For release 7 November 2017

# Associated British Foods plc

## Annual Results Announcement

Year ended 16 September 2017

For release 7 November 2017

# ASSOCIATED BRITISH FOODS PLC RESULTS FOR 52 WEEKS ENDED 16 SEPTEMBER 2017

Strong growth for the group

## Financial Headlines

| | | Actual | Constant currency |
|---|---|---|---|
| • Group revenue | £15.4bn | +15% | +6% |
| • Adjusted operating profit | £1,363m | +22% | +13% |

- Adjusted profit before tax up 22% to £1,310m
- Adjusted earnings per share up 20% at 127.1p
- Dividends per share up 12% to 41.0p
- Gross investment of £945m
- Net cash £673m
- Statutory operating profit up 21% to £1,336m, and with the benefit of a profit on the sale of businesses, profit before tax up 51% to £1,576m and basic earnings per share up 47% to 151.6p

**George Weston, Chief Executive of Associated British Foods, said:**

"This was a highly successful year for the group. These results reflect our international diversity, and the strong underlying performance of our businesses was driven by management actions throughout the year. Capital investment was a record as we continued to pursue the opportunities to grow our businesses into the future."

Adjusted operating profit is stated before the amortisation of non-operating intangibles, transaction costs and profits less losses on disposal of non-current assets. 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. All adjustments to profit measures are shown on the face of the consolidated income statement. Constant currency is derived by translating the 2016 results at 2017 average exchange rates.


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## Notes to Editors

Associated British Foods is a diversified international food, ingredients and retail group with sales of £15.4bn and 133,000 employees in 50 countries. It has significant businesses in Europe, southern Africa, The Americas, Asia and Australia.

Our aim is to achieve strong, sustainable leadership positions in markets that offer potential for profitable growth. We look to achieve this through a combination of growth of existing businesses, acquisition of complementary new businesses and achievement of high levels of operating efficiency.

# ANNUAL RESULTS ANNOUNCEMENT

For the 52 weeks ended 16 September 2017

## CHAIRMAN'S STATEMENT

Group revenue of £15.4bn was 15% ahead of last year and adjusted operating profit of £1,363m was 22% ahead. Given the economic and currency uncertainties a year ago, these results demonstrate the benefit of our international diversity and the strong underlying performance of our businesses. I am therefore very pleased to report excellent progress this year with adjusted earnings per share up 20% to 127.1 pence.

Gross investment was again significant this year at £945m. This comprised £866m of capital expenditure and operating intangible assets, driven by a higher level of investment by Primark with expenditure in all its countries of operation, and £79m on business acquisitions. This year we delivered a particularly impressive cash flow which emphasises the group's ability to convert profitability into cash. We also realised proceeds, net of costs and tax, of over £500m from two business disposals. Together these resulted in last year's net debt of £315m becoming a net cash balance of £673m this year end.

As anticipated, we delivered a strong recovery in sugar profits this year. This was a consequence of the recent structural changes made to AB Sugar, the considerable benefit derived from performance improvement over a number of years and an increase in EU sugar prices. Moving to full ownership of Illovo last year has proved to be a positive step with an increase in profit which benefited from an acceleration of its commercial development and performance improvement. We believe that we are well placed to take advantage of the removal of sugar quotas in the EU arising from the reform of the sugar regime, and to meet the challenges including the recent fall in EU sugar prices.

Further cost reduction drove the continued recovery of the yeast and bakery ingredients business while excellence in execution was the driver of the strong performance from speciality ingredients. Together they increased adjusted operating profit by 34% this year.

Good progress was made by Twinings Ovaltine, ACH in the US and George Weston Foods in Australia, but Grocery results were held back by the trading environment faced by the UK bakeries. Since the year end we have completed the acquisition of Acetum S.p.A., a producer of high-quality balsamic vinegar from Modena, Italy. We look forward to the opportunity of developing further this fine business, using our existing capability in selling and marketing speciality foods internationally.

Primark has the potential for significant growth and this was demonstrated again this year by its opening of a net 30 stores and 1.5 million sq ft of selling space across nine countries. The Primark management team also had further success in mitigating currency headwinds, they delivered on-trend fashion and their stores have never looked better. We look forward to further growth in the coming year.

Two business disposals took place at the beginning of the financial year. In November 2016 the sale of our US herbs and spices operation significantly reduced the complexity of ACH and facilitated a reduction in overhead. In December 2016, we sold our cane sugar operations in south China to a party better placed to drive its further development. We are proud of the transformation in agricultural productivity, sugar yields and factory efficiencies that we achieved over our 20 years of ownership. We realised a pre-tax profit of £293m from these two disposals with little impact on the group's trading profit.

### Corporate responsibility

Our group has grown and evolved considerably since its formation in 1935 and a great deal has changed, but the essence of what we do has remained a constant. Operating ethically is a core value at the heart of our group and our intention has always been to do the right thing for our people and the wider community, believing that we achieve this by feeding and clothing millions of people every day. Our approach to ensuring that this is sustained is described in our Corporate Responsibility Report which has been updated this year. A copy of the update is available for download at www.abf.co.uk/responsibility.

### Remuneration

As noted in the Remuneration report we revised our remuneration policy last year to align it more closely with our business strategy. In particular, an additional earnings per share measure was introduced into the long term incentive plan that is designed to take into account volatility in world and European sugar prices. Although incentive payments under this additional measure will not arise until 2019, the changes in sugar prices seen over recent months support this decision.

### The board

We are announcing today that Tim Clarke will retire as a director with effect from 30 November 2017, after 13 years on the board. Tim's extensive experience in retailing and his wise counsel over the years have been of immeasurable value and we are very grateful for his substantial contribution. His tenure did not diminish his independence at any time.

Javier Ferrán has completed more than nine years' service as a director of the Company and, in accordance with the UK Corporate Governance Code, the rest of the board must now confirm his independence annually. This having been done, we are delighted that Javier has agreed to continue as a member of the board and, with Tim's retirement, to take on the responsibilities of Senior Independent Director.

We have recently announced the appointment of Michael McLintock as a non-executive director of the Company with effect from 1 November 2017. Michael is currently a trustee of the Grosvenor Estate and a non-executive director of Grosvenor Group. He was chief executive of M&G Investments from 1997 until his retirement in 2016. He became a member of the Audit and Remuneration committees on appointment.

**Employees**
Our 133,000 colleagues in 50 countries contribute to the success of the group and I would like to thank them for everything they bring to their businesses. It is their innovation, entrepreneurial skill, drive and ambition that enable us to grow and develop, and through their collaboration, build a network that makes the whole so much greater than the sum of its parts.

**Dividends**
I am pleased to report that a final dividend of 29.65p is proposed, to be paid on 12 January 2018 to shareholders on the register on 15 December 2017. Together with the interim dividend of 11.35p paid on 7 July 2017, this will make a total of 41.0p for the year, an increase of 12%.

**Outlook**
Primark's selling space expansion will continue and with margins in line with the current year we expect an increase in Retail profit. Progress is expected from Grocery, Agriculture and Ingredients. In Sugar, higher volumes and lower costs will only partially mitigate the effect of much lower EU prices.

At current exchange rates we expect no material transactional or translational effect on profit.

Taking all of these factors into account, at this early stage, we expect progress in adjusted operating profit and adjusted earnings per share for the group for the coming year.

**Charles Sinclair**
**Chairman**

## CHIEF EXECUTIVE'S STATEMENT

2017 was a very productive year in which all of our businesses made significant progress and delivered an excellent set of group results. With over 60% of our sales and profits now generated outside the UK, the headline results benefited from sterling weakness on translation. Nevertheless, growth was very strong on a constant currency basis with revenue and adjusted operating profit ahead by 6% and 13% respectively.

Over the last few years AB Sugar has taken major steps to transform its business with the sale of the cane sugar operations in south China this year, the move to full ownership of Illovo last year and the benefits delivered by the performance improvement programme over many years. It is pleasing to report a substantial increase in Sugar profit this year which benefited from all of these initiatives and an increase in EU sugar prices. Illovo is making good progress with its accelerated programme of commercial development and the delivery of further production efficiencies. In the EU, we have established a low cost business which is positioned to exploit the market opportunities and associated freedom to export, following the abolition of sugar quotas in October this year.

In Grocery, Twinings Ovaltine, ACH in the US and George Weston Foods in Australia all increased adjusted operating profit. However, a difficult trading environment in the UK bread market led to a decline in revenues at Allied Bakeries and it sustained a loss. We are continuing to invest in our brands and are working closely with our customers to improve the profitability of our bakery business. AB Agri continued with its strategy of expanding the value-adding elements of its business. Ingredients achieved another strong profit and margin increase driven by further cost reduction in AB Mauri and excellent performances from speciality ingredients.

The expansion of Primark's selling space continued apace this year and trading was excellent, particularly over the summer, delivering strong increases in market share. Our determination to be the best value on the high street drove the decision not to pass on to our customers the higher input costs arising from sterling weakness against the US dollar. The gross impact of this on Primark's margin was, to some extent, mitigated by the work of the buying and merchandising teams and margin declined by less than expected at the beginning of the year to 10.4%. Notwithstanding this highly successful year, Primark constantly seeks better ways of delivering value to customers, be that through store design and location, stock availability, or enhancing its reputation for on-trend fashion. The Primark website and social media are playing an ever more important role in the relationship with our customers in driving awareness of our products and footfall in our stores. Primark will continue to expand its selling space across all its countries of operation with another strong programme of new store openings scheduled for the coming year.

### Implications of the EU referendum

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, wherever possible, aligns food production with the end markets for our products. Changes in legislation and trade agreements 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 are engaged 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.

We are pleased with the Government's commitment that least developed countries will not face an increase in tariffs on their exports to the UK after it leaves the EU. This will provide benefits both for UK consumers and trade with these countries, which plays an important part in securing the livelihoods of local workforces. 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.

# OPERATING REVIEW

## Grocery

| Continuing businesses | **2017** | 2016 | Actual fx | Constant fx |
|---|---|---|---|---|
| **Revenue £m** | **3,381** | 3,097 | +9% | level |
| **Adjusted operating profit £m** | **303** | 294 | +3% | -6% |
| **Adjusted operating profit margin** | **9.0%** | 9.5% | | |
| **Return on average capital employed** | **24.7%** | 24.2% | | |

Grocery revenue and adjusted operating profit from continuing businesses, which exclude the results of the US herbs and spices business sold during the year, were both ahead of last year at actual exchange rates. Revenue was level with last year at constant currency although profit was lower. Twinings Ovaltine had another good year with excellent sales and profit growth. Profits and margins improved at ACH in the US and at George Weston Foods in Australia. However, a very competitive UK bread market and inflationary cost pressures led to lower revenue and margin at Allied Bakeries.

The Twinings brand performed well in its major markets. It gained further value market share in Australia and the US, and good volume growth was achieved in black tea in the UK although infusions and green tea came under some competitive pressure. Significant investment in tea packaging technology in the UK was completed during the year driving production efficiencies and enabling the relaunch of infusions with an improved format. Last year's return to growth for Ovaltine in Thailand, which is its largest market, was sustained, driven by a strong increase in ready-to-drink sales. Further progress was made in Switzerland with particular success for Ovomaltine brand extensions, and the strong sales growth of Crunchy Cream over the last few years led to capital investment enabling production to be brought in-house.

At Allied Bakeries, the Kingsmill relaunch earlier this year was well received by consumers. However, with low retail prices, a resurgence of lower margin own-label products as retailers sought to differentiate their bakery offering, and inflationary cost pressures all combined to result in a significant margin decline.

Jordans and Dorset Cereals continued their international expansion with the brands now being sold in 75 countries, and overseas sales of Jordans now greater than those in the UK. Country Crisp and the launch of Frusli bars drove strong sales growth in France and further success was achieved in Australia where the brands lead the growing granola market. Trading conditions in the UK were more challenging for Ryvita with a larger crispbread market share being taken by own-label driven by the growth of the European retail discounters.

Westmill Foods recently announced a further expansion of noodle production capacity at its Manchester factory, responding to increased demand, and a continuing focus on overhead reduction led to a rationalisation of its distribution operations. Patak's and Blue Dragon are the leaders in their respective categories in the UK and both performed well this year. Blue Dragon underwent a significant re-branding and both achieved further growth in international markets.

We acquired two small sports nutrition brands during the year: HIGH5, a hydration and recovery brand with leading positions in the UK and Scandinavia; and Reflex Nutrition, a premium, protein-based, strength and recovery brand. Sports nutrition has grown strongly in recent years reflecting healthier, more active, consumer lifestyles. The two brands have annual sales of some £20m and production will be rationalised into one site, in Brighton, by the end of this calendar year.

On 12 October 2017 we completed the acquisition of Acetum S.p.A., the leading Italian producer of Balsamic Vinegar of Modena for €317m including debt assumed. These vinegars have been granted European Protected Geographical Indication status due to the unique nature of their production, their provenance and high quality. Acetum was founded by Cesare Mazzetti and Marco Bombarda, both of whom will remain in the business, and its brands include Mazzetti, the leading brand in Germany and Australia, as well as Acetum and Fini. Its products are sold in more than 60 countries and, in the year ended 31 December 2016, generated net sales of €102m. This business will benefit from the group's existing capability in selling and marketing speciality foods internationally and we have ambitious plans to grow.

We completed the sale of ACH's herbs and spices business in the US on 21 November 2016 for a gross cash consideration of £294m. Operating profit at ACH's continuing operations were well ahead of last year driven by higher revenue and lower overheads. Mazola increased its market share, with continued support from its successful television advertising, and consumer yeast, corn syrup and corn starch all performed well both in retail and foodservice.

Margins improved again this year at George Weston Foods in Australia where cost management delivered significant operational efficiencies and overhead reduction. Tip Top achieved strong listings of Thins, a product new to the Australian market, which was launched during the year. The Don KRC meat business continued to grow volumes and worked closely with key customers to develop the category as exemplified by the introduction of a much improved deli ham range for Coles Supermarkets.

## Sugar

| Continuing businesses | **2017** | 2016 | Actual fx | Constant fx |
|---|---|---|---|---|
| **Revenue £m** | **2,174** | 1,636 | +33% | +21% |
| **Adjusted operating profit £m** | **223** | 35 | +537% | +374% |
| **Adjusted operating profit margin** | **10.3%** | 2.1% | | |
| **Return on average capital employed** | **14.1%** | 2.3% | | |

AB Sugar's revenue and adjusted operating profit from continuing businesses, which exclude the results of the south China cane sugar business sold during the year, were substantially ahead of last year. The main drivers were higher EU sugar prices, lower UK beet costs, increased production and sales volumes at Illovo, and a further major contribution from the performance improvement programme across the group. We changed the Illovo financial year end in 2016 to align it with that of the group and this year's results therefore included a full 12 months' performance compared to 11 months last year.

The performance improvement programme comprises continuous cost reduction and business development delivered through production efficiencies, capital investment and procurement activities. The importance of anticipating and responding to the changing needs of our customers and their end consumers is well understood, and the long-awaited structural changes to the EU sugar industry, which are now upon us, have provided an added stimulus over recent years. Our businesses have been preparing for this with a thorough review of all aspects of their operations, from capabilities and processes through to routes to market and pack formats. The programme has generated initiatives across a range of disciplines and there are many still to pursue.

UK profitability improved significantly. Sugar production of 900,000 tonnes in the 2016/17 year was abnormally low as a consequence of the reduction in the contracted growing area in order to reduce the high level of stocks brought forward from the prior year. EU stocks were at a low level at the end of this marketing year and, in anticipation of the abolition of quota and export restrictions from October 2017, our contracted area for the 2017/18 season was increased by a third. The crop has developed well, with favourable rainfall and temperatures during the growing season, and the latest sugar production estimate for 2017/18 is in excess of 1.4 million tonnes.

EU sugar prices for 2017/18 will be below those achieved this year although the profit impact for British Sugar is expected, to some extent, to be mitigated by the higher production volumes and the benefit of euro strength against sterling on euro-denominated sales. Beet costs will be in line with this year.

In Spain, profit was well ahead of last year with an increase in sugar production and higher EU sugar prices. Although beet sugar production of 362,000 tonnes was lower than last year's 449,000 tonnes, the Guadalete refinery produced 300,000 tonnes and imported raw sugars co-refined at the beet factories produced a further 30,000 tonnes. Next year we expect lower EU sugar prices to reduce the profit at Azucarera.

In China, we completed the sale of our five cane sugar factories on 22 December 2016 for total proceeds, including debt assumed, of £297m. Our continuing operations now comprise two beet factories in north China at Zhangbei and Qianqi. These factories processed a record beet crop with 180,000 tonnes of sugar produced although sucrose yields were lower than in recent years. Market prices have been stable and profit was ahead of last year. Looking ahead to 2017/18, the crop is progressing well with a smaller growing area to enable the optimisation of processing efficiency. Sucrose yields are expected to improve as a result of the work undertaken with growers to increase mechanisation of their agricultural operations and improve beet storage methods. Sugar production is estimated at over 170,000 tonnes.

Sugar production at Illovo was 1.65 million tonnes, compared with 1.40 million tonnes last year on a comparable basis, following better growing conditions in the new season, particularly in South Africa and Swaziland. As a consequence, sales were strong and we continued to improve our consumer offering in Zambia, Malawi and Tanzania with an extended range of pack sizes and enhanced point of sale materials. Combined with the continuing performance improvement activities, profit was ahead of last year. The new refining and sugar conditioning plant in Zambia, which was commissioned last year, operated well during the year. This facility provides the capacity to meet the growing demand for more refined sugars in the local and regional markets.

Further improvement in throughput and reliability was made during the year at the Vivergo Fuels bioethanol plant, although an operating loss was driven by higher UK wheat costs and lower ethanol prices. The UK Government produced its response to the consultation on renewables in transport fuels on 14 September 2017 and proposed that the percentage of transport fuel from renewable sources would increase from its current level of 4.75% to 9.75% by 2020. The crop-based component of this would be capped at 4% until 2020, declining to 3% by 2026 and 2% by 2032. Whilst we support the increase in the renewables mandate we are concerned about the reduction in the crop cap after 2020 and will maintain a close dialogue with government on this.

## Agriculture

| | **2017** | 2016 | Actual fx | Constant fx |
|---|---|---|---|---|
| **Revenue £m** | **1,203** | 1,084 | +11% | +8% |
| **Adjusted operating profit £m** | **50** | 58 | -14% | -21% |
| **Adjusted operating profit margin** | **4.2%** | 5.4% | | |
| **Return on average capital employed** | **14.2%** | 17.7% | | |

AB Agri revenues were well ahead of last year with growth in all businesses and the benefit of a full year's trading from Agrokorn which was acquired last year. Adjusted operating profit was, however, lower than last year mainly reflecting reduced margins in China and UK feeds, as a result of strong competition and higher raw material costs, and an increase in investment in new business opportunities.

Demand for feed in the UK was weak and the smaller sugar beet crop reduced co-product volumes. New liquid co-products from Vivergo's biofuel production were developed for the animal feed and anaerobic digestion (AD) markets which partly offset the reduced availability of co-products from the food and drink industry. Our AD plant in Yorkshire was commissioned during the year enabling sales of new AD products and services under the Amur brand. A smaller UK wheat crop and low market volatility adversely affected Frontier's grain trading performance, but firmer grain pricing and good growing conditions contributed to a strong result from its crop inputs business.

In Asia, AB Vista performed well with higher enzyme revenues although the market weakened in the second half after a strong start. Margin and profit reduced in China as a result of a more challenging environment as evidenced by egg prices falling to their lowest level in 20 years. Our feed mill in Shanghai was relocated to a new site with increased capacity. Our first standalone feed pre-mix site in China is now operational, addressing the growing demand for specialist, tailored ingredients.

In continental Europe, starter feeds imported into Poland from our Primary Diets business in the UK achieved excellent growth, and construction of the new starter feed factory in Spain was completed by the year end. AB Vista performed well both in Europe and North America, driving strong enzyme sales, and progress was made beyond the traditional pig and poultry sectors in both ruminant and aquaculture markets. Last year's acquisition of Agrokorn, a Danish producer of animal nutrition products, premixes and milk replacers, extended our capability in alternative proteins and created a platform for further product development and geographic expansion. This business is now well integrated into our existing operations.

AB Agri's extensive experience across the farming industry, combined with the greater availability of on-farm data and the use of proprietary technology, are being leveraged to provide greater insight into on-farm management. This is aimed at assisting farmers to increase productivity and improve animal nutrition.

### Ingredients

| | 2017 | 2016 | Actual fx | Constant fx |
|---|---|---|---|---|
| **Revenue £m** | **1,493** | 1,294 | +15% | +2% |
| **Adjusted operating profit £m** | **125** | 93 | +34% | +18% |
| **Adjusted operating profit margin** | **8.4%** | 7.2% | | |
| **Return on average capital employed** | **15.3%** | 13.1% | | |

Ingredients' revenues and adjusted operating profit were again well ahead of last year with a further increase in margin.

AB Mauri delivered another year of significant improvement with growth achieved in yeast and bakery ingredients. North America benefited from successful bakery ingredient product launches although the market for bakery yeast remains highly competitive. The business was well represented at the International Baking Industry Exposition held last October where it promoted its baking technology credentials to attendees from more than 100 countries. The EMEA region delivered profit growth and Asia's results improved following last year's rationalisation of production facilities in China. Although the economic climate in South America remains challenging, operating performance was robust. Capital investment in a new bakery ingredients plant in Buenos Aires was completed at the end of the financial year.

In January 2017 we completed the acquisition of Specialty Blending based in Cedar Rapids, Iowa. The plant features multiple blending lines capable of handling whole-grain bread concentrates and sweet goods mixes. It also has a speciality mill of a scale suited for ancient and organic grains and custom blends. Integration of the business has progressed well with improvements in its cake and doughnut mixes from the application of our ingredients' technologies.

ABF Ingredients delivered strong sales and profit growth with margin improvement driven by a higher proportion of revenues from premium markets. Higher enzyme sales, especially feed enzymes to AB Vista, drove high factory utilisation and improved overhead absorption. We completed the capacity expansion of the enzymes manufacturing facility in Finland which has also improved production efficiency.

Significant growth in food and beverage nutritional applications, as well as branded and generic pharmaceutical drugs, drove another year of strong sales growth at Abitec, our speciality lipids business in North America. Further investment was made at the Janesville, Wisconsin plant to meet increasing demand and to improve our research capability. SPI also benefited from developments in the pharmaceutical sector with good growth for its functional excipients and drug delivery solutions. Our US protein extrusion business gained from the consumer trend for healthy snacking, and achieved margin growth through improvement in manufacturing yields.

### Retail

| | 2017 | 2016 | Actual fx | Constant fx |
|---|---|---|---|---|
| **Revenue £m** | **7,053** | 5,949 | +19% | +12% |
| **Adjusted operating profit £m** | **735** | 689 | +7% | +3% |
| **Adjusted operating profit margin** | **10.4%** | 11.6% | | |
| **Return on average capital employed** | **27.3%** | 30.2% | | |

Sales at Primark were 19% ahead of last year at actual exchange rates and 12% ahead at constant currency. On a comparable week basis, adjusting for the impact of 2016 being a 53 week year for Primark, sales at constant currency were 14% ahead driven by increased retail selling space and 1% growth in like-for-like sales. Operating profit margin declined from 11.6% to 10.4% reflecting the strength of the US dollar on input costs. The gross transactional effect of the strength of the US dollar was lessened by effective input-margin mitigation and the strength of our summer trading which resulted in a lower than normal level of markdown. As a consequence, on a comparable week basis at constant currency, adjusted operating profit was 5% ahead.

Primark performed particularly well in the UK where sales were 10% ahead of last year on a comparable basis and our share of the total clothing market increased significantly. After a good first half, third quarter trading was strong in the lead-up to Easter, with the growth also benefiting from comparison with prior year results that were affected by poor weather and an earlier Easter holiday. Fourth quarter trading was equally strong, fully reflecting the success of our consumer offering. This was driven by the ability of our buying, merchandising and design teams to identify and deliver key seasonal trends. The consumer response to our new autumn/winter range has been encouraging.

Sales in continental Europe were 16% ahead of last year at constant currency and on a comparable week basis, reflecting the extensive selling space expansion there. It is noteworthy that, of Primark's top 20 stores by sales density, 15 are now in continental Europe including seven in our newest markets of France and Italy. The major success of the newly-opened store in Liffey Valley in Dublin demonstrates the opportunity for further selling space expansion in our more established markets. During the two years since the opening of our first US store at Downtown Crossing in Boston we have learned much about trading in the US and are constantly fine-tuning our ranges and store size to recognise the different demands of US shoppers. We opened three stores during the year and extended the Boston store by 20% to 92,000 sq ft. In the coming year we plan to reduce the size of three of our earlier stores in order to optimise their efficiency and provide the best shopping experience for our customers. We will also open our ninth US store in Brooklyn, New York in the summer.

Primark enjoys a loyal fashion following and the brand boasts over 10 million followers across its social media platforms. From the latest beauty tutorial videos to live streaming of press events and store openings, engaging this community directly drives footfall in our stores, and sales. The Primark website aims to inspire, and enables its followers to keep up-to-date on all the latest products, create wish lists, receive styling advice, and upload outfit posts to Primania. When leading Irish lifestyle blogger, Pippa O'Connor, put a picture of a star print Primark dress on Instagram in November 2016 it received over 11,000 'likes' in a week and the dress sold out in a matter of days.

With most of next year's first half UK purchases contracted at a weaker sterling/US dollar exchange rate than the same period last year, there will be an adverse effect on margin in the first half. However, the strengthening of the euro against the US dollar in recent months will have a beneficial transaction effect on Primark's eurozone margins particularly in the second half of next year if these rates prevail. With a more typical level of markdowns and the absorption of some cost increases we expect full year margins to be similar to that achieved this year.

This year's increase in the scale and breadth of the Primark estate was very strong: 1.5 million sq ft of selling space and a net 30 stores were opened across nine countries. This brought the total estate to 345 stores and 13.9 million sq ft at the financial year end. Eleven stores were added in the UK; three in each of Spain, France, the Netherlands, Italy and the US; two in Germany and one each in Belgium and Ireland. Our city centre flagship store at Oxford Street East was extended by 40% during the year, increasing it to 114,000 sq ft. The stores in Sheffield and Reading were relocated to bigger, better locations and two stores have been temporarily relocated while their existing sites are redeveloped.

| | **Year ended 16 September 2017** | | Year ended 17 September 2016 | |
|---|---|---|---|---|
| | **# of stores** | **sq ft 000** | # of stores | sq ft 000 |
| UK | **182** | **6,835** | 171 | 6,362 |
| Spain | **44** | **1,675** | 41 | 1,503 |
| Germany | **22** | **1,401** | 20 | 1,272 |
| Republic of Ireland | **37** | **1,083** | 36 | 1,032 |
| Netherlands | **18** | **849** | 15 | 679 |
| France | **11** | **562** | 8 | 407 |
| US | **8** | **485** | 5 | 322 |
| Portugal | **9** | **300** | 9 | 300 |
| Austria | **5** | **242** | 5 | 243 |
| Belgium | **5** | **227** | 4 | 166 |
| Italy | **4** | **203** | 1 | 56 |
| | **345** | **13,862** | 315 | 12,342 |

**New store openings:**

**UK**
Bracknell
Carlisle
Colchester
Llandudno
Llanelli
Rushden
Shrewsbury
Stafford
Truro
Uxbridge
York, Coppergate

**Spain**
Granada
Mallorca
Tarragona

**France**
Evry, Paris
Lille
Val d'Europe, Paris

**Belgium**
Charleroi

**The Netherlands**
Damrak, Amsterdam
Hilversum
Zwolle

**Germany**
Hamburg
Mannheim

**Ireland**
Liffey Valley, Dublin

**Italy**
Brescia
Florence
Verona

**US**
Burlington, Massachusetts
South Shore, Massachusetts
Staten Island, New York

**Relocations:**
Reading & Sheffield

We continued to invest in the existing estate alongside this ambitious new store opening programme. This investment in refitting older stores improves brand image and sentiment and enhances the customer's shopping experience. It also includes an update of the back-of-house areas to deliver a better work environment for employees. In 2016, we undertook the refit of 15 stores in the United Kingdom, Republic of Ireland and the Netherlands.

In the next financial year we are planning over 1.2 million sq ft of additional selling space. France, Germany and the UK will see the most space added and overall we will open 19 new stores together with a number of relocations and extensions. The larger stores will be in Stuttgart and Munich in Germany; Toulouse and Bordeaux in France; and Antwerp in Belgium.

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

# FINANCIAL REVIEW

## Group performance

Group revenue increased by 15% to £15.4bn and adjusted operating profit was 22% higher at £1,363m. In calculating adjusted operating profit, the amortisation charge on non-operating intangibles, transaction costs, and profits or losses on disposal of non-current assets are excluded. On an unadjusted basis, operating profit was 21% higher than last year at £1,336m. Last year's revenue and operating profit both benefited to a small extent from a 53rd week's trading activity in some of our businesses, but this was offset by the consolidation of only 11 months' results for Illovo last year as a consequence of the alignment of its year end with the rest of the group.

The result of the UK referendum on EU membership saw sterling weaken substantially in June 2016 against all major currencies. With over 60% of the group's operating profit earned outside the UK, this devaluation resulted in a translation benefit of £85m this financial year, most of which arose in the first three quarters. Sterling weakness against the US dollar had an adverse transactional effect on Primark's largely dollar denominated purchases this year, whilst the euro's strength in the second half had a beneficial effect on British Sugar's margin.

Next year we expect no material translation benefit at current exchange rates. Sterling weakness against the US dollar will continue to have an adverse transactional effect on Primark's margin in the first half although a benefit from the euro's strength is expected in the second half. At current exchange rates, we also expect the euro's strength to benefit British Sugar's margin next year.

Net financing costs remained at a similar level to last year, despite the improvement in our net cash position, as a result of the group's longer-term financing, through our US private placement, and some local currency debt maintained as a hedge against assets in high inflation economies. Profit before tax increased from £1,042m to £1,576m with the benefit of substantial profits on the sale of businesses. On our adjusted basis, which excludes these items, profit before tax rose by 22% to £1,310m.

## Acquisitions and disposals

The disposal of our cane sugar business in south China was completed on 22 December 2016 for total proceeds, including debt assumed, of £297m. The sale of ACH's herbs and spices business in the US completed on 21 November 2016 for a gross cash consideration of £294m and the assumption by the purchaser of net pension liabilities of £14m. The profit arising on these disposals amounted to £293m on which tax of £87m was payable.

In October 2016 Stratas Foods, our commodity oils joint venture, completed the purchase of Supreme Oil, based in New Jersey, thereby strengthening its market capability in the northeast of the US. In January 2017 AB Mauri acquired Specialty Blending, a bakery ingredients business located in Iowa.

We also acquired two small sports nutrition businesses in the UK. HIGH5 is a hydration and energy brand popular with endurance athletes and Reflex Nutrition provides a range of premium protein-based recovery products. Sports nutrition is a high-growth market segment and we plan to develop these brands and broaden their distribution.

Since the year end we have completed the acquisition of Acetum S.p.A., the leading Italian producer of Balsamic Vinegar of Modena for €317m including debt assumed. In the year ended 31 December 2016, the company generated net sales of €102m.

## 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. Our 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 £365m includes a charge of £293m at an effective rate of 22.4% (2016 – 21.2%) on the adjusted profit before tax. Last year's effective rate included the beneficial effect of the revaluation of UK deferred tax balances following announced reductions in the rate of UK corporation tax to 17% from 1 April 2020. We currently expect next year's effective tax rate for the group to be similar to the current year.

The overall tax charge for the year included a charge arising on the disposal of businesses of £87m and benefited from a credit of £15m (2016 – £5m) for tax relief on the amortisation of non-operating intangible assets and goodwill arising from business combinations.

## Earnings and dividends

Earnings attributable to equity shareholders in the current year were £1,198m and the weighted average number of shares in issue during the year, which is used to calculate earnings per share, was 790 million (2016 – 791 million). Earnings per ordinary share were 47% higher than last year at 151.6p with the benefit of substantial profits on the sale of businesses this year. Adjusted earnings per share, which provides a more consistent measure of trading performance, increased by an impressive 20% from 106.2p to 127.1p.

The interim dividend was increased by 10% to 11.35p and a final dividend has been proposed at 29.65p which represents an overall increase of 12% for the year. The proposed dividend is expected to cost £234m and will be charged next year. Dividend cover, on an adjusted basis increased to 3.1 times.

## Balance sheet

Non-current assets of £7.6bn were £0.7bn higher than last year driven by higher capital expenditure than depreciation and an increase in employee benefits assets following the move of the UK defined benefit pension scheme into surplus.

Working capital at the year end was at a similar level to last year, despite the growth of the group. As a consequence of the very tight management throughout the year, average working capital as a percentage of sales improved substantially from 8.4% last year to 6.5% this year, with lower inventories and higher sales in AB Sugar being a major driver. Net cash at the year end was £673m compared with net debt at the end of last year of £315m reflecting the strong operating cash flow and proceeds from business disposals.

The group's net assets increased by £1.3bn to £8.4bn. 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 higher again this year at 20.5% compared with 18.1% last year. This reflected a major improvement in AB Sugar and increases in Ingredients and Grocery which more than offset the decline in Primark, which reflected the reduction in its margin.

## Cash flow

This was a year of very strong cash generation for the group with a net cash inflow from operating activities of £1,641m driven by the higher operating profit and a substantial reduction in working capital achieved with lower sugar stocks and the benefit of tight management by the businesses during the year. Gross capital expenditure including operating intangibles amounted to £866m compared with £804m last year. Primark spent £487m of this including the acquisition of new stores and the fit-out of existing stores. Expenditure in the food businesses remained at a similar level to last year. £49m was realised from the sale of property, plant and equipment, the major elements of which were the sale for redevelopment of a former bakery in Australia, two former bakery sites in the UK and the sale of two Primark stores in the UK following relocation to larger premises.

The net cash inflow after tax from the sale of the south China sugar and US herbs and spices businesses amounted to £477m, including debt disposed, and £79m was invested in acquisitions in US bakery ingredients and the sports nutrition businesses.

Tax paid in the year amounted to £356m including £92m arising on the business disposals. Generally in the UK, 50% of the corporation tax due in respect of an accounting period is payable in that period with the remaining 50% being paid in the following accounting period. Changes made by HMRC, which will come into effect for our financial year ending September 2020, will result in all of the tax due for a financial year being paid in that financial year.

## 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 4.7%; £1.2bn provided under a syndicated, revolving credit facility which matures in July 2021; and £0.1bn of local committed facilities in Africa. During the financial year we repaid, from existing cash resources, £15m of private placement notes. At the year end, £558m was drawn down under these committed facilities. The group also had access to £621m of uncommitted credit lines under which £214m was drawn at the year end. Cash and cash equivalents totalled £1.6bn at the year end.

## Pensions

The group's defined benefit pension schemes were in surplus by £126m at the year end compared with a net deficit last year of £303m. The UK scheme accounts for 89% of the group's gross pension liabilities and this year's surplus of £233m compared with a deficit of £138m last year. The major drivers of the year-on-year improvement were the use of the latest scheme membership data in the 2017 triennial valuation, which identified that there had been more exits from the scheme than expected over the past three years, and higher investment returns relative to the IAS19 assumptions.

The most recent triennial valuation of the UK scheme was undertaken as at 5 April 2017, which was agreed by the scheme trustees after the group's year end, and revealed 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 £79m (2016 – £74m). This compared with the cash contribution to the defined benefit schemes of £36m (2016 – £38m).

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

The annual report and accounts is available at www.abf.co.uk and will be despatched to shareholders on 9 November 2017. The annual general meeting will be held at Congress Centre, 28 Great Russell Street, London. WC1B 3LS at 11am on Friday, 8 December 2017.

# 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 balance sheet and results. Effective risk management is nevertheless central to the board's role in providing strategic oversight and stewardship of the group. The board is accountable for ensuring that risk is successfully managed and undertakes a robust annual assessment of the principal risks, including those that would threaten the business model, future performance, solvency or liquidity, together with the internal control procedures and resources devoted to them.

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 which also reviews the effectiveness of the group's risk mitigation processes.

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. The risks assessments consider materiality, risk controls and the likely impact against a range of criteria such as business objectives, health and safety, financial performance, the environment and community, regulation and reputation. 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 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 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. 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 aim to maintain a practical approach to effective risk management which allows our businesses the scope to address their current and potential risks. 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 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

Last year, 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 the Company, including those that would threaten the 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 but we report those 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 2016' highlight the significant variations in the profile of our principal risks or describe our experience and activity over the last year.

## PRINCIPAL RISKS AND UNCERTAINTIES

### External risks

| Risk trend | Context and potential impact | Mitigation | Changes since 2016 |
|---|---|---|---|
| ◁▷ | **Movement in exchange rates and inflation** | | |
| | Associated British Foods is a multinational group with operations and transactions in many currencies.<br><br>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. | Businesses impacted by exchange rate volatility, specifically those manufacturing or purchasing in one currency and selling in another, constantly review their currency-related exposures.<br><br>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.<br><br>Cash balances and borrowings are largely maintained in the functional currency of the local operations. 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 in the annual report for more information). | Sterling has weakened against most of our major trading currencies this year.<br><br>The net impact on adjusted operating profit for 2016/17 from the translation of overseas results into sterling was a gain of £85m.<br><br>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. Sterling weakness against the US dollar, since its decline following the UK referendum in June 2016, had an adverse transactional effect on Primark's largely dollar-denominated purchases this year. However, the euro's strength in the second half had a beneficial effect on British Sugar's margin. |
| ◁▷ | **Fluctuations in commodity and energy prices** | | |
| | Changes in commodity and energy prices can have a material impact on the group's operating results, asset values and cash flows. | We constantly monitor the markets in which we operate and manage certain of these exposures with exchange traded contracts and hedging instruments.<br><br>The commercial implications of commodity price movements are continuously assessed and, where appropriate, are reflected in the pricing of our products. | EU and world sugar prices were higher than last year which had a positive effect on Sugar profitability.<br><br>Lower ethanol prices and higher wheat costs adversely affected margins at Vivergo Fuels.<br><br>Higher agricultural commodity prices adversely affected margins in our China and UK compound feed businesses although firmer grain pricing benefited Frontier Agriculture. |
| ◁▷ | **Operating in global markets** | | |
| | Operating in 50 countries with a supply chain covering even more, we are exposed to: global market forces; fluctuations in national economies; societal and political changes; a range of consumer concerns; and evolving legislation.<br><br>Failure to recognise and respond to any of these factors could directly impact the profitability of our operations.<br><br>Entering new markets is a risk to any business. | Our approach to risk management incorporates potential short-term market volatility and evaluates longer-term socio-economic and political scenarios.<br><br>The group's financial control framework and board-adopted tax and treasury policies require all businesses to comply fully with relevant local laws.<br><br>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 outcome.<br><br>We engage with governments, local regulators and community organisations to contribute to, and anticipate important changes in, public policy.<br><br>We conduct rigorous due diligence when entering, or commencing business activities, in new markets. | In preparing for the abolition of EU sugar quotas from October 2017, AB Sugar continued to reduce its cost base with the benefit of its performance improvement programme.<br><br>We acquired two small businesses in the sports nutrition market this year but neither is of sufficient scale to represent a material risk to the group's profitability in the event of failure. Other acquisitions were in market sectors or countries very familiar to the group. In all cases thorough due diligence was undertaken. |

## External risks continued

| Risk trend | Context and potential impact | Mitigation | Changes since 2016 |
|---|---|---|---|
| ◁▷ | **Health and nutrition** | | |
| | Failure to respond appropriately to health and nutrition concerns in the formulation of our products could result in adverse consumer reaction.<br>Failure to keep pace with changing consumer tastes, choices and shopping behaviours could impact business performance.<br>We must also act responsibly across the spectrum of food poverty and malnutrition to obesity. | Consumer preferences and market trends are monitored continuously.<br>Recipes are regularly reviewed and reformulated to improve the nutritional value of our grocery products, all of which are labelled with nutritional information.<br>We develop partnerships with other organisations to help educate consumers about making healthy choices. | Our businesses continued to review their products and to partner with others to enable a swift and innovative response to changing consumer needs.<br>Our Sugar and Grocery businesses have supported healthy eating campaigns during the year to help consumers make informed choices about their food. |
| △ | **Socio-political uncertainty** | | |
| | Geopolitical uncertainty, the threat of terrorism and social unrest could all have a direct impact on our operations, our suppliers and our people. Such events may also impact consumer confidence. | By their nature these events mean they are largely unpredictable. Nonetheless our businesses have prepared detailed contingency plans which include site-level emergency responses and improved security for employees. | Reviewed and upgraded contingency plans across our businesses. |

## Operational risks

| Risk trend | Context and potential impact | Mitigation | Changes since 2016 |
|---|---|---|---|
| ◁▷ | **Workplace health and safety** | | |
| | Many of our operations, by their nature, have the potential for injuries and fatal accidents to employees, contractors and visitors. | Safety continues to be the number one priority for our businesses with active endorsement and accountability from the chief executives of each business.<br>Our Health and Safety policy and practices are firmly embedded in each business, supporting a strong ethos of workplace safety.<br>Independent audits are conducted to verify implementation and support continuous improvement.<br>Best practice safety and occupational health training and guidance are shared across the businesses, co-ordinated from the corporate centre, to supplement the delivery of their own programmes. | During the year there has been a 15% increase in our employee lost time injury rate to 0.76%. Our businesses conduct thorough root cause analysis to learn from accidents and implement safety changes. |
| ◁▷ | **Product safety and quality** | | |
| | As a leading food manufacturer and retailer, it is fundamental that we manage the safety and integrity of our products throughout the supply chain. | Across the group, product safety is put before economic considerations.<br>Our businesses employ quality control specialists and operate strict policies within an organisational culture of hygiene and product safety to ensure that consistently high standards are maintained in our operations and in the sourcing and handling of raw materials and garments.<br>We monitor the regulatory environment and emerging scientific research while reviewing our food safety systems for efficacy and legal compliance.<br>A programme of independent food quality and safety audits is undertaken across all our manufacturing sites and a due diligence programme is in place to ensure the safety of our retail products. | No significant changes this year. |

## Operational risks continued

| Risk trend | Context and potential impact | Mitigation | Changes since 2016 |
|---|---|---|---|
| ◁▷ | **Our use of natural resources and managing our environmental impact** | | |
| | Our businesses rely on a stable supply of natural resources some of which are vulnerable to external factors such as natural disasters and climate change.<br>Our operations give rise to a range of emissions including dust, waste water and waste which, if not controlled, could lead to a risk to the environment and our local communities. Many of our sites are surrounded by other businesses or residential areas. | We aim to go beyond environmental compliance.<br>Our businesses employ environmental specialists who use the best available technologies and techniques to reduce our use of consumables, adapt operations to climate change and reduce our environmental footprint.<br>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.<br>Our businesses are mindful of being good neighbours through local community engagement and the monitoring and management of noise pollution and odours. | The environmental performance of the group, with updates by division, is reported in the 2017 Corporate Responsibility Update at www.abf.co.uk/responsibility<br>We report our approach to climate change, water and deforestation risk via CDP at www.cdp.org<br>Some of our businesses have started to develop a structured approach to 'being a good neighbour' in order to evaluate their positive effect on the community and to mitigate any potential adverse impact. |
| ◁▷ | **Our supply chain and ethical business practices** | | |
| | Our suppliers are essential to the successful operation of the group.<br>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.<br>Potential supply chain and ethical business practice risks include:<br>• reputational damage through supply chain weaknesses e.g. poor conditions for workers;<br>• unacceptable and unethical behaviour, including bribery, corruption and slavery risk;<br>• impact on reliability of supply and business continuity due to unforeseen incidents e.g. natural disasters; and<br>• long-term sustainability of key suppliers. | Our Supplier Code of Conduct is designed to ensure suppliers, representatives and all with whom we deal, adhere to our values and standards.<br>The full Code is available at: www.abf.co.uk/supplier_code_of_conduct<br>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.<br>All businesses are required to comply with the group's Business Principles including its Anti-Bribery and Corruption Policy. | Our businesses have continued to engage with key suppliers on a range of shared issues such as maximising environmental and cost efficiencies, maintaining safe workplaces, supporting steady employment and increasing transparency across the wider supply chain.<br>All our businesses have undertaken risk assessments to identify supply chains at high risk from modern slavery. Over the year, we have focused on embedding our work in this area through training and sharing learning across the businesses.<br>Our Modern Slavery and Human Trafficking Statement 2017 and the steps we take to try to ensure that any forms of modern slavery are not present within our own operations or our supply chain are reported in detail in the 2017 Corporate Responsibility Update at www.abf.co.uk/responsibility |
| △ | **Breaches of IT and information security** | | |
| | 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 internal and external cyber threats such as computer viruses and the loss or theft of data.<br>We are increasingly interacting with customers, consumers and suppliers through technology and therefore greater emphasis is placed on secure and reliable IT systems, enabling careful management of information.<br>There is also the potential for disruption to operations from unforeseen IT and system malfunctions or external attack. | We seek to understand the changing cyber risks faced by our businesses and take appropriate action.<br>We have established processes, group IT security policies and technologies in place, all of which are subject to regular internal audit.<br>Access to sensitive data is restricted and closely monitored.<br>Robust disaster recovery plans are in place for business-critical applications.<br>Technical security controls are in place over key IT platforms with the Head of IT Security tasked with identifying and responding to potential security risks. | We instigated regular security scanning of all websites in 2016 and developed incident management plans for potential IT attacks; both approaches yielded positive outcomes in 2017.<br>We enhanced the security assessments and due diligence required for new IT projects. |

## CAUTIONARY 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.

## DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 a whole, together with a description of the principal risks and uncertainties that they face.

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.

The contents of this announcement, including the responsibility statement above, have been extracted from the annual report and accounts for the 52 weeks ended 16 September 2017 which will be despatched to shareholders on 9 November 2017 and may then be found at www.abf.co.uk. Accordingly this responsibility statement makes reference to the financial statements of the Company and the group and to the relevant narrative appearing in that annual report and accounts rather than the contents of this announcement.

On behalf of the board

| | | |
|---|---|---|
| **Charles Sinclair** | **George Weston** | **John Bason** |
| **Chairman** | **Chief Executive** | **Finance Director** |

7 November 2017

# CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 16 September 2017

| Continuing operations | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **Revenue** | 1 | **15,357** | 13,399 |
| Operating costs | | **(14,090)** | (12,364) |
| | | **1,267** | 1,035 |
| Share of profit after tax from joint ventures and associates | | **63** | 57 |
| Profits less losses on disposal of non-current assets | | **6** | 11 |
| **Operating profit** | | **1,336** | 1,103 |
| | | | |
| Adjusted operating profit | 1 | **1,363** | 1,118 |
| Profits less losses on disposal of non-current assets | | **6** | 11 |
| Amortisation of non-operating intangibles | | **(28)** | (21) |
| Transaction costs | | **(5)** | (5) |
| | | | |
| Profits less losses on sale and closure of businesses | 5 | **293** | (14) |
| **Profit before interest** | | **1,629** | 1,089 |
| Finance income | | **9** | 6 |
| Finance expense | | **(59)** | (56) |
| Other financial (expense)/income | | **(3)** | 3 |
| **Profit before taxation** | | **1,576** | 1,042 |
| | | | |
| Adjusted profit before taxation | | **1,310** | 1,071 |
| Profits less losses on disposal of non-current assets | | **6** | 11 |
| Amortisation of non-operating intangibles | | **(28)** | (21) |
| Transaction costs | | **(5)** | (5) |
| Profits less losses on sale and closure of businesses | | **293** | (14) |
| | | | |
| Taxation – UK | | **(62)** | (73) |
| – Overseas | | **(303)** | (148) |
| | 2 | **(365)** | (221) |
| **Profit for the period** | | **1,211** | 821 |
| | | | |
| **Attributable to** | | | |
| Equity shareholders | | **1,198** | 818 |
| Non-controlling interests | | **13** | 3 |
| **Profit for the period** | | **1,211** | 821 |
| | | | |
| Basic and diluted earnings per ordinary share (pence) | 3 | **151.6** | 103.4 |
| Dividends per share paid and proposed for the period (pence) | 4 | **41.00** | 36.75 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 16 September 2017

| | **2017 £m** | 2016 £m |
|---|---|---|
| **Profit for the period recognised in the income statement** | **1,211** | 821 |
| **Other comprehensive income** | | |
| Remeasurements of defined benefit schemes | **438** | (258) |
| Deferred tax associated with defined benefit schemes | **(77)** | 50 |
| Current tax associated with defined benefit schemes | **–** | 1 |
| Items that will not be reclassified to profit or loss | **361** | (207) |
| Effect of movements in foreign exchange | **61** | 610 |
| Net loss on hedge of net investment in foreign subsidiaries | **(9)** | (75) |
| Deferred tax associated with movements in foreign exchange | **(2)** | 8 |
| Current tax associated with movements in foreign exchange | **(1)** | 1 |
| Reclassification adjustment for movements in foreign exchange on subsidiaries disposed | **(28)** | – |
| Movement in cash flow hedging position | **(8)** | (13) |
| Deferred tax associated with movement in cash flow hedging position | **–** | 4 |
| Share of other comprehensive income of joint ventures and associates | **–** | 16 |
| Items that are or may be subsequently reclassified to profit or loss | **13** | 551 |
| **Other comprehensive income for the period** | **374** | 344 |
| **Total comprehensive income for the period** | **1,585** | 1,165 |
| **Attributable to** | | |
| Equity shareholders | **1,573** | 1,153 |
| Non-controlling interests | **12** | 12 |
| **Total comprehensive income for the period** | **1,585** | 1,165 |

# CONSOLIDATED BALANCE SHEET

At 16 September 2017

| | 2017 £m | 2016 £m |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | **1,414** | 1,348 |
| Property, plant and equipment | **5,470** | 5,145 |
| Investments in joint ventures | **210** | 221 |
| Investments in associates | **44** | 39 |
| Employee benefits assets | **285** | 6 |
| Deferred tax assets | **143** | 139 |
| Other receivables | **54** | 41 |
| **Total non-current assets** | **7,620** | 6,939 |
| **Current assets** | | |
| Assets classified as held for sale | **–** | 312 |
| Inventories | **2,101** | 2,033 |
| Biological assets | **90** | 86 |
| Trade and other receivables | **1,342** | 1,337 |
| Derivative assets | **79** | 105 |
| Income tax | **28** | 9 |
| Cash and cash equivalents | **1,550** | 555 |
| **Total current assets** | **5,190** | 4,437 |
| **Total assets** | **12,810** | 11,376 |
| **Current liabilities** | | |
| Liabilities classified as held for sale | **–** | (75) |
| Loans and overdrafts | **(265)** | (245) |
| Trade and other payables | **(2,500)** | (2,366) |
| Derivative liabilities | **(113)** | (73) |
| Income tax | **(170)** | (147) |
| Provisions | **(105)** | (54) |
| **Total current liabilities** | **(3,153)** | (2,960) |
| **Non-current liabilities** | | |
| Loans | **(612)** | (640) |
| Other payables | **(216)** | (185) |
| Provisions | **(27)** | (34) |
| Deferred tax liabilities | **(231)** | (139) |
| Employee benefits liabilities | **(159)** | (296) |
| **Total non-current liabilities** | **(1,245)** | (1,294) |
| **Total liabilities** | **(4,398)** | (4,254) |
| **Net assets** | **8,412** | 7,122 |
| **Equity** | | |
| Issued capital | **45** | 45 |
| Other reserves | **175** | 175 |
| Translation reserve | **456** | 433 |
| Hedging reserve | **(31)** | (22) |
| Retained earnings | **7,694** | 6,423 |
| **Total equity attributable to equity shareholders** | **8,339** | 7,054 |
| Non-controlling interests | **73** | 68 |
| **Total equity** | **8,412** | 7,122 |

# CONSOLIDATED CASH FLOW STATEMENT

For the 52 weeks ended 16 September 2017

| | 2017 £m | 2016 £m |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit before taxation | **1,576** | 1,042 |
| Profits less losses on disposal of non-current assets | **(6)** | (11) |
| Profits less losses on sale and closure of businesses | **(293)** | 14 |
| Transaction costs | **3** | 5 |
| Finance income | **(9)** | (6) |
| Finance expense | **59** | 56 |
| Other financial expense/(income) | **3** | (3) |
| Share of profit after tax from joint ventures and associates | **(63)** | (57) |
| Amortisation | **57** | 47 |
| Depreciation | **514** | 439 |
| Net change in the fair value of current biological assets | **–** | (12) |
| Share-based payment expense | **21** | 7 |
| Pension costs less contributions | **12** | 7 |
| Increase in inventories | **(40)** | (62) |
| Increase in receivables | **(2)** | (55) |
| Increase in payables | **168** | 107 |
| Purchases less sales of current biological assets | **(2)** | (2) |
| (Decrease)/increase in provisions | **(1)** | 5 |
| Cash generated from operations | **1,997** | 1,521 |
| Income taxes paid | **(356)** | (211) |
| **Net cash from operating activities** | **1,641** | 1,310 |
| | | |
| **Cash flows from investing activities** | | |
| Dividends received from joint ventures and associates | **69** | 25 |
| Purchase of property, plant and equipment | **(823)** | (774) |
| Purchase of intangibles | **(43)** | (30) |
| Sale of property, plant and equipment | **49** | 27 |
| Purchase of subsidiaries, joint ventures and associates | **(79)** | (10) |
| Sale of subsidiaries, joint ventures and associates | **452** | – |
| Interest received | **8** | 6 |
| **Net cash from investing activities** | **(367)** | (756) |
| | | |
| **Cash flows from financing activities** | | |
| Dividends paid to non-controlling interests | **(4)** | (10) |
| Dividends paid to equity shareholders | **(299)** | (279) |
| Interest paid | **(59)** | (62) |
| Increase/(decrease) in short-term loans | **49** | (109) |
| (Decrease)/increase in long-term loans | **(9)** | 12 |
| Purchase of shares in subsidiary undertaking from non-controlling interests | **(3)** | (252) |
| Movements from changes in own shares held | **(10)** | (19) |
| **Net cash from financing activities** | **(335)** | (719) |
| | | |
| **Net increase/(decrease) in cash and cash equivalents** | **939** | (165) |
| Cash and cash equivalents at the beginning of the period | **462** | 585 |
| Effect of movements in foreign exchange | **(15)** | 42 |
| **Cash and cash equivalents at the end of the period** | **1,386** | 462 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 16 September 2017

| | Attributable to equity shareholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued capital £m | Other reserves £m | Translation reserve £m | Hedging reserve £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity £m |
| Balance as at 12 September 2015 | 45 | 175 | (120) | (11) | 6,232 | 6,321 | 190 | 6,511 |
| **Total comprehensive income** | | | | | | | | |
| Profit for the period recognised in the income statement | – | – | – | – | 818 | 818 | 3 | 821 |
| Remeasurements of defined benefit schemes | – | – | – | – | (258) | (258) | – | (258) |
| Deferred tax associated with defined benefit schemes | – | – | – | – | 50 | 50 | – | 50 |
| Current tax associated with defined benefit schemes | – | – | – | – | 1 | 1 | – | 1 |
| Items that will not be reclassified to profit or loss | – | – | – | – | (207) | (207) | – | (207) |
| Effect of movements in foreign exchange | – | – | 603 | 2 | – | 605 | 5 | 610 |
| Net loss on hedge of net investment in foreign subsidiaries | – | – | (75) | – | – | (75) | – | (75) |
| Deferred tax associated with movements in foreign exchange | – | – | 8 | – | – | 8 | – | 8 |
| Current tax associated with movements in foreign exchange | – | – | 1 | – | – | 1 | – | 1 |
| Movement in cash flow hedging position | – | – | – | (17) | – | (17) | 4 | (13) |
| Deferred tax associated with movement in cash flow hedging position | – | – | – | 4 | – | 4 | – | 4 |
| Share of other comprehensive income of joint ventures and associates | – | – | 16 | – | – | 16 | – | 16 |
| Items that are or may be subsequently reclassified to profit or loss | – | – | 553 | (11) | – | 542 | 9 | 551 |
| Other comprehensive income | – | – | 553 | (11) | (207) | 335 | 9 | 344 |
| Total comprehensive income | – | – | 553 | (11) | 611 | 1,153 | 12 | 1,165 |
| **Transactions with owners** | | | | | | | | |
| Dividends paid to equity shareholders | – | – | – | – | (279) | (279) | – | (279) |
| Net movement in own shares held | – | – | – | – | (12) | (12) | – | (12) |
| Deferred tax associated with share-based payments | – | – | – | – | (2) | (2) | – | (2) |
| Current tax associated with share-based payments | – | – | – | – | 1 | 1 | – | 1 |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | (10) | (10) |
| Acquisition and disposal of non-controlling interests | – | – | – | – | (128) | (128) | (124) | (252) |
| Total transactions with owners | – | – | – | – | (420) | (420) | (134) | (554) |
| 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 | – | – | – | – | (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** |

### 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, income tax assets and deferred tax assets, and all current assets except cash and cash equivalents. Segment liabilities comprise trade and other payables, derivative liabilities and provisions.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and expenses, cash, borrowings, employee benefits balances and current and deferred tax balances. Segment non-current asset additions are the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year, comprising property, plant and equipment, operating intangibles and biological assets.

The group is comprised of the following operating segments:

| | |
|---|---|
| Grocery | The manufacture of grocery products, including hot beverages, sugar & sweeteners, vegetable oils, bread & baked goods, cereals, ethnic foods, 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 | |
|---|---|---|---|---|
| | **52 weeks ended 16 September 2017 £m** | 53 weeks ended 17 September 2016 £m | **52 weeks ended 16 September 2017 £m** | 53 weeks ended 17 September 2016 £m |
| **Operating segments** | | | | |
| Grocery | **3,381** | 3,097 | **303** | 294 |
| Sugar | **2,174** | 1,636 | **223** | 35 |
| Agriculture | **1,203** | 1,084 | **50** | 58 |
| Ingredients | **1,493** | 1,294 | **125** | 93 |
| Retail | **7,053** | 5,949 | **735** | 689 |
| Central | **–** | – | **(75)** | (60) |
| | **15,304** | 13,060 | **1,361** | 1,109 |
| Businesses disposed: | | | | |
| Grocery | **53** | 177 | **5** | 10 |
| Sugar | **–** | 162 | **(3)** | (1) |
| | **15,357** | 13,399 | **1,363** | 1,118 |
| | | | | |
| **Geographical information** | | | | |
| United Kingdom | **5,702** | 5,375 | **504** | 484 |
| Europe & Africa | **5,865** | 4,564 | **555** | 364 |
| The Americas | **1,538** | 1,226 | **189** | 158 |
| Asia Pacific | **2,199** | 1,895 | **113** | 103 |
| | **15,304** | 13,060 | **1,361** | 1,109 |
| Businesses disposed: | | | | |
| The Americas | **53** | 177 | **5** | 10 |
| Asia Pacific | **–** | 162 | **(3)** | (1) |
| | **15,357** | 13,399 | **1,363** | 1,118 |

## 1. Operating segments 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 | 2,282 | 1,207 | 1,674 | 7,053 | (296) | 15,304 |
| Internal revenue | (3) | (108) | (4) | (181) | – | 296 | – |
| External revenue from continuing businesses | 3,381 | 2,174 | 1,203 | 1,493 | 7,053 | – | 15,304 |
| Businesses disposed | 53 | – | – | – | – | – | 53 |
| 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 | 220 | 37 | 112 | 735 | (75) | 1,293 |
| Share of profit after tax from joint ventures and associates | 39 | 3 | 13 | 13 | – | – | 68 |
| Businesses disposed | 5 | (3) | – | – | – | – | 2 |
| 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 & equipment on disposal of business | (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 & equipment on disposal of business | – | – | (2) | – | (2) |

## 1. Operating segments for the 53 weeks ended 17 September 2016

| | Grocery £m | Sugar £m | Agriculture £m | Ingredients £m | Retail £m | Central £m | Total £m |
|---|---|---|---|---|---|---|---|
| Revenue from continuing businesses | 3,100 | 1,736 | 1,090 | 1,444 | 5,949 | (259) | 13,060 |
| Internal revenue | (3) | (100) | (6) | (150) | – | 259 | – |
| External revenue from continuing businesses | 3,097 | 1,636 | 1,084 | 1,294 | 5,949 | – | 13,060 |
| Businesses disposed | 177 | 162 | – | – | – | – | 339 |
| Revenue from external customers | 3,274 | 1,798 | 1,084 | 1,294 | 5,949 | – | 13,399 |
| | | | | | | | |
| Adjusted operating profit before joint ventures and associates | 262 | 33 | 44 | 84 | 689 | (60) | 1,052 |
| Share of profit after tax from joint ventures and associates | 32 | 2 | 14 | 9 | – | – | 57 |
| Businesses disposed | 10 | (1) | – | – | – | – | 9 |
| Adjusted operating profit | 304 | 34 | 58 | 93 | 689 | (60) | 1,118 |
| Profits less losses on disposal of non-current assets | 3 | 8 | – | – | – | – | 11 |
| Amortisation of non-operating intangibles | (19) | (1) | – | (1) | – | – | (21) |
| Transaction costs | – | (5) | – | – | – | – | (5) |
| Profits less losses on sale and closure of businesses | – | – | – | (5) | — | (9) | (14) |
| Profit before interest | 288 | 36 | 58 | 87 | 689 | (69) | 1,089 |
| Finance income | | | | | | 6 | 6 |
| Finance expense | | | | | | (56) | (56) |
| Other financial income | | | | | | 3 | 3 |
| Taxation | | | | | | (221) | (221) |
| **Profit for the period** | 288 | 36 | 58 | 87 | 689 | (337) | 821 |
| | | | | | | | |
| Segment assets (excluding joint ventures and associates) | 2,503 | 2,139 | 333 | 1,359 | 3,942 | 95 | 10,371 |
| Investments in joint ventures and associates | 52 | 21 | 129 | 58 | – | – | 260 |
| **Segment assets** | 2,555 | 2,160 | 462 | 1,417 | 3,942 | 95 | 10,631 |
| Cash and cash equivalents | | | | | | 581 | 581 |
| Income tax | | | | | | 13 | 13 |
| Deferred tax assets | | | | | | 145 | 145 |
| Employee benefits assets | | | | | | 6 | 6 |
| **Segment liabilities** | (522) | (498) | (106) | (274) | (1,166) | (156) | (2,722) |
| Loans and overdrafts | | | | | | (896) | (896) |
| Income tax | | | | | | (147) | (147) |
| Deferred tax liabilities | | | | | | (180) | (180) |
| Employee benefits liabilities | | | | | | (309) | (309) |
| **Net assets** | 2,033 | 1,662 | 356 | 1,143 | 2,776 | (848) | 7,122 |
| | | | | | | | |
| Non-current asset additions | 116 | 141 | 27 | 69 | 466 | 9 | 828 |
| Depreciation | (98) | (78) | (10) | (47) | (202) | (4) | (439) |
| Amortisation | (38) | (4) | (1) | (3) | – | (1) | (47) |

**Geographical information**

| | United Kingdom £m | Europe & Africa £m | The Americas £m | Asia Pacific £m | Total £m |
|---|---|---|---|---|---|
| Revenue from external customers | 5,375 | 4,564 | 1,403 | 2,057 | 13,399 |
| Segment assets | 4,108 | 3,804 | 1,239 | 1,480 | 10,631 |
| Non-current asset additions | 315 | 349 | 99 | 65 | 828 |
| Depreciation | (195) | (144) | (35) | (65) | (439) |
| Amortisation | (30) | (4) | (3) | (10) | (47) |

The above segment disclosures are stated before reclassification of assets and liabilities as held for sale.

## 2. Income tax expense

| | 52 weeks ended 16 September 2017 £m | 53 weeks ended 17 September 2016 £m |
|---|---|---|
| **Current tax expense** | | |
| UK – corporation tax at 19.54% (2016 – 20.00%) | **82** | 85 |
| Overseas – corporation tax | **297** | 142 |
| UK – (over)/under provided in prior periods | **(12)** | 6 |
| Overseas – over provided in prior periods | **(9)** | (17) |
| | **358** | 216 |
| **Deferred tax expense** | | |
| UK deferred tax | **(10)** | (14) |
| Overseas deferred tax | **17** | 28 |
| UK – under/(over) provided in prior periods | **2** | (4) |
| Overseas – over provided in prior periods | **(2)** | (5) |
| | **7** | 5 |
| **Total income tax expense in income statement** | **365** | 221 |

| | | |
|---|---|---|
| **Reconciliation of effective tax rate** | | |
| Profit before taxation | **1,576** | 1,042 |
| Less share of profit after tax from joint ventures and associates | **(63)** | (57) |
| **Profit before taxation excluding share of profit after tax from joint ventures and associates** | **1,513** | 985 |
| Nominal tax charge at UK corporation tax rate of 19.54% (2016 – 20.00%) | **296** | 197 |
| Effect of higher and lower tax rates on overseas earnings | **39** | 5 |
| Effect of changes in tax rates on income statement | **–** | (6) |
| Expenses not deductible for tax purposes | **24** | 38 |
| Disposal of assets covered by tax exemptions or unrecognised capital losses | **9** | (1) |
| Deferred tax not recognised | **18** | 8 |
| Adjustments in respect of prior periods | **(21)** | (20) |
| | **365** | 221 |

| | | |
|---|---|---|
| **Income tax recognised directly in equity** | | |
| Deferred tax associated with defined benefit schemes | **77** | (50) |
| Current tax associated with defined benefit schemes | **–** | (1) |
| Deferred tax associated with share-based payments | **(1)** | 2 |
| Current tax associated with share-based payments | **1** | (1) |
| Deferred tax associated with movement in cash flow hedging position | **–** | (4) |
| Deferred tax associated with movements in foreign exchange | **2** | (8) |
| Current tax associated with movements in foreign exchange | **1** | (1) |
| | **80** | (63) |

Legislation has been enacted to reduce the UK corporation tax rate from 20% to 19% with effect from 1 April 2017 with a further reduction to 17% from 1 April 2020. Accordingly, UK deferred tax has been calculated using these rates as appropriate.

## 3. Earnings per share

The calculation of basic earnings per share at 16 September 2017 was based on the net profit attributable to equity shareholders of £1,198m (2016 – £818m), and a weighted average number of shares outstanding during the year of 790 million (2016 – 791 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, transaction costs, amortisation of non-operating intangibles and any associated tax credits, is shown to provide clarity on the underlying performance of the group.

### 3. Earnings per share (continued)

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 (2016 – 791 million). There is no difference between basic and diluted earnings.

| | **52 weeks ended 16 September 2017 pence** | 53 weeks ended 17 September 2016 pence |
|---|---|---|
| Adjusted earnings per share | **127.1** | 106.2 |
| Disposal of non-current assets | **0.8** | 1.4 |
| Sale and closure of businesses | **37.0** | (1.8) |
| Transaction costs | **(0.6)** | (0.6) |
| Tax effect on above adjustments | **(11.0)** | 0.1 |
| Amortisation of non-operating intangibles | **(3.5)** | (2.6) |
| Tax credit on non-operating intangibles amortisation and goodwill | **1.8** | 0.6 |
| Non-controlling interests' share of the above adjustments | **–** | 0.1 |
| **Earnings per ordinary share** | **151.6** | 103.4 |

### 4. Dividends

| | **2017 pence per share** | 2016 pence per share | **2017 £m** | 2016 £m |
|---|---|---|---|---|
| 2015 final | – | 25.00 | – | 198 |
| 2016 interim | – | 10.30 | – | 81 |
| 2016 final | **26.45** | – | **209** | – |
| 2017 interim | **11.35** | – | **90** | – |
| | **37.80** | 35.30 | **299** | 279 |

The 2017 interim dividend was declared on 19 April 2017 and paid on 7 July 2017. The 2017 final dividend of 29.65 pence, total value of £234m, will be paid on 12 January 2018 to shareholders on the register on 15 December 2017.

Dividends relating to the period were 41.0 pence per share totalling £324m (2016 – 36.75 pence per share totalling £290m).

### 5. Acquisitions and disposals

#### Acquisitions

**2017**

During the 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 in respect of prior year acquisitions.

After the year end, on 12 October 2017, the group completed the acquisition of 100% of Acetum S.p.A., the leading Italian producer of Balsamic Vinegar of Modena for €317m including debt assumed. In the year ended 31 December 2016, the business generated net sales of €102m and profit after tax of €3m. 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 3 March 2018.

**2016**

Last year the group acquired two small European Agriculture businesses which, together, increased net assets by £8m satisfied in cash. Pre-acquisition carrying amounts were the same as recognised values on acquisition apart from a £2m non-operating intangible asset recognised in respect of brands. The acquisitions contributed aggregate revenues of £13m and no adjusted profit before tax for the period between the dates of acquisition and 17 September 2016. Aggregate contributions to revenue and adjusted profit before tax, had the acquisitions occurred at the beginning of the period, were not disclosed as appropriate financial information, prepared under adopted IFRS, was not available.

The £8m of cash consideration differed by £2m from the cash outflow of £10m on the purchase of subsidiaries, joint ventures and associates in the cash flow statement. The difference comprised payment of deferred consideration in respect of prior year acquisitions.

In June 2016 the group paid £252m, including costs, to acquire the minority shareholdings in Illovo Sugar Limited. As Illovo and its subsidiaries had been consolidated in the group financial statements since the acquisition of the original controlling interest in 2006, this was treated as a transaction with owners and recorded in equity rather than as an acquisition. The cash flow was shown within financing activities.

## 5. Acquisitions and disposals (continued)

### Disposals

**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.

**2016**

The group closed a small number of Ingredients businesses during the year, incurring closure costs of £4m in the Asia Pacific segment and £1m in Europe & Africa. The group also charged a £9m onerous lease provision to sale and closure of business (in the Central segment) as a result of lease reversions following the administration of the BHS retail chain in the UK.

## 6. Analysis of net cash/(debt)

| | At 17 September 2016 £m | Cash flow £m | Disposals £m | Non-cash items £m | Exchange adjustments £m | **At 16 September 2017 £m** |
|---|---|---|---|---|---|---|
| Cash at bank and in hand, cash equivalents and overdrafts | 462 | 939 | – | – | (15) | **1,386** |
| Short-term loans | (137) | (49) | 103 | (19) | 1 | **(101)** |
| Long-term loans | (640) | 9 | – | 19 | – | **(612)** |
| | (315) | 899 | 103 | – | (14) | **673** |

## 7. Related party transactions

The group has a controlling shareholder relationship with its parent company, Wittington Investments Limited, with the trustees of the Garfield Weston Foundation and with certain other individuals who hold shares in the Company. The group has a related party relationship with its associates and joint ventures 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 | **2017 £'000** | 2016 £'000 |
|---|---|---|---|
| Charges to Wittington Investments Limited in respect of services provided by the Company and its subsidiary undertakings | | **992** | 1,226 |
| 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 | **10,675** | 10,012 |
| (ii) directors of Wittington Investments Limited who are not trustees of the Foundation and their close family | | **2,799** | 2,613 |
| (iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited | | **62** | 54 |
| (iv) members of the Weston family employed within the Associated British Foods group | 2 | **2** | 2 |
| Sales to fellow subsidiary undertakings on normal trading terms | 3 | **46** | 48 |
| Sales to companies with common key management personnel on normal trading terms | 4 | **14,790** | 16,642 |
| Commissions paid to companies with common key management personnel on normal trading terms | 4 | **1,391** | 1,490 |
| Amounts due from companies with common key management personnel | 4 | **1,938** | 1,748 |
| Sales to joint ventures on normal trading terms | | **16,615** | 13,460 |
| Sales to associates on normal trading terms | | **23,112** | 41,494 |
| Purchases from joint ventures on normal trading terms | | **400,242** | 324,959 |
| Purchases from associates on normal trading terms | | **16,128** | 17,424 |
| Amounts due from joint ventures | | **49,649** | 37,531 |
| Amounts due from associates | | **2,451** | 4,244 |
| Amounts due to joint ventures | | **37,154** | 28,374 |
| Amounts due to associates | | **1,100** | 3,342 |

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 16 September 2017 was the beneficial owner of 683,073 shares (2016 – 683,073 shares) in Wittington Investments Limited representing 79.2% (2016 – 79.2%) of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 16 September 2017 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. Members of the Weston family who are employed by the group and are not directors of the Company or Wittington Investments Limited and are not trustees of the Foundation.

## 7. Related party transactions (continued)

3. The fellow subsidiary undertakings are Fortnum and Mason plc and Heal & Son Limited.
4. 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 £48m (2016 – £36m) of finance lease receivables. The remainder of the balance is trading balances. All but £3m (2016 – £3m) of the finance lease receivables are non-current.

## 8. Other information

The financial information set out above does not constitute the Company's statutory accounts for the 52 weeks ended 16 September 2017, or the 53 weeks ended 17 September 2016. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts. Their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006 in respect of the accounts.

## 9. Basis of preparation

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 16 September 2017 (2016 – 53 weeks ended 17 September 2016) comprise those of the Company and its subsidiaries (together referred to as 'the group') and the group's interests in joint ventures and associates.

The consolidated financial statements were authorised for issue by the directors on 7 November 2017.

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU. Under IFRS, management is required to make judgements, estimates and assumptions about the reported amounts of assets and liabilities, income and expense and the disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on experience. Actual results may differ from these estimates. 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 consolidated financial statements are presented in sterling, rounded to the nearest million. They are prepared on the historical cost basis except that biological assets and certain financial instruments are stated at fair value. Assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The 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 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 2017.

## 10. Significant accounting policies

There have been no significant changes to accounting policies during the year. 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. The standards effective in 2018 are not expected to have any material effect on the group.

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions effective 2019 financial year (not yet endorsed by the EU)
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts effective 2019 financial year (not yet endorsed by the EU)
- Annual Improvements to IFRSs 2014-2016 effective 2018 and 2019 financial years
- IFRS 9: Financial Instruments: Classification and Measurement effective 2019 financial year
- IFRS 15: Revenue from Contracts with Customers effective 2019 financial year
- IFRS 16: Leases effective 2020 financial year (not yet endorsed by the EU)
- IFRS 17: Insurance contracts effective 2022 financial year (not yet endorsed by the EU)
- Amendments to IAS 7: Disclosure Initiative effective 2018 financial year (not yet endorsed by the EU)
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses effective 2018 financial year (not yet endorsed by the EU)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration effective 2019 financial year (not yet endorsed by the EU)
- IFRIC 23: Uncertainty over Income Tax Treatments 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. Impact assessments and implementation planning is already under way for these standards. Further details of the group's transitional approach to their implementation and their expected impact will be provided in the 2018 consolidated financial statements. The impact of the other standards is currently under review but is expected to be much less significant.