denominated purchases, particularly in the second half.</p>
UNCHANGED ➔ FLUCTUATIONS IN COMMODITY AND ENERGY PRICES <p>Context and potential impact Changes in commodity and energy prices can have a material impact on the group's operating results, asset values and cash flows.</p>	<p>We constantly monitor the markets in which we operate and manage certain of these exposures with exchange traded contracts and hedging instruments.</p> <p>The commercial implications of commodity price movements are continuously assessed and, where appropriate, are reflected in the pricing of our products.</p> <p>We operate a diverse portfolio of commodities across a number of geographies.</p>	<p>EU and world sugar prices were lower than last year which had a negative effect on Sugar profitability.</p> <p>Wheat prices have increased significantly during the year in the UK. Failure to recover these increases would adversely affect the future profitability of our bakery businesses.</p>

EXTERNAL RISKS CONTINUED

RISK TREND	MITIGATION	CHANGES SINCE 2017
<p>INCREASED  OPERATING IN GLOBAL MARKETS</p> <p>Context and potential impact Associated British Foods operates in 50 countries with sales and supply chains in many more, so we are exposed to global market forces; fluctuations in national economies; societal unrest and geopolitical uncertainty; a range of consumer trends; evolving legislation and changes made by our competitors. Failure to recognise and respond to any of these factors could directly impact the profitability of our operations. Entering new markets is a risk to any business. This risk category is a consolidation of risks which were disclosed separately last year.</p>	<p>Our approach to risk management incorporates potential short-term market volatility and evaluates longer-term socio-economic and political scenarios.</p> <p>The group's financial control framework and board-adopted tax and treasury policies require all businesses to comply fully with relevant local laws.</p> <p>Provision is made for known issues based on management's interpretation of country-specific tax law, EU cases and investigations on tax rulings and their likely outcomes.</p> <p>By their nature socio-political events are largely unpredictable. Nonetheless our businesses have detailed contingency plans which include site-level emergency responses and improved security for employees.</p> <p>We engage with governments, local regulators and community organisations to contribute to, and anticipate, important changes in public policy.</p> <p>We conduct rigorous due diligence when entering, or commencing business activities in new markets.</p>	<p>Following the abolition of EU sugar quotas from October 2017, AB Sugar continues to reduce its cost base through its performance improvement programme.</p> <p>We acquired a leading Italian producer of balsamic vinegar during the year, after thorough due diligence was undertaken.</p> <p>We reviewed and updated contingency plans across our businesses.</p>
<p>UNCHANGED  HEALTH AND NUTRITION</p> <p>Context and potential impact Failure to adapt to changing consumer health choices or to address nutrition concerns in the formulation of our products could result in a loss of consumer base and impact business performance. We act responsibly across the spectrum of food poverty and malnutrition to obesity.</p>	<p>Consumer preferences and market trends are monitored continually.</p> <p>Recipes are regularly reviewed and reformulated to improve the nutritional value of our products.</p> <p>All of our grocery products are labelled with nutritional information.</p> <p>We develop partnerships with other organisations to promote healthy options.</p>	<p>Our businesses continue to review their products and to partner with others to enable a swift and innovative response to changing consumer needs. Our Sugar and Grocery businesses have supported healthy eating campaigns again this year to help consumers make informed choices about their food.</p> <p>A number of our products have undergone reformulation this year to provide consumers with healthier choices.</p>

OPERATIONAL RISKS

RISK TREND	MITIGATION	CHANGES SINCE 2017
UNCHANGED ➔ WORKPLACE HEALTH AND SAFETY <p>Context and potential impact Many of our operations, by their nature, have the potential for loss of life or workplace injuries to employees, contractors and visitors.</p>	<p>Safety continues to be the number one priority for our businesses. The chief executives of each business, who lead by example, are accountable for the safety performance of their business.</p> <p>Our Health and Safety Policy and practices are firmly embedded in each business, supporting a strong ethos of workplace safety.</p> <p>We have a continuous safety audit programme to verify implementation of safety management and support a culture of continuous improvement.</p> <p>Best practice safety and occupational health guidance is shared across the businesses, co-ordinated from the corporate centre, to supplement the delivery of their own programmes.</p>	<p>During the year there has been a 5% increase in our employee Lost Time Injury rate to 0.80%. Our businesses conduct thorough root cause analyses to learn from accidents and implement safety changes.</p> <p>The safety performance of the group, with updates by division, is reported in the 2018 Corporate Responsibility Update at www.abf.co.uk/responsibility.</p>
UNCHANGED ➔ PRODUCT SAFETY AND QUALITY <p>Context and potential impact As a leading food manufacturer and retailer, it is vital that we manage the safety and quality of our products throughout the supply chain.</p>	<p>Product safety is put before economic considerations.</p> <p>We operate strict food safety and traceability policies within an organisational culture of hygiene and product safety to ensure consistently high standards in our operations and in the sourcing and handling of raw materials and garments.</p> <p>Food quality and safety audits are conducted across all our manufacturing sites, by independent third parties and customers, and a due diligence programme to ensure the safety of our retail products.</p> <p>Our sites comply with international food safety and quality management standards and conduct regular mock product incident exercises.</p>	<p>We did not have any major product recalls. Businesses have continued to define and refine KPIs in this area.</p>
UNCHANGED ➔ OUR USE OF NATURAL RESOURCES AND MANAGING OUR ENVIRONMENTAL IMPACT <p>Context and potential impact Our businesses rely on a secure supply of natural resources some of which are vulnerable to external factors such as natural disasters and climate change. Our material environmental impacts are energy use and resultant greenhouse gas emissions, water use and waste generation.</p> <p>Our operations generate a range of emissions such as dust, waste water and waste which, if not controlled, could lead to a risk to the environment and local communities.</p>	<p>We continuously seek ways to improve the efficiency of our operations, use technologies and techniques to reduce our use of natural resources and adapt operations to climate change in order to positively contribute to local environments and minimise impact.</p> <p>We monitor developments and engage with governmental bodies on climate change; we limit reliance on certain resources such as fossil fuels and respond to changes such as carbon pricing and energy supply.</p> <p>Our businesses aim to be a good neighbour within their local communities. One aspect of this is the monitoring and management of noise, particle and odour pollution.</p>	<p>The environmental performance of the group, with updates by division, is reported in the 2018 Corporate Responsibility Update at www.abf.co.uk/responsibility.</p> <p>We annually report our approach to climate change, water and deforestation risk via CDP at www.cdp.net.</p> <p>Our UK Grocery business has signed the UK Plastics PACT 2025. There is an ongoing initiative to explore the possibility of using alternative packaging materials.</p> <p>Our Sugar business sets commitments for its own operations and supply chain to improve sustainability performance by 2030.</p>

OPERATIONAL RISKS CONTINUED

RISK TREND	MITIGATION	CHANGES SINCE 2017
<p>UNCHANGED ➔ OUR SUPPLY CHAIN AND ETHICAL BUSINESS PRACTICES</p> <p>Context and potential impact Our suppliers are essential to the successful operation of the group.</p> <p>We therefore work with them to ensure reliability and to help them meet our standards of product quality and safety, financial stability, ethics, technical competence and people safety.</p> <p>Potential supply chain and ethical business practice risks include:</p> <ul style="list-style-type: none"> • reputational damage through supply chain weaknesses e.g. poor conditions for workers; • unacceptable and unethical behaviour including bribery, corruption and slavery risk; • impact on reliability of supply and business continuity due to unforeseen incidents e.g. natural disasters; and • long-term sustainability of key suppliers. 	<p>Our Supplier Code of Conduct is designed to ensure suppliers, representatives and all with whom we deal, adhere to our values and standards.</p> <p>The full Code is available at www.abf.co.uk/supplier_code_of_conduct.</p> <p>Suppliers are expected to sign and abide by this Code.</p> <p>Adherence to the Code is verified through our supplier audit system with our procurement and operational teams establishing strong working relationships with suppliers to help them meet our standards.</p> <p>All businesses are required to comply with the group's Business Principles including its Anti-Bribery and Corruption Policy.</p>	<p>Primark launched a training course on Forced Labour and Modern Slavery for suppliers.</p> <p>Primark have a current initiative to identify ways to make it easier, for anyone affected by these issues, to raise a grievance and to ensure that it is addressed appropriately.</p> <p>Primark conducted a review of global grievance systems and industry codes of conduct to help them consider ways to make it easier for anyone affected to raise grievances and ensure that these are addressed effectively.</p> <p>Our Modern Slavery and Human Trafficking Statement 2018 and the steps we take to try to ensure that any forms of modern slavery are not present within our own operations or supply chain are reported in detail in the 2018 Corporate Responsibility Update at www.abf.co.uk/responsibility.</p> <p>Primark and Twinings published sourcing maps.</p>
<p>INCREASED ↕ BREACHES OF IT AND INFORMATION SECURITY</p> <p>Context and potential impact To meet customer, consumer and supplier needs, our IT infrastructure needs to be flexible, reliable and secure to allow us to interact through technology.</p> <p>Our delivery of efficient and effective operations is enhanced by the use of relevant technologies and the sharing of information. We are therefore subject to potential cyber-threats such as computer viruses and the loss or theft of data.</p> <p>There is the potential for disruption to operations from data centre failures, IT malfunctions or external cyber-attacks.</p> <p>During the year regulatory requirements were enhanced, across Europe, with the enactment of the General Data Protection Regulation (GDPR) 2018.</p>	<p>In parallel to developing our technology systems, we invest in developing the IT capabilities of our people across our businesses.</p> <p>We monitor and address any cyber-threats and suspicious IT activity.</p> <p>We have established processes, group IT security policies and technologies in place, all of which are subject to regular internal audit.</p> <p>Access to sensitive data is restricted and closely monitored.</p> <p>Robust disaster recovery plans are in place for business-critical applications.</p> <p>Technical security controls are in place over key IT platforms with the Chief Information Security Officer (CISO) tasked with identifying and responding to potential security risks.</p>	<p>During the year we have appointed a CISO.</p> <p>We have adopted the Cyber Security Framework from the US National Institute of Science and Technology (NIST) to describe and measure the capabilities required for cyber resilience.</p> <p>There is an ongoing programme of investment in both technology and people to enhance our cyber-security capabilities.</p> <p>An extensive programme of work was completed to ensure that we comply with the requirements of GDPR.</p>

The directors have determined that the most appropriate period over which to assess the Company's viability, in accordance with the UK Corporate Governance Code, is three years. This is consistent with the group's business model which devolves operational decision-making to the businesses, each of which sets a strategic planning time horizon appropriate to its activities which are typically of three years duration. The directors also considered the diverse nature of the group's activities and the degree to which the businesses change and evolve in the relatively short term.

The directors considered the group's profitability, cash flows and key financial ratios over this period and the potential impact that the Principal Risks and Uncertainties set out on pages 60 to 64 could have on the solvency or liquidity of the group. Sensitivity analysis was applied to these metrics and the projected cash flows were stress tested against a range of scenarios.

The directors considered the level of performance that would cause the group to breach its debt covenants, the financial implications of making any strategic acquisitions and a variety of factors that have the potential to reduce profit substantially. These included the rate and success of Primark's expansion; actions which could damage the group's reputation for the long term; and macroeconomic influences such as fluctuations in world currency and commodity markets and the implications of the UK's withdrawal from the EU.

Such is the diversity of the group, with operations across 50 countries and sales in more than 100, that none of the principal risks or uncertainties individually is considered likely to have a material impact on the group's profitability or extensive cash resources. Furthermore, the group's business model means that no significant reliance is placed on any one group of customers or suppliers and its diversity reduces the risk that issues affecting a particular sector will have a material impact on the group as a whole.

At 15 September 2018, £1.2bn of committed borrowing facilities available to the group were undrawn and the directors are of the opinion that substantial further funding could be secured, at relatively short notice, should the need arise. The revolving credit facility is not due for renewal until July 2021 and over £300m of the private placement funding matures beyond the period under consideration.

The group has a sound track record of delivering strong cash flows, with well in excess of £1bn of operating cash being generated in each of the last eight years. This has been more than sufficient to fund expansionary capital investment and, specifically, has enabled the development of Primark in continental Europe and the US. The group's cash flows have supported 8% compound annual growth in the dividend over the last ten years.

Even in a worst case scenario, with risks modelled to materialise simultaneously and for a sustained period, the likelihood of the group having insufficient resources to meet its financial obligations is remote. Based on this assessment, the directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 18 September 2021.

On behalf of the board.

Michael McLintock
Chairman

George Weston
Chief Executive

John Bason
Finance Director

EFFECTIVE LEADERSHIP AND STRONG GOVERNANCE



Michael McLintock
Chairman (age 57)

N R

Michael was appointed a director in November 2017 and Chairman in April 2018. He was formerly chief executive of M&G, retiring in 2016, having joined the company in 1992 and being appointed chief executive in 1997. In 1999 he oversaw the sale of M&G to Prudential plc where he served as an executive director from 2000 until 2016. Previously he held roles in investment management at Morgan Grenfell and in corporate finance at Morgan Grenfell and Barings.

He has in-depth knowledge of the financial sector and proven experience of growing businesses.

Other appointments:

He is a Trustee of the Grosvenor Estate, the non-executive Chairman of Grosvenor Group Limited, a special advisor to Neptune Investment Management, a member of the advisory board of Bestport Private Equity Limited and a member of the Takeover Appeal Board.



George Weston
Chief Executive (age 54)

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 Witton Investments Limited and a trustee of the Garfield Weston Foundation.



Emma Adamo
Non-executive director (age 55)

N A R

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 Witton Investments Limited and of the W. Garfield Weston Foundation in Canada.



Wolfhart Hauser
Independent non-executive director (age 68)

Wolfhart was appointed a director in January 2015. Starting his career with various research activities, he went on to establish and lead a broad range of successful international service industry businesses. He was chief executive of Intertek Group plc for ten years until he retired from that role and the board in May 2015. He was previously chief executive officer and president of TÜV Süddeutschland AG for four years and chief executive officer of TÜV Product Services for ten years.

Other appointments:

He is executive chairman of FirstGroup plc and Senior Independent Director of RELX PLC.



John Bason
Finance Director (age 61)

John was appointed as Finance Director in May 1999. He has extensive international business experience and an in-depth knowledge of the industry. 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 the Senior Independent Director of Compass Group PLC and chairman of the charity FareShare.



Javier Ferrán
Independent non-executive director (age 62) N R

Javier was appointed a director in November 2006 and has been Senior Independent Director since November 2017. Javier will retire as a director of the Company on 7 December 2018. He spent the earlier part of his career with Bacardi Group, where latterly he served as president and chief executive officer. He has in-depth knowledge of consumer brands on an international basis and in international financing.

Other appointments:

He is a partner at Lion Capital LLP, a London-based private equity firm. He is also chairman of Diageo plc and a non-executive director of Coca-Cola European Partners plc.



Ruth Cairnie
Independent non-executive director (age 64) N A R

Ruth was appointed a director in May 2014. She has extensive overseas experience including international marketing and supply chain management. Ruth was formerly Executive Vice President Strategy & Planning at Royal Dutch Shell plc. This role followed a number of senior international roles within Shell, including Vice President of their Global Commercial Fuels business.

Other appointments:

She is a non-executive director of Rolls-Royce Holdings plc and ContourGlobal plc.



Richard Reid
Independent non-executive director (age 62) N A R

Richard was appointed a director in April 2016. He was formerly a partner at KPMG LLP, having joined the firm in 1980. From 2008, Richard served as London Chairman at KPMG until he retired from that role and KPMG in September 2015. Previously, Richard was KPMG's UK chairman of the High Growth Markets group and chairman of the firm's Consumer and Industrial Markets group.

Other appointments:

He is chairman of National Heart and Lung Institute Foundation, deputy chairman of Berry Bros & Rudd, a Trustee of the Eden Project and a senior advisor to Bank of China UK.



Graham Allan
Independent non-executive director (age 63) A R

Graham was appointed a director in September 2018. Graham was formerly the Group Chief Executive of Dairy Farm International Holdings Limited, a pan-Asian retailer and a subsidiary of Jardine Matheson, until August 2017 after serving for five years with the Group. Prior to joining Dairy Farm, he was President and Chief Executive Officer at Yum! Restaurants International and was responsible for global brands KFC, Pizza Hut and Taco Bell in all markets except the US and China. Since 1989, Graham has held various senior positions in multinational food and beverage companies with operations across the globe and has lived and worked in Australia, Asia, the US and Europe.

Other appointments:

He is the Senior Independent Director of Intertek Group plc and a board member of IKANO Pte Ltd.

Board committees key

- N Nomination committee
- A Audit committee
- R Remuneration committee
- C Committee Chair

DEAR SHAREHOLDERS

I am pleased to present my first Associated British Foods corporate governance report since my appointment as Chairman.

Firstly, I would like to thank my predecessor, Charles Sinclair, for the support he provided to me as non-executive director prior to my appointment as Chairman on 11 April 2018. Charles was a great believer in strong governance and a focus on ethics, whilst encouraging management to take a long-term view and to invest in the future. I look forward to continuing along this path as our businesses grow.

The board is aware of the forthcoming changes to the UK Corporate Governance Code which will apply to companies with financial year ends beginning on or after 1 January 2019 and we intend to review this in advance of our 2019 annual report. Over the last few months, the board and committees have reviewed their activities to take into consideration these upcoming changes and we have already started to take action; for example, we have enhanced our remuneration reporting which is further detailed in the Remuneration report on page 80.

As Chairman, my role is to manage the board to ensure that it operates effectively. In line with our plans to continue refreshing the board, we were delighted to welcome Graham Allan as an independent non-executive director in September 2018. Graham brings a wealth of experience from prior executive roles within various multinational retail, food and beverage businesses. As I also mentioned earlier in this annual report, Javier Ferrán will retire from the board in December 2018 and will be succeeded in the role of Senior Independent Director by Ruth Cairnie.

We are continuing to make good progress with a number of actions identified in our external board evaluation led by Lintstock Limited in 2017. Additionally, earlier this year, with the assistance of the Head of Secretariat, we undertook an internal evaluation of the board and its committees. Overall, the results concluded our board and committees are functioning well. Further information on this is provided on pages 71 and 72.

Associated British Foods is an organisation built upon sound ethical foundations with a strong culture, known internally as the 'Essence of Associated British Foods'. The board is aware of its important role in helping to foster the group's culture and values. An important aspect of this, as a leading food and retail business, is our wider corporate responsibility. Much good work is carried out by our colleagues throughout the group which has a positive impact on the communities in which we operate and protects human rights and vulnerable people in our supply chains. I am encouraging the executive directors and senior management to talk more about the constructive role that we play, remembering that we can never be complacent. This is an important factor in protecting and delivering sustainable long-term value for all of our stakeholders, including our shareholders. We believe that, by combining great value products with doing the right thing for our people, we do good every day. Our Corporate Responsibility Report and supporting Update Reports highlight the ethical ways in which each of our businesses work. These publications are available on the Company's website, www.abf.co.uk, and highlights of what we have done during 2018 can be found on pages 52 to 59.

Employee engagement is another topic to which the board attaches importance. Associated British Foods operates a decentralised model, comprised of a large number of distinct businesses with employees located throughout the world. Engaging with these employees on a group basis can be logically challenging. Local management do a very good job of engaging with their employees and keeping them apprised of relevant issues within their businesses. At the group level, management are continually looking to find ways to improve communication links with the businesses. I am working on this with the executive directors and senior management and I will report further on this in my 2019 governance statement.

Michael McLintock
Chairman

Compliance with the UK Corporate Governance Code

As a premium listed company on the London Stock Exchange, the Company is reporting in accordance with the UK Corporate Governance Code published in April 2016 (the 'Code') 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.

Since 11 April 2018, the board considers that the Company has applied the main principles and complied in full with the provisions set out in the Code, with the following exception prior to that date:

Code provision

D.2.1 – The Chairman should not chair the Remuneration committee.

Explanation

The board of Associated British Foods plc considered that Charles Sinclair, due to his experience, was best suited to chair the Remuneration committee. No director had any involvement in the determination of their own remuneration. The board believes that the Company maintained robust governance while at the same time benefiting from having Charles Sinclair as Chair of this committee.

Status

Until his resignation from the board, Charles Sinclair was both Chairman of the Company and Chairman of the Remuneration committee. On 11 April 2018, Michael McLintock was appointed as Chairman of the Company and Ruth Cairnie was appointed as Chair of the Remuneration committee.

Leadership

The board

The board of directors 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.

There are a number of matters which are specifically reserved for the board's approval. These are set out in a clearly defined schedule and include: matters relating to the group's strategic plan; approving the annual business strategy and objectives; the nature and extent of principal risks to be taken to achieve the strategic objectives; changes relating to structure and capital; approval of trading statements, interim results, final results and annual report; declaring interim dividends and recommending final dividends; the group's policies and systems of internal control and risk management; approving capital projects, acquisitions and disposals valued at over £30m; provision of adequate succession planning; approving major group policies and matters relating to the compliance with the terms of the Relationship Agreement between the Company and its controlling shareholders dated 14 November 2014. The schedule of matters reserved is available to view on the corporate governance section of the Company's website: www.abf.co.uk.

Certain specific responsibilities are delegated to the board committees, being 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 on page 74.

Authority for the operational management of the group's business has been delegated to the Chief Executive for execution or further delegation by him for the effective day-to-day running and management of the group. The chief executive of each business within the group has authority for that business and reports directly to the Chief Executive.

Chairman and Chief Executive

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

Senior Independent Director

The purpose of this role is to act as a sounding board for the Chairman and to serve as an intermediary for other directors where necessary. The Senior Independent Director 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.

The non-executive directors

The non-executive directors, in addition to their responsibilities for strategy and business results, 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, bringing valuable external perspective 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.

Election and re-election of directors

In accordance with the Code's recommendations, all directors currently in office, with the exception of Javier Ferrán, will be proposed for election or re-election, as appropriate, at the 2018 AGM to be held in December.

Board meetings

The board held nine meetings during the financial year. Periodically, board meetings are held away from the corporate centre in London. As part of the board's engagement with employees, the February meeting was held in Birmingham and the board visited the Allied Bakeries premises in West Bromwich, where the board met local management and were given a tour of the factory. At that time, the board also visited the Primark Pavilions redevelopment site in Birmingham.

In May, the board met Primark's management team in New York. They visited Primark stores in Brooklyn and New Jersey, meeting with the employees and reviewing the operations for each store.

The attendance of the directors at board and committee meetings during the year is shown in the table below. If a director is unable to participate in a meeting either in person or remotely, the Chairman will solicit their views on key items of business in advance of the relevant meeting and share these with the meeting so that they are able to contribute to the debate.

	Board	Audit committee	Nomination committee	Remuneration committee
Charles Sinclair ¹	5/5	–	1/1	2/2
Michael McLintock ²	9/9	2/2	3/3	4/4
George Weston	9/9	–	–	–
John Bason	9/9	–	–	–
Emma Adamo	9/9	–	–	–
Graham Allan ³	–	–	–	–
Ruth Cairnie	9/9	4/4	3/3	4/4
Tim Clarke ⁴	2/2	–	–	1/1
Javier Ferrán	9/9	–	3/3	4/4
Wolfhart Hauser	9/9	4/4	3/3	4/4
Richard Reid	9/9	4/4	1/1	4/4

¹ Charles Sinclair retired from the board on 11 April 2018.

² Michael McLintock was appointed to the board on 1 November 2017.

³ Graham Allan joined the board on 5 September 2018.

⁴ Tim Clarke retired from the board on 30 November 2017.

All of the above attended those meetings that they were eligible to attend.

The work of the board during the year

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

Strategy

- conducting regular strategy update sessions in board meetings;
- holding an annual 'away-day' focused on strategy; and
- receiving a strategy update from the Chief Executive and Director of Business Development.

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 a week in advance of the meetings.

Board committees

The board has established three principal board committees, to which it has delegated certain of its responsibilities. These are the Audit, Nomination and Remuneration committees. 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 which starts on page 80. Membership of these committees is reviewed annually. Minutes of committee meetings are made available to all directors on a timely basis.

The Chairs of the Audit, Nomination and Remuneration committees were present at the 2017 AGM and intend to be present at this year's AGM to answer questions on the work of their respective committees.

The written terms of reference for the Audit, Nomination and Remuneration committees are available on the Company's website, www.abf.co.uk, and hard copies are available on request.

Effectiveness

Board composition

At the date of this report, the board comprises the following directors:

Chairman

Michael McLintock

Executive directors

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

Non-executive directors

Emma Adamo
Graham Allan
Ruth Cairnie
Javier Ferrán
Wolfhart Hauser
Richard Reid

Acquisitions/disposals

- approving the acquisition of Yumi's Quality Foods Pty Limited; and
- receiving regular updates on acquisitions and disposals.

Financial and Operational Performance

- receiving regular reports to the board from the Chief Executive;
- receiving, on a rolling basis, senior management presentations from each of the group business areas;
- approving the group budget for the 2018/19 financial year;
- approving the Company's full year and interim results;
- recommending the 2017 final dividend and approving the 2018 interim dividend; and
- approving new banking mandate and other various treasury-related matters.

Governance and risk

- annual review of the material financial and non-financial risks facing the group's businesses;
- scenario planning discussion of possible business effects of any political changes within the UK;
- half yearly review of progress in implementing actions arising from the 2017 board evaluation;
- participating in the 2018 annual board performance evaluation and considering the report received on the review;
- receiving regular updates on corporate governance and regulatory matters;
- receiving reports from the board committee chairs;
- confirming directors' independence and conflicts of interest;
- reviewing and approving gender pay reporting and Modern Slavery Statement; and
- undertaking appropriate preparations for the holding of the annual general meeting including considering and approving an 'outlook' statement and subsequently, discussing issues arising from the annual general meeting.

Corporate responsibility

- approving the Corporate Responsibility Update 2018;
- receiving regular management reports and an annual presentation on health, safety and environmental issues; and
- receiving updates on Primark ethical sourcing.

Investor Relations and other Stakeholder Engagement

- receiving reports on investor relations activities and regular feedback on directors' meetings held with institutional investors.

People

- appointment of Michael McLintock as Chairman;
- appointment of Ruth Cairnie as Chair of the Remuneration committee;
- appointment of Graham Allan as an independent non-executive director;
- reviewing and approving share allocations for senior management and non-executive director/committee chair fees; and
- receiving updates on and considering senior succession planning and people activities with presentation from the Group HR Director.

Board independence

Emma Adamo is not considered by the board to be independent 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 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.

Although the Company has always deemed Richard Reid to be independent, as at the date of the 2018 AGM Richard Reid will also be fully independent in accordance with the Code, as the relationship between the Company and KPMG LLP, of which Richard was formerly a partner, will have ended over three years ago (KPMG LLP ceased to be the Company's auditor in November 2015).

As at the date of this report, the board comprises the Chairman, Chief Executive, Finance Director and six non-executive directors. Biographical and related information about the directors is set out on pages 66 and 67.

Appointments to the board

There is a formal and transparent procedure for the appointment of new directors to the board. Details are available in the Nomination committee report on page 75 which also provides details of the committee's activities.

Commitment

The letters of appointment for the Chairman and the non-executive directors set out the expected time commitment required of them and are available for inspection by any person during normal business hours at the Company's registered office and at the AGM. Other significant commitments of the Chairman and non-executive directors are disclosed on appointment and require approval thereafter.

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.

Board induction

The Company provides all non-executive directors with a tailored and thorough programme of induction, which is facilitated by the Chairman and the Company Secretary and which takes account of prior experience and business perspectives and the committees on which he or she serves. Michael McLintock, who joined the board in November 2017, met with senior management across the business as part of his induction. He visited Primark's head office and local Primark stores in Dublin; visited the British Sugar site at Wissington; participated in a supply chain overview at Primark's warehouse in Islip and visited Illovo's sugar sites in Malawi, Tanzania and Eswatini. Together with the board, Michael also visited the Allied Bakeries premises in West Bromwich and some of the Primark stores in the US.

Graham Allan is also undergoing an induction programme which we will report on in our 2019 annual report.

Training and development

The Chairman has overall responsibility for ensuring that the directors receive suitable training to enable them to carry out their duties and is supported in this by the Company Secretary. Directors are also encouraged personally to identify any additional training requirements that would assist them in carrying out their role. Training is provided in briefing papers, such as the regular update from the Company Secretary as part of the board pack ahead of each meeting covering developments in legal, regulatory and governance matters, and by way of presentations and meetings with senior executives or other external sources. During the year, there was also training on competition compliance and dawn raid procedures.

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 holds informal meetings with non-executive directors, without any of the executives being present, to discuss issues affecting the group, when appropriate. 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 advised of the latest issues affecting the group.

Board performance evaluation

An evaluation to assess the performance of the board as a whole, its committees and 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.

Progress from 2017 evaluation

During the year, the Chairman oversaw the implementation and progression of various recommendations arising from the 2017 external evaluation, which included the actions set out in the table below:

Progress on 2017 objectives

Succession planning

Focus on succession planning for the board continued. When Charles Sinclair retired, Michael McLintock was appointed as Chairman of the Company and Ruth Cairnie as Chair of the Remuneration committee.

Graham Allan was appointed as an independent non-executive director in September 2018. Javier Ferrán will retire from the board in December 2018 and Ruth Cairnie will be appointed as the Senior Independent Director.

The board will continue to discuss succession planning in an open manner.

Retail business

Additional time in board meetings was given to the retail business, with directors discussing key projects, challenges and opportunities facing the retail business. Regular board time is now set aside to discuss the retail business in full.

Risk management

Board meetings continue to receive detailed papers on the ongoing risk management process that affect the business on a daily basis. This enables the board to gain a better understanding of the issues facing the business and to modify the Company's approach accordingly.

2018 evaluation

Following the external review carried out in 2017, this year the board returned to an internal performance evaluation. The review was carried out during the third quarter of the financial year and was managed by the Chairman with the assistance of the Head of Secretariat.

The 2018 review involved each board member and the Company Secretary. Each individual met with the Chairman and Head of Secretariat to discuss various topics. Questionnaires had been sent

to each of the participants in advance of the meeting to enable them to consider the topics before the meeting. The topics covered included the following:

- **The board** – composition, expertise, dynamics, management of meetings, support, focus, strategy, risk management and internal control, succession planning, corporate responsibility, and priorities for change;
- **Audit, Nomination and Remuneration committees** – time management, composition, processes and support, leadership, work and effectiveness of each of the committees during the year and priorities for change; and
- **Individual directors** – assessment of individual contributions and opportunities for personal development.

A written report was prepared and sent to board members. It was then discussed at the September board meeting. Given that Michael McLintock had only been appointed as Chairman of the Company in April 2018, the non-executive directors did not meet to evaluate his performance as Chairman as it was too early in his tenure. A full evaluation of the Chairman's performance will be undertaken in 2019.

Recommended actions, listed below, arising from this year's evaluation are being implemented under the direction of the Chairman.

Priorities for change identified from the 2018 evaluation

People

- To keep under review the board succession plan
- To gain a better understanding of the emerging talent and succession planning within the group
- To further engage with the wider workforce

Corporate responsibility

- To further promote the corporate responsibility work that the group is doing
- To ensure that corporate responsibility priorities are included within business presentations to the board

Meeting processes

- To ensure that board papers are available earlier and introduce a hard backstop date by which the board papers must be uploaded to the online board pack system
- To ensure that meetings run to time, yet allow for full discussion of the matters being considered

Overall, it was concluded that the board and its committees were continuing to function well. There was mutual trust between the executives and non-executives with a good balance of challenge and support. Each director was considered to be making a valuable contribution and demonstrating proper commitment, including time, to their respective roles.

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 director's 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.

Accountability

Financial and business reporting

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 statutory requests.

We consider the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

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 8 and 9 and in the business strategies section on pages 12 and 13. 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 and viability

After making enquiries the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for a period of at least

12 months from the date of approval of these annual financial statements. Accordingly, and consistent with the guidance contained in the document titled 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the FRC in 2014, they continue to adopt the going concern basis in preparing the annual financial statements.

The Code requires the directors to assess and report on the prospects of the group over a longer period. This longer term viability statement is set out on page 65.

Risk management and internal control

The board acknowledges its overall responsibility for monitoring the group's risk management and internal control systems 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.

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. They also confirm that they have regularly monitored the effectiveness of the risk management and internal control systems (which cover all material controls including financial, operational and compliance 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 twice yearly that it has complied with these policies and procedures.

High level controls

All businesses 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 business 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 major accounting firms other than the firm involved in the audit of the group) 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 Financial Controller, 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. The group's Financial Controller meets with the Chair of the Audit committee as appropriate but at least quarterly, without the presence of executive management, and has direct access to the Chairman of the board.

Assessment of principal risks

The directors confirm that, during the year, the board has carried out a robust assessment of the principal risks facing the group, including those that could threaten its business model, future performance, solvency or liquidity. A description of the principal risks and how they are being managed and mitigated is set out on pages 60 to 64.

Annual review of the effectiveness of the systems

During the year, the board reviewed the effectiveness of the group's systems of risk management and internal control processes embracing all material systems, including financial, operational and compliance controls, to ensure that they remain robust. The review covered the financial year to 15 September 2018 and the period to the date of approval of this annual report. The review included:

- the annual risk management review, a comprehensive process identifying the key external and operational risks facing the group and the controls and activities in place to mitigate them, the findings of which are discussed with each member of the board individually (refer to the risk management section on page 60 for details of the process undertaken); and
- the annual assessment of internal control, which, following consideration by the Audit committee, provided assurance to the board around the control environment and processes in place around the group, specifically those relating to internal financial control.

The board evaluated the effectiveness of the management's processes for monitoring and reviewing risk

management and internal control. No significant failings or weaknesses were identified by the review and the board is satisfied that, where areas of improvement were identified, processes are in place to ensure that remedial action is taken and progress monitored. The board confirmed that it was satisfied that the systems and processes were functioning effectively and complied with the requirements of the Code.

Remuneration

A separate Remuneration report is set out on pages 80 to 99 which provides details of our remuneration policy and how it has been implemented, together with the activities of the Remuneration committee.

Articles of association and share capital

Information in relation to share capital, the appointment and powers of directors, the issue and buy back of shares and significant interests in share capital is set out in the Directors' report on pages 100 to 102.

Relations with shareholders

Individual shareholders

We have a number of individual shareholders. All are invited to the annual general meeting, have access to our website and receive electronic communications. We have a dedicated in-house team to manage communications with our shareholders, making sure we respond directly, as appropriate, to any matters regarding their shareholdings. We also have a dedicated team at Equiniti (our share registrar) which also looks after their needs. To improve security and efficiency of communications and to reduce the amount of paper we use, our default method of communications with shareholders is e-communications. We also encourage the direct payment of dividends into bank or building society accounts.

Institutional shareholders

During the year, the board has maintained an active programme of engagement with institutional investors, the purpose of which is both to develop shareholders' understanding of the Company's strategy, operations and performance and to provide the board with an awareness of the views of significant shareholders. At each board meeting, the directors are briefed on shareholder meetings that have taken place and on feedback received, including any significant concerns raised.

Relations with shareholders continued

Here are some of the ways in which we engage with our shareholders:

Annual general meeting

The AGM provides an opportunity for directors to engage with shareholders, answer their questions and to meet them informally. The 2018 AGM will be held on Friday 7 December 2018 at 11.00 am at the Congress Centre in London. We encourage those who cannot attend to vote by proxy on all resolutions put forward. All votes are taken by a poll. In 2017, voting levels at the AGM were over 80% of the Company's issued share capital.

Annual report

We publish a full annual report and accounts each year which contains a strategic report, corporate responsibility report, governance section and financial statements. The annual report is available in paper format and on our website: www.abf.co.uk.

Corporate responsibility

We publish a corporate responsibility report every three years with an update report each year in between. The Company Secretary acts as a focal point for communications on matters of corporate responsibility. During the year, the Company responded to requests for meetings, telephone meetings or written information from both existing and potential shareholders and research bodies on a broad range of environmental, social and governance risk matters including matters related to climate change, water and greenhouse gas risk management, supply chain management, animal welfare, sustainable agriculture, human rights, gender balance and human capital development.

Meetings

The Chairman issues an invitation each year to the Company's largest institutional shareholders to hear their views and discuss any issues or concerns. During the year, the Chairman held meetings with a number of institutional shareholders and discussed a range of topics including the Company's strategy and approach to governance and remuneration-related matters.

On the day of the announcement of the interim and final results, the Company's largest shareholders, together with financial analysts, are invited to a presentation with a question and answer session by the Chief Executive and Finance Director, with webcast presentations of the results available for all shareholders through the Company's website. Following the results, the executive team hold one-to-one and group meetings with institutional shareholders and potential investors. These views are then reported back to the board as a whole at the nearest following board meeting to ensure that they are aware of what the Company's largest shareholders are concerned with, or not as the case may be.

Press releases

We issue press releases for all substantive news relating to Associated British Foods. You can find these on our website: www.abf.co.uk.

Results announcements

We release a full set of financial and operational results at the interim and full year stage. We release trading statements at the first and third quarter stages with reduced disclosure, whilst still providing sufficient detail to allow investors to model and value our business.

Website (www.abf.co.uk)

Our website is regularly updated and contains a comprehensive range of information on our Company. There is a section dedicated to investors which includes our investor calendar, financial results, presentations, press releases and contact details. The area dedicated to individual shareholders is an essential communication method. It includes information on shareholder news, administrative services and contact information.

Board committees

NOMINATION COMMITTEE REPORT

Members

At the date of this report, the following are members of the committee:

Michael McLintock (Chairman)
Ruth Cairnie
Javier Ferrán
Richard Reid
Wolfhart Hauser

Charles Sinclair was Chairman of the committee until he retired from the board in April 2018 and was replaced by Michael McLintock. Richard Reid was appointed a member in July 2018 with the other members serving throughout the year.

Meetings

The committee met three times during the year under review.

Primary responsibilities

In accordance with its terms of reference, the Nomination committee's primary responsibilities include:

- leading the process for board appointments and making recommendations to the board;
- regularly reviewing the board structure, size and composition (including skills, knowledge, independence, experience and diversity), recommending any necessary 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 organisation competes efficiently in the marketplace; and
- being responsible for identifying and nominating, for the approval of the board, candidates to fill board vacancies as and when they arise.

Committee activities during the year

Succession planning

The committee reviewed the succession plan for Charles Sinclair who retired as Chairman of the Company on 11 April 2018. After due consideration and discussion, Michael McLintock was recommended to the board to replace Charles as Chairman of the Company. Ruth Cairnie was recommended to replace Charles as Chair of the Remuneration committee. Both recommendations were approved by the board as a whole.

Upon the retirement of Javier Ferrán as a director on 7 December 2018, Ruth Cairnie will replace him as the Senior Independent Director.

Appointment of a new independent non-executive director

During the year, the Chairman led the process for the appointment of a new non-executive director as part of the progressive refreshing of the board.

Spencer Stuart, an external executive search and leadership consulting firm, was engaged to help identify potential candidates. Spencer Stuart is independent of the Company, with no other connection to it. The firm is also a signatory to the 'Voluntary Code of Conduct for Executive Search Firms' on gender diversity and best practice.

Potential candidates were considered on the basis of their skills and experience in the context of the range of skills and experience held within the existing board as a whole.

Following a rigorous process of interviews and assessments and, on the recommendations of the Nomination committee, the board approved the appointment of Graham Allan with effect from 5 September 2018.

Re-election of non-executive directors

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

The committee considered the re-election of directors prior to their recommended approval by shareholders at the annual general meeting. The non-executive directors who have been on the board for more than six years were subject to particularly rigorous review.

Performance evaluation

The committee's effectiveness was reviewed as part of the board's performance evaluation process which was carried out during the final quarter of the year under review. This evaluation concluded that the committee was continuing to function effectively.

Governance

Members of the Nomination committee are appointed by the board from amongst the directors of the Company, in consultation with the Chairman. The committee comprises a minimum of three members at any time, a majority of whom are independent non-executive directors. A quorum consists of two members being either two independent non-executive directors or one independent non-executive director and the Chairman.

Only members of the committee have the right to attend committee meetings. Other individuals such as the Chief Executive, members of senior management, Group HR Director and external advisors may be invited to attend meetings as and when appropriate.

The Chairman did not chair the Nomination committee when it was 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 terms of reference of the Nomination committee are available on the Investors section of the Company's website: www.abf.co.uk.

Board appointments process

The process for making new appointments is led by the Chairman. Where appropriate, external, independent consultants are engaged to conduct a search for potential candidates, who are considered on the basis of their skills, experience and fit with the existing members of the board. The Nomination committee has procedures for appointing a non-executive or an executive director and these are set out in its terms of reference.

Diversity

As a board, we recognise that diversity is essential for introducing different perspectives into board debate and decision-making and that this is a wider issue than just gender and ethnicity. We believe that members of the board should collectively possess a diverse range of skills, expertise, industry knowledge, business and other experience necessary for the effective oversight of the group.

Accordingly, the board has decided not to set any measurable objectives in relation to diversity. The Nomination committee considers diversity as one of many factors when recommending new appointments to the board, although gender and ethnicity remain important factors. Accordingly, it is our policy to ask any executive search agencies engaged to ensure that half of the candidates they put forward for consideration are women.

For details of diversity as it applies to the group's wider workforce, please see page 57.

AUDIT COMMITTEE REPORT

Members

During the year and as at the date of this report, members and Chair of the committee have been as follows:

Richard Reid (Chairman)
 Graham Allan (from September 2018)
 Ruth Cairnie
 Wolfhart Hauser
 Michael McLintock (from November 2017 to April 2018*)

* On appointment as Chairman of the Company, Michael McLintock stood down as a member of the Audit committee.

Primary responsibilities

In accordance with its terms of reference, the Audit committee's primary responsibilities include:

Financial reporting

- 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;
- informing the board of the outcome of the group's external audit and explaining how it contributed to the integrity of financial reporting;
- reviewing and challenging, where necessary, the consistency of, and changes to, accounting and treasury policies; whether the group has followed appropriate accounting policies and made appropriate estimates and judgements; the clarity and completeness of disclosure; significant adjustments resulting from the audit; the going concern assumption, the viability statement, and compliance with auditing standards;

Narrative reporting

- at the board's request, reviewing the content of the annual report and accounts and advising the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;

- where requested by the board, assisting in relation to the board's assessment of the principal risks facing the Company and the prospects of the Company for the purposes of disclosures required in the annual report and accounts;

Internal financial controls

- reviewing the effectiveness of the group's internal financial controls, including the policies and overall process for assessing established systems of internal financial control and timeliness and effectiveness of corrective action taken by management;

Whistleblowing and fraud

- overseeing the group's policies, procedures and controls for preventing bribery, identifying money laundering, and the group's arrangements for whistleblowing;

Internal audit

- monitoring and reviewing the effectiveness and independence of the group's internal audit function in the context of the group's overall financial risk management system;
- considering and approving the remit of the internal audit function, ensuring it has adequate resources and appropriate access to information to enable it to perform its function effectively; and

External audit

- overseeing the relationship with the group's external auditor, including reporting to the board each year whether it considers the audit contract should be put out to tender, adhering to any legal requirements for tendering or rotation of the audit services contract as appropriate, reviewing and monitoring the external auditor's objectivity and independence, agreeing the scope of their work and fees paid to them for audit, assessing the effectiveness of the audit process, and agreeing the policy in relation to the provision of 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.

The committee structure requires the inclusion of at least one member with recent and relevant financial experience and competence in accounting or auditing (or both). The committee Chairman fulfilled this requirement during the year. 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 as a whole has competence relevant to the sectors in which the group operates.

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

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 was reviewed during the final quarter of the year as part of the board's annual performance evaluation. A description of how the evaluation was conducted is set out on page 71 of the corporate governance report.

The terms of reference of the Audit committee can be viewed on the Investors section of the Company's website: www.abf.co.uk.

Meetings

The Audit committee met four times during the year. The committee's agenda is 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 auditor.

Monitoring the integrity of reported financial information

Ensuring the integrity of the financial statements and associated announcements is a fundamental responsibility of the Audit committee.

During the year it formally reviewed the group's interim and annual reports, including the associated pre-close period trading updates, and the trading updates issued for the first and third quarters. These reviews considered:

- the description of performance to ensure it was fair, balanced and understandable;
- the accounting principles, policies and practices adopted in the group's financial statements, any proposed changes to them, and the adequacy of their disclosure;
- important accounting issues or areas of complexity, the actions, estimates and judgements of management in relation to financial reporting and in particular the assumptions underlying the going concern and viability statements;
- any significant adjustments to financial reporting arising from the audit;
- litigation and contingent liabilities affecting the group; and

- tax contingencies, compliance with statutory tax obligations and the group's tax policy.

Significant accounting issues considered by the Audit committee in relation to the group's financial statements

A key responsibility of the committee is to consider the significant areas of complexity, management judgement and estimation that have been applied in the preparation of the financial statements. The committee has, with support from Ernst & Young as external auditor, reviewed the suitability of the accounting policies which have been adopted and whether management has made appropriate estimates and judgements.

Set out below are the significant areas of accounting judgement or management estimation and a description of how the committee concluded that such judgements and estimates were appropriate. These are divided between those that could have a material impact on the financial statements and those that are less likely to have a material impact but nevertheless, by their nature, required a degree of estimation.

Areas of significant accounting judgement and estimation material to the group financial statements

Impairment of goodwill, intangible and tangible assets

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.

Audit committee assurance

The committee considered the reasonableness of cash flow projections which were based on the most recent budget approved by the board and reflected management's expectations of sales growth, operating costs and margins based on past experience and external sources of information. Long-term growth rates for periods not covered by the annual budget were challenged to ensure they were appropriate for the products, industries and countries in which the relevant cash generating units operate. The committee also reviewed and challenged the key assumptions made in deriving these projections: discount rates, growth rates, and expected changes in production and sales volumes, selling prices and direct costs. The committee also considered the adequacy of the disclosures in respect of the key assumptions and sensitivities. Refer to notes 8 and 9 to the financial statements for more details of these assumptions.

The committee was satisfied that the discount rate assumptions appropriately reflected current market assessments of the time value of money and the risks associated with the particular assets. The other key assumptions were all considered to be reasonable.

The external auditor undertook an independent audit of the estimate of value-in-use, including a challenge of management's underlying cash flow projections, long-term growth assumptions and discount rates. On the basis of their audit work, and their challenge of the key assumptions and associated sensitivities, they concurred with management that no impairments were required.

Areas of significant accounting judgement and estimation material to the group financial statements

Tax provisions

The level of current and deferred tax recognised in the financial statements is dependent on subjective judgements as to the outcome of decisions by tax authorities in various jurisdictions around the world and the ability of the group to use tax losses within the time limits imposed by the various tax authorities. See also reference to taxation on page 50.

Other accounting areas requiring management judgement or estimation

Post-retirement benefits

Valuation of the group's pension schemes and post-retirement medical benefit schemes require various subjective judgements to be made including mortality assumptions, discount rates, general and salary inflation, and the rate of increase for pensions in payment and those in deferment.

Audit committee assurance

The committee reviews the Company's tax policy and principles for managing tax risks annually.

The committee reviewed and challenged the provisions recorded at the balance sheet date and management confirmed that they represent their best estimate of the likely financial exposure faced by the group.

The external auditor explained to the committee the work they had conducted during the year, including how their audit procedures were focused on those provisions requiring the highest degree of judgement. The committee discussed with both management and the external auditor the key judgements which had been made. It was satisfied that the judgements were reasonable and that, accordingly, the provision amounts recorded were appropriate.

Audit committee assurance

Actuarial valuations of the group's pension scheme obligations are undertaken every three years by independent qualified actuaries who also provide advice to management on the assumptions to be used in preparing the accounting valuations each year. Details of the assumptions made in the current and previous year are disclosed in note 11 of the financial statements together with the bases on which those assumptions have been made.

The committee reviewed the assumptions by comparison with externally derived data and also considered the adequacy of disclosures in respect of the sensitivity of the surplus or deficit to changes in these key assumptions.

Misstatements

Management reported to the committee that they were not aware of any material or immaterial misstatements made intentionally to achieve a particular presentation. The external auditor reported to the committee the misstatements that they had found in the course of their work. After due consideration the committee concurred with management that these misstatements were not material and that no adjustments were required.

Internal financial control and risk management

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 reports;
- internal audit reports on key audit areas and any significant deficiencies in the financial control environment;
- reports on the systems of internal financial control and risk management;
- reports on fraud perpetrated against the group;

- the group's approach to anti-bribery and corruption, and whistleblowing;
- the group's approach to IT and cybersecurity; and
- reports on significant systems implementations.

- changes since the last annual assessment of the significant financial risks and the group's ability to respond to changes in its business and the external environment.

Internal audit

The Audit committee is required to assist the board in fulfilling its responsibilities for ensuring the capability of the internal audit function and the adequacy of its resourcing and plans. It reviews annually internal audit's Guidelines and Operating Standards that outline the function's unrestricted scope, its purpose and responsibilities to ensure they are appropriate for the Company's needs.

To fulfil its 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 their resolution;
- statistics on staff numbers, qualifications and experience and timeliness of reporting;
- the nature and extent of non-audit activity performed by internal audit; and

Whistleblowing and fraud

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 Audit committee reviewed reports from internal audit and the external service provider and the actions arising therefrom. Further details on the policy can be found on page 58.

The group's Anti-fraud Policy has been communicated to all employees and states that all employees have a responsibility for fraud prevention and detection. Any suspicion of fraud should be reported immediately and will be investigated vigorously. The Audit committee reviewed all instances of fraud perpetrated against the Company and the action taken by management both to pursue the perpetrators and to prevent recurrences.

External audit

Auditor independence

The Audit committee is responsible for the development, implementation and monitoring of policies and procedures on the use of the external auditor for non-audit services, in accordance with professional and regulatory requirements.

These policies are kept under review to meet the objective of ensuring that the group benefits in a cost-effective manner from the cumulative knowledge and experience of its auditor whilst also ensuring that the auditor maintains the necessary degree of independence and objectivity. The committee's policy on the use of the external auditor to provide non-audit services is in accordance with applicable laws and takes into account the relevant ethical guidance for auditors. Any non-audit work to be undertaken by the auditor requires authorisation by the Group Finance Director and the Audit committee prior to its commencement. The committee also ensures that fees incurred, or to be incurred, for non-audit services, both individually and in aggregate, do not exceed any limits in applicable law and take into account the relevant ethical guidance for auditors.

The committee is required to approve the use of the external auditor to provide: accounting advice and training; corporate responsibility and other assurance services; financial due diligence in respect of acquisitions and disposals; and will consider other services when it is in the best interests of the Company to do so, provided they can be undertaken without jeopardising auditor independence. Tax services including tax compliance, tax planning and related implementation advice may not be undertaken by the external auditor. The aggregate expenditure with the group auditor is reviewed by the Audit committee. No individually significant non-audit assignments that would require disclosure were undertaken in the financial year.

The Company has a policy that any partners, directors or senior managers hired directly from the external auditors must be pre-approved by the Group HR Director, and the Group Finance Director or Group Financial Controller, with the Chairman of the Audit committee being consulted as appropriate.

The Audit committee has formally reviewed the independence of its auditor. Ernst & Young LLP has provided a letter confirming that it believes it remained independent throughout the year, 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 auditor, the Audit committee reviewed:

- a report from the external auditor describing arrangements to identify, report and manage any conflicts of interest, and policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and
- the extent of non-audit services provided by the external auditor.

The total fees paid to Ernst & Young LLP for the year ended 15 September 2018 were £7.6m of which £0.6m related to non-audit work. Further details are provided in note 2 to the financial statements.

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.

Auditor effectiveness

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

- the external auditor's 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 on Ernst & Young LLP, as a firm, 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 auditor's engagement letter;
- the overall work plan and 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.

Auditor appointment

The Audit committee reviews annually the appointment of the auditor, taking into account the auditor's effectiveness and independence, and makes a recommendation to the board accordingly. Any decision to open the external audit to tender is taken on the recommendation of the Audit committee.

In accordance with the requirements of the UK Corporate Governance Code and other changes to the EU and UK regulatory framework, the Audit committee undertook a comprehensive competitive tender for the external audit during 2015 and the appointment of Ernst & Young LLP to replace the Company's previous auditors was approved by shareholders at the 2015 AGM. Ernst & Young LLP's first audit was for the 2016 financial year and they have been reappointed as auditor at each subsequent AGM. The Audit committee is satisfied with the auditor's effectiveness and independence and has recommended to the board that Ernst & Young LLP be reappointed as the Company's external auditor for 2018/19. The Company has no current retendering plans.

Compliance with the CMA Order

The Company confirms that, during the period under review, it has complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

I am pleased to present the directors' Remuneration report for the year ended 15 September 2018, my first since being appointed committee Chair in April 2018.

Priorities in 2018

The committee has spent time this year reflecting on the implications of changes to the UK Corporate Governance Code, and to the guidance issued by investors, for our remuneration practices. In light of this we have determined to make our retrospective disclosure of the Short Term Incentive Plan (STIP) performance ranges 12 months from the end of the performance period rather than 24 months later as has been our practice to date. In this report we have therefore disclosed the ranges that applied for both 2015/16 and 2016/17. We have also increased the information that we provide about personal performance and how this is assessed, to help investors understand our approach in more detail.

We recognise societal concerns about levels of executive remuneration and the requirement to disclose the ratio between the Chief Executive's remuneration and that of other UK employees, for financial years commencing on or after 1 January 2019. We currently expect to calculate pay ratios using the data that we collate to meet our Gender Pay reporting obligations. This will require some changes to our collation and storage approach so we are not currently able to make this comparison accurately and are therefore not disclosing pay ratios in this report.

During the year we consulted our largest shareholders on John Bason's contract and pension arrangements and on our approach to incentive outcomes under the 2015-18 Long Term Incentive Plan (LTIP). We appreciate the thoughtful and constructive feedback received and I have outlined below the conclusions that we arrived at, having reflected on this input.

This year the committee has needed to consider our approach to John Bason's contract expiry. When John entered into his current employment contract 19 years ago, it was envisaged that he would retire on his 62nd birthday. Hence his contract was written with a rolling 12-month notice period and a termination date in April 2019. We greatly value John's experience and insight and wish him to continue in his role; we therefore need to issue John with a new contract and have needed to confirm his future remuneration arrangements.

The committee has concluded that all elements of the existing package should remain unchanged except for pension. On pension, we have concluded that John's entitlement to future defined benefit accruals under the Employer Funded Retirement Benefit Scheme (EFRBS) will cease from his 62nd birthday. Instead, John will be treated in line with our existing company policy for newly-appointed senior executives, which specifies a defined contribution (DC) pension contribution of 25% of salary, or cash equivalent. This cash contribution is considerably less costly to the Company than John's EFRBS accrual.

We are conscious that the UK Corporate Governance Code expects companies to align executive pension contributions with those of other employees. We intend to review this aspect of our remuneration policy in 2019.

2017/18 performance and incentive outcomes

When the targets were set for the 2017/18 STIP we did not anticipate the extent of decline in EU sugar prices during the year. While the margin in Primark was better than expected and performance was strong in the other businesses, the challenge in sugar resulted in overall profit below the on-target level. Good working capital performance compared with plan brought the overall STIP financial outcome up to 48.54% of maximum. As usual, we considered whether any discretion should be applied and concluded that this outcome was a fair reflection of performance.

At 134.9p, the 2017/18 adjusted earnings per share (EPS) is above the level set for maximum vesting of the 2015-18 LTIP award. The Remuneration committee has considered whether this maximum vesting is supported by the strength of performance over the three-year performance period, and also in the context of shareholder experience over the period.

When the awards were allocated, we expected 2015/16 to be very challenging and anticipated a decline in EPS for that year. This was factored into the target ranges for the 2015-18 LTIP. These expectations for market conditions were well-founded but mitigated by strong management action, especially in respect of Primark buying. Over the LTIP performance period as a whole, EPS has grown by 9.95% CAGR and strong strategic progress has been made, with highlights including restructuring and substantial cost reductions in sugar, strong and sustainable growth in Twinings and Ingredients, and further development of Primark to a truly international footprint with strong capability to grow profitably through changeable market conditions.

In November 2015, when these LTIP allocations were made, our share price was £34.62 but it is now considerably lower. The committee has considered carefully whether this share price movement should affect vesting outcomes, to align with the experience of shareholders. As detailed on page 95, our conclusion is not to apply any discretion to the number of shares vesting, taking into account the substantial impact of the share price movement on our executive directors personally, and for consistency given previous years when vesting levels were low or zero but share price performance had been very strong, without any adjustments having been made.

2018/19 salaries

Our salary increases this year for the wider employee population in ABF in the UK have typically been between 2% and 3% of salary. However, taking all aspects of remuneration into account, the committee has decided that the executive directors will not receive salary increases this year.

2018/19 STIP and 2018-21 LTIP performance ranges

The performance range for 2018/19 incentives has been set with an expectation of further growth for Primark and progress in Grocery, Agriculture and Ingredients, but against a background of very low world and EU sugar prices. We are also mindful of the prospect of significant volatility in sterling exchange rates, which would affect the translation of overseas profits and have a transactional effect on margins in Primark and other businesses over the year. The performance range, which we believe represents a good level of stretch, will be disclosed in the directors' Remuneration report for 2020.

When setting the 2018-21 LTIP targets, the committee has considered the challenges and growth opportunities across the group. We believe that the performance ranges detailed on page 99 are stretching and reflect significant strategic progress across the businesses; achieving the on-target level of performance would represent a good performance for our shareholders by the executive directors.

Priorities for 2019

A review of our executive remuneration policy, taking into account the changes to the UK Corporate Governance Code, will be a focus for the work of the committee in 2019. At last year's AGM we received a 96.91% vote in favour of our Remuneration report and, in the past, have received strong votes in favour of our remuneration policy. I would like personally to thank our investors for their constructive input and voting support to date. I will be actively engaging with our largest investors to seek their input on our policy review and welcome the views of all our shareholders on this important topic. We want to continue to shape our remuneration policy so that it incentivises the senior teams across our business to drive a strong long-term performance for our investors.

Ruth Cairnie
Remuneration committee Chair

This report

This report sets out:

- the remuneration policy that applies to executive and non-executive directors;
- how the policy, approved in 2016, was implemented in 2017/18;
- the amounts earned by our executive and non-executive directors in the year; and
- how we expect to implement the remuneration policy in 2018/19.

The committee Chair's letter, this introduction and the annual implementation report on directors' remuneration (set out on pages 92 to 99) will be subject to an advisory vote at the 2018 AGM.

Compliance

Where information in this report has been audited by Ernst & Young LLP it has been clearly indicated. The report has been prepared in line with the requirements of The Large and Medium-sized Companies Regulations, the recommendations of the UK Corporate Governance Code (April 2016) and the requirements of the UKLA Listing Rules.

Role of the Remuneration committee

The committee is responsible to the board for determining:

- the remuneration policy for the executive directors and the Chairman, considering remuneration trends across the Company;
- the specific terms and conditions of employment of each individual executive director;
- the overall policy for remuneration of the Chief Executive's first and second line reports;
- the design and monitoring of the operation of any Company share plans;
- stretching incentive targets for executive directors to encourage enhanced performance;
- an approach that fairly and responsibly rewards contribution to the Company's long-term success; and
- other provisions of the executive directors' service agreements and ensuring that contractual terms and payments made on termination are fair to the individual and the Company, and that failure is not rewarded and loss is mitigated.

The committee's remit is set out in detail in its terms of reference, which are reviewed regularly and were last updated in September 2015. They are available on request from the Company Secretary's office or at www.abf.co.uk/investorrelations/corporate_governance.

Members of the Remuneration committee

In the financial year and as at the date of this report, members and Chair of the committee have been as follows:

Role on committee	Independence	Year of appointment	Meetings attended
Charles Sinclair ¹	Chair until 11 April 2018	Chairman	2008 2
Ruth Cairnie ²	Chair from 11 April 2018	Independent Director	2014 4
Tim Clarke ³	Member	Senior Independent Director	2004 1
Javier Ferrán	Member	Senior Independent Director	2006 4
Wolfhart Hauser	Member	Independent Director	2015 4
Richard Reid	Member	Independent Director	2016 4
Michael McLintock ⁴	Member	Chairman	2017 4
Graham Allan ⁵	Member	Independent Director	2018 0

¹ The former Chairman was appointed Chair of the Remuneration committee until the end of his tenure as he had the greatest prior experience of executive reward of any of the non-executive directors. The Chairman retired from the Board on 11 April 2018.

² Ruth Cairnie was appointed Chair of the Remuneration committee from 11 April 2018.

³ Tim Clarke retired from the board on 30 November 2017.

⁴ Michael McLintock was appointed Chairman of Associated British Foods on 11 April 2018. He remains a member of the Remuneration committee.

⁵ Graham Allan was appointed on 5 September 2018.

George Weston (Chief Executive), Des Pullen (Group HR Director) and Julie Withnall (Group Head of Reward) attended all of the meetings of the committee. No individual was present when their own remuneration was being considered.

Remuneration committee advisors and fees

Following a competitive tender in 2003, Willis Towers Watson (WTW, then Towers Perrin) was selected to provide independent advice to the committee. The committee has retained WTW in this role because it values the robust data and continuity of advice provided over the long term. The committee remains satisfied that the advice from WTW is independent, thoughtful and challenging and so has not put this out to tender. The committee will keep this position under review.

WTW is a member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting. The only other advice that WTW provides to the Company is in survey provision, job evaluation and remuneration benchmarking. The fees paid to WTW for committee assistance over the past financial year totalled £84,487.

Herbert Smith Freehills LLP provides the company with legal advice. Advice from Herbert Smith Freehills is made available to the committee, where it relates to matters within its remit.

Remuneration principles

Our remuneration approach reflects our portfolio model, our market positioning for executive remuneration and our remuneration principles.

Alignment, accountability and doing the right thing	Our board is accountable for ensuring that the portfolio that we operate is the right one to deliver optimal returns to shareholders and for ascertaining that the businesses are well run. Our remuneration policy aims to align executive rewards with shareholder value creation.
Line of sight	We aim to align remuneration and business objectives through performance measures to which individuals have line of sight.
Clarity and simplicity	We believe that executive pay should be clear and simple for participants to understand. The best way to achieve this is through alignment with business performance.
Fairness	Total remuneration should fairly reflect the performance delivered and efforts made by executives.

Alignment to strategy

Our remuneration structure is directly aligned with our strategic goals so that pay supports what we are trying to achieve.

Operating model	Strong balance sheet and investments	Role of corporate centre	Do the right thing	Organic growth
The corporate centre agrees strategy and budgets with our businesses and closely monitors performance. Operational decisions are made locally. The corporate centre creates the framework for leaders to have freedom in decision-making and ensures activities are supported and monitored.	We manage our balance sheet to deliver long-term financial stability. We ensure capital funding is available to all of our businesses where returns meet or exceed defined criteria.	The corporate centre provides selected services and value adding capabilities to the businesses.	We manage the business for the long term.	We look for long-term opportunities to invest in the business.
The STIP personal targets for executive directors are aligned with the above. The return on capital employed (ROCE) and EPS measures on the LTIP will be achieved if the divisions deliver on their strategies.	The robust management of the balance sheet ensures that we are able to deliver a strong performance.	Retention of the individuals with these key skills at the centre is critical to our success.	In the short term we may make decisions that reduce profit or increase working capital. This impacts STIP outcomes.	We are committed to increasing shareholder value through sound commercial responsibility and sustainable business decisions that deliver steady growth in earnings and dividends.
	The LTIP EPS and ROCE targets hold executives to account for the performance outcomes of their investment decisions.	STIP and LTIP performance measures under the policy should ensure that outcomes are linked with successful performance outcomes resulting from management effort.	The deferred awards provide a powerful incentive to ensure that decisions in the short term will deliver long-term value through share price growth.	The STIP deferred awards and LTIP shares will benefit from a dividend equivalent, paid at vesting. This gives closer TSR alignment. The number of shares vesting will reflect the outcomes of the decisions made in the performance period.

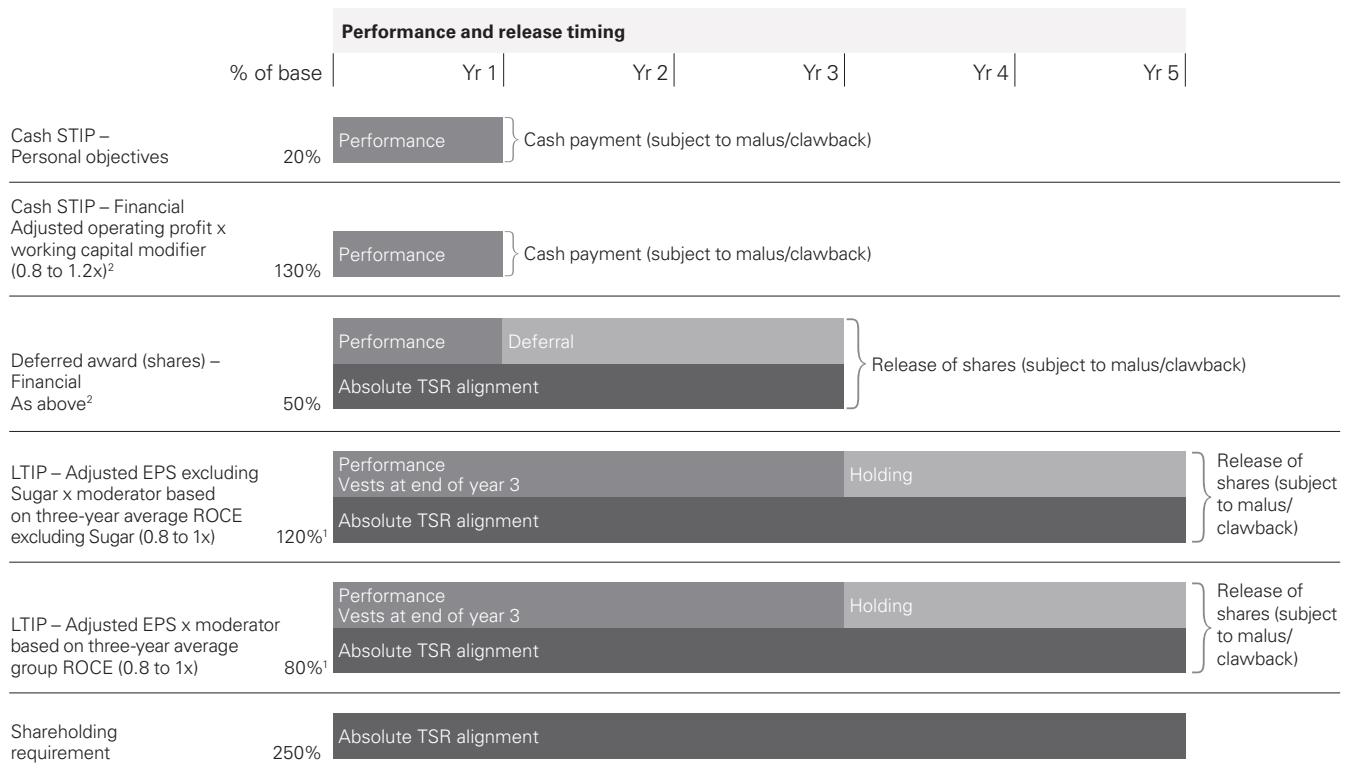
Remuneration structures at a glance

The table below outlines the remuneration structure that will apply in 2018/19. Further details are set out in the directors' remuneration policy and annual implementation report.

Remuneration element	Detail
Base salary	2019 salaries will be unchanged from 2018 salaries and are as follows: <ul style="list-style-type: none"> • Chief Executive £1,090,000; and • Finance Director £720,000.
Pension	Existing executive directors have benefits under the Company's defined benefit (DB) scheme and/or Employer Financed Retirement Benefit Scheme (EFRBS), which deliver a retirement benefit target of around two-thirds of final pensionable pay at normal retirement age. Future executive directors, who are not already entitled to DB pension arrangements at the time of appointment, will benefit from a defined contribution arrangement, with a Company contribution of 25% of base salary or a cash equivalent.
Cash STIP	Maximum cash STIP 150% of salary: <ul style="list-style-type: none"> • 20% of salary based on personal performance linked to strategic goals; and • 130% of salary based on financial performance (currently adjusted operating profit with a working capital multiplier).
Deferred award (shares)	Maximum deferred award 50% of salary: <ul style="list-style-type: none"> • based on the same financial targets as the cash STIP financial element; • shares vest three years after grant; • a dividend equivalent payment is made, pro rata to the number of shares vesting, at the release date; and • following release, and the payment of any taxes due, at least 50% of net shares must be held until the shareholding requirement is met. Awards are settled using shares purchased in the market.
LTIP	Maximum LTIP award 200% of salary: <ul style="list-style-type: none"> • awards made annually; • target vesting is half of maximum and threshold vesting is 10% of maximum; • a portion (40% for the 2018 allocation) of the shares vests based on performance against a group adjusted EPS range with a three-year average group ROCE moderator; • a portion (60% for the 2018 allocation) of the shares vest based on performance against an adjusted EPS range with a three-year average ROCE moderator. For this portion of the award the Sugar profit will be removed from both measures and, for the EPS measure, interest and tax attributable to Sugar will be removed on a pre-defined basis; • a dividend equivalent payment is made, pro rata to the number of shares vesting, at the release date; • the committee will retain discretion to ensure that outcomes under the plan are consistent with overall performance and to ensure that the element with Sugar performance removed does not lead to unintended consequences; • the LTIP performance range for 2018–21 is shown on page 99; and • following release, and the payment of any taxes due, at least 50% of net shares must be held until the shareholding requirement is met. Awards are settled using shares purchased in the market.
Shareholding requirement	There is a shareholding requirement of 250% of salary for the Chief Executive and Finance Director, to be met using beneficially-owned shares. Conditional share awards, including deferred awards, do not count towards this limit as shown on page 96. Shares that have vested and are subject to a holding period do count towards this limit.

Illustration of incentive model

The chart below shows the approach that we apply to incentives.



¹ Weighting shown applies for 2018–21 but may change each year.

² The performance range that applied to cash STIP and deferred award (shares) will be disclosed at the end of year two.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

This report sets out our remuneration policy, which applied from the close of the AGM on 9 December 2016. The committee intends to review the remuneration policy in 2019. For unvested share awards only, the provisions of the remuneration policy presented in the 2015 Remuneration report will continue to apply until such time as all long-term incentive awards granted under those policies have vested or lapsed.

BASE SALARY (100% CASH)	Operation and link to business strategy Base salaries are normally reviewed on an annual basis or following a significant change in responsibilities. Factors taken into account include market pay movements, the level of increases awarded to UK employees across the group and the impact of any increase on the total remuneration package. If there is a significant change in role scope, remuneration will be adjusted to reflect this.	Maximum opportunity Increases will be aligned with those available for other UK employees.
BENEFITS (EXCLUDING RELOCATION AND PENSION) Element and purpose To provide core reward for the role, recognising responsibility for setting and delivering the strategy.	Operation and link to business strategy Benefits are restricted to typical UK market levels for executive directors and 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.	Maximum opportunity The cost of benefits is not expected to exceed 10% of salary but is dependent on factors that can vary.
PENSION Element and purpose To provide a competitive and cost-effective benefits package appropriate to the role.	Operation and link to business strategy Defined benefit (DB) pension arrangements – closed to new members The current executive directors are members of the Company's DB pension scheme. The scheme is designed to provide retirement benefits of around two-thirds of final pensionable pay at age 65 (62 for John Bason). Both executive directors opted out of the scheme on 5 April 2006, but retain their accrued benefits. Since then they have earned benefits in an EFRBS. The EFRBS is designed broadly to mirror the provisions of the DB pension scheme. Defined contribution pension arrangements Future executive directors, who are not already entitled to DB pension arrangements at the time of appointment, will benefit from a defined contribution arrangement, with a Company contribution of 25% of base salary. Cash alternative Where a UK-based pension arrangement is not possible, or is not tax-efficient, a cash supplement equivalent to the normal pension contribution may be paid in lieu of pension contributions.	Maximum opportunity For directors entitled to benefits under the DB scheme and/or EFRBS, a retirement benefit target of circa two-thirds of final pensionable pay is payable at normal retirement age. Otherwise, executives may receive Company contributions (or cash equivalent) up to a maximum of 25% of base salary.
CASH SHORT TERM INCENTIVE PLAN (STIP) Element and purpose To encourage and reward the attainment of challenging financial targets and the achievement of personal performance objectives over a one-year period.	Operation and link to business strategy Performance measures and target-setting Group financial performance is assessed against prime financial and strategic measures used across the group on a day-to-day basis to drive and monitor performance. The personal element of the STIP is based on personal targets aligned to our strategic goals. The on-target performance level is set at the start of each financial year and is at or around the budgeted level of performance, considering any early re-forecasts. The committee then sets a range around the target to incentivise delivery of stretching performance. Retrospective disclosure of targets Achievement against financial targets will be disclosed after the end of the relevant financial year in that year's Remuneration report and the performance range that applied to financial targets will be disclosed at the end of the following year. Discretion, clawback and malus Please refer to the notes that follow this table.	Maximum opportunity STIP cash of 150% of base salary. In exceptional circumstances, such as the appointment of a new Chief Executive, this could be increased to 200% of base salary to correct any shortfall against market. Any increase would consider adjustments in other elements of the package to ensure that the total was not excessive.

DEFERRED AWARDS (SHARES)	<p>Operation and link to business strategy Performance measures and target-setting</p> <p>Annual allocations of conditional shares vest based on performance in year one and a further service period of two years. The performance measures and targets are the same as for the financial element of the cash STIP.</p> <p>Vesting period</p> <p>Shares vest following the announcement of results three years after the start of the relevant STIP performance period.</p> <p>Calculation of outcomes, discretion, clawback and malus</p> <p>As for the financial element of the cash STIP.</p> <p>Dividend equivalents</p> <p>A cash or shares dividend equivalent payment will be made, pro rata to the number of shares vesting, at the release date.</p>	<p>Maximum opportunity</p> <p>Shares worth 50% of base salary at allocation.</p> <p>In exceptional circumstances, such as the appointment of a new Chief Executive, this could be increased to 100% of base salary to correct any shortfall against market. Any increase would consider adjustments in other elements of the package to ensure that the total was not excessive.</p> <p>At maximum, 100% of the allocated shares vest; at target 50% vest; at threshold 10% vest; and below threshold awards lapse.</p>				
LONG TERM INCENTIVE PLAN (LTIP)	<p>Operation and link to business strategy Performance measures and target-setting</p> <table border="1"> <thead> <tr> <th>% of award</th> <th>Measure</th> </tr> </thead> <tbody> <tr> <td>Proportions to be set annually</td> <td> <p>A – Growth in adjusted EPS. The calculated outcome may then be moderated downwards to reflect ROCE performance.</p> <p>B – Growth in adjusted EPS with the adjusted operating profit, tax and interest of Sugar removed. The calculated outcome may then be moderated downwards to reflect ROCE performance with the profit and average capital employed of Sugar removed.</p> </td></tr> </tbody> </table> <p>These measures reflect our strategy and take into account feedback from investors. They are well understood both by participants and shareholders and reduce the impact of sugar price volatility on long-term growth-based incentive outcomes.</p> <p>Targets are set for each allocation, taking into account the shape of the portfolio, market expectations and internal forecasts for the next few years, and the scale of investments made.</p> <p>Vesting period</p> <p>Annual allocations of conditional shares will be free of restrictions after a five-year period, comprising a three-year performance period and a two-year holding period for the net of tax award.</p> <p>Discretion, clawback and malus</p> <p>Please refer to the notes that follow this table.</p> <p>Dividend equivalents</p> <p>A cash or shares dividend equivalent payment will be made, pro rata to the number of shares vesting, at the release date.</p>	% of award	Measure	Proportions to be set annually	<p>A – Growth in adjusted EPS. The calculated outcome may then be moderated downwards to reflect ROCE performance.</p> <p>B – Growth in adjusted EPS with the adjusted operating profit, tax and interest of Sugar removed. The calculated outcome may then be moderated downwards to reflect ROCE performance with the profit and average capital employed of Sugar removed.</p>	<p>Maximum opportunity</p> <p>200% of base salary at allocation.</p> <p>In exceptional circumstances, such as the appointment of a new Chief Executive, this could be increased to 300% of base salary to correct any shortfall against market. Any increase would consider adjustments in other elements of the package to ensure that the total was not excessive.</p> <p>At maximum, 100% of the allocated shares vest; at target 50% vest; at threshold 10% vest; and below threshold awards lapse.</p>
% of award	Measure					
Proportions to be set annually	<p>A – Growth in adjusted EPS. The calculated outcome may then be moderated downwards to reflect ROCE performance.</p> <p>B – Growth in adjusted EPS with the adjusted operating profit, tax and interest of Sugar removed. The calculated outcome may then be moderated downwards to reflect ROCE performance with the profit and average capital employed of Sugar removed.</p>					
SHAREHOLDING REQUIREMENT	<p>Operation and link to business strategy</p> <p>This is not part of our formal remuneration policy. Details of our current requirement are provided in our annual implementation report on page 96.</p>					

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS CONTINUED

NON-EXECUTIVE DIRECTORS' FEES

Element and purpose

To attract and retain a high-calibre Chairman and non-executives by providing a competitive core reward for the role.

Operation and link to business strategy

Non-executives

The Chairman and executive directors review non-executive directors' fees every other year in the light of fees payable in comparable companies and by reference to the time commitment, responsibility and technical skills required to make a valuable contribution to an effective board. Fees are paid in cash on a quarterly 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 concerning their own fees.

The Senior Independent Director and committee Chairmen are each paid an additional fee to reflect their extra responsibilities and greater time commitment. As the Chair of the Nomination committee is currently the Company Chairman, no fee is paid for this role at present.

Chairman

The Remuneration committee reviews the Chairman's fees, which are paid monthly in cash. No other benefits are paid to the Chairman.

Shareholding

We encourage our non-executive directors to build up a shareholding of at least 100% of their annual fee.

Expenses

We reimburse reasonable expenses incurred in travelling on behalf of the business. As HMRC regards travel to the head office as a benefit in kind, by exception, where these are claimed, we pay any tax due on such expenses on a grossed-up basis.

Notes to the remuneration policy table

Malus and clawback

The committee may, at any time within two years of an LTIP vesting or STIP being paid, determine that clawback shall apply if the committee determines that performance outcomes were misstated or an erroneous calculation was made in assessing the extent to which performance targets were met. LTIP and STIP payments can be clawed back if the participant is found at any time prior to vesting/payment, including prior to grant, to have committed an act or omission which, in the opinion of the committee, would have justified summary dismissal.

As a condition of participating in the STIP and LTIP, all participants are required to agree that the committee may cause any STIP or LTIP award in which they participate to lapse (in whole or in part); and/or operate clawback under any LTIP or STIP in which they participate; and/or reduce any amounts otherwise payable to them; and/or require the participant to immediately transfer shares or cash back to the Company.

Discretion

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 applies a robust set of principles to ensure that incentive outcomes are consistent with business performance and aligned with shareholder interests. Any material exercises of discretion by the committee in relation to the STIP and LTIP will be in line with scheme rules, or other applicable contractual documentation, and will be fully disclosed and explained in the relevant year's annual implementation report.

Executive directors serving as non-executive directors

To encourage self-development and external insight, the committee has determined that, with the consent of both the Chairman and the Chief Executive, executive directors may serve as non-executive directors of other companies in an individual capacity, retaining any fees earned.

How pay and conditions of employees were considered when setting the directors' remuneration policy

The group is geographically dispersed and therefore subject to very different pay markets. As a result, it is difficult to make sensible comparisons with all employees across the group and the salaries of executive directors are therefore reviewed in line with the group's UK employees.

As outlined in the policy table, the committee limits the range of salary increases for executive directors to the range of increases available to UK-based employees unless there has been a change of role.

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 proportionately more than that of other employees and conversely in years of lower performance it may be proportionately less.

The structure and principles of incentives are consistent further down the organisation. The committee is provided with data on the remuneration structure for two tiers of senior management below the executive directors and uses this information to work with the Company to ensure consistency of approach. In addition, the committee approves all share-based LTIP awards across the group.

The Company did not consult with employees in 2016 when drafting this remuneration policy. We will consider the requirements of the new UK Corporate Governance Code when we review our remuneration policy in 2019.

Statement of consideration of shareholders' views

The committee chair is available to discuss with shareholders any remuneration matters to help shape our policy and practice. Each year we invite our larger institutional shareholders to share their views on the group's remuneration, strategy and governance. The feedback received and our response is detailed in the letter at the start of this report.

Approach to recruitment remuneration

Area	Policy and operation
Overall	<p>As we may need to recruit future executive directors from outside the UK or from companies with more aggressive incentive policies than our own, the arrangements below are intended to provide the necessary flexibility to recruit the right individuals.</p> <p>For internal appointments, awards in respect of the prior role may be allowed to vest according to the terms of the scheme, adjusted as relevant to take account of the new appointment. In addition, ongoing prior remuneration obligations may continue.</p> <p>The rationale for the package offered will be explained in the subsequent annual implementation report. We apply the same policy for new joiners as for existing executive directors.</p>
Base salary	Base salary would be set at an appropriate level to recruit the best candidate, based on their skills, experience and current remuneration, taking into account market data and internal salary relativities.
Relocation	<p>If a new executive director needs to relocate, the Company may pay:</p> <ul style="list-style-type: none"> • actual relocation costs and other reasonable expenses relating to moving house; • disturbance allowance of up to 5% of salary, some of which may be tax-free for qualifying expenditure; • school fees for dependent children where there are cultural or language considerations; • medical costs for the overseas family, where relevant; • 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 where an executive is recruited from outside the UK; • reasonable fees and taxes for buying and/or selling a family home and/or appropriate rental costs; and • any tax due, grossed up, on any relocation-related payments listed above.
Buy-out awards	<p>In addition to normal incentive awards, buy-out awards may be made to reflect value forfeited through an individual leaving their current employer. If a buy-out award is required, the committee would aim to reflect the nature, timing and value of awards foregone in any replacement awards. Awards may be made in cash or shares. Where performance conditions applied to a forfeited award, they will be applied to the replacement award.</p> <p>In establishing the appropriate value of any buy-out, the committee would also have regard to the value of the other elements of the new remuneration package. The committee would aim to minimise the cost to the Company, however, buy-out awards are not subject to a formal maximum. Any awards would be broadly no more valuable than those being replaced.</p> <p>Where possible, we would specify that 50% of any vested buy-out awards should be retained until the shareholding requirement is met.</p>
Other elements	Benefits, pension, cash STIP, deferred awards, LTIP and shareholding requirements will operate in line with the remuneration policy.
Non-executives	<p>Fees would be in line with the remuneration policy.</p> <p>We would not pay to relocate a non-executive director to the head office location.</p>

Service contracts and policy on payment for loss of office

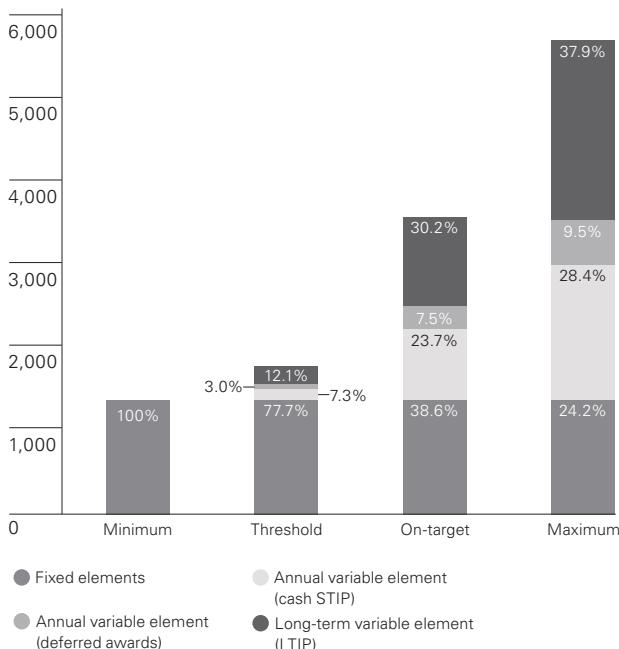
Provision	Policy and operation
Notice period	12 months' notice by either the director or the Company.* Contracts are available for inspection at the Company's offices. Contracts and service agreements are not reissued when base salaries or fees are changed. Pension arrangements have been amended, as described in the policy table, without reissuing contracts.
Non-compete	During employment and for 12 months thereafter.
Executive directors – contractual termination payments	<p>Resignation No payments on departure, even if, by mutual agreement, the notice period is cut short.</p> <p>Departure not in the case of resignation Service contracts allow for the Company to terminate employment by paying the director in lieu of some or all of their notice period. The Company may determine that such a payment is made in monthly instalments or as a lump sum. A payment in lieu of notice will comprise the salary, benefits and pension provision that the director would otherwise have received during the relevant period. The Company is committed to the principle of mitigation and would reduce monthly instalments to take account of amounts received from alternative employment.</p> <p>In limited circumstances, the Company may permit an executive director to work for us as a contractor or employee after the end of their notice period for a limited period to ensure an effective hand-over and/or to allow time for a successor to be appointed.</p> <p>Settlement agreement The committee may agree payments it considers reasonable in settlement of legal claims. This may include an entitlement to compensation in respect of their statutory rights under employment protection legislation in the UK or in other jurisdictions. The committee may also include in such payments reasonable reimbursement of professional fees in connection with such agreements.</p> <p>In this, or the above scenario, the committee may make reasonable payments in respect of outplacement and may also agree to provide other ancillary or non-material benefits in connection with departure (including for a defined period after departure) not exceeding a value of £5,000 in aggregate.</p>
Relocation support	<p>Good leaver** If an executive was recruited from overseas and relocated to the UK at the start of his/her employment, his/her repatriation may be paid.</p> <p>Leaver due to resignation/misconduct/poor performance No payment would be made.</p>
STIP	<p>Good leaver** The committee will consider making a payment pro rata for time and performance, for the financial year in which the termination/death took place. Any agreed payment will be made in the December following the year end. In the case of death, payment may be accelerated. This is consistent with the approach for other STIP participants.</p> <p>Resignation If an executive director ceases to be employed before, or is under notice when, full year results are published, no award will be made.</p> <p>Leaver due to misconduct/poor performance No payment will be made.</p>
LTIP and deferred awards (shares)	<p>Good leaver** Where the performance condition on deferred awards has already been achieved and the award is subject to a service condition, it will vest at the usual vesting date. For other allocations, the committee will decide the extent to which they vest having regard to the extent to which any performance condition is satisfied and, unless the committee determines otherwise, pro-rating to reflect the period from the start of the performance period until the date of cessation. Such awards will vest on the normal vesting date or at such other date as the committee determines. In the case of death, vesting may be accelerated. Awards or portions of awards that do not vest will lapse.</p> <p>Leaver due to resignation/misconduct/poor performance All conditional awards lapse.</p> <p>Change of control of the Company In the event of a change of control, all unvested awards under the LTIP would vest, subject to the committee taking into account the extent that any performance conditions attached to the relevant awards have been achieved and, unless the committee determines otherwise, the proportion of the performance period worked by the director prior to the change of control. For deferred awards, all will vest on the event of a change of control.</p>

Provision	Policy and operation
Non-executive directors – contractual termination payments	Appointment is for three years unless terminated by either party on six months' notice. Continuation of the appointment is contingent on satisfactory performance and re-election at annual general meetings. Non-executive directors are typically expected to serve two three-year terms, although the board may invite them to serve for an additional period.
	Our 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 election or re-election in compliance with the UK Corporate Governance Code.
	Where an individual retires at the annual general meeting and does not stand for re-election, they are not paid in lieu of notice.

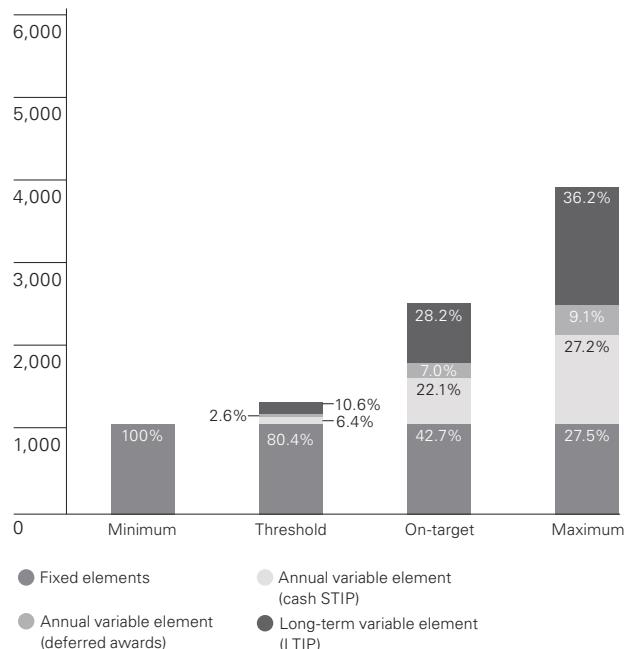
* John Bason's employment contract was subject to 12 months' notice but specified a retirement date of age 62, as reflected in his EFRBS opportunity. As we wish to continue his employment beyond April 2019, he will be issued with a new employment contract when his old one terminates. The terms of employment will remain the same except that he will be treated as a new appointment for pension purposes consistent with how we would treat other new executive directors.
** Good leavers are those leaving because of ill health/injury/disability/death, redundancy, retirement or because their employing company is being transferred outside the group or for any other reason determined by the committee.

Executive directors' reward potential

George Weston (£000)



John Bason (£000)



Notes 2018/19 Policy

- 1 Fixed elements for George Weston comprise salary (net of pension-related salary sacrifice) of £1,065,835, benefits of £16,191 and pension of £309,442 and applies to minimum, threshold, on-target and maximum performance.
- 2 Fixed elements for John Bason comprise salary (net of pension-related salary sacrifice) of £706,935, benefits of £22,979 and EFRBS pension to April 2019 then a cash allowance in lieu of DC pension contributions of £361,667 and applies to minimum, threshold, on-target and maximum performance.
- 3 Cash STIP is calculated on base salary at the end of the financial year and both the deferred awards and LTIP share values are calculated on base salary at the date of allocation and exclude share price movement and dividend equivalents.
- 4 Minimum: No cash STIP, deferred awards or LTIP vesting for not achieving threshold performance.
- 5 Threshold: Cash STIP of 12% of base salary (12% of base salary for threshold financial performance and 0% for not achieving threshold personal performance). Deferred awards vesting at 10% of maximum (i.e. 5% of grant date base salary). LTIP vesting at 10% of maximum (i.e. 20% of grant date base salary) following achievement of threshold performance targets.
- 6 On-target: Cash STIP of 78.33% of base salary (65% for target financial performance and 13.33% for target personal performance). Deferred awards vesting at 50% of maximum (i.e. 25% of grant date base salary). LTIP vesting at 50% of maximum (i.e. 100% of grant date base salary).
- 7 Maximum: Cash STIP of 150% of base salary (130% for maximum financial performance and 20% for achieving maximum personal performance). Deferred awards vesting at 100% of maximum (i.e. 50% of grant date base salary). LTIP vesting at 100% of maximum (i.e. 200% of grant date base salary).

Annual implementation report on directors' remuneration

This report sets out the elements of remuneration paid to directors in respect of the financial year 2017/18. The notes to the single figure table provide further detail on the elements that make up the total single figure of remuneration in respect of each of the executive directors.

This report is subject to an advisory vote at the 2018 AGM.

Single total figure of remuneration – (audited information)

	Salary or fees		Taxable benefits		Pensions ⁵		STIP ⁶		LTIP ^{7,8}		Single total figure	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	2018 ¹	2017 ¹	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Executive directors												
George Weston	1,060	1,042	16²	16	247	609	1,039	2,179	1,464	1,003	3,826	4,849
John Bason	692	678	23³	18	337	506	698	1,435	964	661	2,714	3,298
Non-executive directors												
Charles Sinclair	238	405	1⁴	1 ⁴							239	406
Tim Clarke ⁹	19	95	—	—							19	95
Javier Ferrán ¹⁰	90	74	—	—							90	74
Emma Adamo	74	74	—	—							74	74
Ruth Cairnie ¹¹	83	74	—	—							83	74
Wolfhart Hauser	74	74	—	—							74	74
Richard Reid	95	94	—	—							95	94
Michael McLintock ¹²	209	—	—	—							209	—
Graham Allan ¹³	2	—	—	—							2	—

¹ For executive directors, the salary in the year is not the same as a weighted average of the headline salaries, since salary actually paid is reduced for pension-related salary sacrifices. The benefit of these salary sacrifices is captured in the increase in pension entitlements for which a remuneration value is shown in the pensions column.

² The value of George Weston's benefits comprised £14,161 taken in cash and £2,031 taxed as benefits-in-kind.

³ The value of John Bason's benefits comprised £14,161 taken in cash and £8,819 taxed as benefits-in-kind.

⁴ The value of Charles Sinclair's benefits was taxed as a benefit-in-kind.

⁵ While the nature of pension benefits has not changed during the year, the pensions number for remuneration purposes has reduced. This year's amount is lower than last year due to an increase in the Consumer Prices Index to 3% at the start of this year from 1% at the start of last year. This increase in inflation reduces the year-on-year impact of changes in accrued pension benefits.

⁶ Comprises the annual bonus, which is paid in December in respect of the preceding financial year, and the value of deferred share awards calculated based on the average mid-market closing price over the last quarter of the financial year. For 2016/17 the relevant share price was 3060.82p and for 2017/18 it was 2465.31p. These shares are subject to a two-year deferral period. For George Weston this comprises a cash element of £832,760 and a deferred award value of £206,544. For John Bason this comprises a cash element of £562,320 and a deferred award value of £136,036.

⁷ 51.02% of the shares under the LTIP for 2014–17 vested in November 2017 at a share price of 3042.96. George Weston received 32,969 shares and John Bason received 21,716 shares. As required by UK regulations, the value disclosed for this award in 2017 was estimated using the average mid-market closing price over the last quarter of the 2016/17 financial year of 3060.82p. This figure has now been recalculated for the actual share price on the vesting date.

⁸ 100% of the shares under the LTIP for 2015–18 will vest in November 2018. George Weston will receive 59,388 shares and John Bason will receive 39,110 shares. As required by UK regulations, the vesting value under the LTIP for 2015–18 has been estimated using the average mid-market closing price over the last quarter of the 2017/18 financial year of 2465.31p. Vesting will be on 23 November 2018 and a figure recalculated for the actual share price on that date will be presented in the 2019 report.

⁹ Tim Clarke retired from the Board on 30 November 2017.

¹⁰ Javier Ferrán was made Senior Independent Director with effect from 30 November 2017 and was paid an additional fee from that date, consistent with our remuneration policy.

¹¹ Ruth Cairnie was made Chair of the Remuneration committee with effect from 11 April 2018 and was paid a committee Chair fee from that date, consistent with our remuneration policy.

¹² Michael McLintock joined the Board on 1 November 2017 as a non-executive director. He was made company Chairman on 11 April 2018 and was paid a Chairman fee, consistent with the fee previously paid to Charles Sinclair, from that date, consistent with our remuneration policy.

¹³ Graham Allan joined the Board on 5 September 2018 as a non-executive director.

Additional notes to the single total figure of remuneration – executive directors (audited information)

Single total figure – base salary

Executive directors' salaries were reviewed on 1 December 2017 in accordance with normal policy and the percentage increase was somewhat less than the average increases for the Company's UK-based employees.

	Dec 2016	Increase in Dec 2017	Dec 2017
George Weston	£1,072,000	1.7%	£1,090,000
John Bason	£706,000	2.0%	£720,000

Single total figure – taxable benefits

The taxable values of a fully-expensed company car, family private medical insurance, permanent health insurance, life assurance and an annual medical check-up are included in the table of directors' remuneration.

Pensions

Both directors opted out of the Associated British Foods Pension Scheme, a defined benefit scheme, on 5 April 2006, and since then have earned benefits in an EFRBS.

George Weston

In this financial year George Weston had an overall benefit promise of 1/45th of final pensionable pay for each year of pensionable service up to 5 April 2016 and 1/50th of final remuneration for each year of pensionable service thereafter, subject to a maximum of two-thirds of final pensionable pay. He opted out of the Associated British Foods Pension Scheme on 5 April 2006 and has a deferred benefit in the Scheme; the balance of the promise is provided under an EFRBS. His pension benefits are payable from age 65. There is no additional benefit entitlement for members if they take early retirement. His accrued pension at 15 September 2018 was £614,038.

John Bason

In this financial year John Bason had an overall benefit promise at age 62 of two-thirds of final pensionable pay, less an allowance for retained benefits from his previous employment. He opted out of the Associated British Foods Pension Scheme on 5 April 2006 and has a deferred benefit in the Scheme; the balance of the promise is provided under an EFRBS. His pension benefits are payable from age 62. There is no additional benefit entitlement for members if they take early retirement. His accrued pension at 15 September 2018 was £397,182.

Short Term Incentive Plan – 2017/18

The table below shows outcomes against the specific measures in the year.

Measures	Achievements against performance measures		
A – Adjusted operating profit	Threshold 15% salary	Target 65% salary	Maximum 108.3% salary
		52.59%	
B – Working capital as % of revenue	Threshold x 0.8	Target x 1	Maximum x 1.2
		1.2x	
A x B – Total financial	Threshold 12% salary	Target 65% salary	Maximum 130% salary
		63.1%	
C – Personal – George Weston	Threshold 0% salary	Target 13.3% salary	Maximum 20% salary
C – Personal – John Bason		13.3%	15%
(A x B) + C – Total STIP – George Weston	Threshold 12% salary	Target 78.3% salary	Maximum 150% salary
(A x B) + C – Total STIP – John Bason		76.4%	78.1%

Our financial performance showed progress, with adjusted operating profit 3% ahead of last year but slightly below target. All of our business divisions with the exception of Sugar delivered a strong performance. Group performance, however, was affected by the impact of low sugar prices. Working capital was well managed over the year taking into account the expected increase in sugar stocks. In combination, these outcomes resulted in the 2017/18 STIP outcome shown above.

Following a review of personal performance against specific objectives for the 2017/18 financial year, the committee determined that George Weston will receive 13.3% of salary for the individual element of the annual bonus for performance that was on target against set objectives with most of our businesses performing well and a continued strong business response to the risks and opportunities that Brexit represents. John Bason will receive 15% of base salary for the individual element of the annual bonus, reflecting delivery of objectives, robust oversight of key IT projects and work on acquisitions. Personal objectives set for each of the executive directors were closely aligned to the overall strategy of the group but additional details will not be disclosed because of commercial sensitivity. Additional detail on personal performance outcomes for this financial year will be disclosed in November 2019.

Retrospective disclosure of STIP performance range

We will disclose the target ranges that applied to 2017/18 STIP in November 2019. This timing is deemed appropriate as when we do disclose the performance target ranges that applied, we wish to be able to add any commentary that will help investors to understand the performance outcomes. In some cases, this is not appropriate immediately following the end of the performance year as the information remains commercially sensitive. For these reasons, we believe that this delayed disclosure is appropriate and in shareholders' interests.

In the past we delayed disclosure by 24 months; we have now decided to reduce this to 12 months and we are therefore now disclosing the ranges that applied in both 2015/16 and in 2016/17.

STIP performance range 2015/16

The table below details the financial performance ranges that applied in 2015/16 and the calculated outcome.

	Threshold	Target	Maximum	2015/16 STIP Outcome
A = Adjusted operating profit £m	940	1,000	1,060	1,117.56
STIP earned for this level of profit performance (as % of salary)	15%	65%	108.3%	108.3%
B = Working capital as a % of sales	16.68	15.60	14.52	15.19
Working capital modifier for this level of performance	0.8	1.0	1.2	1.0759
A x B = STIP financial element (as % of salary)	12%	65%	130%	116.56%
Personal element (as % of salary)				
George Weston	0%	13.3%	20%	13.61%
John Bason	0%	13.3%	20%	20%
Total STIP (as % of salary)				
George Weston	12%	78.3%	150%	130.17%
John Bason	12%	78.3%	150%	136.56%

At the start of 2015/16, as detailed in our annual report that year, we and the market expected a modest decline in EPS with devaluation of the euro against the US dollar presenting a major challenge for Primark margins. This was reflected in the targets for adjusted operating profit as shown above. As explained in our remuneration report in 2016, our actual performance was better than expected, with Primark limiting the expected profit impact of euro weakness through outstanding buying, AB Sugar responding to its challenging market with structural changes and substantial cost reductions, and there was also a strong profit increase in Ingredients.

Personal performance is assessed against targets set in four key areas. Some of the key achievements in each of these areas were as follows:

Divisional financial and operational objectives	Good performance from all businesses Cost reduction in Sugar was accelerated Primark opened in two new markets
Development and delivery of strategies, including special projects and transactions	Restructuring of the Sugar portfolio with a move to full ownership of Illovo in Africa in the year and the disposal of the south China Sugar business announced soon after year end. The disposal of the US Spices business was also announced early in the following financial year
People and organisation	Significant changes in senior leadership, in particular in Ingredients and GWF Continued focus on diversity and inclusion across the businesses
Developing long-term business health	A comprehensive strategic review of the European sugar industry post-regulation was completed Decisive action taken to commence work on the implications of Brexit

After a detailed assessment of performance against objectives, the calculated outcome of personal performance for the Chief Executive was just above on-target at 13.61%. The outcome for the Finance Director was at maximum, reflecting, in particular, a very strong delivery on a number of important transactions. This resulted in a bonus payment of 130.17% of salary out of a maximum 150% of salary for the Chief Executive and 136.56% of salary out of a maximum of 150% of salary for the Finance Director.

STIP performance range 2016/17

The table below details the financial performance ranges that applied in 2016/17 and the calculated outcome.

	Threshold	Target	Maximum	2016/17 STIP Outcome
A = Adjusted operating profit £m	1,175.4	1,237.2	1,299.0	1,361.23
STIP earned for this level of profit performance (as % of salary)	15%	65%	108.3%	108.3%
B = Working capital as a % of sales	16.21	15.15	14.09	12.11
Working capital modifier for this level of performance	0.8	1.0	1.2	1.2
A x B = STIP financial element (as % of salary)	12%	65%	130%	130%
Personal element (as % of salary)				
George Weston	0%	13.3%	20%	14.93%
John Bason	0%	13.3%	20%	15%
Total STIP (as % of salary)				
George Weston	12%	78.3%	150%	144.93%
John Bason	12%	78.3%	150%	145%

The STIP targets for 2016/17 anticipated the benefits of growth in Primark selling space, higher sugar prices and further progress in Grocery, Ingredients and Agriculture. The significant devaluation of sterling was expected to provide benefits from the translation of overseas profits but challenges to Primark margins. Our performance was strong, with Primark in particular delivering stronger profit growth than expected and Sugar benefiting from its continued cost reduction programmes. Working capital was also well managed throughout the year. This is reflected in the 2016/17 STIP outcome, where both of the financial performance measures were achieved at maximum as defined under the plan.

Key achievements in the four key areas for personal performance assessment were as follows:

Divisional financial and operational objectives	Particularly strong Primark trading in core markets Good profit delivery from Sugar business Further improvement in the Ingredients businesses
Development and delivery of strategies, including special projects and transactions	Effective full integration of Illovo into the Sugar business Disposal of the Spices business completed and subsequent restructuring of our US Grocery business
People and organisation	Leadership transition in ACH delivered Successful transitions in Primark leadership positions GWF moved to a new operating model, with significant people changes
Developing long-term business health	Brexit steering group effective, helpful engagement with government and industry bodies The updated Corporate Responsibility report was launched and well received Further progress was made in health and safety

Taking into account a detailed assessment of performance against objectives, the calculated outcome of personal performance for the Chief Executive was slightly above on-target at 14.93% and for the Finance Director was 15.0%. This resulted in a bonus payment of 144.93% of salary out of a maximum 150% of salary for the Chief Executive and 145% of salary out of a maximum of 150% of salary for the Finance Director.

LTIP – 2015–18

The performance measures for each three-year LTIP cycle are set by the committee. Awards are made annually, at the discretion of the committee, and eligible executives receive shares at the end of the performance period, subject to achievement of the performance measures.

In November 2015, when awards were allocated under the 2015–18 tranche of the LTIP, we expected 2015/16 to be very challenging. The devaluation of the euro against the US dollar presented a major challenge for Primark margins and this was set out, in some detail, in the presentation of our interim results in April 2015. In November 2015 we therefore wrote to our shareholders to explain how we intended to address this in our LTIP performance ranges and received clear support for our approach, including a 91.09% vote in favour of the Remuneration report at the 2015 AGM.

In the event, adjusted operating profit for 2015/16 was 3% ahead and earnings per share 5% ahead of the prior year. As detailed on page 94, under the STIP disclosure, these results were achieved by Primark limiting the expected profit impact of euro weakness through outstanding buying, AB Sugar responding to its challenging market with structural changes and substantial cost reductions, and there was also a strong profit increase in Ingredients. Looking back, we consider that our expectations for market conditions in 2015/16 were well-founded and sensibly taken into account in the target setting for the 2015/16 STIP and 2015–18 LTIP.

For the 2015–18 cycle, after a technical adjustment in 2017 for a change in the way that sugar cane roots are accounted for, which made the targets no harder or easier to achieve, the adjusted EPS performance range to be achieved in 2017/18 was 111.95p for threshold vesting, 118.42p for target vesting and 125.08p for maximum vesting. The outcome for adjusted EPS in 2017/18 of 134.9p, equivalent to a CAGR over the performance period of 9.95%, leads to vesting at maximum level.

The committee has considered whether this level of vesting is a fair reflection of performance over the period. We are satisfied that the strong strategic progress over the period is supportive of the vesting outcome, with highlights including the restructuring and substantial cost reductions in Sugar, strong and sustainable growth in Twinings and Ingredients, and further development of Primark to a truly international footprint with strong capability to grow profitably through changeable market conditions.

In November 2015, when these LTIP allocations were made, our share price was £34.62 but, over the performance period, the share price has fallen. The committee has also considered whether the calculated vesting outcome aligns sufficiently with the experience of shareholders in these circumstances. The fall in share price means that the value of shares now vesting (as shown in the table on page 92) represents 142% of the 2015 salary for the executive directors, or 71% of the maximum value (200% of salary). Our executives also both hold a significant number of shares, well ahead of our minimum shareholding requirement, and so they have been significantly personally affected by the share price movement. The committee has assessed that there has therefore been sufficient alignment with shareholders. The committee has also noted that in 2015 and 2016, the vesting of LTIP shares was very low (18.54% and 0% of the shares allocated respectively) when the share price had increased over these performance periods.

Reflecting on all of the above, the committee determined that the number of shares vesting should be based on the calculated outcome, which is at maximum, resulting in all allocated shares vesting.

Scheme interests (audited information)

The table below details the conditional share interests awarded to the executive directors in respect of the LTIP and deferred share awards. The awards made were in line with the existing remuneration policy. LTIP awards are subject to performance conditions over the vesting period; the value of deferred STIP shares is calculated by reference to the achievement of the STIP performance conditions for the award.

Executive directors	Scheme name	Award and Vesting date	Maximum award			Shares vesting			Deferred Awards		
			% of salary	Face value at grant £000	Market price at grant	End of performance period	Maximum	Target (50% of maximum)	Threshold (10% of maximum)	Shares lapsed for performance	Shares subject to service condition
George Weston	LTIP	23/11/15 – 23/11/18	200%	2,056	3462.0p	15/09/18	59,388	29,694	5,939		
		12/12/16 – 25/11/19	200%	2,144	2625.0p	14/09/19	81,676	40,838	8,168		
		20/11/17 – 20/11/20	200%	2,144	3076.2p	12/09/20	69,696	34,848	6,970		
	Deferred Awards	12/12/16 – 25/11/19	50%	536	2625.0p	16/09/17	20,419			–	20,419
John Bason	LTIP	20/11/17 – 20/11/20	50%	536	3076.2p	15/09/18	17,424			9,046	8,378
		23/11/15 – 23/11/18	200%	1,354	3462.0p	15/09/18	39,110	19,555	3,911		
		12/12/16 – 25/11/19	200%	1,412	2625.0p	14/09/19	53,790	26,895	5,379		
	Deferred Awards	20/11/17 – 20/11/20	200%	1,412	3076.2p	12/09/20	45,901	22,951	4,590		
	Deferred Awards	12/12/16 – 25/11/19	50%	353	2625.0p	16/09/17	13,448			–	13,448
		20/11/17 – 20/11/20	50%	353	3076.2p	15/09/18	11,475			5,957	5,518

Notes to table:

- The same value applied in 2016 and 2017 because the 2016 allocations were made after AGM approval and salary review in December 2016. The same salary applied in 2017.
- There is a further two-year holding period in place for the net of tax LTIP shares after vesting.
- Deferred awards allocated in 2017 were subject to the same financial performance measures as the 2017/18 STIP with vesting in November 2020, subject to continued service.
- The share price used to determine the number of shares in allocations is the average of the closing share prices on the five trading days immediately preceding the award date.
- All awards are settled using shares bought in the market.

Executive directors' shareholding requirements (audited information)

The executive directors are required to build up a beneficially-owned shareholding of 250% of salary. This requirement has been met. The interests below remained the same at 31 October 2018.

Executive directors	Holding requirement	Beneficial 15 September 2018		Beneficial as % of salary ¹	LTIP 15 September 2018	Deferred Awards 15 September 2018	Total 15 September 2018	Total 16 September 2017
		Beneficial as % of salary	LTIP as % of salary					
George Weston²								
Witton Investments Limited, ordinary shares of 50p	n/a	2,660	n/a	n/a	n/a	n/a	2,660	2,660
Associated British Foods plc, ordinary shares of 5 ^{15/22} p	250% of salary	3,579,362	7,343%	210,760	37,843	3,827,965	3,788,039	
John Bason								
Associated British Foods plc, ordinary shares of 5 ^{15/22} p	250% of salary	134,165	417%	138,801	25,193	297,889	281,162	

¹ Calculated using share price as at 15 September 2018 of 2236p and base salary as at 15 September 2018.

² George Weston is a director of Witton Investments Limited which, together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares in Associated British Foods plc as at 15 September 2018.

Non-executive directors' shareholding and share interests (audited information)

Non-executive directors are encouraged to hold shares to a value equal to their annual fees. The following shareholdings are ordinary shares of Associated British Foods plc unless stated otherwise. The interests below remained the same at 31 October 2018.

	Total 15 September 2018	Total 16 September 2017	2018 total holding as a % of annual fee ²
Javier Ferrán	2,400	2,400	56%
Emma Adamo ¹			
Witton Investments Limited, ordinary shares of 50p	1,322	1,322	n/a
Associated British Foods plc, ordinary shares of 5½p	504,465	504,465	15,243%
Ruth Cairnie	3,000	3,000	71%
Wolfhart Hauser	3,918	3,918	118%
Richard Reid	3,347	3,347	101%
Michael McLintock ³	15,000	—	82%
Graham Allan ⁴	—	—	—

¹ Emma Adamo is a director of Witton Investments Limited which, together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares in Associated British Foods plc as at 15 September 2018.

² Calculated using share price as at 15 September 2018 of 2236p and fee rate as at 15 September 2018.

³ Michael McLintock was appointed a non-executive director on 1 November 2017 and Chairman on 11 April 2018.

⁴ Graham Allan was appointed a non-executive director on 5 September 2018.

Payments to past directors (audited information)

No payments were made to past directors in the year.

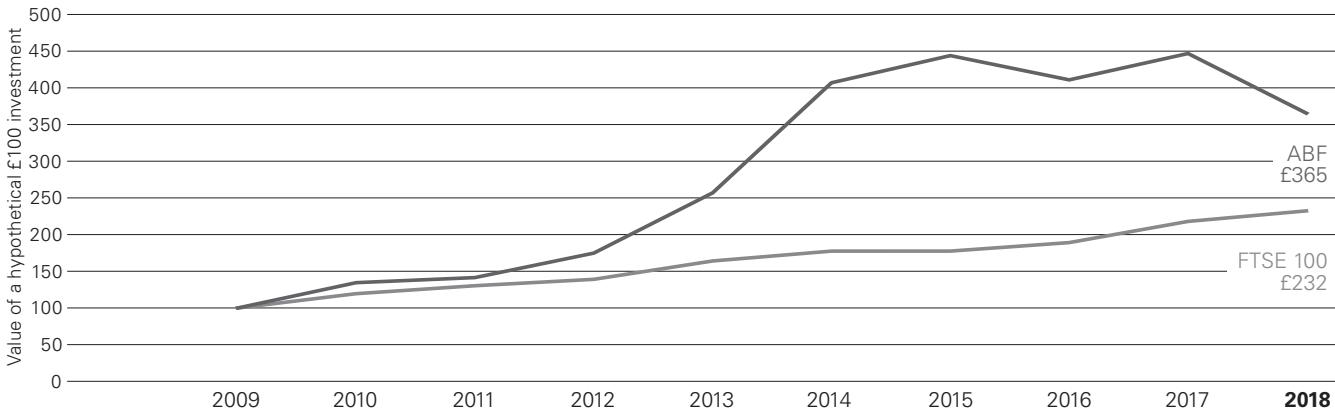
Payments for loss of office (audited information)

No payments were made for loss of office in the year.

TSR performance and Chief Executive's pay

The performance graph below illustrates the performance of the Company over the nine years from September 2009 to September 2018, 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 table below provides a summary of the total remuneration of the Chief Executive over the same period. For the purpose of calculating the value of the remuneration of the Chief Executive, data has been collated on a basis consistent with the 'single figure' methodology as defined in the applicable UK directors' reporting regulations.



Source: DataStream Return Index

Single total figure of remuneration (£000)	3,886	3,182	3,859	5,832	7,470	3,056	3,133	4,849	3,826
Annual variable element (£000)	1,266	438	864	1,219	894	686	1,368	2,179	1,039
Potential maximum annual variable element (£000)	1,310	1,373	1,425	1,466	1,503	1,542	1,577	2,144	2,180
Annual variable element (% of maximum)	96.68%	31.91%	60.63%	83.15%	59.49%	44.46%	86.75%	101.63% ¹	47.66%
Long-term variable element – shares vesting as % of maximum	99.12%	83.80%	97.42%	85.00%	100.00%	18.54%	0%	51.02%	100%

¹ The potential maximum annual variable element for 2016/17 is less than the annual variable element because the deferred awards included in the former are valued at the start of the year and the deferred awards included in the latter are valued at the average mid-market closing price over the last quarter of the 2016/17 financial year, by which time the share price had increased.

At close of business on 14 September 2018, the last trading day before the end of the financial year, the market value of the Company's ordinary shares was 2236p. During the previous 12 months, the market value ranged from 2227p to 3371p.

Percentage change in remuneration of the Chief Executive

Between 2017 and 2018, the increase in the Chief Executive's salary was 1.68% and the average increase for our UK employees was 2.0% to 2.5%.

The Chief Executive's total remuneration this year was 21% lower than last year, reflecting a lower bonus outcome than in the prior year. We believe that it is appropriate that the remuneration of our directors should be closely aligned to the underlying performance of the Company, which means their remuneration will be much more variable than that of other employees, depending on performance outcomes compared with targets.

The overall increase in expenditure on reward for all employees was 4.8%. This number is based on aggregate data presented in the table below, which include increases in headcount. In a decentralised group of our size, to separate the increase in expenditure on incentives and taxable benefits is neither practical nor worthwhile.

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 senior independent director and Chairman of the audit committee of Compass Group PLC, for which he received a fee of £121,083 in the 2017/18 financial year. He also served as Chairman of the charity FareShare, but received no compensation in respect of this role.

Relative importance of spend on pay

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

	2018 £m	2017 £m	Change %
Expenditure			
Pay spend for the group	2,668	2,546	4.8%
Dividends relating to the period	356	324	9.9%
Taxes paid	297	264 ¹	12.5%

¹ Excludes £92m taxes paid in respect of business disposals during the prior year.

Implementation of policy 2018/19

Base salary

Executive directors' salaries are subject to review on 1 December 2018 as shown in the table below.

	Dec 2017	Increase in Dec 2018	Increase in Dec 2018	Dec 2018
George Weston	£1,090,000	0%	£0	£1,090,000
John Bason	£720,000	0%	£0	£720,000

Benefits and pensions

John Bason entered into his current employment contract with the Company in 1999. At that time, it was envisaged that he would retire no later than age 62 and the contract therefore included a termination date of 24 April 2019. As a result, the EFRBS pension provision within John Bason's employment contract also runs to that date. He will be offered a new employment contract from that date and his remuneration will remain unchanged except for his pension. His EFRBS accrual will cease on his 62nd birthday and he will be treated as a new joiner under our remuneration policy for pension purposes with effect from 24 April 2019. In accordance with that policy he will receive a cash alternative to DC pension contributions. This approach is more cost effective for the Company than continuing EFRBS provision to his actual retirement date.

All other benefits remain unchanged.

Cash STIP 2018/19

The cash STIP will be operated in line with the remuneration policy.

	Payout based on operating profit only	Modification to payout based on average working capital	Overall financial payout	Personal element	Total bonus
Maximum	108.33%	x1.2	130.00%	20.00%	150.00%
On-target (budget)	65.00%	x1.0	65.00%	13.33%	78.33%
Threshold	15.00%	x0.8	12.00%	0.00%	12.00%
Below threshold	0.00%	x0.8	0.00%	0.00%	0.00%

The targets used for our 2018/19 STIP are commercially sensitive and will be disclosed in the 2020 annual report. Achievement against financial targets will be disclosed in our 2019 Remuneration report as we have done in this report for 2017/18.

Deferred awards (shares) – 2018/19 awards (vesting in 2021)

The STIP deferred share award element will be operated in line with the remuneration policy. Performance will be measured using the financial performance target range that applies to the cash STIP.

	Vesting based on operating profit only as % of shares allocated	Modification to payout based on average working capital	Overall vesting as % of shares allocated	
Maximum	83.33%	x1.2	100.00%	Shares vest following a further two-year deferral period.
On-target	50.00%	x1.0	50.00%	
Threshold	12.50%	x0.8	10.00%	No further performance conditions apply but shares will lapse if the individual resigns from the Company.
Below threshold	0.00%	x0.8	0.00%	

LTIP 2018-21

The LTIP will be operated in line with the remuneration policy. The performance targets that will apply are set out below.

		Primary measure			Modifier	
		Threshold	Target	Maximum	Threshold	Maximum
Shares vesting as % of award		10%	50%	100%		
Adjustment to % of shares vesting					80%	100%
Adjusted EPS range in 2020/21 (p)	40% of award	156	170	184		
Three-year average ROCE range (%)					12%	15%
Adjusted EPS range without Sugar in 2020/21 (p)	60% of award	149	162	178		
Three-year average ROCE range without Sugar (%)					13.5%	16.5%

When setting the above ranges, the committee conducted an analysis of the growth potential and challenges facing each of the divisions over the performance period. These ranges were then tested to ensure that they were sufficiently stretching. The ROCE modifier was introduced to ensure that investors' interests are protected from poor investments. The performance ranges reflect this.

Service contracts

	Date of appointment	Date of current contract/letter of appointment	Notice from Company	Notice from individual	Unexpired period of service contract
Executive directors					
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*
Non-executive directors					
Michael McLintock	01/11/17	11/04/18	6 months	6 months	Rolling contract
Javier Ferrán	01/11/06	01/11/06	6 months	6 months	Rolling contract
Emma Adamo	09/12/11	09/12/11	6 months	6 months	Rolling contract
Ruth Cairnie	01/05/14	11/04/18	6 months	6 months	Rolling contract
Wolfhart Hauser	14/01/15	14/01/15	6 months	6 months	Rolling contract
Richard Reid	14/04/16	13/04/16	6 months	6 months	Rolling contract
Graham Allan	05/09/18	05/09/18	6 months	6 months	Rolling contract

* On appointment John Bason's contract was written as a rolling contract with a retirement date of 24 April 2019. With effect from that date he will be offered a new/amended contract that will run indefinitely, in line with other Associated British Food employment contracts. John's remuneration will be unchanged because of this with the exception of his pension. Rather than extending John's participation in the EFRBS to his actual retirement, his EFRBS accrual will cease on his 62nd birthday and he will be treated as a new joiner under our remuneration policy for pension purposes with effect from 24 April 2019. He will receive a cash alternative to DC pension contributions. This approach is more cost effective for the Company than continuing EFRBS provision.

Copies of service contracts are available for inspection at the Company's head office.

Non-executive directors' fees for 2017/18

	Dec 2017	Increase in Dec 2018	Dec 2018
Chairman	£410,000	–	£410,000
Senior Independent Director	£95,000	–	£95,000
Committee Chair (Audit and Remuneration committees)	£95,000	–	£95,000
Director	£74,000	–	£74,000

The above fees were reviewed in 2018 and it was determined that no changes would be made this year.

Statement on shareholder voting

At the last AGM in December 2017 the voting results on resolution 2, to receive and approve the Remuneration report for the year ended 16 September 2017, were as follows: the percentage 'for' was 96.91% and the percentage 'against' was 3.09%.

At the AGM in December 2016, the voting result on resolution 3, to receive and approve the remuneration policy were as follows: the percentage 'for' was 97.19% and the percentage 'against' was 2.81%.

By order of the board

Paul Lister

Company Secretary

6 November 2018

Introduction

The directors of Associated British Foods plc present their report for the 52 weeks ended 15 September 2018, in accordance with section 415 of the Companies Act 2006. The UKLA's Disclosure Guidance and Transparency Rules and Listing Rules also require the Company to make certain disclosures, some of which have been included in other appropriate sections of the annual report and accounts.

The information set out on page 103 and the following cross-referenced material, is incorporated into this Directors' report:

- likely future developments in the group's business (pages 14 to 49);
- greenhouse gas emissions (page 54);
- the board of directors (pages 66 and 67);
- information on our employees (page 56); and
- corporate governance report (pages 68 to 79).

Results and dividends

The consolidated income statement is on page 111. Profit for the financial year attributable to equity shareholders amounted to £1,007m.

The directors recommend a final dividend of 33.3p per ordinary share to be paid, subject to shareholder approval, on 11 January 2019. Together with the interim dividend of 11.7p per share paid on 6 July 2018, this amounts to 45.0p for the year. Dividends are detailed on page 128.

Directors

The names of the persons who were directors of the Company during the financial year and as at 6 November 2018 appear on pages 66 and 67.

Appointment of directors

The Company's articles of association (the 'Articles') give directors the 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 election or re-election at the AGM this year in compliance with the Code. Details of unexpired terms of directors' service contracts are set out in the Remuneration report on page 99.

Power of 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. 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.

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.

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.

The directors of a subsidiary company that acts as trustee of a pension scheme benefited from a qualifying pension scheme indemnity provision during the financial year and at the date of this report.

Directors' share interests

Details regarding the share interests of the directors (and their persons closely associated) in the share capital of the Company, including any interests under the long term incentive plan and any deferred awards, are set out in the Remuneration report on pages 96 and 97.

Disclosures required under Listing Rule 9.8.4R

The following table is included to meet the requirements of Listing Rule section 9.8.4R. The information required to be disclosed by that section, where applicable to the Company, can be located in the annual report and accounts at the references set out below.

Information required	Location in annual report
(12) Shareholder waiver of dividends	Note 22 on page 144
(13) Shareholder waiver of future dividends	Note 22 on page 144
(14) Board statement on relationship agreement with controlling shareholder	Directors' report on page 100

Paragraphs (1), (2), (4), (5), (6), (7), (8), (9), (10) and (11) of Listing Rule 9.8.4R are not applicable.

Relationship agreement with controlling shareholders

Any person who exercises or controls, on their own or together with any person with whom they are acting in concert, 30% or more of the votes able to be cast at general meetings of a company are known as a 'controlling shareholder' under the Listing Rules. The Listing Rules require companies with controlling shareholders to enter into an agreement which is intended to ensure that the controlling shareholders comply with certain independence provisions in the Listing Rules and which must contain undertakings that:

- transactions and arrangements with the controlling shareholder (and/or any of its associates) will be conducted at arm's length and on normal commercial terms;
- neither the controlling shareholder nor any of its associates will take any action that would have the effect of preventing the listed company from complying with its obligations under the Listing Rules; and
- neither the controlling shareholder nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

Wittington Investments Limited ('Wittington') and, through their control of Wittington, the trustees of the Garfield Weston Foundation (the 'Foundation') are controlling shareholders of the Company. Certain other individuals, including certain members of the Weston family who hold shares in the Company (and including two of the Company's directors, George Weston and Emma Adamo) are, under the Listing Rules, treated as acting in concert with Wittington and the trustees of the Foundation and are therefore also treated as controlling shareholders of the Company. Wittington, the trustees of the Foundation and these individuals together comprise the controlling shareholders of the Company and, at 15 September 2018, had a combined interest in approximately 59.15% of the Company's voting rights.

The board confirms that, in accordance with the Listing Rules, on 14 November 2014 the Company entered into a relationship agreement with Wittington and the trustees of the Foundation containing the required undertakings (the 'Relationship Agreement'). Under the terms of the Relationship Agreement, Wittington has agreed to procure compliance with the undertakings by the other individuals who are treated as controlling shareholders (the 'Non-signing Controlling Shareholders'). The board confirms that, during the period under review:

- the Company has complied with the independence provisions included in the Relationship Agreement;
- so far as the Company is aware, the independence provisions included in the Relationship Agreement have been complied with by the controlling shareholders and their associates; and
- so far as the Company is aware, the procurement obligation included in the Relationship Agreement as regards compliance with the independence provisions by the Non-signing Controlling Shareholders and their associates, has been complied with by Wittington.

Shareholder	Number of ordinary shares	% of issued share capital	Date of notification of interest
The Capital Group Companies, Inc.	78,284,198	9.88	15 May 2017

Major interests in shares

As at 15 September 2018, the Company had received formal notification, under the Disclosure Guidance and Transparency Rules, of the material interest in its shares as shown above.

The Company was notified on 19 October 2018 that The Capital Group Companies, Inc. had decreased its shareholding to 39,523,864 shares, which is 4.99% of the issued share capital and voting rights of the Company.

Details of the Company's controlling shareholders for the purpose of the Listing Rules who, as at 15 September 2018, had a combined interest in approximately 59.15% of the voting rights in the Company's ordinary shares are set out in the previous column.

Share capital

Details of the Company's share capital and the rights attached to the Company's shares are set out in note 20 on page 141. The Company has one class of share capital: ordinary shares of 5¹⁵/₂₂p. The rights and obligations attaching to these shares are governed by English law and the Company's Articles.

No shareholder holds securities carrying special rights with regard to the control of the Company. There are no restrictions on voting rights.

There are no restrictions on the holding or transfer of the ordinary shares other than the standard restrictions for an English incorporated company set out in article 32 of the Company's Articles.

Authority to issue shares

At the last AGM, held on 8 December 2017, 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 7 December 2018. No such shares have been issued. The directors propose to renew this authority at the 2018 AGM for the forthcoming year.

A further special resolution passed at the 2017 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 in certain circumstances. This authority also expires on the date of the 2018 AGM and the directors will seek to renew this authority for the forthcoming year.

Authority 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.

Amendment to Company's articles of association

Any amendments to the Articles may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution of the shareholders.

Significant agreements – change of control

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 and could alter or terminate on a change of control of the Company:

- 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 of these are the £1.2bn syndicated loan facility signed on 15 July 2014, maturing in July 2021, which was undrawn at the year end. In the event of a change in ownership of the Company, the lenders may request cancellation of the commitment and repayment of any outstanding amounts;

- £573m of private placement notes in issue to institutional investors. 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
- cross currency swaps in place totalling \$400m to swap a proportion of private placement debt denominated in US dollars to euros.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment that occurs as a result of a takeover bid.

Political donations

During the year, the Company did not make any political donations or incur any political expenditure (within the ordinary meaning of those words) in the UK or EU. However, under the wider definition of Part 14 of the Companies Act 2006, a subsidiary of the Company did incur political expenditure to the approximate value of £5,000 during the year.

Financial risk management

Details of the group's use of financial instruments, together with information on our risk objectives and policies, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and our exposure to price, credit, liquidity, cash flow and interest rate risks, can be found in note 24 on pages 145 to 154.

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 in Australia, 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.

Branches

The Company, through various subsidiaries, has established branches in a number of different countries in which the group operates.

Post-balance sheet events

Significant events affecting the group that have arisen between 15 September 2018 and the date of this report and that require disclosure are described in note 11 on page 134 and note 21 on page 142.

Disclosure of information to auditor

Each of the directors who held office at the date of approval of this Directors' report confirms that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all the reasonable steps that they ought to have taken as a director to make themself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

For these purposes, relevant audit information means information needed by the Company's auditor in connection with the preparation of its report on pages 104 to 110.

Auditor

Resolutions for the reappointment of Ernst & Young LLP as auditor of the Company and to authorise the Audit committee to determine its remuneration are to be proposed at the forthcoming AGM.

Annual general meeting

The AGM will be held on 7 December 2018 at 11.00 am at Congress Centre, 28 Great Russell Street, London WC1B 3LS. Details of the resolutions to be proposed are set out in a separate Notice of meeting which accompanies this report for shareholders receiving hard copy documents and which is available at www.abf.co.uk for those who elected to receive documents electronically. All resolutions for which notice has been given will be decided on a poll.

On behalf of the board

Paul Lister
Company Secretary

6 November 2018

Associated British Foods plc
Registered office:
Weston Centre
10 Grosvenor Street
London
W1K 4QY
Company No. 293262

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, including FRS 101 *Reduced Disclosure Framework*.

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 Strategic report, Directors' report, 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.

Responsibility statement of the directors in respect of the annual report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes 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 whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the board

Michael McLintock
Chairman

George Weston
Chief Executive

John Bason
Finance Director

6 November 2018

Opinion

In our opinion:

- Associated British Foods plc's group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the parent company's affairs as at 15 September 2018 and of the group's profit for the 52 weeks then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with United Kingdom 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 group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Associated British Foods plc, which comprise:

Group	Parent company
Consolidated balance sheet as at 15 September 2018	Balance sheet as at 15 September 2018
Consolidated income statement for the 52 weeks then ended	Statement of changes in equity for the 52 weeks then ended
Consolidated statement of comprehensive income for the 52 weeks then ended	Related notes 1 to 10 to the financial statements, including a summary of significant accounting policies
Consolidated statement of changes in equity for the 52 weeks then ended	
Consolidated cash flow statement for the 52 weeks then ended	
Related notes 1 to 28 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU.

The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report and accounts, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report and accounts, set out on pages 60 to 64, that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 73 in the annual report and accounts, that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement, set out on page 72 in the financial statements, about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation, set out on page 65 in the annual report and accounts, as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	Audit scope	Materiality
<ul style="list-style-type: none"> Assessment of the carrying value of goodwill, other intangible assets and property, plant and equipment Tax provisions Revenue recognition, including the risk of management override 	<ul style="list-style-type: none"> We performed an audit of the complete financial information of 132 components and audit procedures on specific balances for a further 48 components. The components where we performed full or specific audit procedures accounted for 91% of profit before taxation, 89% of revenue and 88% of total assets. 	<ul style="list-style-type: none"> We used a group materiality of £64m, which represents 5% of profit before taxation.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit committee
<p>Assessment of the carrying value of goodwill, other intangible assets and property, plant and equipment (£7,379m, 2017 – £6,884m)</p> <p>The group has a significant value of goodwill, other intangible assets and property, plant and equipment that has arisen from acquisitions and capital investments. The UK Bakeries (£243m), AB Mauri (£697m) and Australian meat (£146m) businesses have all operated in challenging trading environments in recent years.</p> <p>The UK Bakeries and Australian meat businesses operate in environments of significant retailer pressure on price and competitor activity. AB Mauri's profitability has been impacted by competitive pricing pressures in some of its businesses compounded by macroeconomic conditions, including high inflation rates and currency devaluations.</p> <p>In 2018, lower European sugar prices contributed to a significant reduction in profitability at Azucarera (£317m). Given this change and the challenging outlook, we also focused on this business in our audit.</p> <p>There is a risk that these cash generating units ('CGUs') may not achieve the anticipated business performance to support their carrying value, leading to an impairment charge that has not been recognised by management.</p> <p>Significant judgement is required in forecasting the future cash flows of each CGU, together with the rate at which they are discounted.</p> <p><i>Refer to the Audit committee report (page 77); accounting policies (page 119); accounting estimates and judgements (page 122); and notes 8 and 9 to the consolidated financial statements (pages 130 and 133).</i></p>	<p>We understood the methodology applied by management in performing its impairment test for each of the relevant CGUs and walked through the controls over the process.</p> <p>For all CGUs we calculated the degree to which the key inputs and assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring. We performed our own sensitivities on the group's forecasts and determined whether adequate headroom remained.</p> <p>For CGUs where there were indicators of impairment or low levels of headroom, including the four CGUs described, we performed detailed testing to critically assess and corroborate the key inputs to the valuations, including:</p> <ul style="list-style-type: none"> analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience; for certain CGUs, visiting factories and analysing historical data to better understand the operations and to assess the ability to achieve forecast volume growth, operational improvements and production yields; for certain CGUs, challenging management's ability to achieve both price and volume increases through understanding and corroborating the status of customer negotiations and analysing the impact and exposure to changes in commodity costs; for certain CGUs, performing current market and historical analysis to corroborate future price assumptions with support from our valuation specialists; in conjunction with our valuation specialists, corroborating the discount rate used by obtaining the underlying data used in the calculation and benchmarking it against market data and comparable organisations; and validating the growth rates assumed by comparing them to economic and industry forecasts. <p>We assessed the disclosures in notes 8 and 9 against the requirements of IAS 36 <i>Impairment of Assets</i>, in particular in respect of the requirement to disclose further sensitivities for CGUs where a reasonably possible change in a key assumption would cause an impairment.</p> <p>For the AB Mauri CGU, the audit procedures performed to address this risk were performed by the group audit team. The Australian meat, UK Bakeries and Azucarera goodwill, operating intangible assets and property, plant and equipment were subject to full scope audit procedures by the respective component teams, and reviewed by the group team.</p>	<p>We agree with management's conclusion that no impairments are required at the year end, based on the results of our work. Of the group's assets, the portion relating to the Allied Bakeries business remains very sensitive to reasonably possible changes in key assumptions. Management describes these sensitivities appropriately in the property, plant and equipment note to the group financial statements, in accordance with IAS 36. Similar disclosures have also been made for Azucarera, AB Mauri and Australian meat businesses given their levels of sensitivities.</p>

Risk	Our response to the risk	Key observations communicated to the Audit committee
Tax provisions (included within the income tax liability of £160m, 2017 – £170m)	<p>The global nature of the group's operations results in complexities in the payment of and accounting for tax. Management applies judgement in assessing tax exposures in each jurisdiction, many of which require interpretation of local tax laws.</p> <p>Notably for 2018, the US Tax Cuts and Jobs Act was signed into law. The Act is a significant change to US tax law raising complex accounting implications and judgements.</p> <p>Given this judgement, there is a risk that tax provisions are misstated.</p> <p><i>Refer to the Audit committee report (page 78); accounting policies (page 118); accounting estimates and judgements (page 122); and note 5 to the consolidated financial statements (page 128).</i></p>	<p>We understood:</p> <ul style="list-style-type: none"> • the group's process for determining the completeness and measurement of provisions for tax; • the methodology for the calculation of the tax charge; and • management's controls over tax reporting. <p>The group audit team, including tax specialists, evaluated the tax positions taken by management in each significant jurisdiction in the context of local tax law, correspondence with tax authorities and the status of any tax audits. Our work utilised additional support from country tax specialists in Australia, China, Germany, Ireland, Spain and the US.</p> <p>We assessed the group's analysis and supporting calculations of the impact of US tax reform for compliance with the Act.</p> <p>We assessed the group's transfer pricing judgements, considering the way in which we observed the group's businesses operating and the correspondence and agreements reached with tax authorities.</p>
Revenue recognition, including the risk of management override (£15,574m, 2017 – £15,357m)	<p>There continues to be pressure on the group to meet expectations and targets. Management reward and incentive schemes based on achieving profit targets may also place pressure to manipulate revenue recognition.</p> <p>The majority of the group's sales arrangements are generally straightforward, being on a point of sale basis and requiring little judgement to be exercised. However, in the Grocery segment, management estimates the level of trade promotions and rebates to be applied to its sales to customers, adding a level of judgement to revenue recognition. Approximately 3% (2017 – 3%) of the group's gross revenue is subject to such arrangements.</p> <p>There is a risk that management may override controls to intentionally misstate revenue transactions, either through the judgements made in estimating rebates in the Grocery segment or by recording fictitious revenue transactions across the business.</p> <p><i>Refer to the accounting policies (page 117); and note 1 to the consolidated financial statements (pages 123 to 125).</i></p>	<p>We understood each business's revenue recognition policies and how they are applied, including the relevant controls, and tested controls over revenue recognition where appropriate.</p> <p>We discussed key contractual arrangements with management and obtained relevant documentation, including in respect of rebate and returns arrangements. Where rebate arrangements existed, on a sample basis we obtained third-party confirmations or performed appropriate alternative procedures, including review of contracts and recalculations of rebates. We also performed hindsight analysis over changes to prior period rebate estimates to challenge the assumptions made, including assessing the estimates for evidence of management bias.</p> <p>For a number of businesses, including Primark, as part of our overall revenue recognition testing we used data analysis tools on 100% of revenue transactions in the year to test the correlation of revenue to cash receipts to verify the occurrence of revenue. This provided us with a high level of assurance over £12.3bn (79%) (2017 – £10.8bn (71%)) of revenue recognised by the group. For those in-scope businesses where we did not use data analysis tools, we performed appropriate alternative procedures over revenue recognition.</p> <p>We performed cut-off testing for a sample of revenue transactions around the period end date, to check that they were recognised in the appropriate period.</p> <p>We performed other audit procedures specifically designed to address the risk of management override of controls including journal entry testing, applying particular focus to the timing of revenue transactions.</p> <p>We assessed the disclosures against the requirements of IAS 18 <i>Revenue</i>, in particular in respect of the requirement to disclose rebate and returns arrangements.</p> <p>We reviewed the group's IFRS 15 impact assessment and related disclosures for completeness and compliance with IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p> <p>We performed full and specific scope audit procedures over this risk area in 92 locations, which covered 89% of the group's revenue.</p>

The key audit matters set out in the table above are consistent with those reported in 2017, with the exception of the removal of 'Changes in finance systems and processes, including the capitalisation of system implementation costs' following the Oracle Financials system implementation in Primark in 2017. The risk associated with this particular aspect of the system implementation is no longer relevant in 2018.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the level of revenue and profit before taxation, risk profile (including country risk, controls and internal audit findings and the extent of changes in management, systems and processes and the business environment) and other known factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the group financial statements and to achieve adequate quantitative coverage of significant accounts in the financial statements, of the 644 reporting components of the group, we selected 180 components, which represent the principal business units within the group.

Of the 180 components selected, we performed an audit of the complete financial information of 132 components ('full scope components') which were selected based on their size or risk characteristics. For the remaining 48 components ('specific scope components'), we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed full and specific scope procedures accounted for 90% of the group's profit before taxation (2017 – 92%), 90% of the group's revenue (2017 – 89%) and 89% of the group's total assets (2017 – 86%). For the current period, the full scope components contributed 74% of the group's profit before taxation (2017 – 82%), 79% of the group's revenue (2017 – 80%) and 79% of the group's total assets (2017 – 75%). The specific scope components contributed 16% of the group's profit before taxation (2017 – 11%), 11% of the group's revenue (2017 – 9%) and 10% of the group's total assets (2017 – 11%). The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group.

Of the remaining 464 components (2017 – 421) that together represent 10% of the group's profit before taxation (2017 – 7%), none are individually greater than 1% of the group's profit before taxation. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the group financial statements.

The charts illustrate the coverage obtained from the work performed by our audit teams.

Involvement with component teams

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the components, as the group audit team, or by component auditors from other EY global network firms or by other auditors operating under our instruction. Of the 132 full scope components, audit procedures were performed on 80 of these directly by the group audit team and 52 by component audit teams. For the 48 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the group as a whole.

During the period the Senior Statutory Auditor or other members of the group audit team visited 37 full and specific components in Argentina, Australia, Brazil, China, Finland, Ireland, Italy, the UK, the US, Spain and South Africa.

These visits involved meeting with our component team to discuss and direct its audit approach, reviewing and understanding the significant audit findings in response to the risk areas including asset impairment, tax provisions and revenue recognition, holding meetings with local management, undertaking factory tours and obtaining updates on IT systems implementations and local regulatory matters including tax, pensions and legal. The group audit team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial statements.

Profit before taxation



Revenue



Total assets



Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality – ‘The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.’

We determined materiality for the group to be £64m, which is 5% of profit before taxation. We believe that profit before taxation provides us with the most relevant performance measure to the stakeholders of the group. In 2017, we used a materiality level of £60m, based on 5% of normalised profit before taxation, which was profit before taxation adjusted for £293m of profits less losses on sale and closure of businesses. In 2017, this normalised profit before taxation provided the most relevant performance measure, as the profits less losses on sale and closure of businesses were non-recurring and not related to the ongoing trading of the group. There are no equivalent items in 2018.

Performance materiality – ‘The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.’

On the basis of our risk assessments, together with our assessment of the group’s overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £48m (2017 – 75% of planning materiality, being £45m).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current period, the range of performance materiality allocated to components was £1m to £22m (2017 – £1m to £20m).

Reporting threshold – ‘An amount below which identified misstatements are considered as being clearly trivial.’

We agreed with the Audit committee that we would report to them all uncorrected audit differences in excess of £1m (2017 – £1m), which is 2% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report and accounts set out on pages 1 to 103, other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, accordingly, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable**, set out on page 103 – the statement given by the directors that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group’s performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit committee reporting**, set out on pages 76 to 79 – the section describing the work of the Audit committee does not appropriately address matters communicated by us to the Audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code**, set out on page 68 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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 directors' 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, set out on page 103, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety, employee matters, food standards and food safety.

- We understood how the group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programs and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, group management, internal audit, divisional management and all full and specific scope management; and focused testing, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the Audit committee, we were appointed as auditor by the shareholders and signed an engagement letter on 13 April 2018. We were appointed by the company at the AGM on 8 December 2017 to audit the financial statements for the 52 weeks ending 15 September 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is three years, from the 53 weeks ended 17 September 2016 until the 52 weeks ended 15 September 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company and we remain independent of the group and the company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit committee.

Use of our report

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Walton (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

6 November 2018

	Note	2018 £m	2017 £m
Continuing operations			
Revenue	1	15,574	15,357
Operating costs	2	(14,290)	(14,090)
		1,284	1,267
Share of profit after tax from joint ventures and associates	10	54	63
Profits less losses on disposal of non-current assets		6	6
Operating profit		1,344	1,336
Adjusted operating profit	1	1,404	1,363
Profits less losses on disposal of non-current assets		6	6
Amortisation of non-operating intangibles	8	(41)	(28)
Acquired inventory fair value adjustments	2	(23)	–
Transaction costs		(2)	(5)
Profits less losses on sale and closure of businesses	21	(34)	293
Profit before interest		1,310	1,629
Finance income	4	15	9
Finance expense	4	(50)	(59)
Other financial income/(expense)	4	4	(3)
Profit before taxation		1,279	1,576
Adjusted profit before taxation		1,373	1,310
Profits less losses on disposal of non-current assets		6	6
Amortisation of non-operating intangibles	8	(41)	(28)
Acquired inventory fair value adjustments	2	(23)	–
Transaction costs	2	(2)	(5)
Profits less losses on sale and closure of businesses	21	(34)	293
Taxation – UK		(105)	(62)
– Overseas		(152)	(303)
	5	(257)	(365)
Profit for the period		1,022	1,211
Attributable to			
Equity shareholders		1,007	1,198
Non-controlling interests		15	13
Profit for the period		1,022	1,211
Basic and diluted earnings per ordinary share (pence)	7	127.5	151.6
Dividends per share paid and proposed for the period (pence)	6	45.0	41.0

	2018 £m	2017 £m
Profit for the period recognised in the income statement	1,022	1,211
Other comprehensive income		
Remeasurements of defined benefit schemes	310	438
Deferred tax associated with defined benefit schemes	(53)	(77)
Items that will not be reclassified to profit or loss	257	361
Effect of movements in foreign exchange	(85)	61
Net loss on hedge of net investment in foreign subsidiaries	(10)	(9)
Deferred tax associated with movements in foreign exchange	1	(2)
Current tax associated with movements in foreign exchange	–	(1)
Reclassification adjustment for movements in foreign exchange on subsidiaries disposed	–	(28)
Movement in cash flow hedging position	55	(8)
Deferred tax associated with movement in cash flow hedging position	(12)	–
Items that are or may be subsequently reclassified to profit or loss	(51)	13
Other comprehensive income for the period	206	374
Total comprehensive income for the period	1,228	1,585
Attributable to		
Equity shareholders	1,215	1,573
Non-controlling interests	13	12
Total comprehensive income for the period	1,228	1,585

	Note	2018 £m	2017 £m
Non-current assets			
Intangible assets	8	1,632	1,414
Property, plant and equipment	9	5,747	5,470
Investments in joint ventures	10	219	210
Investments in associates	10	47	44
Employee benefits assets	11	579	285
Deferred tax assets	12	133	143
Other receivables	13	50	54
Total non-current assets		8,407	7,620
Current assets			
Inventories	14	2,187	2,101
Biological assets	15	84	90
Trade and other receivables	13	1,436	1,342
Derivative assets	24	132	79
Current asset investments	23	30	—
Income tax		54	28
Cash and cash equivalents	16	1,362	1,550
Total current assets		5,285	5,190
Total assets		13,692	12,810
Current liabilities			
Loans and overdrafts	17	(419)	(265)
Trade and other payables	18	(2,529)	(2,500)
Derivative liabilities	24	(52)	(113)
Income tax		(160)	(170)
Provisions	19	(88)	(105)
Total current liabilities		(3,248)	(3,153)
Non-current liabilities			
Loans	17	(359)	(612)
Other payables	18	(269)	(216)
Provisions	19	(52)	(27)
Deferred tax liabilities	12	(324)	(231)
Employee benefits liabilities	11	(144)	(159)
Total non-current liabilities		(1,148)	(1,245)
Total liabilities		(4,396)	(4,398)
Net assets		9,296	8,412
Equity			
Issued capital	20	45	45
Other reserves	20	175	175
Translation reserve	20	363	456
Hedging reserve	20	13	(31)
Retained earnings		8,615	7,694
Total equity attributable to equity shareholders		9,211	8,339
Non-controlling interests		85	73
Total equity		9,296	8,412

The financial statements on pages 111 to 164 were approved by the board of directors on 6 November 2018 and were signed on its behalf by:

Michael McLintock
Chairman

John Bason
Finance Director

	2018 £m	2017 £m
Cash flow from operating activities		
Profit before taxation	1,279	1,576
Profits less losses on disposal of non-current assets	(6)	(6)
Profits less losses on sale and closure of businesses	34	(293)
Transaction costs	2	3
Finance income	(15)	(9)
Finance expense	50	59
Other financial (income)/expense	(4)	3
Share of profit after tax from joint ventures and associates	(54)	(63)
Amortisation	65	57
Depreciation	509	514
Acquired inventory fair value adjustments	23	–
Net change in the fair value of current biological assets	5	–
Share-based payment expense	19	21
Pension costs less contributions	4	12
Increase in inventories	(35)	(40)
Increase in receivables	(99)	(2)
(Decrease)/increase in payables	(19)	168
Purchases less sales of current biological assets	(1)	(2)
Decrease in provisions	(30)	(1)
Cash generated from operations	1,727	1,997
Income taxes paid	(297)	(356)
Net cash from operating activities	1,430	1,641
Cash flows from investing activities		
Dividends received from joint ventures and associates	42	69
Purchase of property, plant and equipment	(787)	(823)
Purchase of intangibles	(81)	(43)
Sale of property, plant and equipment	23	49
Purchase of subsidiaries, joint ventures and associates	(208)	(79)
Sale of subsidiaries, joint ventures and associates	1	452
Interest received	10	8
Net cash from investing activities	(1,000)	(367)
Cash flows from financing activities		
Dividends paid to non-controlling interests	(4)	(4)
Dividends paid to equity shareholders	(327)	(299)
Interest paid	(50)	(59)
(Decrease)/increase in short-term loans	(111)	49
Increase/(decrease) in long-term loans	19	(9)
Increase in current asset investments	(30)	–
Purchase of shares in subsidiary undertaking from non-controlling interests	(1)	(3)
Sale of shares in subsidiary undertakings to non-controlling interests	1	–
Movements from changes in own shares held	(30)	(10)
Net cash from financing activities	(533)	(335)
Net (decrease)/increase in cash and cash equivalents		
Cash and cash equivalents at the beginning of the period	(103)	939
Effect of movements in foreign exchange	1,386	462
Cash and cash equivalents at the end of the period	1,271	1,386

	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 2016		45	175	433	(22)	6,423	7,054	68	7,122
Total comprehensive income									
Profit for the period recognised in the income statement		–	–	–	–	1,198	1,198	13	1,211
Remeasurements of defined benefit schemes		–	–	–	–	438	438	–	438
Deferred tax associated with defined benefit schemes		–	–	–	–	(77)	(77)	–	(77)
Items that will not be reclassified to profit or loss		–	–	–	–	361	361	–	361
Effect of movements in foreign exchange		–	–	63	–	–	63	(2)	61
Net loss on hedge of net investment in foreign subsidiaries		–	–	(9)	–	–	(9)	–	(9)
Deferred tax associated with movements in foreign exchange		–	–	(2)	–	–	(2)	–	(2)
Current tax associated with movements in foreign exchange		–	–	(1)	–	–	(1)	–	(1)
Reclassification adjustment for movements in foreign exchange on subsidiaries disposed		–	–	(28)	–	–	(28)	–	(28)
Movement in cash flow hedging position		–	–	–	(9)	–	(9)	1	(8)
Items that are or may be subsequently reclassified to profit or loss		–	–	23	(9)	–	14	(1)	13
Other comprehensive income		–	–	23	(9)	361	375	(1)	374
Total comprehensive income		–	–	23	(9)	1,559	1,573	12	1,585
Transactions with owners									
Dividends paid to equity shareholders	6	–	–	–	–	(299)	(299)	–	(299)
Net movement in own shares held		–	–	–	–	11	11	–	11
Deferred tax associated with share-based payments		–	–	–	–	1	1	–	1
Current tax associated with share-based payments		–	–	–	–	(1)	(1)	–	(1)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(4)	(4)
Acquisition and disposal of non-controlling interests		–	–	–	–	–	–	(3)	(3)
Total transactions with owners		–	–	–	–	(288)	(288)	(7)	(295)
Balance as at 16 September 2017		45	175	456	(31)	7,694	8,339	73	8,412
Total comprehensive income									
Profit for the period recognised in the income statement		–	–	–	–	1,007	1,007	15	1,022
Remeasurements of defined benefit schemes		–	–	–	–	310	310	–	310
Deferred tax associated with defined benefit schemes		–	–	–	–	(53)	(53)	–	(53)
Items that will not be reclassified to profit or loss		–	–	–	–	257	257	–	257
Effect of movements in foreign exchange		–	–	(83)	–	–	(83)	(2)	(85)
Net loss on hedge of net investment in foreign subsidiaries		–	–	(10)	–	–	(10)	–	(10)
Deferred tax associated with movements in foreign exchange		–	–	1	–	–	1	–	1
Movement in cash flow hedging position		–	–	(1)	56	–	55	–	55
Deferred tax associated with movement in cash flow hedging position		–	–	–	(12)	–	(12)	–	(12)
Items that are or may be subsequently reclassified to profit or loss		–	–	(93)	44	–	(49)	(2)	(51)
Other comprehensive income		–	–	(93)	44	257	208	(2)	206
Total comprehensive income		–	–	(93)	44	1,264	1,215	13	1,228
Transactions with owners									
Dividends paid to equity shareholders	6	–	–	–	–	(327)	(327)	–	(327)
Net movement in own shares held		–	–	–	–	(11)	(11)	–	(11)
Deferred tax associated with share-based payments		–	–	–	–	(1)	(1)	–	(1)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(5)	(5)
Acquisition and disposal of non-controlling interests		–	–	–	–	(4)	(4)	4	–
Total transactions with owners		–	–	–	–	(343)	(343)	(1)	(344)
Balance as at 15 September 2018		45	175	363	13	8,615	9,211	85	9,296

Associated British Foods plc ('the Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the 52 weeks ended 15 September 2018 comprise those of the Company and its subsidiaries (together referred to as 'the group') and the group's interest in joint ventures and associates.

The consolidated financial statements were authorised for issue by the directors on 6 November 2018.

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 Financial Reporting Standard 101 *Reduced Disclosure Framework*. These are presented on pages 165 to 171.

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 current 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 122.

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.

The consolidated financial statements of the group are prepared to the Saturday nearest to 15 September. Accordingly, these financial statements have been prepared for the 52 weeks ended 15 September 2018 (2017 – 52 weeks ended 16 September 2017). 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 each year. Adjustments are made as appropriate for significant transactions or events occurring between 15 September and these other balance sheet dates.

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 6 to 49. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 50 and 51. In addition, the Principal risks and uncertainties on pages 60 to 64 and note 24 on pages 145 to 154 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 direct the activities of an entity so as to significantly affect the returns of that entity.

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

All the group's joint arrangements are joint ventures, which are 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, being the power to participate in the financial and operating policy decisions of the entity, but which does not amount to control or joint control.

Where the group's share of losses exceeds 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.

Control, joint control and significant influence are generally assessed by reference to equity shareholdings and voting rights.

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.

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 transaction 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 value of sales made to customers after deduction of discounts, sales taxes and a provision for returns. 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 measured reliably.

In the food businesses, revenue from the sale of goods is generally recognised on dispatch or delivery to customers, dependent on shipping terms. Discounts and returns are provided for as a reduction to revenue when sales are recorded, based on management's best estimate of the amount required to meet claims by customers, taking into account contractual and legal obligations, historical trends and past experience.

In the retail business, revenue from the sale of goods is recognised when the customer purchases goods in store. Returns are provided for as a reduction to revenue when sales are recorded, based on management's best estimate of the amount required to meet claims by customers, taking into account historical trends and past experience.

Borrowing costs

Borrowing costs are accounted for using the effective interest method. The group capitalises borrowing costs directly attributable to the acquisition, construction or production of qualifying

items of property, plant and equipment as part of their cost. 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.

Adjusted profit and earnings measures

Adjusted operating profit is stated before amortisation of non-operating intangibles, transaction costs, amortisation of fair value adjustments made to acquired inventory and profits less losses on disposal of non-current assets. Adjusted profit before tax is stated before amortisation of non-operating intangibles, transaction costs, amortisation of fair value adjustments made to acquired inventory, profits less losses on disposal of non-current assets and profits less losses on sale and closure of businesses. Both measures are shown on the face of the income statement.

Adjusted earnings and adjusted earnings per share are shown in the notes and are stated before amortisation of non-operating intangibles, transaction costs, amortisation of fair value adjustments made to acquired inventory, profits less losses on disposal of non-current assets and profits less losses on sale and closure of businesses together with the related tax effect.

Items as defined above which arise in the group's joint ventures and associates are also treated as adjusting items for the purposes of adjusted operating profit and adjusted profit before tax. These items are identified in the relevant notes.

Constant currency

Constant currency is derived by translating the prior year results at current year average exchange rates.

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 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 pension arrangements comprise defined benefit plans, 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 net interest expense or income calculated by applying the liability discount rate to the net pension asset or liability. 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. Remeasurements 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 remeasurements 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 equity.

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 non-current other 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 and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

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 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. 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 10 years
Grower agreements – up to 10 years

Goodwill

Goodwill is defined under 'Business combinations' on page 117. 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 least annually.

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, estimated future cash flows are discounted to 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, 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	up to 66 years
Plant and equipment, fixtures and fittings – sugar factories,	
yeast plants,	up to 20 years
mills and bakeries	up to 12 years
– other operations	
Vehicles	up to 10 years
Sugar cane roots	up to 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.

Current biological assets

Current biological assets are measured at fair value less costs to sell.

The basis of valuation for growing cane is 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 the retail businesses 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 retail inventories are finished goods.

Inventories recorded on the acquisition of a business are recognised at fair value. The book value of such inventories is charged to adjusted operating profit as they are sold or used. Any fair value uplift, if significant, is charged below operating profit as the inventories are sold or used.

New accounting policies

The following accounting standards and amendments were adopted during the year and had no significant impact on the group:

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to IAS 7 *Disclosures Initiative*
- Annual Improvements to IFRS Standards 2014 – 2016

The group is assessing the impact of the following standards, interpretations and 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:

- IFRS 9 *Financial Instruments: Classification and Measurement* effective 2019 financial year
 - IFRS 15 *Revenue from Contracts with Customers* effective 2019 financial year
 - Clarifications to IFRS 15 *Revenue from Contracts with Customers* effective 2019 financial year
 - IFRS 16 *Leases* effective 2020 financial year
 - IFRS 17 *Insurance Contracts* effective 2022 financial year (not yet endorsed by the EU)
 - IFRIC 22 *Foreign Currency Transactions and Advance Consideration* effective 2019 financial year
 - IFRIC 23 *Uncertainty over Income Tax Treatments* effective 2020 financial year (endorsed by the EU October 2018)
 - Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* effective 2019 financial year
 - Amendments to IFRS 3 *Definition of a Business* effective 2021 financial year (published October 2018, not yet endorsed by the EU)
 - Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* effective 2019 financial year
 - Amendments to IFRS 9 *Prepayment Features with Negative Compensation* effective 2020 financial year
 - Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* effective 2020 financial year (not yet endorsed by the EU)
 - Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* effective 2020 financial year (not yet endorsed by the EU)
- Amendments to *References to the Conceptual Framework in IFRS Standards* effective 2021 financial year (not yet endorsed by the EU)
- *Annual Improvements to IFRS Standards 2014 – 2016* effective 2019 financial year
- *Annual Improvements to IFRS Standards 2015 – 2017* effective 2020 financial year (not yet endorsed by the EU)

The three new standards with the most significant potential effect on the group's financial statements are IFRS 9, IFRS 15 and IFRS 16, further details of which are set out below. The impact of the other standards effective in 2019 and beyond have not yet been fully assessed.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. It includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

The standard introduces changes to three key areas:

- new requirements for the classification and measurement of financial instruments;
- a new impairment model based on expected credit losses for recognising provisions (compared to IAS 39, which used an incurred loss model); and
- simplified hedge accounting through closer alignment with an entity's risk management methodology.

Financial assets are classified using a principles-based approach in three measurement categories: amortised cost, fair value through other comprehensive income or fair value through profit or loss. Classification is performed on initial recognition of the asset based on the characteristics of the asset and the local business model. The vast majority of the group's financial assets are currently recorded at amortised cost and this will continue to be the case.

For financial liabilities, there are no significant classification and measurement changes compared to IAS 39.

The new principles for hedge accounting provide a more flexible framework for hedge accounting which is better aligned

with the economic decision-making of the group. This should result in the group being able to achieve hedge accounting on a wider range of transactions than under IAS 39. The IAS 39 effectiveness test has been replaced with the 'economic relationship' principle. Retrospective assessment of hedge effectiveness is no longer necessary. IFRS 9 also requires additional disclosures concerning risk management and the effects of hedge accounting.

The group has completed a groupwide impact assessment across these three key areas, supported by external resource, involving each of the group's businesses. As a result of this assessment, the group has concluded that the adoption of IFRS 9 will not have a significant impact on either the group's results or financial position.

IFRS 9 applies retrospectively to all periods presented, but with substantial transition provisions to consider, including not being required to restate comparative information.

The group will adopt IFRS 9 on 16 September 2018 and apply it for the first time in the 2019 financial year, without restating comparative information. The group does not expect to record a significant transition in opening retained earnings.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a principles-based approach to recognising revenue only when performance obligations are satisfied and control of the related goods or services is transferred. It addresses items such as the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 replaces IAS 18 and other related requirements.

IFRS 15 applies a five-step approach to the timing of revenue recognition and applies to all contracts with customers except those in the scope of other standards.

Step 1	Identify the contract(s) with a customer
Step 2	Identify the performance obligations in the contract
Step 3	Determine the transaction price
Step 4	Allocate the transaction price to the performance obligations in the contract
Step 5	Recognise revenue when (or as) the entity satisfies a performance obligation

The group has completed a groupwide impact assessment, utilising external resource to support local management where necessary. The assessment included areas that required additional specific consideration, including rights of return and principal vs agent considerations. The group's revenue recognition processes are generally straightforward, with recognition of revenue at the point of sale and little significant judgement required in determining the timing of transfer of control.

The impact assessment concluded that IFRS 15 would result in no change to the timing of revenue or the timing or amount of profit recognised. The only impact on the amount of revenue recognised was some £30m of operating expenses which under IFRS 15 will be deducted from revenue.

The group will adopt IFRS 15 on 16 September 2018 and apply it for the first time in the 2019 financial year. IFRS 15 will be adopted retrospectively without the requirement to restate comparative information. IFRS 15 will have no impact on the group's reported profits. No cumulative adjustment to recognise the impact of applying IFRS 15 as at 16 September 2018 is required.

IFRS 16 Leases

IFRS 16 introduces a new model for the identification of leases and accounting for lessors and lessees. It replaces IAS 17 *Leases* and other related requirements. The group will adopt IFRS 16 on 15 September 2019 and apply it for the first time in the 2020 financial year.

IFRS 16 distinguishes leases from service contracts on the basis of control of an identified asset. For lessees, it removes the previous accounting distinction between (off-balance sheet) operating leases and (on-balance sheet) finance leases and introduces a single model recognising a lease liability and corresponding right-of-use asset for all leases except for short-term leases and leases of low-value assets.

For lessors, IFRS 16 substantially retains existing accounting requirements and continues to require classification of leases either as operating or finance in nature.

The group has engaged external experts to support its implementation project and established a steering committee to oversee its governance, which reports regularly to the Audit committee. During the current period, the group performed a detailed groupwide impact assessment which identified that most existing operating lease arrangements meet the revised definition of a lease.

The group has made progress in a number of project areas, including identification of leases and areas of complexity or judgement, collation of lease data, identification of changes to systems and processes for internal and external reporting, and the development of initial estimates for discount rates.

IFRS 16 permits a choice of transitional approaches: a fully retrospective approach with an adjustment made to the opening retained earnings of the comparative period; or a modified retrospective approach where the cumulative effect of initial application is recognised at the date of initial application without restating prior periods.

The age, size and complexity of the group's lease portfolio means that it would either be impossible or extremely costly and difficult to collate sufficient information to apply the fully retrospective approach. The group has therefore determined to adopt the modified retrospective approach.

The group will provide a further update in the 2019 interim results and annual report, when indicative details of the impact on opening retained earnings will be provided. The first results published under IFRS 16 will be the 2020 interim results.

Impact on the group's results and financial position

The impact of IFRS 16 on the group's results and financial position is dependent on completion of the work areas described above, and on the facts and circumstances at the time of transition. It will not include restatement of prior periods. For these reasons, it is not yet practicable to determine a reliable estimate of the precise impact on the group, but the impact is expected to be significant.

Lease liabilities are measured initially at the present value of lease payments yet to be paid, subsequently adjusted for interest and lease payments as well as a number of other changes to lease provisions. Lease liabilities will be included in net debt.

Right-of-use assets are measured initially at cost (including the value of the lease liability) and subsequently at cost less accumulated depreciation and any impairment losses, adjusted for any remeasurement of the lease liability. Right-of-use assets will be reported as non-current assets.

There is no change to overall cash flows. Operating lease payments were previously presented as operating cash flows and finance lease payments were allocated between payments of principal and interest within financing cash flows. Under IFRS 16, lease payments are split between payments of principal and interest, presented as financing cash flows.

Operating lease expenses previously charged to operating profit will be replaced by depreciation of right-of-use assets (within operating profit) and interest cost (within finance expense). Although the aggregate income statement impact of each lease over its life will not change, the generally straight-line profile of operating lease expenses will be more front-loaded under IFRS 16 because of the interest on the lease liability.

IFRS 16 will affect a number of financial statement captions and ratios, including the following:

Item	Comment
Earnings	Based on our impact assessment, the group expects a marginal impact on earnings, it is not yet possible to predict reliably what this might be. There will be a consequent impact on dividend cover.
Operating profit/ operating margin	Operating profit and operating margin are expected to increase significantly as operating lease expenses are replaced by depreciation of right-of-use assets.
Finance expense	Finance expense is expected to increase significantly as a result of the interest cost on lease liabilities. Interest cover will therefore reduce.
Taxation	Taxation will change in line with the changes in profit before tax.
Non-current assets	Non-current assets will increase very significantly as the right-of-use assets are recorded alongside property, plant and equipment.
Net debt	Net debt will increase very significantly as lease liabilities are recorded within current and non-current liabilities. Gearing ratios will therefore increase. The reconciliation of net debt will include more non-cash items as new leases are entered into.
Return on capital employed	The return on capital employed will reduce as a result of the changes to operating profit and non-current assets. It is not yet possible to predict reliably what this might be.
Cash flow statement	There is no overall impact on cash flow, but classifications of cash flows will change, as set out above.

The group will reassess its incentive arrangements to align targets with the new accounting requirements.

IFRS 16 is expected to have the most significant impact on the Retail segment given the number of significant store leases to which Primark is a party.

For finance leases where the group is a lessee, the group expects no significant impact.

The group's current leasing disclosures are given in note 25 of this annual report.

ACCOUNTING ESTIMATES AND JUDGEMENTS

for the 52 weeks ended 15 September 2018

In applying the accounting policies detailed on pages 116 to 122, 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 the potential for 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 considered probable that sufficient taxable profits will be available in the future. Deferred tax assets are reduced to the extent that it is no longer considered 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 asset of £435m being recognised as at 15 September 2018. The size of this net asset is sensitive to the market value of the assets held by the schemes, to the discount rate used in assessing 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 11.

Biological assets

In valuing growing cane, estimating sucrose content requires management to assess expected cane and sucrose yields for the following season considering weather conditions and harvesting programmes. Estimating 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 15.

Taxation

The group makes provision for open tax issues including, in a number of jurisdictions, routine tax audits which are by nature complex and can take a number of years to resolve. Provisions are based on management's interpretation of tax law in each country and ongoing monitoring of the outcome of EU cases and investigations on tax rulings, and reflect the best estimate of the liability. The group believes it has made adequate provision for such matters.

1. Operating segments

The group has five operating segments, as described below. These are the group's operating divisions, based on the management and internal reporting structure, which combine businesses with common characteristics, primarily in respect of the type of products offered by each business, but also the production processes involved and the manner of the distribution and sale of goods. 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, current asset investments and income tax assets. 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.

Businesses disposed are shown separately and comparatives have been re-presented for businesses sold or closed during the year.

The group is comprised of the following operating segments:

Grocery

The manufacture of grocery products, including hot beverages, sugar & sweeteners, vegetable oils, balsamic vinegars, bread & baked goods, cereals, ethnic foods, 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 and services 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	
	2018 £m	2017 £m	2018 £m	2017 £m
Operating segments				
Grocery	3,420	3,381	335	303
Sugar	1,730	2,034	123	249
Agriculture	1,350	1,191	59	50
Ingredients	1,467	1,492	143	126
Retail	7,477	7,053	843	735
Central	—	—	(64)	(75)
	15,444	15,151	1,439	1,388
Businesses disposed:				
Grocery	—	53	—	5
Sugar	128	140	(34)	(29)
Agriculture	1	12	(1)	—
Ingredients	1	1	—	(1)
	15,574	15,357	1,404	1,363
Geographical information				
United Kingdom	5,863	5,622	557	530
Europe & Africa	5,851	5,805	528	555
The Americas	1,533	1,538	206	189
Asia Pacific	2,197	2,186	148	114
	15,444	15,151	1,439	1,388
Businesses disposed:				
United Kingdom	66	80	(34)	(26)
Europe & Africa	62	60	—	—
The Americas	1	53	—	5
Asia Pacific	1	13	(1)	(4)
	15,574	15,357	1,404	1,363

1. Operating segments continued

For the 52 weeks ended 15 September 2018

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Total £m
Revenue from continuing businesses	3,423	1,821	1,354	1,648	7,477	(279)	15,444
Internal revenue	(3)	(91)	(4)	(181)	–	279	–
External revenue from continuing businesses	3,420	1,730	1,350	1,467	7,477	–	15,444
Businesses disposed	–	128	1	1	–	–	130
Revenue from external customers	3,420	1,858	1,351	1,468	7,477	–	15,574
Adjusted operating profit before joint ventures and associates	306	121	47	129	843	(64)	1,382
Share of profit after tax from joint ventures and associates	29	2	12	14	–	–	57
Businesses disposed	–	(34)	(1)	–	–	–	(35)
Adjusted operating profit	335	89	58	143	843	(64)	1,404
Profits less losses on disposal of non-current assets	4	2	–	–	–	–	6
Amortisation of non-operating intangibles	(36)	–	(1)	(4)	–	–	(41)
Acquired inventory fair value adjustments	(23)	–	–	–	–	–	(23)
Transaction costs	(1)	–	–	(1)	–	–	(2)
Profits less losses on sale and closure of businesses	–	(11)	1	(2)	–	(22)	(34)
Profit before interest	279	80	58	136	843	(86)	1,310
Finance income						15	15
Finance expense						(50)	(50)
Other financial income						4	4
Taxation						(257)	(257)
Profit for the period	279	80	58	136	843	(374)	1,022
Segment assets (excluding joint ventures and associates)	2,702	2,090	414	1,396	4,556	110	11,268
Investments in joint ventures and associates	41	25	134	66	–	–	266
Segment assets	2,743	2,115	548	1,462	4,556	110	11,534
Cash and cash equivalents						1,362	1,362
Current asset investments						30	30
Income tax						54	54
Deferred tax assets						133	133
Employee benefits assets						579	579
Segment liabilities	(530)	(429)	(140)	(275)	(1,382)	(234)	(2,990)
Loans and overdrafts						(778)	(778)
Income tax						(160)	(160)
Deferred tax liabilities						(324)	(324)
Employee benefits liabilities						(144)	(144)
Net assets	2,213	1,686	408	1,187	3,174	628	9,296
Non-current asset additions	148	141	19	63	533	12	916
Depreciation	(99)	(81)	(13)	(49)	(264)	(3)	(509)
Amortisation	(48)	(4)	(1)	(6)	(5)	(1)	(65)
Impairment of property, plant and equipment on sale and closure of businesses	–	(14)	–	–	–	–	(14)

Geographical information	United Kingdom £m	Europe & Africa £m	The Americas £m	Asia Pacific £m	Total £m
Revenue from external customers	5,929	5,913	1,534	2,198	15,574
Segment assets	4,460	4,610	1,079	1,385	11,534
Non-current asset additions	418	375	57	66	916
Depreciation	(204)	(202)	(43)	(60)	(509)
Amortisation	(36)	(17)	(6)	(6)	(65)
Acquired inventory fair value adjustments	–	(23)	–	–	(23)
Impairment of property, plant and equipment on sale and closure of businesses	(14)	–	–	–	(14)
Transaction costs	(1)	–	–	(1)	(2)

1. Operating segments continued

For the 52 weeks ended 16 September 2017

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Total £m
Revenue from continuing businesses	3,384	2,113	1,195	1,673	7,053	(267)	15,151
Internal revenue	(3)	(79)	(4)	(181)	–	267	–
External revenue from continuing businesses	3,381	2,034	1,191	1,492	7,053	–	15,151
Businesses disposed	53	140	12	1	–	–	206
Revenue from external customers	3,434	2,174	1,203	1,493	7,053	–	15,357
Adjusted operating profit before joint ventures and associates	264	246	37	113	735	(75)	1,320
Share of profit after tax from joint ventures and associates	39	3	13	13	–	–	68
Businesses disposed	5	(29)	–	(1)	–	–	(25)
Adjusted operating profit	308	220	50	125	735	(75)	1,363
Profits less losses on disposal of non-current assets	17	–	–	–	(6)	(5)	6
Amortisation of non-operating intangibles	(25)	(1)	(1)	(1)	–	–	(28)
Transaction costs	(4)	–	–	(1)	–	–	(5)
Profits less losses on sale and closure of businesses	110	183	–	–	–	–	293
Profit before interest	406	402	49	123	729	(80)	1,629
Finance income						9	9
Finance expense						(59)	(59)
Other financial expense						(3)	(3)
Taxation						(365)	(365)
Profit for the period	406	402	49	123	729	(498)	1,211
Segment assets (excluding joint ventures and associates)	2,349	2,079	371	1,416	4,245	90	10,550
Investments in joint ventures and associates	36	23	131	64	–	–	254
Segment assets	2,385	2,102	502	1,480	4,245	90	10,804
Cash and cash equivalents						1,550	1,550
Income tax						28	28
Deferred tax assets						143	143
Employee benefits assets						285	285
Segment liabilities	(515)	(480)	(112)	(273)	(1,382)	(199)	(2,961)
Loans and overdrafts						(877)	(877)
Income tax						(170)	(170)
Deferred tax liabilities						(231)	(231)
Employee benefits liabilities						(159)	(159)
Net assets	1,870	1,622	390	1,207	2,863	460	8,412
Non-current asset additions	140	100	27	78	519	3	867
Depreciation	(116)	(84)	(11)	(52)	(248)	(3)	(514)
Amortisation	(43)	(4)	(2)	(4)	(3)	(1)	(57)
Impairment of property, plant and equipment on sale and closure of businesses	(2)	–	–	–	–	–	(2)

Geographical information	United Kingdom £m	Europe & Africa £m	The Americas £m	Asia Pacific £m	Total £m
Revenue from external customers	5,702	5,865	1,591	2,199	15,357
Segment assets	4,199	4,123	1,077	1,405	10,804
Non-current asset additions	290	407	89	81	867
Depreciation	(189)	(190)	(54)	(81)	(514)
Amortisation	(33)	(8)	(5)	(11)	(57)
Impairment of property, plant and equipment on sale and closure of businesses	–	–	(2)	–	(2)
Transaction costs	(1)	(1)	(3)	–	(5)

2. Operating costs

	Note	2018 £m	2017 £m
Operating costs			
Cost of sales (including amortisation of intangibles)		11,990	11,751
Distribution costs		1,356	1,385
Administration expenses		944	954
		14,290	14,090
Operating costs are stated after charging/(crediting):			
Employee benefits expense	3	2,668	2,546
Amortisation of non-operating intangibles	8	38	25
Amortisation of operating intangibles	8	27	32
Acquired inventory fair value adjustments		23	–
Profits less losses on disposal of non-current assets		(6)	(6)
Depreciation of property, plant and equipment	9	509	514
Transaction costs		2	3
Operating lease payments under property leases		294	261
Operating lease payments for hire of plant and equipment		15	14
Other operating income		(18)	(19)
Research and development expenditure		26	37
Fair value gains on financial assets and liabilities held for trading		(23)	(10)
Fair value losses on financial assets and liabilities held for trading		17	18
Foreign exchange gains on operating activities		(45)	(62)
Foreign exchange losses on operating activities		57	70

Transaction costs of £2m and amortisation of non-operating intangibles of £41m (2017 – £5m and £28m) shown as adjusting items in the income statement, include £nil and £3m respectively (2017 – £2m and £3m respectively) incurred by joint ventures, in addition to the amounts shown above.

	2018 £m	2017 £m
Auditor's remuneration		
Fees payable to the Company's auditor and its associates in respect of the audit		
Group audit of these financial statements	0.8	0.7
Audit of the Company's subsidiaries' financial statements	6.8	5.6
Total audit remuneration	7.6	6.3
Fees payable to the Company's auditor and its associates in respect of non-audit related services		
Audit-related assurance services	0.4	0.3
All other services	0.2	0.2
Total non-audit related remuneration	0.6	0.5

3. Employees

	2018	2017
Average number of employees		
United Kingdom	48,712	46,299
Europe & Africa	70,074	67,081
The Americas	5,686	5,694
Asia Pacific	12,542	13,516
	137,014	132,590

	Note	£m	£m
Employee benefits expense			
Wages and salaries		2,243	2,137
Social security contributions		286	261
Contributions to defined contribution schemes	11	77	79
Charge for defined benefit schemes	11	43	48
Equity-settled share-based payment schemes	22	19	21
		2,668	2,546

Details of directors' remuneration, share incentives and pension entitlements are shown in the Remuneration report on pages 80 to 99.

4. Interest and other financial income and expense

	Note	2018 £m	2017 £m
Finance income			
Cash and cash equivalents		15	9
		15	9
Finance expense			
Bank loans and overdrafts		(27)	(29)
All other borrowings		(21)	(27)
Finance leases		(1)	(1)
Other payables		(1)	(2)
		(50)	(59)
Other financial income/(expense)			
Interest income on employee benefit scheme assets	11	107	98
Interest charge on employee benefit scheme liabilities	11	(103)	(103)
Interest charge on irrecoverable surplus	11	(1)	(1)
Net financial income/(expense) from employee benefit schemes		3	(6)
Net foreign exchange gains on financing activities		1	3
Total other financial income/(expense)		4	(3)

5. Income tax expense

	2018 £m	2017 £m
Current tax expense		
UK – corporation tax at 19% (2017 – 19.54%)	82	82
Overseas – corporation tax	200	297
UK – under/(over) provided in prior periods	8	(12)
Overseas – over provided in prior periods	(28)	(9)
	262	358
Deferred tax expense		
UK deferred tax	–	(10)
Overseas deferred tax	(19)	17
UK – under provided in prior periods	15	2
Overseas – over provided in prior periods	(1)	(2)
	(5)	7
Total income tax expense in income statement	257	365
Reconciliation of effective tax rate		
Profit before taxation	1,279	1,576
Less share of profit after tax from joint ventures and associates	(54)	(63)
Profit before taxation excluding share of profit after tax from joint ventures and associates	1,225	1,513
Nominal tax charge at UK corporation tax rate of 19% (2017 – 19.54%)	233	296
Effect of higher and lower tax rates on overseas earnings	29	39
Effect of changes in tax rates on income statement	(16)	–
Expenses not deductible for tax purposes	33	24
Disposal of assets covered by tax exemptions or unrecognised capital losses	(15)	9
Deferred tax not recognised	(1)	18
Adjustments in respect of prior periods	(6)	(21)
	257	365
Income tax recognised directly in equity		
Deferred tax associated with defined benefit schemes	53	77
Deferred tax associated with share-based payments	1	(1)
Current tax associated with share-based payments	–	1
Deferred tax associated with movement in cash flow hedging position	12	–
Deferred tax associated with movements in foreign exchange	(1)	2
Current tax associated with movements in foreign exchange	–	1
	65	80

The UK corporation tax rate was reduced from 20% to 19% with effect from 1 April 2017, with a further reduction to 17% effective from 1 April 2020. The legislation to effect these rate changes had been enacted before the balance sheet date. Accordingly, UK deferred tax has been calculated using these rates as appropriate.

In October 2017 the European Commission published its preliminary findings on the Group Financing Exemption in the UK's controlled foreign company legislation. The Commission has expressed doubts as to whether the exemption is compliant with EU State Aid rules. The group may be affected by the final outcome of the Commission's review, as will other UK-based multinational groups that have financing arrangements in line with the UK's current legislation. We have calculated our maximum potential liability to be some £22m if the European Commission's review concludes that the Group Financing Exemption represents unlawful state aid and there are no successful appeals against the position. Having analysed the exemption in the context of both the broader UK corporate tax system and the specific controlled foreign company rules, we consider that no provision is required at this time. We will continue to consider this position as the Commission's review develops.

Deferred taxation balances are analysed in note 12.

6. Dividends

	2018 pence per share	2017 pence per share	2018 £m	2017 £m
2016 final	–	26.45	–	209
2017 interim	–	11.35	–	90
2017 final	29.65	–	234	–
2018 interim	11.70	–	93	–
	41.35	37.80	327	299

The 2018 interim dividend was declared on 17 April 2018 and paid on 6 July 2018. The 2018 final dividend of 33.3p, total value of £263m, will be paid on 11 January 2019 to shareholders on the register on 14 December 2018.

Dividends relating to the period were 45.0p per share totalling £356m (2017 – 41.0p per share totalling £324m).

7. Earnings per share

The calculation of basic earnings per share at 15 September 2018 was based on the net profit attributable to equity shareholders of £1,007m (2017 – £1,198m), and a weighted average number of shares outstanding during the year of 790 million (2017 – 790 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 the sale and closure of businesses, amortisation of acquired inventory fair value adjustments, transaction costs, amortisation of non-operating intangibles and any associated tax credits, is shown to provide clarity on the underlying performance of the group.

Transaction costs of £2m and amortisation of non-operating intangibles of £41m (2017 – £5m and £28m) shown as adjusting items below include £nil and £3m respectively (2017 – £2m and £3m respectively) incurred by joint ventures.

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 (2017 – 790 million). There is no difference between basic and diluted earnings.

	2018 £m	2017 £m
Adjusted profit for the period	1,066	1,004
Disposal of non-current assets	6	6
Sale and closure of businesses	(34)	293
Acquired inventory fair value adjustments	(23)	–
Transaction costs	(2)	(5)
Tax effect on above adjustments	6	(87)
Amortisation of non-operating intangibles	(41)	(28)
Tax credit on non-operating intangibles amortisation and goodwill	29	15
Profit for the period attributable to equity shareholders	1,007	1,198

	2018 pence	2017 pence
Adjusted earnings per share	134.9	127.1
Disposal of non-current assets	0.8	0.8
Sale and closure of businesses	(4.3)	37.0
Acquired inventory fair value adjustments	(2.9)	–
Transaction costs	(0.3)	(0.6)
Tax effect on above adjustments	0.8	(11.0)
Amortisation of non-operating intangibles	(5.2)	(3.5)
Tax credit on non-operating intangibles amortisation and goodwill	3.7	1.8
Earnings per ordinary share	127.5	151.6

8. Intangible assets

	Non-operating						Operating	
	Goodwill £m	Technology £m	Brands £m	Customer relationships £m	Grocer agreements £m	Other £m	Other £m	Total £m
Cost								
At 17 September 2016	1,137	208	384	109	118	6	303	2,265
Acquisitions – externally purchased	–	–	–	–	–	–	50	50
Acquired through business combinations	19	–	4	46	–	–	–	69
Disposal of businesses	(5)	–	–	–	–	–	–	(5)
Other disposals	–	–	–	–	–	–	(12)	(12)
Effect of movements in foreign exchange	9	1	–	1	6	–	3	20
At 16 September 2017	1,160	209	388	156	124	6	344	2,387
Acquisitions – externally purchased	–	–	–	–	–	–	98	98
Acquired through business combinations	100	–	5	100	–	–	–	205
Disposal of businesses	(2)	–	–	–	–	–	–	(2)
Other disposals	–	–	–	–	–	–	(9)	(9)
Effect of movements in foreign exchange	(19)	(5)	–	4	(10)	–	(4)	(34)
At 15 September 2018	1,239	204	393	260	114	6	429	2,645
Amortisation and impairment								
At 17 September 2016	35	208	278	101	118	6	171	917
Amortisation for the year	–	–	19	6	–	–	32	57
Disposal of businesses	(5)	–	–	–	–	–	–	(5)
Other disposals	–	–	–	–	–	–	(5)	(5)
Effect of movements in foreign exchange	(1)	1	–	3	6	–	–	9
At 16 September 2017	29	209	297	110	124	6	198	973
Amortisation for the year	–	–	19	19	–	–	27	65
Other disposals	–	–	–	–	–	–	(3)	(3)
Effect of movements in foreign exchange	–	(5)	–	(3)	(10)	–	(4)	(22)
At 15 September 2018	29	204	316	126	114	6	218	1,013
Net book value								
At 17 September 2016	1,102	–	106	8	–	–	132	1,348
At 16 September 2017	1,131	–	91	46	–	–	146	1,414
At 15 September 2018	1,210	–	77	134	–	–	211	1,632

Amortisation of non-operating intangibles of £41m (2017 – £28m) shown as an adjusting item in the income statement includes £3m (2017 – £3m) incurred by joint ventures in addition to the amounts shown above.

Impairment

As at 15 September 2018, the consolidated balance sheet included goodwill of £1,210m (2017 – £1,131m). 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	2018 £m	2017 £m
Acetum	Grocery	n/a	94	–
ACH	Grocery	11.5%	177	170
AB Mauri	Ingredients	13.2%	320	330
Twinings Ovaltine	Grocery	10.7%	119	119
Capullo	Grocery	14.5%	48	49
Illovo	Sugar	18.7%	110	120
AB World Foods	Grocery	11.7%	78	78
Other (not individually significant)	Various	Various	264	265
			1,210	1,131

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 in the most recent annual budget on which the cash flow projections 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 the group's pre-tax weighted average cost of capital adjusted for country, industry and market risk. The rates used were between 9.7% and 18.7% (2017 – between 10.2% and 20.1%).

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 4%, consistent with the inflation factors included in the discount rates applied (2017 – between 0% and 4%).

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.

Structural changes to the EU sugar regime in October 2017, which removed sales quotas, combined with a reduction in the world sugar price during the year have created challenging trading conditions for Azucarera. Accordingly, management has undertaken an impairment review. Detailed forecasts for a period of five years to reflect the time required for completion of the business plan were prepared and management concluded that the assets were not impaired. Key assumptions included the recovery of sugar prices in the long term, cost reduction and the discount rate. Headroom was €68m on a CGU carrying value of €360m. The discount rate used was 12% and would have to increase to 14% before value in use fell below the CGU carrying value. Estimates of long-term growth rates beyond the forecast periods were 2% per annum. A sensitivity of plus or minus 1% applied to sugar and beet prices impacts headroom by plus or minus 16%.

Notwithstanding a further substantial improvement in profit in the current year, AB Mauri continued to experience competitive pricing pressure in a number of markets around the world as well as challenging macroeconomic conditions in some markets, including high inflation rates and currency devaluations. Accordingly, management has again undertaken an impairment review. Detailed forecasts for a period of five years to reflect the time required for completion of the business plan were prepared and management concluded that the assets were not impaired. Key drivers of the forecast improvement in performance include achievement of price increases in high inflation environments, improved reach and competitiveness in the global dry yeast market, implementation of a number of margin improvement initiatives, particularly in cost reduction, and continuing growth in the global bakery ingredients business. Headroom was \$400m on a CGU carrying value of \$946m (2017 – headroom of \$340m on a CGU carrying value of \$954m). The geographic diversity and varying local economic environments of AB Mauri's operations mean that the critical assumptions underlying the detailed forecasts used in the impairment model are wide-ranging. It is therefore impractical to provide meaningful sensitivities to these assumptions other than the discount rate. The discount rate used was 13.2% (2017 – 13.5%) and would have to increase to more than 17% (2017 – 19%) before value in use fell below the CGU carrying value. Estimates of long-term growth rates beyond the forecast periods were 2%–3% (2017 – 2%–3%) per annum dependent on location.

9. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Sugar cane roots £m	Total £m
Cost						
At 17 September 2016	2,410	3,538	2,665	204	60	8,877
Acquisitions – externally purchased	119	81	392	213	12	817
Acquired through business combinations	6	3	–	–	–	9
Other disposals	(43)	(36)	(118)	–	(8)	(205)
Transfers from assets under construction	23	153	25	(201)	–	–
Effect of movements in foreign exchange	25	27	36	2	–	90
At 16 September 2017	2,540	3,766	3,000	218	64	9,588
Acquisitions – externally purchased	112	46	413	235	12	818
Acquired through business combinations	24	13	–	6	–	43
Other disposals	(10)	(57)	(25)	–	(1)	(93)
Transfers from assets under construction	23	144	9	(176)	–	–
Effect of movements in foreign exchange	(24)	(70)	24	(7)	(2)	(79)
At 15 September 2018	2,665	3,842	3,421	276	73	10,277
Depreciation and impairment						
At 17 September 2016	558	2,068	1,080	–	26	3,732
Depreciation for the year	51	217	239	–	7	514
Impairment on disposal of business	2	–	–	–	–	2
Other disposals	(15)	(40)	(100)	–	(8)	(163)
Effect of movements in foreign exchange	5	15	13	–	–	33
At 16 September 2017	601	2,260	1,232	–	25	4,118
Depreciation for the year	48	198	255	–	8	509
Impairment on closure of business	–	14	–	–	–	14
Other disposals	(8)	(49)	(23)	–	(1)	(81)
Effect of movements in foreign exchange	(4)	(28)	2	–	–	(30)
At 15 September 2018	637	2,395	1,466	–	32	4,530
Net book value						
At 17 September 2016	1,852	1,470	1,585	204	34	5,145
At 16 September 2017	1,939	1,506	1,768	218	39	5,470
At 15 September 2018	2,028	1,447	1,955	276	41	5,747

	2018 £m	2017 £m
Net book value of finance lease assets	12	12
Land and buildings at net book value comprise:		
– freehold	1,619	1,542
– long leasehold	334	318
– short leasehold	75	79
	2,028	1,939
Capital expenditure commitments – contracted but not provided for	625	583

9. Property, plant and equipment continued

Impairment

The methodology used to assess property, plant and equipment for impairment is the same as that described for impairment assessments of goodwill. See note 8 for further details.

An impairment of A\$150m (£98m) was recorded in 2012 in the Australian meat business. Further progress was made in the current year with further reduction in manufacturing costs, efficiency improvement and a general focus on cost reduction across the business. Following a detailed assessment, management has concluded that the carrying value of the assets in the meat business is not further impaired. Headroom was A\$41m on a CGU carrying value of A\$248m (2017 – headroom of A\$38m on a CGU carrying value of A\$270m). The discount rate used was 11.1% (2017 – 10.5%). Estimates of long-term growth rates beyond the forecast periods were 2.0% (2017 – 2.0%) per annum. A sensitivity of plus or minus 1% applied to the discount rate impacts headroom by plus or minus A\$31m.

Low bread prices and strong continuing competition in the UK bakery sector led to a loss at Allied Bakeries and resulted in the need for an assessment of impairment. Headroom was £113m on a CGU carrying value of £243m (2017 – headroom of £87m on a CGU carrying value of £260m). The discount rate used was 10.4% (2017 – 10.2%). Estimates of long-term growth rates beyond the forecast periods were 0.4% per annum. A sensitivity of plus or minus 1% applied to bread prices impacts headroom by plus or minus £30m. A sensitivity of plus or minus 1% applied to bread volumes impacts headroom by plus or minus £12m.

10. Investments in joint ventures and associates

	Joint ventures £m	Associates £m
At 17 September 2016	221	39
Profit for the period	53	10
Dividends received	(64)	(5)
At 16 September 2017	210	44
Profit for the period	45	9
Dividends received	(36)	(6)
At 15 September 2018	219	47

Details of 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	
	2018 £m	2017 £m	2018 £m	2017 £m
Non-current assets	148	146	20	22
Current assets	405	364	223	187
Current liabilities	(280)	(237)	(193)	(161)
Non-current liabilities	(73)	(81)	(4)	(5)
Goodwill	19	18	1	1
Net assets	219	210	47	44
Revenue	1,443	1,450	689	629
Profit for the period	45	53	9	10

11. Employee entitlements

The group operates a number of defined benefit and defined contribution retirement benefit schemes in the UK and overseas. The defined benefit schemes expose the group to a variety of actuarial risks including demographic assumptions such as mortality and financial assumptions such as discount rate, inflation risk and market (investment) risk. The group is not exposed to any unusual, entity-specific or scheme-specific risks. All schemes comply with local legislative requirements.

UK defined benefit scheme

The group's principal UK defined benefit scheme is the Associated British Foods Pension Scheme (the 'Scheme'), which is a funded final salary scheme that is closed to new members. Defined contribution arrangements are in place for other employees. The UK defined benefit schemes represent 91% (2017 – 91%) of the group's defined benefit scheme assets and 88% (2017 – 89%) of defined benefit scheme liabilities. The Scheme is governed by a trustee board which is independent of the group and which agrees a schedule of contributions with the Company each time a formal funding valuation is performed.

The most recent triennial funding valuation of the Scheme was carried out as at 5 April 2017, using the current unit method, and revealed a surplus of £176m. The market value of the Scheme assets was £3,789m, representing 105% of members' accrued benefits after allowing for expected future salary increases.

The Scheme's assets are managed using a risk-controlled investment strategy, which includes a liability-driven investment policy that seeks to match, where appropriate, the profile of the liabilities. This includes the use of derivative instruments to hedge inflation, interest and foreign exchange risks. The Scheme utilises both market and solvency triggers to develop the level of hedges in place. To date, the Scheme is fully hedged for 71% of inflation sensitivity and 29% of interest rate risk. It is intended to hedge 80% of total exposure.

The Scheme is forbidden by the trust deed from holding direct investments in the equity of the Company, although it is possible that the Scheme may hold indirect interests through investments in some equity funds.

The Guaranteed Minimum Pension (GMP) is the minimum pension which a UK occupational pension scheme must provide for those employees who were contracted out of the State Earnings-Related Pension Scheme between 6 April 1978 and 5 April 1997.

On 26 October 2018, the UK High Court ruled that GMPs must be equalised for inequalities in retirement ages between men and women for all service after 17 May 1990. The ruling outlined a number of potential approaches to achieve the equalisation of GMPs. The ruling may be subject to appeal but if it stands, it is probable that the Scheme will be required to record additional liabilities.

The Company is working with the Scheme trustees to determine the potential cost. At this early stage, it is not possible to provide a reliable estimate of that cost because of the number of potential approaches, the long time period and the likely number of individuals affected.

Overseas defined benefit schemes

The group also operates defined benefit retirement schemes in a number of overseas businesses, which are primarily funded final salary schemes, as well as a small number of unfunded post-retirement medical benefit schemes, which are accounted for in the same way as defined benefit retirement schemes.

Defined contribution schemes

The group operates a number of defined contribution schemes for which the charge was £37m in the UK and £40m overseas, totalling £77m (2017 – UK £35m, overseas £44m, totalling £79m).

Actuarial assumptions

The principal actuarial assumptions for the group's defined benefit schemes at the year end were:

	2018 UK %	2018 Overseas %	2017 UK %	2017 Overseas %
Discount rate	2.9	1.0-11.3	2.7	0.7-16.5
Inflation	2.3-3.3	0-11.9	2.3-3.3	0-9.5
Rate of increase in salaries	3.3-4.3	0-13.0	3.3-4.3	0-12.0
Rate of increase for pensions in payment	2.1-3.1	0-5.6	2.1-3.1	0-5.7
Rate of increase for pensions in deferment (where provided)	2.3	0-2.0	2.3	0-2.0

The UK inflation assumption includes assumptions on both the Retail Price Index and Consumer Price Index measures of inflation on the basis that the gap between the two measures is expected to remain stable in the long term.

11. Employee entitlements continued

The mortality assumptions used to value the UK defined benefit schemes in both years are derived from the S2 mortality tables with improvements in line with the 2016 projection model (2017 – 2015 projection model) prepared by the Continuous Mortality Investigation of the UK actuarial profession, with a +0.5-year rating up for males and a +0.3-year rating down for females (2017 – no rating for males and a +0.7-year rating down for females), both with a long-term trend of 1.5% (2017 – 1.25%). 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 in the UK defined benefit schemes are as follows:

	2018		2017	
	Male	Female	Male	Female
Life expectancy from age 65 (in years)				
Member aged 65 in 2018 (2017)	21.9	24.5	22.3	24.9
Member aged 65 in 2038 (2037)	23.7	26.4	24.0	26.8

An allowance has been made for cash commutation in line with emerging scheme experience. Other demographic assumptions for the UK defined benefit schemes are 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 funding valuation of the schemes.

For the overseas schemes, regionally appropriate assumptions for mortality, financial and demographic factors have been used.

A sensitivity analysis on the principal assumptions used to measure UK defined benefit scheme liabilities at 15 September 2018 is:

	Change in assumption	Impact on scheme liabilities
Discount rate	decrease/increase by 0.5%	increase by 9.1%/decrease by 8.0%
Inflation	increase/decrease by 0.5%	increase by 5.7%/decrease by 6.2%
Rate of real increase in salaries	increase/decrease by 0.5%	increase/decrease by 1.5%
Rate of mortality	reduce by one year	increase by 3.5%

A sensitivity to the rate of increase in pensions in payment and pensions in deferment is represented by the inflation sensitivity, as all pensions increases and deferred revaluations are linked to inflation.

The sensitivity analysis above has been determined based on reasonably possible changes in the respective assumptions occurring at the end of the period and may not be representative of the actual change. It is based on a change in the specific assumption while holding all other assumptions constant. When calculating the sensitivities, the same method used to calculate scheme liabilities recognised in the balance sheet has been applied. The method and assumptions used in preparing the sensitivity analysis have not changed since the prior year.

Balance sheet

	2018			2017		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Equities	1,355	180	1,535	1,225	166	1,391
Government bonds	530	47	577	988	46	1,034
Corporate and other bonds	393	58	451	562	64	626
Property	343	21	364	323	19	342
Cash and other assets	1,093	62	1,155	597	56	653
Scheme assets	3,714	368	4,082	3,695	351	4,046
Scheme liabilities	(3,184)	(446)	(3,630)	(3,462)	(448)	(3,910)
Aggregate net surplus/(deficit)	530	(78)	452	233	(97)	136
Irrecoverable surplus*	–	(17)	(17)	–	(10)	(10)
Net pension asset/liability)	530	(95)	435	233	(107)	126
Analysed as						
Schemes in surplus	571	8	579	277	8	285
Schemes in deficit	(41)	(103)	(144)	(44)	(115)	(159)
	530	(95)	435	233	(107)	126
Unfunded liability included in the present value of scheme liabilities above	(41)	(56)	(97)	(44)	(56)	(100)

* 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.

11. Employee entitlements continued

Corporate and other bonds relating to UK schemes of £393m (2017 – £562m) include £13m (2017 – £55m) of assets whose valuation is not derived from quoted market prices. The valuation for all other equity assets, government bonds, corporate and other bonds is derived from quoted market prices. The carrying value of UK property assets is based on a 31 March market valuation, adjusted for purchases, disposals and price indexation between the valuation and the balance sheet dates. Cash and other assets contains £401m (2017 – £312m) of assets whose valuation is not derived from quoted market prices.

For financial reporting in the group's financial statements, liabilities are assessed by actuaries using the projected unit method. The accounting value is different from the result obtained using the funding basis, mainly due to different assumptions used to project scheme liabilities.

The defined benefit scheme liabilities comprise 27% (2017 – 26%) in respect of active participants, 20% (2017 – 22%) for deferred participants and 53% (2017 – 52%) for pensioners.

The weighted average duration of the defined benefit scheme liabilities at the end of the year is 18 years for both UK and overseas schemes (2017 – 18 years for both UK and overseas schemes).

Income statement

The charge to the income statement for employee benefit schemes comprises:

	2018 £m	2017 £m
Charged to operating profit:		
Defined benefit schemes		
Current service cost	(44)	(48)
Past service cost – curtailment gain	1	–
Defined contribution schemes	(77)	(79)
Total operating cost	(120)	(127)
Reported in other financial income/(expense):		
Net interest income/(expense) on the net pension asset	4	(5)
Interest charge on irrecoverable surplus	(1)	(1)
Net impact on profit before tax	(117)	(133)

Cash flow

Group cash flow in respect of employee benefits schemes comprises contributions paid to funded schemes of £37m (2017 – £35m) and benefits paid in respect of unfunded schemes of £2m (2017 – £1m). Contributions to funded defined benefit schemes are subject to periodic review. Contributions to defined contribution schemes amounted to £77m (2017 – £79m).

Total contributions to funded schemes and benefit payments by the group in respect of unfunded schemes in 2019 are currently expected to be approximately £32m in the UK and £9m overseas, totalling £41m (2017 – UK £31m, overseas £11m, totalling £42m).

Other comprehensive income

Remeasurements of the net asset recognised in other comprehensive income are as follows:

	2018 £m	2017 £m
Return on scheme assets excluding amounts included in net interest in the income statement	113	135
Actuarial gains arising from changes in financial assumptions	135	55
Actuarial gains arising from changes in demographic assumptions	49	2
Experience gains on scheme liabilities	21	243
Change in unrecognised surplus	(8)	3
Remeasurements of the net pension asset	310	438

The primary reason for the significant experience gains in the prior year was the latest scheme membership information gathered during the 2017 triennial valuation, which identified that there had been more exits from the scheme than expected over the preceding three years.

11. Employee entitlements continued

Reconciliation of change in assets and liabilities

	2018 assets £m	2017 assets £m	2018 liabilities £m	2017 liabilities £m	2018 net £m	2017 net £m
At beginning of year	4,046	3,992	(3,910)	(4,284)	136	(292)
Current service cost	–	–	(44)	(48)	(44)	(48)
Employee contributions	9	10	(9)	(10)	–	–
Employer contributions	37	35	–	–	37	35
Benefit payments	(230)	(204)	232	205	2	1
Past service cost – curtailment gain	–	–	1	–	1	–
Interest income/(expense)	107	98	(103)	(103)	4	(5)
Return on scheme assets less interest income	113	135	–	–	113	135
Actuarial gains arising from changes in financial assumptions	–	–	135	55	135	55
Actuarial gains arising from changes in demographic assumptions	–	–	49	2	49	2
Experience gains on scheme liabilities	–	–	21	243	21	243
Businesses disposed	–	(25)	–	39	–	14
Effect of movements in foreign exchange	–	5	(2)	(9)	(2)	(4)
At end of year	4,082	4,046	(3,630)	(3,910)	452	136

Reconciliation of change in irrecoverable surplus

	2018 £m	2017 £m
At beginning of year	(10)	(11)
Change recognised in other comprehensive income	(8)	3
Interest charge on irrecoverable surplus	(1)	(1)
Effect of movements in foreign exchange	2	(1)
At end of year	(17)	(10)

12. 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 2016	88	77	(58)	(6)	(54)	(47)	–
Amount charged/(credited) to the income statement	52	(1)	(3)	–	(47)	7	8
Amount charged to equity	–	–	73	–	2	–	75
Acquired through business combinations	1	7	–	–	–	–	8
Effect of changes in tax rates on income statement	(3)	–	–	–	(1)	3	(1)
Effect of changes in tax rate on equity	–	–	3	–	–	–	3
Effect of movements in foreign exchange	(5)	3	1	(1)	(2)	(1)	(5)
At 16 September 2017	133	86	16	(7)	(102)	(38)	88
Amount charged/(credited) to the income statement	27	(3)	–	–	(17)	4	11
Amount charged/(credited) to equity	–	–	54	12	(1)	–	65
Acquired through business combinations	1	23	–	–	16	–	40
Effect of changes in tax rates on income statement	(9)	(18)	–	–	11	–	(16)
Effect of movements in foreign exchange	(1)	1	–	–	1	2	3
At 15 September 2018	151	89	70	5	(92)	(32)	191

12. Deferred tax assets and liabilities continued

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:

	2018 £m	2017 £m
Deferred tax assets	(133)	(143)
Deferred tax liabilities	324	231
	191	88

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. Other deferred tax assets totalling £101m (2017 – £97m) have not been recognised on the basis that their future economic benefit is uncertain.

In addition, there are temporary differences of £3,327m (2017 – £2,995m) 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.

13. Trade and other receivables

	2018 £m	2017 £m
Non-current – other receivables		
Loans and receivables	46	50
Other non-current investments	4	4
	50	54
Current – trade and other receivables		
Trade receivables	1,074	1,035
Other receivables	147	116
Accrued income	20	14
	1,241	1,165
Prepayments and other non-financial receivables	195	177
	1,436	1,342

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 £47m (2017 – £48m) in respect of finance lease receivables, with £42m in non-current loans and receivables and £5m in current other receivables (2017 – £45m in non-current loans and receivables and £3m in current other receivables). Minimum lease payments receivable are £5m within one year, £20m between one and five years and £25m in more than five years (2017 – £3m within one year, £15m between one and five years and £36m in more than five years).

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

14. Inventories

	2018 £m	2017 £m
Raw materials and consumables	361	352
Work in progress	87	22
Finished goods and goods held for resale	1,739	1,727
	2,187	2,101
Write-down of inventories	(107)	(119)

15. Biological assets

	Growing cane £m	Other £m	Total £m
At 17 September 2016	78	8	86
Transferred to inventory	(104)	(14)	(118)
Purchases	–	2	2
Changes in fair value	101	17	118
Effect of movements in foreign exchange	2	–	2
At 16 September 2017	77	13	90
Transferred to inventory	(75)	(18)	(93)
Purchases	–	1	1
Changes in fair value	76	12	88
Effect of movements in foreign exchange	(2)	–	(2)
At 15 September 2018	76	8	84

Growing cane

The fair value of growing cane is determined using inputs that are unobservable, using the best information available in the circumstances for valuing the growing cane, and therefore falls into the level 3 category of fair value measurement. The following assumptions were used in the determination of the estimated sucrose tonnage at 15 September 2018:

	South Africa	Malawi	Zambia	Eswatini	Tanzania	Mozambique
Expected area to harvest (hectares)	6,517	18,363	15,848	8,609	9,426	5,875
Estimated yield (tonnes cane/hectare)	69.0	97.7	119.0	102.1	74.8	82.1
Average maturity of growing cane	46.4%	68.2%	65.7%	67.7%	46.2%	71.6%

The following assumptions were used in the determination of the estimated sucrose tonnage at 16 September 2017:

	South Africa	Malawi	Zambia	Eswatini	Tanzania	Mozambique
Expected area to harvest (hectares)	6,475	19,802	15,999	8,588	9,678	6,091
Estimated yield (tonnes cane/hectare)	68.8	91.0	118.6	96.7	70.3	81.0
Average maturity of growing cane	46.4%	68.2%	65.7%	67.7%	46.2%	71.6%

A 1% change in the unobservable inputs could increase or decrease the fair value of growing cane as follows:

	2018		2017	
	+1% £m	-1% £m	+1% £m	-1% £m
Estimated sucrose content	1.1	(1.1)	1.1	(1.1)
Estimated sucrose price	1.4	(1.4)	1.5	(1.5)

16. Cash and cash equivalents

	Note	2018 £m	2017 £m
Cash			
Cash at bank and in hand		658	797
Cash equivalents		704	753
Cash and cash equivalents	24	1,362	1,550
Reconciliation to the cash flow statement			
Bank overdrafts	17	(91)	(164)
Cash and cash equivalents in the cash flow statement		1,271	1,386

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

Cash equivalents generally comprise deposits placed on money markets for periods of up to three months which earn interest at a short-term deposit rate; and 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	2018 £m	2017 £m
Current loans and overdrafts			
Secured loans		10	18
Unsecured loans and overdrafts		408	246
Finance leases	25	1	1
		419	265
Non-current loans			
Secured loans		10	22
Unsecured loans		336	577
Finance leases	25	13	13
		359	612
	24	778	877

	Note	2018 £m	2017 £m
Secured loans			
– Other floating rate		20	33
– Other fixed rate		–	7
Unsecured loans and overdrafts			
– Bank overdrafts	16	91	164
– GBP fixed rate		147	164
– USD floating rate		30	37
– USD fixed rate		428	413
– EUR floating rate		23	35
– EUR fixed rate		3	–
– Other floating rate		21	9
– Other fixed rate		1	1
Finance leases (fixed rate)		14	14
		778	877

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

	2018 £m	2017 £m
Current – trade and other payables		
Trade payables	1,164	1,236
Accruals	1,020	982
	2,184	2,218
Deferred income and other non-financial payables	345	282
	2,529	2,500
Non-current – other payables		
Accruals	269	216

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

19. Provisions

	Restructuring £m	Deferred consideration £m	Other £m	Total £m
At 16 September 2017	68	6	58	132
Created	66	4	5	75
Acquired through business combinations	–	–	3	3
Utilised	(36)	(1)	(8)	(45)
Released	(7)	–	(18)	(25)
Effect of movements in foreign exchange	–	–	–	–
At 15 September 2018	91	9	40	140
Current	57	2	29	88
Non-current	34	7	11	52
	91	9	40	140

Financial liabilities within provisions comprised deferred consideration in both years (see note 24).

Restructuring

Restructuring provisions include onerous leases and the cash costs, including redundancy, associated with the group's announced reorganisation plans.

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

At 16 September 2017 and 15 September 2018, the Company's issued and fully paid share capital comprised 791,674,183 ordinary shares of 51½p, each carrying one vote per share. Total nominal value was £45m.

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 2 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.

21. Acquisitions and disposals

Acquisitions

2018

On 12 October 2017, the group's Grocery business completed the acquisition of 100% of Acetum S.p.A, the leading Italian producer of Balsamic Vinegar of Modena for a net consideration of £284m including debt assumed of £89m and deferred consideration of £2m. The group also acquired a small aerial survey and informatics company as part of the UK Agriculture business, and as part of the UK Ingredients business, acquired Holgran, a supplier of malted grains, and Fleming Howden, an Edinburgh-based blender and distributor of bakery ingredients. These acquisitions have contributed revenue of £83m and operating profit of £11m to the group's results for the period from date of acquisition to 15 September 2018.

The acquisitions had the following effect on the group's assets and liabilities:

		Recognised values on acquisition		
	Pre-acquisition carrying values £m	Acetum £m	Other £m	Total £m
Net assets				
Intangible assets	–	95	10	105
Property, plant and equipment	41	42	1	43
Inventories	28	95	2	97
Trade and other receivables	28	23	5	28
Cash and cash equivalents	11	11	–	11
Trade and other payables	(31)	(26)	(5)	(31)
Loans	(89)	(89)	–	(89)
Taxation	6	(40)	(2)	(42)
Net identifiable assets and liabilities	(6)	111	11	122
Goodwill		95	5	100
Total consideration		206	16	222

	Recognised values on acquisition £m
Satisfied by	
Cash consideration	218
Deferred consideration	4
	222
Net cash	
Cash consideration	218
Cash and cash equivalents acquired	(11)
Deferred consideration paid	1
	208

Pre-acquisition carrying amounts were the same as recognised values on acquisition apart from £105m of non-operating intangible assets in respect of brand and customer relationships, a £69m upward fair value adjustment on inventories and a £2m upward revaluation of land and buildings, which were recognised together with related deferred tax of £48m. The cash outflow of £208m on the purchase of subsidiaries, joint ventures and associates in the cash flow statement comprises cash consideration of £218m for these acquisitions less cash acquired with the businesses of £11m and £1m payment of deferred consideration in respect of prior year acquisitions.

After the year end, on 17 September 2018 the group completed the acquisition of 100% of Yumi's Quality Foods, a chilled food manufacturer in Australia. In the year ended 30 June 2018, the business generated net sales of A\$51m and profit after tax of A\$4m. Given the timing of the acquisition after the group's financial year end and its proximity to the date of approval of the group's financial statements, completion of the initial accounting for the acquisition has not yet been undertaken. Consequently, the disclosures relating to goodwill, acquired intangibles, and the fair values of other assets and liabilities acquired have not been made. These disclosures will be provided in the condensed consolidated interim financial statements for the 24 weeks ending 2 March 2019.

2017

Last year the group acquired two small Grocery businesses in the UK and an Ingredients business in the US. Total consideration was £85m, comprising cash of £83m and deferred consideration of £2m. Net assets acquired comprised intangible assets of £69m, cash of £5m and other operating assets and liabilities of £11m. The cash outflow of £79m on the purchase of subsidiaries, joint ventures and associates in the cash flow statement comprises cash consideration of £83m less cash acquired with the businesses of £5m and £1m of deferred consideration paid in respect of prior year acquisitions.

21. Acquisitions and disposals continued

Disposals

2018

In October 2018 the group shut down operations at Vivergo, AB Sugar's bioethanol plant in Hull. A charge of £51m has been included for this in the loss on closure of businesses line in the income statement. During the year the group also completed the buy-out of the remaining 5.5% minority interest in Vivergo. This resulted in the recognition of a gain of £23m (in the Sugar and UK segments) arising from the extinguishment of the associated shareholder loan and interest, which has been recognised in sale and closure of businesses in line with the original transaction in 2015.

£18m of warranty and restructuring provisions relating to disposals made in previous years are no longer required and were released to sale and closure of business during the year. These comprised £17m in Sugar (Asia Pacific) and £1m in Ingredients (Europe & Africa).

The group also charged a £24m onerous lease provision to sale and closure of business (in the Central and UK segments) against rental guarantees given on property leases assigned to third parties that the group expects to be required to honour.

2017

The group disposed of its US herbs and spices business, reported within the Grocery segment. Cash proceeds amounted to £294m, net assets disposed were £26m and the associated goodwill was £124m. Provisions for transaction and associated restructuring costs were £33m, with a loss of £1m on recycling foreign exchange differences. The pre-tax gain on disposal was £110m. The group also disposed of its south China cane sugar operations for cash proceeds of £194m. The purchaser also assumed £103m of debt resulting in total proceeds of £297m. Net assets disposed were £120m. Provisions for transaction and associated restructuring costs were £24m, offset by a gain of £29m on recycling of foreign exchange differences and £1m of non-controlling interests. The pre-tax gain on disposal was £183m.

The cash inflow of £452m on the sale of subsidiaries, joint ventures and associates in the cash flow statement comprises cash proceeds of £488m less cash disposed with the businesses of £26m and £10m of transaction costs.

22. Share-based payments

The group had the following principal 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 are released if, and to the extent that, performance targets are satisfied, typically over a three-year performance period. The Share Incentive Plan expired in December 2013, with the last grant of allocations made in November 2013. The last allocations made under the Share Incentive Plan either vested or lapsed during the year and it is now closed.

Associated British Foods Long Term Incentive Plan ('the LTIP')

The LTIP was approved and adopted by the Company at the annual general meeting held on 6 December 2013. It takes the form of conditional allocations of shares which are released if, and to the extent that, performance targets are satisfied, typically over a three-year performance period.

Associated British Foods 2016 Long Term Incentive Plan ('the 2016 LTIP')

The 2016 LTIP was approved and adopted by the Company at the annual general meeting held on 9 December 2016. It takes the form of conditional allocations of shares which are released if, and to the extent that, performance targets are satisfied, typically over a three-year performance period.

Further information regarding the operation of the above plans can be found in the Remuneration report on pages 80 to 99.

Total conditional allocations under 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
2018	3,094,724	1,630,180	(506,293)	(543,241)	3,675,370
2017	2,680,947	1,661,230	(331,341)	(916,112)	3,094,724

Employee Share Ownership Plan Trust

Shares subject to allocation under the group's equity-settled share-based payment plans are held in a separate Employee Share Ownership Plan Trust funded by the Company. Voting rights attached to shares held by the Trust are exercisable by the trustee, who is entitled to consider any recommendation made by a committee of the Company. At 15 September 2018 the Trust held 2,225,705 (2017 – 1,531,998) ordinary shares of the Company. The market value of these shares at the year end was £50m (2017 – £48m). The Trust has waived its right to dividends. Movements in the year were releases of 506,293 shares and purchases of 1,200,000 shares (2017 – releases of 331,341 shares and purchases of 350,000 shares).

Fair values

The weighted average fair value of conditional grants made 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 conditional shares allocated during the year was 2,800p (2017 – 2,449p) and the weighted average share price was 3,010p (2017 – 2,633p). The dividend yield used was 2.5% (2017 – 2.5%).

23. Analysis of net cash

	At 16 September 2017 £m	Cash flow £m	Acquisitions £m	Non-cash items £m	Exchange adjustments £m	At 15 September 2018 £m
Cash at bank and in hand, cash equivalents and overdrafts	1,386	(103)	–	–	(12)	1,271
Current asset investments	–	30	–	–	–	30
Short-term loans	(101)	111	(89)	(251)	2	(328)
Long-term loans	(612)	(19)	–	268	4	(359)
	673	19	(89)	17	(6)	614

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 of £91m form an integral part of the group's cash management and are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Current asset investments comprise term deposits and short-term investments with original maturities of greater than three months but less than one year.

24. Financial instruments

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

	2018 £m	2017 £m
Financial assets		
Cash and cash equivalents	1,362	1,550
Current asset investments	30	–
Loans and receivables		
Trade and other receivables	1,241	1,165
Other non-current receivables	50	54
At fair value through profit or loss		
Derivative assets not designated in a cash flow hedging relationship:		
– currency derivatives	20	2
– commodity derivatives	3	2
Designated cash flow hedging relationships		
Derivative assets designated and effective as cash flow hedging instruments:		
– currency derivatives	73	68
– commodity derivatives	36	7
Total financial assets	2,815	2,848

Financial liabilities

Financial liabilities at amortised cost

Trade and other payables	(2,453)	(2,434)
Secured loans	(20)	(40)
Unsecured loans and overdrafts (fair value 2018 – £782m; 2017 – £867m)	(744)	(823)
Finance leases (fair value 2018 – £19m; 2017 – £19m)	(14)	(14)
Deferred consideration	(9)	(6)

At fair value through profit or loss

Derivative liabilities not designated in a cash flow hedging relationship:		
– currency derivatives	(3)	(32)
– commodity derivatives	(3)	(2)

Designated net investment hedging relationships

Derivative liabilities designated as net investment hedging instruments:		
– currency derivatives	(30)	(27)

Designated cash flow hedging relationships

Derivative liabilities designated and effective as cash flow hedging instruments:		
– currency derivatives	(10)	(48)
– commodity derivatives	(6)	(4)
Total financial liabilities	(3,292)	(3,430)
Net financial liabilities	(477)	(582)

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

24. Financial instruments continued

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

Financial asset/liability	Fair value determination
Cash and cash equivalents, current asset investments, trade receivables, other receivables and accrued income, trade payables, other payables and accruals	Fair values have been stated at book values due to short maturities or otherwise immediate or short-term access and realisability.
Other non-current investments (recorded within other non-current receivables)	These comprise minority shareholdings 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.
Other non-current receivables, loans and overdrafts and finance leases	Fair values for these level 2 financial instruments have been estimated by discounting expected future cash flows (see below).
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.
Deferred consideration	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.
Deferred consideration	Deferred consideration is measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, discounted to present value where material. Fair value is therefore equivalent to book value.

Valuation of financial instruments carried at fair value

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

- Level 1: financial instruments are valued using observable inputs that reflect unadjusted quoted market prices in an active market for identical instruments. An example of an item in this category is a widely traded equity instrument with a normal quoted market price.
- Level 2: financial instruments are valued using techniques based on observable inputs, either directly (i.e. market prices and rates) or indirectly (i.e. derived from market prices and rates). An example of an item in this category is a currency derivative, where forward exchange rates and yield curve data, which are observable in the market, are used to derive fair value.
- Level 3: financial instruments are valued using techniques involving significant unobservable inputs.

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.

	2018			2017				
	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	1,356	–	93	93	817	–	70	70
Commodity derivatives	190	–	39	39	104	–	9	9
	1,546	–	132	132	921	–	79	79
Financial liabilities								
Currency derivatives	1,267	–	(43)	(43)	1,819	–	(107)	(107)
Commodity derivatives	106	–	(9)	(9)	100	(1)	(5)	(6)
	1,373	–	(52)	(52)	1,919	(1)	(112)	(113)

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.

	2018			2017		
	Currency derivatives £m	Commodity derivatives £m	Total £m	Currency derivatives £m	Commodity derivatives £m	Total £m
Opening balance	32	(2)	30	16	6	22
Losses/(gains) recognised in the hedging reserve	(89)	(32)	(121)	75	3	78
Amount removed from the hedging reserve and included in the income statement:						
– revenue	6	–	6	(20)	(7)	(27)
– cost of sales	–	12	12	(2)	2	–
– other financial income/expense	11	1	12	(11)	–	(11)
Amount removed from the hedging reserve and included in a non-financial asset:						
– inventory	40	(5)	35	(24)	(8)	(32)
Deferred tax	6	6	12	(2)	2	–
Closing balance	6	(20)	(14)	32	(2)	30
Cash flows are expected to occur:						
– within six months	(3)	(15)	(18)	24	–	24
– between six months and one year	2	(2)	–	3	(2)	1
– between one and two years	1	(1)	–	1	–	1
– between two and five years	5	(2)	3	3	–	3
– after five years	1	–	1	1	–	1
	6	(20)	(14)	32	(2)	30

Of the closing balance of £(14)m, £(13)m is attributable to equity shareholders and £(1)m to non-controlling interests (2017 – £31m is attributable to equity shareholders and £(1)m to non-controlling interests). Of the net movement in the year of £(44)m, £(44)m is attributable to equity shareholders and £nil to non-controlling interests (2017 – £9m attributable to equity shareholders and £(1)m to non-controlling interests).

d) Financial risk identification and management

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

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

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.

24. Financial instruments continued

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.

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).

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.

At year end, the group had \$160m of borrowings (2017 – \$160m) that were designated as hedges of its net investment in foreign operations in US dollars.

A net foreign exchange loss of £6m (2017 – gain of £3m) on retranslation of these loans has been taken to the translation reserve on consolidation, all of which was attributable to equity shareholders. The group also held currency forwards and cross currency swaps that have been designated as hedges of its net investments in Australian dollars and euros, whose change in fair value of £4m has been debited to the translation reserve, all of which was attributable to equity shareholders (2017 – £12m debited 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 forward contracts are classified 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. Where possible commodity derivatives are accounted for as cash flow hedges, but there are some commodity derivatives for which the strict requirements of hedge accounting cannot be satisfied. 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.

24. Financial instruments continued

(ii) Interest rate risk

Interest rate risk comprises two primary elements:

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

The group's policy is to maintain floating rate debt for a significant proportion of its bank finance, although it periodically assesses its position with respect to interest price and cash flow risk.

At 15 September 2018, £593m (76%) (2017 – £599m and 68%) of total debt was subject to fixed rates of interest, the majority of which is the US private placement loans of £573m (2017 – £558m).

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) on page 148.

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.

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:

	2018				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
Financial assets					
Cash and cash equivalents	2	240	21	36	299
Trade and other receivables	–	45	72	14	131
	2	285	93	50	430
Financial liabilities					
Trade and other payables	(15)	(368)	(45)	(9)	(437)
Unsecured loans and overdrafts	–	(428)	(1)	–	(429)
	(15)	(796)	(46)	(9)	(866)
Currency derivatives					
Gross amounts receivable	69	1,642	130	166	2,007
Gross amounts payable	(3)	(94)	(474)	(54)	(625)
	66	1,548	(344)	112	1,382
	53	1,037	(297)	153	946

	2017				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
Financial assets					
Cash and cash equivalents	–	253	235	40	528
Trade and other receivables	1	24	85	13	123
	1	277	320	53	651
Financial liabilities					
Trade and other payables	(22)	(396)	(41)	(10)	(469)
Unsecured loans and overdrafts	–	(413)	(2)	–	(415)
Finance leases	–	–	–	(1)	(1)
Deferred consideration	–	(1)	–	–	(1)
	(22)	(810)	(43)	(11)	(886)
Currency derivatives					
Gross amounts receivable	73	1,694	85	168	2,020
Gross amounts payable	(3)	(105)	(501)	(61)	(670)
	70	1,589	(416)	107	1,350
	49	1,056	(139)	149	1,115

The following major exchange rates applied during the year:

	Average rate		Closing rate	
	2018	2017	2018	2017
US dollar	1.35	1.27	1.31	1.36
Euro	1.13	1.15	1.12	1.14
Rand	17.52	16.96	19.46	17.87
Renminbi	8.79	8.63	8.97	8.90
Australian dollar	1.76	1.67	1.82	1.70

24. Financial instruments continued

Sensitivity analysis

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

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

	2018 impact on profit for the year £m	2018 impact on total equity £m	2017 impact on profit for the year £m	2017 impact on total equity £m
10% strengthening against other currencies of				
Sterling	1	7	–	6
US dollar	11	110	5	118
Euro	5	(29)	6	(19)
Other	8	17	10	16

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.

	2018 impact on profit for the year £m	2017 impact on profit for the year £m
10% strengthening of sterling against		
US dollar	(14)	(24)
Euro	(31)	(35)
Rand	(1)	(2)
Renminbi	(2)	(20)
Australian dollar	(3)	(4)

g) Credit risk

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

The immediate credit exposure of financial instruments is represented by those financial instruments that have a net positive fair value by counterparty at 15 September 2018. The group considers its maximum exposure to credit risk to be:

	Note	2018 £m	2017 £m
Cash and cash equivalents		1,362	1,550
Current asset investments		30	–
Loans and receivables	24a	1,291	1,219
Derivative assets at fair value through profit and loss		23	4
Derivative assets in designated cash flow hedging relationships		109	75
		2,815	2,848

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.

24. Financial instruments continued**Trade and other receivables**

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

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

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

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

	2018 £m	2017 £m
UK	466	418
Europe & Africa	302	287
The Americas	168	163
Asia Pacific	305	297
	1,241	1,165

Trade receivables can be analysed as follows:

	2018 £m	2017 £m
Not overdue	950	893
Up to one month past due	90	107
Between one and two months past due	18	20
Between two and three months past due	9	8
More than three months past due	30	32
Provision for doubtful debts	(23)	(25)
	1,074	1,035

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

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

	2018 £m	2017 £m
Opening balance	25	25
Amounts provided for during the year	6	5
Amounts released during the year	(4)	(2)
Amounts utilised during the year	(4)	(3)
Amounts acquired through business combinations	1	–
Effect of movements in foreign exchange	(1)	–
Closing balance	23	25

No trade receivables were written off directly to the income statement in either year.

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

Cash and cash equivalents

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

24. Financial instruments continued

Other financial assets

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

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

h) Liquidity risk

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

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

Details of the group's borrowing facilities are given in section i) on page 154.

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

		2018						
	Note	Due within 6 months £m	Due between 6 months and 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due after 5 years £m	Contracted amount £m	Carrying amount £m
Non-derivative financial liabilities								
Trade and other payables	18	(2,157)	(28)	(21)	(65)	(182)	(2,453)	(2,453)
Secured loans	17	(5)	(5)	(10)	–	–	(20)	(20)
Unsecured loans and overdrafts	17	(195)	(202)	(15)	(285)	(80)	(777)	(744)
Finance leases	25	(1)	(1)	(1)	(3)	(35)	(41)	(14)
Deferred consideration	19	–	(1)	(2)	(4)	(2)	(9)	(9)
Derivative financial liabilities								
– Currency derivatives (net payments)		(4)	(2)	–	–	–	(6)	(43)
– Commodity derivatives (net payments)		(8)	–	(1)	–	–	(9)	(9)
Total financial liabilities		(2,370)	(239)	(50)	(357)	(299)	(3,315)	(3,292)

		2017						
	Note	Due within 6 months £m	Due between 6 months and 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due after 5 years £m	Contracted amount £m	Carrying amount £m
Non-derivative financial liabilities								
Trade and other payables	18	(2,198)	(20)	(15)	(52)	(149)	(2,434)	(2,434)
Secured loans	17	(13)	(5)	(11)	(11)	–	(40)	(40)
Unsecured loans and overdrafts	17	(173)	(60)	(254)	(289)	(97)	(873)	(823)
Finance leases	25	(1)	(1)	(2)	(2)	(36)	(42)	(14)
Deferred consideration	19	–	(2)	(1)	(3)	–	(6)	(6)
Derivative financial liabilities								
– Currency derivatives (net payments)		(69)	(8)	–	–	–	(77)	(107)
– Commodity derivatives (net payments)		(2)	(3)	(1)	–	–	(6)	(6)
Total financial liabilities		(2,456)	(99)	(284)	(357)	(282)	(3,478)	(3,430)

The above tables do not include forecast data for liabilities which may be incurred in the future but which were not contracted at 15 September 2018.

The principal reasons for differences between carrying values and contractual undiscounted cash flows are coupon payments on the 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.

for the 52 weeks ended 15 September 2018

24. Financial instruments continued**i) Borrowing facilities**

The group has substantial borrowing facilities available to it. The undrawn committed facilities available at 15 September 2018, in respect of which all conditions precedent have been met, amounted to £1,249m (2017 – £1,232m):

	2018			2017		
	Facility £m	Drawn £m	Undrawn £m	Facility £m	Drawn £m	Undrawn £m
£1.2bn syndicated facility	1,200	–	1,200	1,200	–	1,200
US private placement	573	573	–	558	558	–
Illovo	113	66	47	117	85	32
Other	2	–	2	17	17	–
	1,888	639	1,249	1,892	660	1,232

Uncommitted facilities available at 15 September 2018 were:

	2018			2017		
	Facility £m	Drawn £m	Undrawn £m	Facility £m	Drawn £m	Undrawn £m
Money market lines	100	–	100	100	–	100
Illovo	179	62	117	177	74	103
Azucarera	80	22	58	93	33	60
China banking	6	–	6	37	–	37
Other	159	41	118	208	97	111
	524	125	399	615	204	411

In addition to the above facilities there are also £73m (2017 – £520m) 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 £14m (2017 – £14m) 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 group has a £1.2bn syndicated facility which matures in July 2021. In addition to the bank debt, the Company has £573m of private placement notes in issue to institutional investors in the US and Europe. At 15 September 2018, these had an average remaining duration of 2.5 years and an average fixed coupon of 4.6%. The other significant core committed debt facilities comprise local committed facilities in Illovo.

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 51.

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 incentive plans. 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.

Rental receipts of £7m (2017 – £8m) were recognised in the income statement in the period relating to operating leases. The total of future minimum rental receipts expected to be received is £45m (2017 – £48m).

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

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

	2018 land and buildings £m	2018 plant and equipment £m	2018 total £m	2017 land and buildings £m	2017 plant and equipment £m	2017 total £m
Within one year	315	12	327	283	12	295
Between one and five years	1,280	18	1,298	1,173	16	1,189
After five years	2,989	–	2,989	2,959	–	2,959
	4,584	30	4,614	4,415	28	4,443

Finance leases

Finance lease liabilities are payable as follows:

	2018 minimum lease payments £m	2018 interest £m	2018 principal £m	2017 minimum lease payments £m	2017 interest £m	2017 principal £m
Within one year	2	1	1	2	1	1
Between one and five years	4	3	1	4	3	1
After five years	35	23	12	36	24	12
	41	27	14	42	28	14

26. Contingencies

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

Where group companies enter into financial guarantee contracts to guarantee the indebtedness of other group companies, the group considers these to be insurance arrangements and has elected to account for them as such in accordance with IFRS 4. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the relevant group company issuing the guarantee will be required to make a payment under the guarantee.

As at 15 September 2018, group companies have provided guarantees in the ordinary course of business amounting to £1,661m (2017 – £1,866m).

27. Related parties

The group has a controlling shareholder relationship with its parent company, Witton Investments Limited, with the trustees of the Garfield Weston Foundation and with certain other individuals who hold shares in the Company. Further details of the controlling shareholder relationship are included in note 28. The group 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	2018 £'000	2017 £'000
Charges to Witton Investments Limited in respect of services provided by the Company and its subsidiary undertakings		1,045	992
Dividends paid by Associated British Foods and received in a beneficial capacity by:			
(i) trustees of the Garfield Weston Foundation and their close family	1	11,685	10,675
(ii) directors of Witton Investments Limited who are not trustees of the Foundation and their close family		3,071	2,799
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Witton Investments Limited	2	62	62
(iv) members of the Weston family employed within the Associated British Foods group	3	—	2
Sales to fellow subsidiary undertakings on normal trading terms	4	48	46
Sales to companies with common key management personnel on normal trading terms	5	16,043	14,790
Commissions paid to companies with common key management personnel on normal trading terms	5	1,215	1,391
Amounts due from companies with common key management personnel	5	1,887	1,938
Sales to joint ventures on normal trading terms		14,186	16,615
Sales to associates on normal trading terms		39,822	23,112
Purchases from joint ventures on normal trading terms		395,279	400,242
Purchases from associates on normal trading terms		14,577	16,128
Amounts due from joint ventures		48,775	49,649
Amounts due from associates		3,771	2,451
Amounts due to joint ventures		40,715	37,154
Amounts due to associates		857	1,100

1. The Garfield Weston Foundation ('the Foundation') is an English charitable trust, established in 1958 by the late W. Garfield Weston. The Foundation has no direct interest in the Company, but as at 15 September 2018 was the beneficial owner of 683,073 shares (2017 – 683,073 shares) in Witton Investments Limited representing 79.2% (2017 – 79.2%) of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 15 September 2018 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 66 and 67. Their interests, including family interests, in the Company and its subsidiary undertakings are given on pages 96 and 97. Key management personnel are considered to be the directors, and their remuneration is disclosed within the Remuneration report on page 92.
3. Members of the Weston family who are employed by the group and are not directors of the Company or Witton Investments Limited and are not trustees 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. Limited.

Amounts due from joint ventures include £47m (2017 – £48m) of finance lease receivables (see note 13). The remainder of the balance is trading balances. All but £5m (2017 – £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 ('Witton'), the accounts of which are available at Companies House, Crown Way, Cardiff CF14 3UZ. It is the ultimate holding company, is incorporated in Great Britain and is registered in England.

At 15 September 2018 Witton, together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares (2017 – 431,515,108) representing in aggregate 54.5% (2017 – 54.5%) of the total issued ordinary share capital of Associated British Foods plc.

Witton, and, through their control of Witton, the trustees of the Garfield Weston Foundation ('the Foundation') are controlling shareholders of the Company. Certain other individuals, including certain members of the Weston family who hold shares in the Company (and including two of the Company's directors, George Weston and Emma Adamo) are, under the Listing Rules, treated as acting in concert with Witton and the trustees of the Foundation and are therefore also treated as controlling shareholders of the Company. Witton, the trustees of the Foundation and these individuals together comprise the controlling shareholders of the Company and, at 15 September 2018, have a combined interest in approximately 59.15% (2017 – 59.15%) of the Company's voting rights. Information on the relationship agreement between the Company and its controlling shareholders is set out on page 100 of the Directors' report.

Subsidiary undertakings

A list of the group's subsidiaries as at 15 September 2018 is given below. The entire share capital of subsidiaries is held within the group except where the group's ownership percentages are shown. These percentages give the group's ultimate interest and therefore allow for the occasional situation where subsidiaries are owned by partly-owned intermediate subsidiaries. Where subsidiaries have different classes of shares, this is largely for historical reasons and the effective percentage holdings given represent both the group's voting rights and equity holding. Shares in ABF Investments plc are held directly by Associated British Foods plc. All other holdings in subsidiaries are owned by members of the Associated British Foods plc group. All subsidiaries are consolidated in the group's financial statements.

Subsidiary undertakings	% effective holding if not 100%	Subsidiary undertakings	% effective holding if not 100%
United Kingdom			
Weston Centre, 10 Grosvenor Street, London, W1K 4QY		ABF UK Finance Limited	
A.B. Exploration Limited		ABF US Holdings Limited	
A.B.F. Holdings Limited		ABN (Overseas) Limited	
A.B.F. Nominees Limited		ABNA Feed Company Limited	
A.B.F. Properties Limited		ABNA Limited	
AB Agri Limited		Agrilines Limited	
AB Foods Australia Limited		Allied Bakeries Limited	
AB Ingredients Limited		Allied Grain (Scotland) Limited	
AB Mauri (UK) Limited		Allied Grain (South) Limited	
AB Mauri Europe Limited		Allied Grain (Southern) Limited	
AB Sugar China Holdings Limited		Allied Grain Limited	
AB Sugar China Limited		Allied Mills Limited	
AB Sugar China North Limited		Allied Technical Centre Limited	
AB Sugar Limited		Allinson Limited	
AB Technology Limited		Associated British Foods Pension Trustees Limited	
AB World Foods (Holdings) Limited		Atrium 100 Properties Limited	
AB World Foods Limited		Atrium 100 Stores Holdings Limited	
ABF (No. 1) Limited		Atrium 100 Stores Limited	
ABF (No. 2) Limited		B.E. International Foods Limited	
ABF (No. 3) Limited		Banbury Agriculture Limited	
ABF BRL Finance Ltd		British Sugar (Overseas) Limited	
ABF Europe Finance Limited		British Sugar plc	
ABF European Holdings Limited		BSO (China) Limited	
ABF Finance Limited		Cereal Industries Limited	
ABF Food Tech Investments Limited		Cereform Limited	
ABF Funding		Davion Food Limited	
ABF Grain Products Limited		Dorset Cereals Limited	
ABF Green Park Limited		Eastbow Securities Limited	
ABF Grocery Limited		Elsenham Quality Foods Limited	
ABF HK Finance Limited		Fishers Feeds Limited	
ABF Ingredients Limited		Fishers Seeds & Grain Limited	
ABF Investments plc		Food Investments Limited	
ABF Japan Limited		G. Costa (Holdings) Limited	
ABF MXN Finance Limited		G. Costa and Company Limited	
ABF Overseas Limited		Germain's (U.K.) Limited	
ABF PM Limited		H 5 Limited	
		Illovo Sugar Africa Holdings Limited	

28. Group entities continued

	% effective holding if not 100%		% effective holding if not 100%
Subsidiary undertakings		Subsidiary undertakings	
Jacksons of Piccadilly Limited (strike off application submitted October 2018)		Miller Samuel LLP, RWF House, 5 Renfield Street, Glasgow, G2 5EZ	
John K. King & Sons Limited		Korway Foods Limited	
Kingsgate Food Ingredients Limited		Korway Holdings Limited	
LeafTC Limited		Patak's Chilled Foods Limited	
Mauri Products Limited		Patak's Frozen Foods Limited	
Mitra Sugar Limited		Argentina	
Mountsfield Park Finance Limited		Mariscal Antonio José de Sucre 632 – 2nd Floor, Buenos Aires 1428, Argentina	
Nere Properties Limited		AB Mauri Hispanoamerica S.A.	
Nutrition Trading (International) Limited		Surgras S.A.	
Nutrition Trading Limited		Av. Raul Alfonsin, Monte Chingolo, Buenos Aires 3145, Argentina	
Patak (Spices) Limited		Compañía Argentina De Levaduras S.A.I.C.	
Patak Food Limited		Australia	
Patak's Breads Limited		Level 1, Building A, 11 Talavera Road, North Ryde, NSW 2113, Australia	
Patak's Foods 2008 Limited		AB Mauri Overseas Holdings Limited	
Premier Nutrition Products Limited		AB Mauri Pakistan Pty Limited	
Pride Oils Public Limited Company		AB Mauri ROW Holdings Pty Limited	
Primark (U.K.) Limited		AB Mauri South America Pty Limited	
Primark Austria Limited		AB Mauri South West Asia Pty Limited	
Primark Mode Limited		AB Mauri Technology & Development Pty Limited	
Primark Pension Administration Services Limited		AB Mauri Technology Pty Limited	
Primark Stores Limited		AB World Foods Pty Ltd	
Primary Diets Limited		Anzchem Pty Limited	
Primary Nutrition Limited		Food Investments Pty. Limited	
Pro-Active Nutrition Limited		George Weston Foods Limited	
R. Twining and Company Limited		Indonesian Yeast Company Pty Limited	
Reflex Nutrition Limited		Mauri Fermentation Brazil Pty Limited	
Roses Nutrition Ltd		Mauri Fermentation Chile Pty Limited	
Seedcote Systems Limited		Mauri Fermentation China Pty Limited	
Serpentine Securities Limited		Mauri Fermentation India Pty Limited	
Sizzlers Limited		Mauri Fermentation Indonesia Pty Limited	
Sizzles Limited		Mauri Fermentation Malaysia Pty Limited	
Spectrum Aviation Limited		Mauri Fermentation Philippines Pty Limited	
Speedibake Limited		Mauri Fermentation Vietnam Pty Limited	
Sunblest Bakeries Limited		Mauri Yeast Australia Pty Limited	
The Bakery School Limited		N&C Enterprises Pty Ltd	
The Billington Food Group Limited		NB Love Industries Pty Ltd	
The Home Grown Sugar Company Limited		Serrol Ingredients Pty Limited	
The Jordans & Ryvita Company Limited		The Jordans and Ryvita Company Australia Pty Ltd	
The Natural Sweetness Company Limited		35-37 South Corporate Avenue, Rowville, VIC 3178, Australia	
The Roadmap Company Limited		AB Food & Beverages Australia Pty. Limited	
The Silver Spoon Company Limited		170 South Gippsland Highway, Dandenong, VIC 3175, Australia	
The Weston Biscuit Company Limited		ABF Wynyard Park Limited Partnership	
Tip Top Bakeries Limited		Austria	
Trident Feeds Limited		Schottenring 19, 1010 Wien, Austria	
Twining Crosfield & Co. Limited		Primark Austria Ltd & Co KG	
Vivergo Fuels Limited		Bangladesh	
W. Jordan & Son (Silo) Limited		Level 13 Shanta Western Tower Bir Uttam Mir Shawkat Road 186 Tejgaon I/A Dhaka 1208	
W. Jordan (Cereals) Limited		Twinings Ovaltine Bangladesh Limited	
Wereham Gravel Company Limited (The)		Belgium	
Westmill Foods Limited		Industriepark 2, 9820 Merelbeke, Belgium	
Weston Foods Limited		AB Mauri Belgium NV	
Weston Research Laboratories Limited		Boulevard Raymond Poincare 07/113, 4020 Liege, Belgium	
Worldwing Investments Limited		Primark SA	
1 College Place North, Belfast, BT1 6BG, United Kingdom		Brazil	
James Neill, Limited		Avenida Tietê, L-233 Barranca do Rio Tietê, City of Pederneiras, State of São Paulo, CEP 17.280-000, Brazil	
Unit 4, 211 Castle Road, Randalstown, Co. Antrim, BT41 2EB		AB Brasil Indústria e Comércio de Alimentos Ltda	
Jordan Bros. (N.I.) Limited			
Nutrition Services (International) Limited			
Vistavet Limited			
180 Glentanar Road, Glasgow, G22 7UP			
ABN (Scotland) Limited			

28. Group entities continued

Subsidiary undertakings	% effective holding if not 100%	Subsidiary undertakings	% effective holding if not 100%
Alameda Madeira 328, 20th Floor, Room 2005, Alphaville – Barueri, São Paulo 06454-010, Brazil AB Enzimas Brasil Comercial Ltda		Shu Shan Modern Industrial Zone of Shou County, Huainan City, Anhui Province, China ABNA Feed (Anhui) Co., Ltd.	
Rua Cardenal Arcosverde, 1641 9th Floor, São Paulo, 05407002, Brazil AB Vista Brasil Comércio De Alimentação Animal Ltda		145 Xincheng Road, Tengao Economic Development Zone, Anshan, Liaoning 114225, China ABNA Feed (Liaoning) Co., Ltd.	
Canada Blake, Cassels & Graydon LLP, 199 Bay Street, Suite 4000, Toronto, Ontario M5L 1A9, Canada AB Mauri (Canada) Limited		17 Xiangyang Street, Tu Township, Chayouqianqui, Inner Mongolia, China Botian Sugar Industry (Chayou Qianqi) Co., Ltd.	
Chile Miraflores Street No. 222, 28 Floor, Santiago, Chile Calsa Chile Inversiones Limitada		No. 1 Botian Road, Economic Development Zone, Zhangbei County, Zhangjiakou City, Hebei Province, China Botian Sugar Industry (Zhangbei) Co., Ltd.	
China No. 1 Tongcheng Street, A Cheng District, Harbin, Heilongjiang Province, China AB (Harbin) Food Ingredients Company Limited Harbin Mauri Yeast Co., Ltd. Zhenlai Economic Development District, Baicheng City, Jilin Province, China AB Agri Animal Nutrition (Jilin) Co., Ltd North Huang He Road, Rudong New Economic Development Zone, Nantong City, Jiangsu Province, China AB Agri Animal Nutrition (Nantong) Co., Ltd AB Agri Animal Nutrition (Rudong) Co., Ltd. Chuangxin Road, Tonggu Industry Zone, Sandu Town, Tongge County, Jiangxi Province, China AB Agri Pumeixin Tech (Jiangxi) Co. Ltd. No. 889 West Yan An Road, Changning District, Shanghai, 200050, China AB Enzymes Trading (Shanghai) Co., Ltd ABNA Management (Shanghai) Co., Ltd. ABNA Trading (Shanghai) Co., Ltd 29/F Changning Raffles Tower 2, No. 1189 Changning Road, Changning District, Shanghai, 200051, China Associated British Foods Holdings (China) Co., Ltd British Sugar Consulting Services (Shanghai) Co Ltd Suite 1908, Fosun International Center, No. 237 Chaoyangbei Road, Beijing, Chaoyang District, China AB Mauri (Beijing) Food Sales and Marketing Company Limited Xinsha Industrial Zone, Machong Town, Dongguan, Guangdong Province, China AB Mauri Food (Dongguan) Co., Ltd. 1151 Siping Road, Yangpu District, Shanghai 200092, China AB Mauri Foods (Shanghai) Company Limited South Ge XinDa Dao, West WuZiGou, Wuhan, DongXHu District 430040, China AB Tip Top (Wuhan) Baking Co Ltd Building T3-4, No. 5001, Huadong Road, Shanghai Jinqiao Export Processing Zone (SA), Customs Supervised Area, Pudong New Area, Shanghai 201201, China ABF Twinings Beverages (Shanghai) Limited 868 Yongpu Road, Pujiang Town, Minhang District, Shanghai 201112, China ABNA (Shanghai) Feed Co., Ltd. 14 Juhai Road, Jinghai Development Zone, Tianjin, China ABNA (Tianjin) Feed Co, Ltd	90%	Meishan Industrial Estate, Huangge Town, Nansha District, Guangzhou City, Guangdong Province, China Meishan Mauri Yeast Co., Ltd. (in liquidation) Panyu Mauri Food Co., Ltd. 8 Lancun Road, Economic and Technical Development Zone, Minhang, Shanghai 200245, China Shanghai AB Food & Beverages Co., Ltd Jie Liang Zi,Huo Cheug, Yi Li, Xinjiang, China Xinjiang Mauri Food Co., Ltd. No. 68-1, Shuanglong Road, Fushan District, Yantai City, Shandong Province, China Yantai Mauri Yeast Co., Ltd.	90%
Colombia Cra 35# 34A-64, Palmira, Valle, Colombia Fleischmann Foods S.A.		Czech Republic Nádražní 523, Czech Republic Bodit Tachov s.r.o.	
Denmark Skjernvej 42, Trøstrup, 6920 Videbæk, Denmark Agro Korn A/S		Ecuador Medardo Ángel Silva 13 y Panamá, Manzana 12, El Recreo, Eloy Alfaro, Durán, Guayas, Ecuador AB Calsa S.A.	
Finland Tykkimäentie 15b (PO Box 26), Rajamäki, FI-05200, Finland AB Enzymes Oy Tykkimäentie 15b (PO Box 57), Rajamäki, FI-05201, Finland Enzymes Leasing Finland Oy		France 40/42, avenue Georges Pompidou, 69003, à Lyon, France AB Mauri France SAS 5 Boulevard de l'Oise, Immeuble Le Rond Point, 95000 Cergy Pontoise, Cédex, France Foods International S.A.S. 52 rue de la Victoire, TMF Pole, 75009, Paris, France Primark France SAS	

28. Group entities continued

	% effective holding if not 100%		% effective holding if not 100%
Subsidiary undertakings		Subsidiary undertakings	
Chemin du Vallon du maire, 13240, Septemes les Vallons, France		Via Sandro Pertini 440, 401314, Cavezzo (MO), Italy	
SPI Pharma SAS		Acetum S.p.A.	
Germany		Via Allende 9/D, 41032, Cavezzo (MO), Italy	
Feldbergstrasse 78, 64293, Darmstadt, Germany		Antica Acetaia Simonini S.r.l.	
AB Enzymes GmbH		Piazza degli Affari 2, 20123, Milan, Italy	
Wandsbeker Zollstrasse 59,22041, Hamburg, Germany		Lauro Sessantacinque S.p.A.	
ABF Deutschland Holdings GmbH		Japan	
Ohly GmbH		2-5-1 Atago, Minato-ku, Tokyo, Japan	
Ohly Grundbesitz GmbH		Twinings Japan Co Ltd	50%
Rheinische Presshefe- und Spritwerke GmbH		Jersey	
Kennedyplatz 2, 45127, Essen, Germany		CTV House, La Pouquelaye, St Helier, JE2 3TP, Jersey	
Primark Mode Ltd. & Co. KG		Bonuit Investments Limited	
Primark Property GmbH		44 Esplanade, St Helier, JE4 9WG, Jersey	
Marie-Kahle-Allee 2, D-53113, Bonn, Germany		Parkstone (Jersey) Limited (in liquidation)	
Westmill Foods Europe GmbH		Luxembourg	
Guernsey		16, Avenue Pasteur, Luxembourg, L-2310, Luxembourg	
Maison Trinity, Trinity Square, St. Peter Port, GY1 1AT, Guernsey		AB Foods Luxembourg S.à r.l. (in liquidation)	
Talisman Guernsey Limited		9 Allée Scheffer, Luxembourg, L2520, Luxembourg	
Hong Kong		ABF European Holdings & Co SNC	
7/F DCH Building, 20 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong		Malawi	
Associated British Foods Asia Pacific Holdings Limited		Illovo House, Churchill Road, Limbe, Malawi	
India		Dwangwa Sugar Corporation Limited	76%
#218 & #219, Bommasandra – Jigani Link Road, Anekal Taluk, Bangalore, 560105, India		Illovo Sugar (Malawi) plc	76%
AB Mauri India (Private) Limited		Malawi Sugar Limited	
First Floor, Regent Sunny Side, 80 Ft Road, 8th Block, Koramangala Bengaluru, Karnataka, 560030, India		Malaysia	
SPI Specialties Pharma Private Limited 8, Acharya Jagadish Chandra Bose Road, Kolkata, 700017, India		No 118, Jalan Pudu, 1st Floor, 55100 Kuala Lumpur, Malaysia	
Twinings Private Limited		AB Mauri Malaysia Sdn. Bhd.	52%
Indonesia		Malta	
Wisma GKBI Lt.39, Suite 3901, No.28 Jl. Jend, Sudirman, Jakarta , Indonesia		57 St. Christopher Street, Valletta, VLT1462, Malta	
PT AB Food & Beverages Indonesia		Relax Limited	70%
Ireland		Mauritius	
47 Mary Street, Dublin 1, Ireland		10th Floor, Standard Chartered Tower, 19 Cybercity, Ebene, Mauritius	
Abdale Finance Limited		Illovo Group Financing Services Limited	
Primark Holdings		Illovo Group Holdings Limited	
Primark Pension Trustees Limited		Illovo Group Marketing Services Limited	
Proofex Products Company Unlimited Company (in liquidation)		Kilombero Holdings Limited	73%
Vistavet (Ireland) Limited		Sucoma Holdings Limited	
Yeast Products Company Unlimited Company (in liquidation)		Mexico	
Arthur Ryan House, 22-24 Parnell Street, Dublin 1, Ireland		Paseo de la Reforma No 2620, Edificio Reforma Plus, piso 8, 803, 804 y 803, Col. Lomas Atlas, DF 11950, Mexico	
Primark Limited		AB CALSA S.A. de C.V.	
Italy		AB CALSA SERVICIOS, S. DE R.L. DE C.V.	
Via Milano 42, 27045, Casteggio, (Pavia), Italy		Prol. Paseo de la Reforma 1015, Torre A, Piso 14 Santa Fe, Distrito Federal 01376, Mexico	
AB Mauri Italy S.p.A.		ACH Foods Mexico, S. de R.L. de C.V.	
ABF Italy Holdings S.r.l.		Servicios Alimentos Capullo, S. de R.L. de C.V.	
Primark Italy S.r.l.		Mozambique	
Via Montanara 22/24, 40051, Castelnuovo Rangone (MO), Italy		KM75 EN1, Maçiana, Distrito de Manhiça, Província de Maputo, Mozambique	
Acetaia di Modena S.r.l.		Maragra Açucar, S.A.	90%
Via Rizzotto 46, 41126, Modena (MO), Italy		Netherlands	
Acetaia Fini Modena S.r.l.		Mijlweg 77, 3316 BE, Dordrecht, Netherlands	
		AB Mauri Netherlands B.V.	
		Luna ArenA, Herikerbergweg 238, 1101 CM, Amsterdam Zuidoost, Netherlands	
		AB Mauri Netherlands European Holdings B.V.	
		Foods International Holding B.V.	
		Primark Fashion B.V.	

28. Group entities continued

	% effective holding if not 100%		% effective holding if not 100%
Subsidiary undertakings		Subsidiary undertakings	
Primark Netherlands B.V.		112 Robinson Road, #05-01, 068902 Singapore	
Primark Stil B.V.		AB Vista Asia Pte. Limited	
7122 JS Aalten, Dinxperlosestraatweg 122, Netherlands		Slovakia	
Germain Seed Technology B.V.		Dvorakovo nabrezie 4, Bratislava 811 02,	
Brieltjenspolder 16, 4921 PJ Made, Netherlands		Slovakia	
Mauri Technology B.V.		Primark Slovakia s.r.o.	
Dalsteindreef 141, Diemen, 1112XJ, Netherlands		Slovenia	
Westmill Foods Europe B.V.		Cesta v Mestni log 88A, Ljubljana 1000, Slovenia	
New Zealand		Primark Trgovine, trgovsko podjetje, d.o.o.	
73-105 Great South Road, Otahuuhu, Auckland, New Zealand		South Africa	
Allied Foods (NZ) Ltd		1 Nokwe Avenue, Ridgeside, Umhlanga Rocks, Kwazulu Natal, 4320, South Africa	
Building 3, Level 2, 666 Great South Road, Ellerslie, Auckland 1051, New Zealand		Carabello Trading and Investments 20 Limited	
Anzchem NZ Limited		CGS Investments (Pty) Limited	
Level 1, 95 Manakau Road, Newmarket, Auckland, New Zealand		East African Supply (Pty) Limited	
George Weston Foods (NZ) Limited		Glendale Sugar (Pty) Ltd	
1 Simsey Place, Te Rapa, Hamilton, 3200, New Zealand		Illovo Distributors (Pty) Limited	
New Zealand Food Industries Limited		Illovo Sugar (South Africa) Proprietary Limited	
Nigeria		Illovo Sugar Africa Proprietary Limited	
23 Oba Akinjobi Street, GRA, Ikeja, Lagos, Nigeria		Ilprop (Pty) Limited	
Twinings Ovaltine Nigeria Limited		Lacsa (Pty) Limited	70%
Pakistan		Noodsberg Sugar Company (Pty) Ltd	
21KM Ferozepur Road, 2k KM Hadyara Drain, Lahore, Pakistan		Reynolds Brothers (Pty) Ltd	
AB Mauri Pakistan (PRIVATE) Limited	60%	S.A. Sugar Distributors (Pty) Limited	
Peru		Smithchem (Pty) Limited	
Av. Argentina No. 1227, Callao, Peru		Umzimkulu Sugar Company (Pty) Ltd	
Calsa Peru S.A.C.		Spain	
Philippines		Avenida de Manoteras 46 bis, Edificio Delta Norte, 28050, Madrid, Spain	
86 E Rodriguez Jr. Ave., Ugong Norte, QC, 1604, Pasig City, Metro Manila, Philippines		AB Azucarera Iberia, S.L. Sociedad Unipersonal	
AB Food & Beverages Philippines, Inc.	99%	AB Mauri Food, S.A.	
1201-1202 Prime Land Building, Market Street, Madrigal Business Park, Ayala Alabang, Muntinlupa, 1770, Philippines		AB Mauri Spain, S.L.U.	
AB Mauri Philippines, Inc.		AB Vista Iberia, S.L.	
Poland		Nueva Comercial Azucarera, S.A. (in liquidation)	88%
Przemyslowa 2, 67-100 Nowa Sól, Lubuskie, Poland		Levadura 5, Villarrubia 14710, Cordoba, Spain	
AB Foods Polska Spółka z ograniczoną odpowiedzialnością (AB Foods Polska SP. z o.o.)		ABF Iberia Holding S.L.	
ul. Rabowicka 29/31, 62-020, Swarzędz – Jasin, Poland		C/ Escultor Coomonte Bl. 2, Entreplanta, Benavente, Zamora, Spain	
R. Twining and Company Sp. z o. o.		Agroteo S.A.	53%
Portugal		Calle Comunidad do Murcia, Parcela LIE-1-03, Plataforma Logistica de Fraga, 22520, Huesca, Spain	
Avenida Salvador Allende, n.º 99, Lisboa Oeiras, Julião da Barra, Paço de Arcos e Caxias, 2770-157, Paco de Arcos, Portugal		Alternative Swine Nutrition, S.L.	
AB Mauri Portugal, S.A.	96%	Avienda Virgen de Montserrat, 44 Castelloli, 08719, Barcelona, Spain	
Praça Marquês de Pombal, 1-8º, 1250 – 160 Lisbon, Portugal		Germain Seed Technology, S.A.	
Lojas Primark Portugal – Exploracao, Gestao e Administracao de Espacos Comerciais S.A.		Plaza Pablo Ruiz Picasso S/N, Torre Picasso, Planta 37, Madrid, Spain	
Rwanda		Illovo Sugar Espana, S.L.	
Kacyiru, Gasabo, Umujuyi wa Kigali, Rwanda		Gran Via, 32 5o 28013, Madrid, Spain	
Illovo Sugar (Kigali) Limited		Primark Tiendas, S.L.U.	
Singapore		8, 2 Calle Via Servicio I, 2 CP, 19190 Torija, Guadalajara, Spain	
80 Robinson Road, #02-00, 068898 Singapore		Primark Logistica, S.L. Sociedad Unipersonal	
AB Mauri Investments (Asia) Pte Ltd		Sri Lanka	
		124 Templers Road, Mount Lavinia, Sri Lanka	
		AB Mauri Lanka (Private) Limited	
		Eswatini	
		Ubombo Sugar Limited, Old Main Road, Big Bend, Eswatini	
		Bar Circle Ranch Limited	60%
		Illovo Swaziland Limited	60%
		Moyeni Ranch Limited	60%
		Ubombo Sugar Limited	60%

28. Group entities continued

Subsidiary undertakings	% effective holding if not 100%	Subsidiary undertakings	% effective holding if not 100%
Switzerland Fabrikstrasse 10, CH-3176, Neuenegg, Switzerland Wander AG		ACH Jupiter LLC B.V. ABF Delaware, Inc. Germaine Seed Technology, Inc. PGP International, Inc. Primark US Corp. SPI Pharma, Inc. SPI Polyols, LLC Twinings North America, Inc.	
Taiwan 5F, No. 217, Sec 3, Nanking E Rd, Taipei City, 104, Taiwan (R.O.C.) AB Food and Beverages Taiwan, Inc.		155 Federal Street, Suite 700, Boston MA 02110, United States Primark GCM LLC 158 River Road, Unit B, Clifton, NJ 07014, United States Balsamic Express LLC 158 River Road, Unit A, Clifton, NJ 07014, United States Modena Fine Foods, Inc.	
Tanzania C/o Kilombero Sugar Company, Msolwa Mill Office, Kidatu, Kilombero District, Tanzania Illovo Distillers (Tanzania) Limited Illovo Tanzania Limited Kilombero Sugar Company Limited	80% 55%	Uruguay Cno. Carlos Antonio Lopez 7547, Montevideo, Uruguay Levadura Uruguaya S.A.	
Thailand 11th Floor, 2535 Sukhumvit Road, Kwaeng Bangchak, Khet Prakanong, Bangkok, 10260, Thailand AB Food & Beverages (Thailand) Ltd. ABF Holdings (Thailand) Ltd. 1 Empire Tower, 24th Floor, Unit 2412-2413, South Sathorn Road, Yannawa, Sathorn, Bangkok, 10120, Thailand AB World Foods Asia Ltd 229/110 Moo 1, Teparak Road, T. Bangsaothong, A. Bangsaothong, Samutprakarn, 10540, Thailand Jasol Asia Pacific Limited		Venezuela Av. Rio Caura, Torre Humboldt, Piso 16, Of. 16-12. Urb. Prados del Este, Caracas, Estado Miranda, Bolivarian Republic of Venezuela Alimentos Fleischmann, C.A., Oficinas Once 3 (Nº 11-3) y Once 4 (Nº 11-4), Torre Mayupan, Centro Comercial San Luis, Av. Principal Urbanización San Luis, cruce con Calle Comercio, Caracas, Bolivarian Republic of Venezuela Compañía de Alimentos Latinoamericana de Venezuela (CALSA) S.A.	
Turkey Aksakal Mahallesi, Kavakpinari, Kume Evleri No. 5, Bandirma- Balikesir, 10245, Turkey Mauri Maya Sanayi A.S.		Vietnam Unit 2, 100 Nguyen Thi Minh Khai Street, Ward 6, District 3, Ho Choi Minh City, Vietnam AB Agri Vietnam Company Limited Km 102, Highway 20, La Nga Commune – Dinh Quan District, Dong Nai Province, Vietnam AB Mauri Vietnam Limited	66%
United Arab Emirates Office 604th, Jafza LOB 15, Jebel Ali Freezone, Dubai, PO BOX 17620, United Arab Emirates AB Mauri Middle East FZE		Zambia Nakambala Estates, Plot No. 118a Lubombo Road, Off Great North Road, Zambia Illovo Sugar (Zambia) Limited Nanga Farms PLC Tukunka Agricultural Limited Zambia Sugar plc	65% 75% 75%
United States CT Corporation System, 818 West Seventh Street, Suite 930, Los Angeles CA 90017, United States AB Mauri Food Inc. CT Corporation System, 1200 South Pine Island Road, Plantation FL 33324, United States AB Vista, Inc. The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States AB Enzymes, Inc. ABF North America Corp. ABF North America Holdings, Inc. Abitec Corporation ACH Food Companies, Inc.			

Lusaka Stock Exchange (LuSE) regulations require all listed companies in Zambia to have a minimum of 25% of their shares held by public investors to constitute a free float. As a result, Illovo Sugar was required to reduce its shareholding in Zambia Sugar plc by 6.6%. Effective 26 September 2014, 5.1% of the shares were sold to local Zambian institutional investors. Further, as agreed with the LuSE, the remaining 1.5% were offered and sold to a local Zambian institutional investor on 5 December 2017. The shareholding for Illovo Sugar at 15 September 2018 was 75% of the total shareholding.

The results and balance sheet of Primark Mode Ltd. & Co. KG are included in these financial statements and these financial statements will be filed in Germany. As a consequence, Primark Mode Ltd. & Co. KG is exempt from the requirement to file its own financial statements under section 264b HGB.

28. Group entities continued

Associated British Foods plc has irrevocably guaranteed all commitments entered into by each of the Irish incorporated subsidiary undertakings listed below, including amounts shown as liabilities in the statutory financial statements of these companies, in respect of the financial year ended 15 September 2018. As a consequence, these subsidiary undertakings may qualify for the exemption under section 357 of the Companies Act 2014 (Ireland) from the provisions of sections 347 and 348 of that Act.

Abdale Finance Limited
Primark Limited
Primark Holdings
Primark Pension Trustees Limited

Joint ventures

A list of the group's joint ventures as at 15 September 2018 is given below. All joint ventures are included in the group's financial statements using the equity method of accounting.

Joint ventures	% holding	Joint ventures	% holding
United Kingdom			
Weston Centre, 10 Grosvenor Street, London, W1K 4QY		1828 Tiejueshan Road, Huangdao District, Qingdao, Shandong Province, China	
Frontier Agriculture Limited	50%	Qingdao Xinghua Cereal Oil and Foodstuff Co., Ltd	25%
Boothmans (Agriculture) Limited	50%		
Forward Agronomy Limited	50%		
G F P (Agriculture) Limited	50%		
GH Grain Limited	50%		
GH2 Limited	50%		
Grain Harvesters Limited	50%		
Nomix Limited	50%		
North Wold Agronomy Limited	50%		
Phoenix Agronomy Limited	50%		
SOYL Limited	50%		
The Agronomy Partnership Limited	50%		
Fine Lady Bakeries Ltd, Southam Road, Banbury, Oxfordshire, OX16 2RE	44%	59, Chemin du Moulin, 695701, Carron, Dardilly, France	50%
Chiltern Bakeries Limited		Synchronis	
Berth 36, Test Road, Eastern Docks, Southampton, Hampshire, SO14 3GG			
Southampton Grain Terminal Limited	25%		
Kingsseat, Newmacher, Aberdeenshire, AB21 0UE, Scotland			
Grampian Crop Services Limited	50%	Brude 4, 59368, Werne, Germany	50%
Lothian Crop Specialists Limited	50%	UNIFERM GmbH & Co. KG	
1st Floor Offices, 10 Hereford Road, Abergavenny, Monmouthshire, NP7 5P		INA Nahrmittel GmbH	50%
Brian Lewis Agriculture Limited	50%	UNIFERM Verwaltungs GmbH	50%
47, Beaumont Seymour & Co, Butt Road, Colchester, Essex CO3 3BZ		Brude 8, 59368, Werne, Germany	
Anglia Grain Holdings Limited	50%	UNILOG GmbH	50%
Riverside, Wissington Road, Nayland, Colchester, Essex, CO6 4LT			
Anglia Grain Services Limited	50%	ul. Wybieg, nr 5, lok 9, mjesjc, KOD 61-315, Poznan, Poland	
Unit 8, Burnside Business Park, Burnside Road, Market Brayton, TF9 3UX		Uniform Polska Sp Z.o.o	50%
B.C.W (Agriculture) Limited	50%		
Witham St Hughs, Lincoln, LN6 9TN			
Nomix Enviro Limited	50%		
Australia			
Level 1, Building A, 11 Talavera Road, North Ryde NSW 2113, Australia	33%	1 Nokwe Avenue, Ridgeside, Umhlanga Rocks, Kwazulu Natal 4320, South Africa	
Fortnum & Masons Pty Limited		Glendale Distilling Company	50%
Chile			
Ave. Balmaceda 3500, Valdivia, Chile		C/ Raimundo Fernández, Villaverde 28, Madrid, Spain	
Levaduras Collico S.A.	50%	Compañía de Melazas, S.A.	50%

28. Group entities continued

Associates

A list of the group's associates as at 15 September 2018 is given below. All associates are included in the group's financial statements using the equity method of accounting.

Associates	% holding	Associates	% holding
United Kingdom		Kenya	
6th Floor 10 Bloomsbury Way, London, England, WC1A 2SL		I & M Bank House, Second Ngong Avenue, P.O. Box 10517, Nairobi 00100, Kenya	
Bakers Basco Limited	20%	C. Czarnikow Sugar (East Africa) Limited	43%
Paternoster House, 65 St. Paul's Churchyard, London, EC4M 8AB		Mauritius	
C. Czarnikow Limited	43%	No 5 President John Kennedy Street, Port Louis, Mauritius	
Czarnikow Group Limited	43%	Sukpak Limited	30%
C. Czarnikow Sugar Futures Limited	43%	Mexico	
C. Czarnikow Sugar Limited	43%	Descartes #54 Int. 101, Col. Nueva Anzures Ciudad de Mexico, 11590, Mexico	
Sugarworld Limited	43%	C. Czarnikow Sugar (Mexico), S.A. de C.V.	43%
Vernon House, 40 New North Road, Huddersfield, West Yorkshire, HD1 5LS		Czarnikow Servicios de Personales, S.A. de C.V.	43%
Proper Nutty Limited	40%	New Zealand	
Australia		c/o KPMG, 18 Viaduct Harbour Avenue, Maritime Square, Auckland, New Zealand	
283 Flagstaff Road, Brinkley SA 5253, Australia		New Food Coatings (New Zealand) Ltd	50%
Big Pork River Pty Ltd	20%	Philippines	
Lot 12, Flagstaff Road, Murray Bridge SA 5253, Australia		Unit A 103 Excellence Avenue, Carmelray Industrial Park 1, Canlubang, Calamba, Laguna, Philippines	
Murray Bridge Bacon Pty Ltd	20%	New Food Coatings (Philippines) Inc.	50%
32 Davis Road, Wetherill Park, Sydney NSW 2164, Australia		Singapore	
New Food Coatings Pty Ltd	50%	3 Phillip Street, #14-01 Royal Group Building, Singapore 048693	
Brazil		C. Czarnikow Sugar Pte. Limited	43%
Rua Fidêncio Ramos, 308, cj64, Torre A, Vila Olímpia, São Paulo, SP, Brasil, Cep 04551-010		South Africa	
Czarnikow Brasil Ltda	43%	1 Gledhow Mill Road, Gledhow, Kwadukuza, 4450, South Africa	
China		Gledhow Sugar Company (Pty) Limited	30%
Room 17A01, 232 Zhong Shan 6th Road, Guangzhou, China, 510180		Tanzania	
C. Czarnikow Sugar (Guangzhou) Company Limited	43%	7th Floor Amani Place, Ohio Street, PO Box 38568, Dar-es-Salaam, Tanzania	
India		Czarnikow Tanzania Limited	43%
House No. 1-8-373/A, Chiran Fort Lane, Begumpet, Hyderabad, 500003, India		Msolwa Mill Office, Kidatau, Tanzania	
C. Czarnikow Sugar (India) Private Limited	43%	Kilombero Sugar Distributors Limited	20%
Indonesia		Thailand	
Komplex Puri Mutiara Blok A21-22, JL. Griya Utama, Sunter Agung, Jakarta, 14350, Indonesia		909 Moo 15, Teparak Road, Tambol Bangsaothong, King Amphur Bangsaothong, Samutprakarn, Thailand	
PT Indo Fermex	49%	Newly Wed Foods (Trading) Limited	25%
P.T. Jaya Fermex	49%	Newly Weds Foods (Thailand) Ltd	50%
PT Sama Indah	49%	20th Floor, UBC II Building, 591 Sukhumvit Road, North Klongton, Wattana, Bangkok 10110 Thailand	
Israel		Czarnikow Thailand Limited	43%
3 Golda Meir St. Ness Ziona, 74-036, Israel		United States	
Sucarim (Czarnikow Israel Sugar Trading) Ltd	43%	333 SE 2nd Avenue, Suite 2860, Miami, FL 33131, USA	
8th Galgalay haplada, Herzlia, Israel		C. Czarnikow Sugar Inc.	43%
Sucris Limited	21%		
Italy			
Piazza Borromeo 14, 20123 Milano, Italia			
Czarnikow Italia Srl	43%		

	Note	2018 £m	2017 £m
Fixed assets			
Intangible assets	1	18	19
Investments in subsidiaries	2	688	676
		706	695
Current assets			
Debtors			
– due within one year	3	3,629	4,166
– due after one year	3	232	187
Employee benefits assets – due after one year	4	571	277
Derivative assets		60	52
Cash and cash equivalents		822	997
		5,314	5,679
Creditors: amounts falling due within one year			
Bank loans and overdrafts – unsecured		(241)	–
Other creditors	6	(2,606)	(2,898)
		(2,847)	(2,898)
Net current assets		2,467	2,781
Total assets less current liabilities		3,173	3,476
Creditors: amounts falling due after one year			
Bank loans – unsecured		(335)	(557)
Amounts owed to subsidiaries	6	(210)	(174)
Employee benefits liabilities	4	(41)	(44)
Deferred tax liabilities	5	(79)	(33)
		(665)	(808)
Net assets		2,508	2,668
Capital and reserves			
Issued capital	7	45	45
Capital redemption reserve	7	2	2
Hedging reserve	7	(9)	(5)
Profit and loss reserve	7	2,470	2,626
Equity shareholders' funds		2,508	2,668

The Company's loss for the 52 weeks ended 15 September 2018 was £62m (52 weeks ended 16 September 2017 – £73m).

The financial statements on pages 165 to 171 were approved by the board of directors on 6 November 2018 and were signed on its behalf by:

Michael McLintock
Chairman

John Bason
Finance Director

	Share capital £m	Capital redemption reserve £m	Hedging reserve £m	Profit and loss reserve £m	Total £m
Balance as at 17 September 2016	45	2	(3)	2,671	2,715
Total comprehensive income					
Loss for the period recognised in the income statement	–	–	–	(73)	(73)
Remeasurement of defined benefit schemes	–	–	–	384	384
Deferred tax associated with defined benefit schemes	–	–	–	(66)	(66)
Movement in cash flow hedging position	–	–	(2)	–	(2)
Other comprehensive income	–	–	(2)	318	316
Total comprehensive income	–	–	(2)	245	243
Transactions with owners					
Dividends paid to equity shareholders	–	–	–	(299)	(299)
Net movement in own shares held	–	–	–	11	11
Deferred tax associated with share-based payments	–	–	–	(2)	(2)
Total transactions with owners	–	–	–	(290)	(290)
Balance as at 16 September 2017	45	2	(5)	2,626	2,668
Total comprehensive income					
Loss for the period recognised in the income statement	–	–	–	(62)	(62)
Remeasurement of defined benefit schemes	–	–	–	293	293
Deferred tax associated with defined benefit schemes	–	–	–	(49)	(49)
Movement in cash flow hedging position	–	–	(4)	1	(3)
Other comprehensive income	–	–	(4)	245	241
Total comprehensive income	–	–	(4)	183	179
Transactions with owners					
Dividends paid to equity shareholders	–	–	–	(327)	(327)
Net movement in own shares held	–	–	–	(11)	(11)
Deferred tax associated with share-based payments	–	–	–	(1)	(1)
Total transactions with owners	–	–	–	(339)	(339)
Balance as at 15 September 2018	45	2	(9)	2,470	2,508

Basis of preparation

The financial statements are presented in sterling, rounded to the nearest million. They are prepared under the historical cost basis, except that derivative financial instruments are stated at their fair value, and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and certain related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

As permitted by section 408(4) of the Companies Act 2006, a separate income statement and statement of comprehensive income for the Company has not been included in these financial statements. The principal accounting policies adopted are described below. They have all been applied consistently to all years presented.

Intangible assets

Intangible assets comprise goodwill arising on business combinations and operating intangibles. Goodwill is defined under 'Business combinations' on page 116 of the consolidated financial statements. The Companies Act 2006 requires goodwill to be amortised on a systematic basis over its useful economic life. Under FRS 101 goodwill is not amortised, but is instead reviewed for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the requirement to amortise goodwill in the Companies Act 2006. Had the Company amortised goodwill, a period of three years would have been chosen as its useful life from the date of transition. The loss for the year would have been £4m higher had goodwill been amortised in the year.

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 economic lives of intangible assets from the date they are available for use. The estimated useful lives are generally deemed to be no longer than five years.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

Financial assets and liabilities

Financial assets and financial liabilities, except for derivatives, are measured initially at fair value, plus directly attributable transaction costs, and thereafter at amortised cost.

Derivatives

Derivatives are used to manage the Company's economic exposure to financial risks. The principal instruments used are foreign exchange contracts and swaps. 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.

Pensions and other post-employment benefits

The Company operates one defined contribution and two defined benefit pension schemes. The Company is the principal employer of the Associated British Foods Pension Scheme, which is a funded final salary scheme that is closed to new members, as well as a small unfunded final salary scheme. For the defined benefit schemes, 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 Company during the year. It also includes net interest expense or income calculated by applying the liability discount rate to the net pension asset or liability. 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. Remeasurements are recognised immediately in other comprehensive income. Surpluses are recognised only to the extent that they are recoverable. Contributions payable by the group in respect of defined contribution plans are charged to operating profit as incurred.

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 equity.

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, using tax rates enacted or substantively enacted at the balance sheet date, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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.

Share-based payments

The fair value of the 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.

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 equity.

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.

1. Intangible assets

	Goodwill £m	Operating intangibles £m	Total £m
Cost			
At 16 September 2017 and 15 September 2018	14	7	21
Amortisation			
At 16 September 2017	–	(2)	(2)
Amortisation	–	(1)	(1)
At 15 September 2018	–	(3)	(3)
Net book value			
At 16 September 2017	14	5	19
At 15 September 2018	14	4	18

2. Investments in subsidiaries

	£m
At 16 September 2017	676
Additions	12
At 15 September 2018	688

The additions relate to the allocation of shares under equity-settled share-based payment plans to employees of the Company's subsidiaries. There were no provisions for impairment in either year.

3. Debtors

	2018 £m	2017 £m
Amounts falling due within one year		
Amounts owed by subsidiaries	3,592	4,115
Other debtors	18	10
Corporation tax recoverable	19	41
	3,629	4,166
Amounts falling due after one year		
Amounts owed by subsidiaries	232	187

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

4. Employee entitlements

	2018 assets £m	2017 assets £m	2018 liabilities £m	2017 liabilities £m	2018 net £m	2017 net £m
Reconciliation of changes in assets and liabilities						
At beginning of year	3,695	3,639	(3,462)	(3,777)	233	(138)
Current service cost	–	–	(32)	(35)	(32)	(35)
Employee contributions	7	8	(7)	(8)	–	–
Employer contributions	28	25	–	–	28	25
Benefit payments	(214)	(183)	214	184	–	1
Past service cost	–	–	1	–	1	–
Interest income/(expense)	96	87	(89)	(91)	7	(4)
Return on scheme assets less interest income	102	119	–	–	102	119
Actuarial gains arising from changes in financial assumptions	–	–	129	21	129	21
Actuarial gains arising from changes in demographic assumptions	–	–	49	–	49	–
Experience gains on scheme liabilities	–	–	13	244	13	244
At end of year	3,714	3,695	(3,184)	(3,462)	530	233

The net pension asset of £530m comprises a funded scheme with a surplus of £571m and an unfunded scheme with a deficit of £41m.

Further details of the Associated British Foods Pension Scheme are contained in note 11 of the consolidated financial statements.

5. Deferred tax assets and liabilities

	Employee benefits £m	Share-based payments £m	Other £m	Total £m
At 16 September 2017	(40)	3	4	(33)
Amount (credited)/charged to the income statement	(1)	–	4	3
Amount (credited)/charged to equity	(49)	(1)	1	(49)
At 15 September 2018	(90)	2	9	(79)

6. Other creditors

	2018 £m	2017 £m
Amounts falling due within one year		
Other taxation and social security	1	1
Accruals and deferred income	68	65
Amounts owed to subsidiaries	2,537	2,832
	2,606	2,898
Amounts falling due after one year		
Amounts owed to subsidiaries	210	174

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

7. Capital and reserves

Share capital

At 16 September 2017 and 15 September 2018, the Company's issued and fully paid share capital comprised 791,674,183 ordinary shares of 5½ p, each carrying one vote per share. Total nominal value was £45m.

Capital redemption reserve

The non-distributable capital redemption reserve arose following redemption of 2 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.

Share-based payments

Details of the Company's equity-settled share-based payment plans are provided in note 22 to the consolidated financial statements.

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.

8. 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 had provided £802m of guarantees in the ordinary course of business as at 15 September 2018 (2017 – £857m).

9. Related parties

The Company has a controlling shareholder relationship with its parent company, Witton Investments Limited, with the trustees of the Garfield Weston Foundation and with certain other individuals who hold shares in the Company. Further details of the controlling shareholder relationship are included in note 28 to the consolidated financial statements. The Company 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	2018 £000	2017 £000
Charges to Witton Investments Limited in respect of services provided by the Company		1,045	992
Dividends paid by the Company and received in a beneficial capacity by:			
(i) trustees of the Garfield Weston Foundation and their close family	1	11,685	10,675
(ii) directors of Witton Investments Limited who are not trustees of the Foundation and their close family	1	3,071	2,799
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Witton Investments Limited	1	62	62
(iv) members of the Weston family employed within the Associated British Foods group	1	—	2
Charges to fellow subsidiary undertakings	2	43	—
Charges to non-wholly owned subsidiaries	2	1,902	282
Charges to joint ventures	2	40	—
Interest income earned from non-wholly owned subsidiaries	2	165	123
Amounts due from non-wholly owned subsidiaries	2	95,104	52,193

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.

10. Other information

Emoluments of directors

The remuneration of the directors of the Company is shown in the Remuneration report for the group on page 92.

Employees

The Company had an average of 185 employees in 2018 (2017 – 169).

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.

	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
Revenue	12,943	12,800	13,399	15,357	15,574
Adjusted operating profit	1,163	1,082	1,118	1,363	1,404
Exceptional items	–	(98)	–	–	–
Transaction costs	–	–	(5)	(5)	(2)
Amortisation of non-operating intangibles	(72)	(55)	(21)	(28)	(41)
Acquired inventory fair value adjustments	–	–	–	–	(23)
Profits less losses on disposal of non-current assets	(11)	8	11	6	6
Profits less losses on sale and closure of businesses	(2)	(172)	(14)	293	(34)
Finance income	15	8	6	9	15
Finance expense	(73)	(61)	(56)	(59)	(50)
Other financial (expense)/income	–	(5)	3	(3)	4
Profit before taxation	1,020	707	1,042	1,576	1,279
Taxation	(237)	(191)	(221)	(365)	(257)
Profit for the period	783	516	821	1,211	1,022
Basic and diluted earnings per ordinary share (pence)	96.5	66.8	103.4	151.6	127.5
Adjusted earnings per share (pence)	104.1	101.5	106.2	127.1	134.9
Dividends per share (pence)	34.0	35.0	36.75	41.0	45.0

Figures from 2015 onwards reflect the amendments to IAS 41 *Agriculture* and IAS 16 *Property, Plant and Equipment*.

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

Registrar

Equiniti
Aspect House
Spencer Road
Lancing BN99 6DA

Auditor

Ernst & Young LLP 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

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

Timetable

Interim dividend paid
6 July 2018

Final dividend to be paid
11 January 2019

Annual general meeting
7 December 2018

Interim results to be announced
24 April 2019

Website

www.abf.co.uk

Warning about share fraud

From time to time, companies, their subsidiary companies, and shareholders can be the subject of investment scams. The perpetrators obtain lists of shareholders or subsidiaries and make unsolicited phone calls or correspondence concerning investment matters. They may offer to sell worthless or high risk shares and may offer to buy your current shareholdings at an unrealistic price. They will often also inform you of untrue scenarios to make you think that you need to sell your shares or to justify an offer that seems too good to be true. These operations are commonly known as 'boiler rooms'.

Shareholders are advised to be very wary of any offers of unsolicited advice, discounted shares, premium prices for shares they own or unsolicited investment opportunities. If you receive any such unsolicited calls, correspondence or investment advice:

- ensure you get the correct name of the person and firm;
- check that the firm is on the Financial Conduct Authority (FCA) Register to ensure they are authorised at www.register.fsa.org.uk;
- use the details on the FCA Register to contact the firm;
- call the FCA Consumer Helpline (0800 111 6768) if there are no contact details in the Register or you are told they are out of date; and
- **if you feel uncomfortable with the call or the calls persist, simply hang up.**

Forward-looking statements

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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