Associated
British Foods
plc



# VALUE TOGETHER

ANNUAL REPORT AND ACCOUNTS 2014

# VALUE TOGETHER

Associated British Foods is a diversified international food, ingredients and retail group with sales of £12.9bn, 118,000 employees and operations in 47 countries across Europe, southern Africa, the Americas, Asia and Australia.

At the heart of the way we operate is a principle of 'value together' – the benefit that the group gains from each of the businesses being part of the larger organisation. This is manifest in how the corporate centre provides support to its operations and in the advantages that individual businesses gain from collaboration with each other.

Our businesses benefit from working alongside other group operations in related markets – allowing them to share knowledge, skills and best practice. The model also allows them, for example, to make joint investments, which would otherwise deliver insufficient returns. The businesses also work with each other to provide practical support such as making introductions in new countries and markets, hiring and developing people, providing back-office services and sharing office space, to name but a few.

## FINANCIAL HIGHLIGHTS

**Group revenue**

£12.9bn
Actual: -3%
Constant currency: +1%

**Adjusted operating profit***

£1,163m
Actual: -1%
Constant currency: +2%

**Adjusted profit before tax****

£1,105m
Up 2%

**Adjusted earnings per share****

104.1p
Up 6%

**Dividends per share**

34.0p
Up 6%

**Net capital investment**

£691m

**Net debt reduced to**

£446m

**Operating profit**

£1,080m
Down 1%

**Profit before tax**

£1,020m
Up 18%

**Basic earnings per share**

96.5p
Up 30%

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

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

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

Constant currency is derived by translating the 2013 results at 2014 average exchange rates.

## What were the highlights of the year?

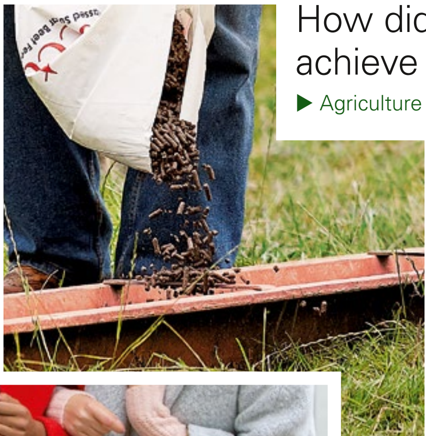
▶ Chief Executive's statement page 6

## What drove margin improvement in Grocery?

▶ Grocery page 12


## What was the impact of falling sugar prices?

▶ Sugar page 18

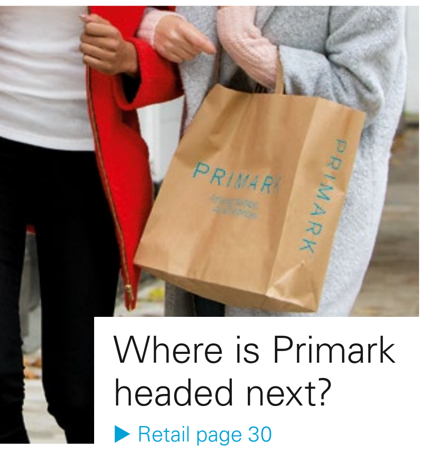


## How did AB Agri achieve record profits?

▶ Agriculture page 23

## How is Ingredients achieving its turnaround?

▶ Ingredients page 26




## Where is Primark headed next?

▶ Retail page 30

## How well are we performing against our business principles?

▶ Corporate responsibility page 40

# CONTENTS



Our PLC website is available on multiple platforms from mobile devices to laptops. For a more interactive report, go online at

**abf.co.uk/ar2014**

For an in-depth look at our sustainable approach to business refer to the Associated British Foods Corporate Responsibility Report 2013, with updates for 2014, which are available at

**abf.co.uk/responsibility**

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



# OUR BUSINESSES AT A GLANCE

## GROCERY

**Revenue**
£3,337m 2013: £3,568m

**Adjusted operating profit**
£269m 2013: £224m

**Adjusted operating profit margin**
8.1% 2013: 6.3%

**Return on average capital employed**
20.8% 2013: 16.9%

**International**
Twinings and Ovaltine are our global hot beverage brands.

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

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

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

▶ Grocery page 12


## SUGAR

**Revenue**
£2,083m 2013: £2,677m

**Adjusted operating profit**
£189m 2013: £434m

**Adjusted operating profit margin**
9.1% 2013: 16.2%

**Return on average capital employed**
10.5% 2013: 23.3%

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

**Sugar, China**
We operate five cane sugar mills in Guangxi Province and four beet sugar factories in the north east of the country. Continuous investment has raised annual sugar capacity to over 900,000 tonnes.

**Sugar, Southern Africa**
Illovo is Africa's largest sugar producer with agricultural and production facilities in six countries. Annual sugar production is 1.7 million tonnes.

▶ Sugar page 18

# AGRICULTURE

**Revenue**
£1,312m 2013: £1,410m

**Adjusted operating profit**
£50m 2013: £47m

**Adjusted operating profit margin**
3.8% 2013: 3.3%

**Return on average capital employed**
17.3% 2013: 16.4%

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

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

We employ over 2,000 people in the UK and China and market products in more than 65 countries worldwide.

▶ Agriculture page 23

# INGREDIENTS

**Revenue**
£1,261m 2013: £1,360m

**Adjusted operating profit**
£41m 2013: £5m

**Adjusted operating profit margin**
3.3% 2013: 0.4%

**Return on average capital employed**
5.8% 2013: 0.6%

**Yeast and bakery ingredients**
AB Mauri operates globally in yeast and bakery ingredient production with 54 plants in 26 countries supplying plant and artisanal bakers and the foodservice and wholesale channels. It is a technology leader in bread improvers, dough conditioners and bakery mixes.

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

▶ Ingredients page 26

# RETAIL

**Revenue**
£4,950m 2013: £4,273m

**Adjusted operating profit**
£662m 2013: £513m

**Adjusted operating profit margin**
13.4% 2013: 12.0%

**Return on average capital employed**
33.2% 2013: 26.0%

**Primark**
Primark is a major retail group employing 54,000 people. It operates stores in the UK, Republic of Ireland, Spain, Portugal, Germany, the Netherlands, Belgium, Austria and France.

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

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

▶ Retail page 30

I am pleased to report growth of 6% in adjusted earnings per share for the financial year.



# CHAIRMAN'S STATEMENT

**I am pleased to report growth of 6% in adjusted earnings per share for the financial year. Significant progress was achieved in operating profit by Grocery, Agriculture, Ingredients and Primark, all of which substantially outperformed last year. Much lower sugar prices in the EU held back the group's profit growth, although operationally Sugar performed well. Earnings also benefited from the strength of the group's balance sheet and effective cash management which resulted in a much lower interest charge than last year.**

The financial year was characterised by price deflation in many food commodities and a strengthening of sterling against our major trading currencies. The impact of this is evident in the lower revenues of our food businesses and, in this context, the profit growth in Grocery, Agriculture and Ingredients is all the more impressive. Grocery margin advanced with strong performances from Twinings Ovaltine and ACH Foods in the US and Mexico, and a further recovery in the bakery and meat businesses of George Weston Foods in Australia. Our yeast and bakery ingredients business, AB Mauri, is achieving a strong turnaround from the challenges of recent years with the promise of further improvement to come. AB Agri achieved another record result.

Primark had another magnificent year, increasing profit by 30% at constant currency and adding a net 1.2 million sq ft of selling space taking our total estate to over 10 million sq ft at the financial year end. Our highly successful entry into France this year brings the number of countries in which Primark operates to nine. Primark has now developed experience in establishing the brand in new markets and has achieved considerable trading success in each of them. We recently announced that the next new market would be in the north-east of the US, with the first stores expected to open late in 2015 and with up to ten stores by the end of 2016.

The results of our sugar operations reflect a major fall in EU sugar prices and a very low world sugar price. Looking back to 2011/12, a shortage of sugar available for sale in the EU and relatively high world prices at the time drove EU prices to very high levels which clearly benefited our Sugar profit in that year. This was exceptional. Since then more sugar has become available, sugar stocks in the EU have risen, the European Commission has confirmed the abolition of sugar quotas from October 2017, and world sugar prices have declined dramatically. We have seen increased competition as European producers position themselves for a post-quota market. This has driven a fall in prices which we expect to continue in 2015. We anticipate restructuring in the European sugar industry and, as the high stock levels are liquidated, we expect to see volatility in market prices. This structural change is painful, but AB Sugar has risen to challenges of this nature before, and does so this time with a programme of continuous performance improvement. We are one of the most efficient producers in the EU and will continue to take the neccessary action to ensure that we are well placed to operate in the post-quota environment.

We have a good track record of investing for the long term and this year was no exception with net capital investment of £691m, up from £600m last year. The higher level of capital expenditure was driven by a larger number of new Primark stores opened, or still to open but in the process of fit-out, during the year. The five-year investment programme at Allied Bakeries to create a state-of-the-art baking capability across the UK is now substantially complete and ensures the reliable supply of high quality bread to our customers. This programme also sets a new benchmark for standards of food safety in the bakery sector and has enhanced safety in our workplace.

Cash flow was again stronger than the previous year driven by a working capital inflow more than offsetting the increase in net capital investment. Net debt at the year end was £358m lower than last year at £446m. With the group's cash generating ability, the lower net debt and the committed borrowing facilities available, we have the capacity to meet our growth ambitions for the foreseeable future.

## Corporate responsibility

Last year we published a comprehensive Corporate Responsibility Report which outlined the close alignment between our values and good business practice, and highlighted our commitment to improving productivity and reducing waste. This report was well received by all of our stakeholders and updates are now available to reflect the achievements of the last 12 months. The report is available online at www.abf.co.uk/responsibility. Of particular note is the further progress Primark has made in its ethical trade programme with an enlarged team of specialists, now located in seven countries, which is critical to supporting sustainable improvements within supplier factories. As a responsible business, AB Sugar is actively contributing to the debate about the role that sugar can play as part of a healthy, balanced diet, with its Making Sense of Sugar campaign. The board remains committed to the highest ethical standards across the group.

## The board

The Senior Independent Director, Tim Clarke, was appointed to the board in 2004 and, in accordance with the UK Corporate Governance Code, having completed nine years' service, his independence must be confirmed annually by the rest of the board. This having been done, we are delighted that Tim has agreed to continue as a member of the board and as the Senior Independent Director.

Three other independent directors will complete nine years on the board in 2015 and 2016. To avoid the possibility of a significant loss of experience in a short period we have temporarily expanded the board. Ruth Cairnie was appointed as an independent non-executive director with effect from 1 May 2014. Ruth was recently Executive Vice President Strategy & Planning at Royal Dutch Shell plc where she had also held a number of senior commercial roles gaining experience in European and emerging markets. We very much look forward to Ruth's participation in the board's deliberations.

## Employees

I would like to thank all our employees for their contribution to the group's success in the past year. Operational improvements have underpinned the increased profitability in Grocery and Ingredients, and have become part of everyday business at AB Sugar. Together with the excellent performances from Agriculture and Primark these results are a tribute to the dedication and commitment of our employees.

## Dividends

I am pleased to report that a final dividend of 24.3p is proposed, to be paid on 9 January 2015 to shareholders on the register on 12 December 2014. Together with the interim dividend of 9.7p paid on 4 July 2014, this will make a total of 34.0p for the year, an increase of 6%.

## Outlook

In the coming year, we expect Primark's expansion to continue and Grocery, Ingredients and Agriculture to make further progress. With the continuing fall in EU sugar prices and volatility in the world sugar price we expect a further large reduction in profit from AB Sugar but this will put much of the effect of the structural changes in EU prices behind us. At this early stage we expect a marginal decline in adjusted operating profit for the group but the impact on earnings will be mitigated by much lower tax and interest charges. We therefore see limited opportunity to grow adjusted earnings per share in the new financial year. With the strength of the group's balance sheet and strong cash generation, we have every reason to be confident of further progress for the group thereafter.

**Charles Sinclair**
**Chairman**



## The delivery of an adjusted operating profit for the group in line with last year reflects the considerable achievement of all of our businesses in a year when EU sugar prices declined substantially.



# CHIEF EXECUTIVE'S STATEMENT

**The delivery of an adjusted operating profit for the group in line with last year reflects the considerable achievement of all of our businesses in a year when EU sugar prices declined substantially.**

This financial year saw sterling strengthen against all of our major trading currencies and particularly those in emerging markets. Group revenue declined by 3% to £12.9bn but, at constant currency, actually increased by 1%. Adjusted operating profit was 1% lower at £1,163m but increased by 2% at constant currency. Currency movements have had a significant impact on our business segments this year and in order to understand the underlying operating performance of each of them, we have referred to the year-on-year changes at constant currency.

A key influence on this year's performance has been the impact on our food businesses of price deflation in some of our major commodities. The prices of wheat, barley, corn oil and rice all fell during the year. World sugar prices have also fallen and, as discussed elsewhere in this report, we are in the midst of a structural change in EU sugar prices. As a consequence the growth in revenues achieved by our food businesses in recent years has not been sustained this year. It is against this background that I am pleased with the profit and margin improvements delivered by Agriculture, Grocery and Ingredients.

Operationally, AB Sugar had an excellent year with good factory performances and further substantial cost reductions from the performance improvement programmes which are well embedded in each of the businesses. We expect EU prices to fall further during the coming year, but remain confident that our well invested sugar assets position us amongst the world's lowest-cost sugar producers.

At Primark, a strong store opening programme, excellent buying, and higher sales densities in our new stores, all came together to drive revenues to within a fraction of £5bn with a further improvement in margin. As well as expanding in our more established UK market we also opened large stores in a number of major cities across Europe, including Lisbon, Madrid, Berlin, Cologne, Dusseldorf and Vienna. This year saw the opening of our first stores in France, firstly in Marseille quickly followed by Dijon and then three stores in the suburbs of Paris.

We were delighted by the success of these French stores, both for the size of the crowds on opening days, which were overwhelming, but more importantly for the tremendous customer enthusiasm for Primark, in very different cities, which was sustained throughout the rest of the year.

Primark's response to the Rana Plaza disaster in Bangladesh in 2013 has been extensive. In addition to the payment of compensation to the victims and their families, Primark was a founding signatory to the Accord on Fire and Building Safety in Bangladesh. This Accord is a contract between over 150 apparel brands and retailers, international and local trade unions and NGOs, which are committed to carrying out factory inspections and improving working conditions in the Bangladesh garment industry. Primark carried out building surveys in Bangladesh to assess the structural integrity of all of the 80 factories from which we source garments. These structural assessments will be extended to other countries shortly.

Grocery made very good progress with profit and margin well ahead of last year. Twinings Ovaltine had another excellent year, both in the UK and overseas, and trading was much improved at ACH Foods in the US and Mexico. The recovery in profitability at George Weston Foods in Australia was well established this year. AB Agri deserves credit for the further development of the business, particularly for the strides made by AB Vista as it extends its global customer reach. Profit in Ingredients recovered strongly this year as the new management team at AB Mauri, our yeast and bakery ingredients business, made significant progress in reducing the cost base, restructuring operations and integrating the newly acquired European bakery ingredients business.

Our businesses are encouraged to take advantage of the technical skills, geographical presence, capabilities and experience that are available elsewhere in the group, in the development of their own operations. The Operating Review showcases some examples of our success in leveraging the benefits of being part of a larger group, an illustration of which was the collaboration between our enzymes, cereal extrusion and Agri businesses to deliver the new cereal extrusions factory at Evansville in the US which would not have been achieved by any of the individual businesses on their own.

## Summary

Looking ahead to the next few years we see excellent prospects for Primark and further development of Grocery, Ingredients and Agriculture. We expect a further large reduction in profit for AB Sugar during 2014/15 and some volatility in the medium term with the reduction of excess stocks and as the sugar industry restructures. By the end of our 2015 financial year much of the structural change in EU prices will be behind us and we have every reason to be confident of further progress for the group thereafter.

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

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



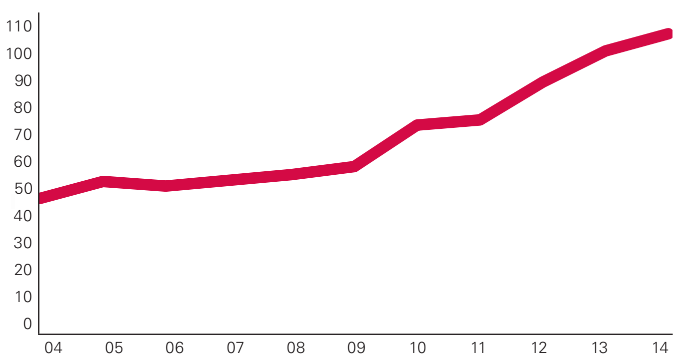
# GROUP BUSINESS MODEL AND STRATEGY

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

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

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

**8%** **compound annual growth**




# BUSINESS STRUCTURE

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

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

▶ Operating review page 12

# STRATEGY

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

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

▶ Business strategies page 10


# ORGANIC GROWTH

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

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

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

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

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



# BUSINESS STRATEGIES

## GROCERY

**An enviable portfolio of leading food brands.**

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

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

## SUGAR

**A world-leading sugar business focused on excellence.**

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

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

## AGRICULTURE

**Driving value for businesses along the food supply chain.**

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

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

## INGREDIENTS

**Technology and innovation to meet customer needs.**

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

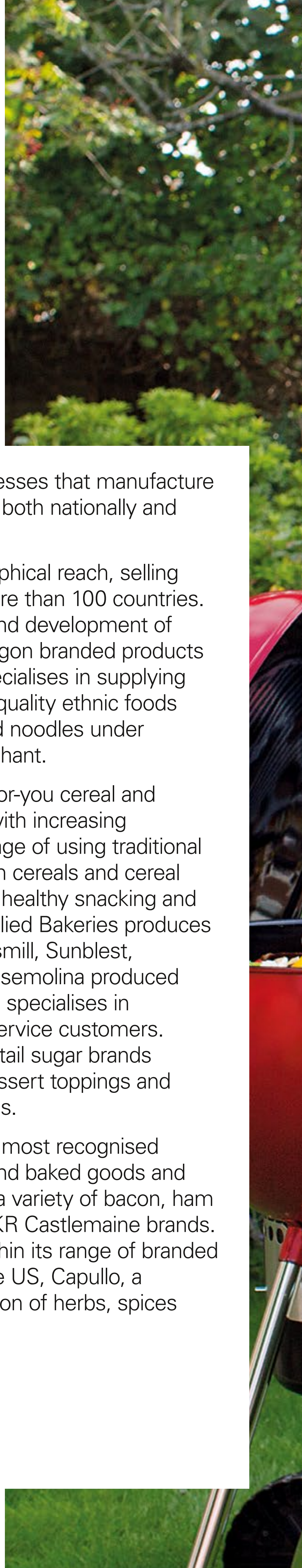
Each business has its own business model that determines an appropriate balance of emphasis across the full range of potential sources of competitive advantage: innovative and distinctive products; an efficient and proprietary set of production processes; and compelling customer propositions comprising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

## RETAIL

**Up-to-the-minute fashion at amazing prices.**

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

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





# GROCERY

**Revenue**

£3,337m

2013*: £3,568m

Actual fx: -6%

Constant fx: -1%

**Adjusted operating profit**

£269m

2013*: £224m

Actual fx: +20%

Constant fx: +24%

**Adjusted operating profit margin**

8.1%

2013*: 6.3%

**Return on average capital employed**

20.8%

2013*: 16.9%

* Restated

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

Twinings Ovaltine has the broadest geographical reach, selling premium teas and malted beverages in more than 100 countries. AB World Foods focuses on the creation and development of world flavours and its Patak's and Blue Dragon branded products are sold internationally. Westmill Foods specialises in supplying UK restaurants and wholesalers with high-quality ethnic foods including rice, spices, sauces, oils, flour and noodles under brands such as Rajah, Lucky Boat and Elephant.

Jordans and Ryvita operates in the better-for-you cereal and savoury biscuits categories in the UK but with increasing international presence. Jordans has a heritage of using traditional methods in the production of its wholegrain cereals and cereal bars. Ryvita has built a strong reputation in healthy snacking and is the UK category leader in crispbreads. Allied Bakeries produces a range of bakery products under the Kingsmill, Sunblest, Allinson and Burgen brands, with flour and semolina produced by sister company, Allied Mills. Speedibake specialises in own-label baked goods for retail and foodservice customers. Silver Spoon and Billington's are our two retail sugar brands in the UK, complemented by a range of dessert toppings and syrups under the Askeys and Crusha brands.

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


## ICONIC BRANDS

We have developed an enviable portfolio of leading grocery brands that reflect the wonderful tastes of food from a diversity of cultures. Together they play a central role in helping to feed millions of people around the world.

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## COLLABORATIVE DISTRIBUTION

As our global reach expands it is important that our distribution capability keeps pace, without compromising customer satisfaction. In some countries that means collaboration with other group companies. For example, Ryvita is distributed by George Weston Foods in Australia and Twinings is distributed by ACH Foods in Mexico.

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**Grocery operating profit increased by 24% at constant currency with George Weston Foods in Australia, ACH Foods in the US and Twinings Ovaltine all well ahead of last year. Revenues were level with last year at constant currency and were held back by lower food commodity prices.**

Twinings Ovaltine delivered strong revenue growth in tea with record market shares achieved in each of its four largest markets. Growth was achieved in all categories in the UK led by excellent progress in green teas and infusions, and we remain the fastest growing tea brand in the US. Ovaltine again performed well in its developing markets, particularly Brazil, where the brand was supported by a new advertising campaign, in south east Asia, and in Nigeria where our new Ovaltine packing plant is now fully operational. Tea manufacturing conversion costs were lower than last year with the benefit of higher volumes, further improvements in operating efficiency at the factory in Poland and more high-speed packing equipment at Andover.

At Allied Bakeries, revenues and profit were ahead of last year with higher branded sales and an increase in market share. Successful new products this year included Kingsmill Great White, a white bread with as much fibre as a wholemeal loaf, which was launched in February supported by an in-store marketing campaign and television advertising. New re-sealable packaging with a refreshed design drove further growth of Kingsmill wraps, and towards the end of the year we launched Sandwich Thins which are proving very popular. Following its relaunch last year, the Allinson brand received further national advertising support this year and achieved further growth. The five-year capital investment programme to upgrade our UK bakeries is almost at an end with completion of the modernisation of the Glasgow bakery during the year and the installation of a new bread plant in Stevenage which is due to be commissioned in November. The proposed closure of the Orpington bakery was announced in August with employee consultation nearing conclusion.

Silver Spoon's revenue and profitability was well below last year reflecting an especially competitive year for the UK packed sugar market which saw the loss of a number of granulated sugar contracts. This was mitigated in part by a reduction in overheads at the Bury packaging plant. New product launches resulted in Truvia growing its share of the stevia sweeteners market and, in the home baking sector, Allinson maintained its position as the leading bread flour brand following last year's relaunch.

Revenue and profit at Jordans and Ryvita were ahead of last year with good growth in our international business, particularly in France, Canada and Australia. The new Ryvita Thins line at the Poole factory yielded improvements in production efficiency and product quality, enabling supply to keep pace with substantially increased demand. On 20 October, after clearance from the Competition and Markets Authority, we completed the acquisition of Dorset Cereals. This premium brand, with particular strength in the growing Muesli sector, will complement our existing Jordans cereals and Ryvita crispbread brands. We intend to maintain Dorset Cereals' existing production facility in Poundbury, Dorset.

AB World Foods achieved revenue growth in the UK for Patak's and Blue Dragon which are, respectively, the largest Indian and Oriental ambient food brands. Both brands also performed well internationally, particularly in Canada where social media campaigns to coincide with ethnic festivals proved to be an effective way of promoting awareness of the product range. The core brands of Westmill Foods, Lucky Boat noodles and Elephant Atta flour, both achieved further growth and, towards the end of the year, we relaunched the Rajah spice brand with new packaging, advertising support and in-store trial.

George Weston Foods in Australia achieved a major improvement in performance with higher bread prices, increased meat volumes, the delivery of a number of cost reduction initiatives and improved commodity procurement. In a challenging retail and competitor environment, Tip Top successfully implemented bread price rises in the first half of the year which, together with an increase in the proportion of higher margin products sold and further productivity improvements, led to a higher operating profit for the bakery business. Factory productivity was also better at Don KRC which contributed to better meat yields and a reduction in labour costs. Enhanced product quality and improved customer service levels resulted in a number of new contracts being secured and an increase in market share. The opening of the new meat factory in Castlemaine enabled the closure of our factory near Perth in Western Australia and the redevelopment of the substantial site. Good progress has been made with the preparation of this site for housing development and a number of lots were sold this year.

Sales at ACH were ahead of last year, largely the result of increased demand for Mazola with positive consumer reaction to a plant sterols advertising campaign highlighting the cholesterol-lowering benefits of corn oil. In our Flavours business, volume increases were secured in barbecue and grilling spices with a very successful marketing campaign, 'Grilling with the Greats', in association with Major League Baseball. Capullo, our premium oil brand in Mexico, increased its market share which, together with the benefit of lower input costs, drove profit ahead of last year.

## RYVITA THINS

When we launched Ryvita Thins in April 2008, they were a new concept in savoury flatbread biscuits. They were designed for dipping.

They have helped to create an entirely new product category in UK supermarkets, which is now worth almost £20m a year and is growing at 6% year-on-year. Ryvita Thins continue to lead the way with year-on-year volume growth at four times the rate of the flatbreads category.

Ryvita Thins are already available in four flavours, with more to come, and account for over half of the category's sales. Well over two million households are now buying Ryvita Thins each year.

**The five-year investment programme at Allied Bakeries to create a state-of-the-art baking capability across the UK is now substantially complete and ensures the reliable supply of high-quality bread to our customers.**

## GREAT WHITE


A soft, tasty, quality white loaf with as much fibre as wholemeal.

Fibre is good for you – and most of us don't get enough of it.

The European dietary reference value for adults is 25g a day. Yet 7 out of 10 men and 9 out of 10 women in the UK don't manage that.

So, Allied Bakeries has developed Kingsmill Great White – a quality white loaf, as soft and tasty as our top selling Kingsmill Soft White, but with the added benefit of having the same amount of fibre as wholemeal. A bread with no compromise.

Simply changing from two slices of white bread to Kingsmill Great White could increase your fibre intake by 3g a day.

And consumers like it. Backed by a strong TV campaign and in-store support, Kingsmill Great White gained an 8% share of all standard white bread sales in the UK in its first three months.

## MAZOLA


Corn oil. Good or bad?

Research carried out for Mazola in the US sought to challenge consumers' perceptions that olive oil – a premium priced product – is the 'healthiest oil'. It isn't.

Natural plant sterols, can and do lower cholesterol. Corn oil has more of these sterols than other cooking oils, and four times more than olive oil.

The core market for the Mazola brand in the US is the Hispanic community. A marketing plan based on this science, and executed in the second half of 2014 in Spanish and English, has driven growth in the overall corn oil segment, along with Mazola's market share and its consumption in non-Hispanic regions.

## TWININGS


We weren't the first tea brand into the US K-cup market. But we are now the market leader.

Having tested the water in the away-from-home channel starting in 2005, we targeted the grocery channel aggressively in 2011, offering 21 different varieties (from Rooibos to Pumpkin Spice) in the K-cup format. American tea drinkers like having multiple tea products in their pantry. We supported this with a multi-million dollar investment in advertising and product sampling together with a programme to educate the US retail trade in how to optimise K-cup sales.

It worked!



# SUGAR

**Revenue**
£2,083m
2013: £2,677m
Actual fx: -22%
Constant fx: -17%

**Adjusted operating profit**
£189m
2013: £434m
Actual fx: -56%
Constant fx: -54%

**Adjusted operating profit margin**
9.1%
2013: 16.2%

**Return on average capital employed**
10.5%
2013: 23.3%

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

As a consumer of a large quantity of agricultural inputs, we have a number of programmes to maximise crop yields whilst also minimising the usage of herbicides, pesticides and water. This applies equally to our out-grower estates, funded jointly with our growers, as well as our own farms. We seek to ensure the early transfer of technology and best practice across AB Sugar. We are a significant employer in each of our countries of operation, some of which are among the most impoverished in the world. AB Sugar seeks to ensure the wellbeing of all its employees, their families and the wider community and in the developing countries we provide more wide-ranging social support including the provision of hospitals, schooling, housing and healthy living programmes.

## TECHNICAL EXPERTISE

From the development of ever more efficient sugar production across the group, to helping customers in the formulation of their products, we work hard to apply the learnings and innovations from each of our sugar businesses for their mutual benefit and development.

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**Revenue and adjusted operating profit for AB Sugar were substantially lower than last year driven by declining sugar prices, lower volumes and adverse currency translation. The price and volume effects were predominantly seen in Europe where prices were driven down by increased market competition as our competitors seek to establish new market positions ahead of the removal of quotas in 2017, and by a desire to reduce quota stock levels across the EU which have been higher than normal. The world sugar price, which has more of an impact on EU exports and our Chinese business, was low, and fell further, throughout the year but we consider this to be unsustainable given that it is markedly below the global average cost of production.**

Our sugar businesses have been actively engaged in performance improvement programmes for a number of years. All businesses have undertaken a review of overheads, substantial reductions have already been delivered and the programmes are continuing. These are aimed at extending our cost leadership in all regions to ensure that AB Sugar is well positioned as a globally competitive producer.

British Sugar produced 1.32 million tonnes of sugar compared with 1.15 million tonnes last year. Good growing conditions extended into the mild winter resulting in higher beet yields and sugar content than last year. All UK factories performed well with further progress achieved in performance improvement initiatives and in health, safety and environmental metrics.

The crop for the 2014/15 campaign has benefited from excellent growing conditions, with every indication that it will be much larger than that processed in the previous year. The new campaign has started well with production ahead of schedule and with our Newark and Wissington factories already exceeding daily beet throughput records. This larger crop will provide the opportunity to confirm our ability to process the higher volumes that we expect to become the norm in a post-quota environment.

## Operationally, AB Sugar had an excellent year with good factory performance and further substantial cost reductions from the performance improvement programmes which are well embedded in each of our businesses.

The beet price payable to growers for the 2014/15 crop was agreed in summer 2013, at a substantial increase over the price for the year under review, and at an increased cost to British Sugar of some £30m. Negotiations for delivered beet costs for the 2015/16 campaign have now been concluded with a reduction of some 20% on the previous year. This will make a major contribution to ensuring a more sustainable UK beet sugar industry reflective of the new commercial environment for EU sugar.

In Spain, sugar beet volumes were lower than last year with a larger crop area in the south not compensating for a reduction in the area planted in the north due to waterlogged fields during the spring. As a consequence, total beet sugar production was 338,000 tonnes, down from 405,000 tonnes in the previous year. 200,000 tonnes of imported raw sugar was refined at Guadalete and a further 59,000 tonnes was co-refined at the northern beet plants supplementing the beet sugar production and minimising logistics costs to market.

Contract negotiations with our EU customers for the 2014/15 marketing year are proving to be as challenging as last year. There are high stocks of sugar in the EU, competition continues to be intense and both of these factors have continued to drive EU prices downward. In response to this difficult commercial environment we have undertaken a review of our cost base and a provision of £22m for the cost of overhead reduction has been charged to adjusted operating profit this year.

After a complex commissioning process, production volumes at the Vivergo biofuels plant increased significantly this year. Although inclusion levels of ethanol in gasoline continued to rise in the EU year-on-year, gasoline consumption has fallen which has led to lower prices. Vivergo sustained a loss this year but further enhancements to the plant in the new financial year will improve reliability and throughputs are expected to meet or exceed rated capacity. Combined with lower wheat prices the profitability of Vivergo is therefore expected to improve.

Profit at Illovo saw some reduction this year. Sugar production of 1.70 million tonnes this financial year compared with 1.87 million tonnes last year, primarily as a result of lower production in Zambia and Swaziland where the phasing of the campaign is slightly later than last year. Domestic pricing increased in line with local inflation with the exception of Tanzania and South Africa which were affected by low-cost imports. However, import tariffs have now been introduced in South Africa which has resulted in some improvement in local pricing. The profitability of exports of raw sugar to the EU market under preferential import arrangements was adversely affected by the lower pricing in that market. Co-product contribution, which is of growing importance to Illovo, increased this year with the successful operation of the new potable alcohol distillery in Tanzania.

In China, profitability has improved with the implementation of a number of overhead reduction and efficiency initiatives. In the south, excellent growing conditions and a higher sugar content in the cane resulted in an increase in sugar production from 500,000 tonnes last year to 560,000 tonnes this year. However, flooding in Heilongjiang province led to a reduction in beet supplied to our factories which resulted in much lower sugar production in the north, at 116,000 tonnes. The campaigns at Qianqi and Zhangbei were excellent with good factory throughput and a high sugar content in the beet following our success in working with the growers over a number of years. A significant level of imports and increased domestic production resulted in very low domestic prices throughout the year.

## AB SUGAR CHINA TRANSFORMATION

A project was initiated in July 2013 to support the transformation of our existing sugar business in China into a more agile and cost-effective operation able to compete effectively in the local economy, whilst holding firm to our principles of improving standards of environmental and safety governance.

Across China, we have four beet and five cane sugar factories receiving raw material from over 100,000 farmers.

Integral to the project has been the structured focus on developing farming practices to improve the agricultural effectiveness of our grower base as well as a rigorous drive to reduce overall costs and enhance processing efficiency. This has been delivered through a careful scrutiny of activities and the re-engineering of processes.

We have benchmarked our factory performances and transferred best-practice across our other operations in the UK, Spain and Africa, as well as reducing our overall costs in China by over 20%.

The three-year project is due to complete within the next year, by which time we will have improved annual profitability in China by some £40m.

## KILOMBERO DISTILLERY

Building a distillery in a remote part of Tanzania has its challenges. The nearest source of building materials was an eight-hour drive away, plant and machinery had to be imported from India and complex cultural considerations had to be taken into account. But the distillery was delivered on time, on budget, and with an exceptional safety record.

The distillery is a significant downstream addition to our operations employing a highly integrated approach to manufacturing which transforms all of our raw materials into sustainable products and extends our sugar and non-sugar product range – in this instance by meeting the increasing regional demand from local breweries for potable alcohol.

## IRISH TANKER DELIVERIES

Since April, all of British Sugar's deliveries in Ireland have been made by their brand new road tanker fleet using scheduled ferries, rather than by container shipment.

Not only is this more suitable for our customers, but it also increases flexibility and reduces delivery times from three weeks to four days. And with larger load sizes, the number of journeys required has shrunk by more than 15%, thus reducing both environmental considerations and cost whilst improving customer service.

## ENSURING QUALITY

We work from field to fork, continuing to develop innovative ways to help farmers maintain their crop and livestock yields and to provide an assured source of consistently high quality animal feeds.

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# AGRICULTURE

**Revenue**
£1,312m
2013: £1,410m
Actual fx: -7%
Constant fx: -6%

**Adjusted operating profit**
£50m
2013: £47m
Actual fx: +6%
Constant fx: +11%

**Adjusted operating profit margin**
3.8%
2013: 3.3%

**Return on average capital employed**
17.3%
2013: 16.4%

AB Agri is a major business in UK agriculture and is increasingly operating on a global scale. It supplies feed and technology-based products and services to farmers, feed and food manufacturers, processors and retailers. It also buys grain from UK farmers and supplies them with agronomy advice and crop inputs through its joint venture, Frontier Agriculture.

Operating across the agricultural supply chain, AB Agri manufactures high-performance compound feeds, provides world-leading analytical services, nutritional advice and poultry marketing services for customers. It provides a value-added service to food, drink and bioethanol companies internationally, by marketing their co-products as animal feed, which in turn helps to reduce the costs of production for its farming customer base. Working globally it supplies the livestock and pet industries with premixes, enzymes and other technical ingredients and plays a key role in delivering supply chain integrity for retailers and processors.

AB Agri's operations comprise:

- AB Connect – a feed supply business serving the UK's food and farming community;
- AB Vista – an international supplier of world-leading feed ingredients and technical services;
- Speciality Nutrition – a supplier of high-quality, bespoke, vitamin/mineral premixes, starter feed and micro-ingredients, with world-class nutrition and formulation expertise;
- AB Sustain – a specialist in designing, developing and delivering bespoke sustainable agricultural supply chain solutions for clients;
- AB Agri China – a high-performance feed manufacturer for the ruminant, pig and poultry sectors, a co-product marketing and feed additives business and an industrial services business working with large-scale processors to optimise the food supply chain; and
- Frontier Agriculture – a joint venture which is the UK's leading crop inputs and grain marketing organisation.

# AB Agri deserves credit for the further development of the business, particularly for the strides made by AB Vista as it extends its global reach.

**AB Agri had another excellent year with adjusted operating profit 11% ahead of last year at constant currency. The decline in revenue reflected lower wheat and other commodity costs. However, cash margins in UK feed were maintained and the profit growth was delivered by the higher margin businesses.**

The wet winter in the UK, particularly in the West Country, adversely impacted livestock farming but excellent forage growing conditions during a dry spring and summer, as well as a softening commodity market, led to a period of more stable prices and increased confidence amongst farmers. UK feed volumes remained resilient. Oversupply in the UK poultry market depressed prices during the summer but the market is now beginning to stabilise.

Strong growth was achieved by AB Vista driven by the success of Quantum Blue, its phytase feed enzyme, notably in Latin America and the Middle East but also in the EU where it was launched recently following its approval by the European Food Safety Authority. The new granulation facility at Evansville, Indiana, is operating successfully providing additional capacity to meet the increasing demand for these enzymes.

Good commercial and procurement management drove a strong performance at Speciality Nutrition, our UK pre-mix and starter feeds business. Expansion and modernisation of its plant at Rugeley enabled the business to meet increasingly stringent customer demands for high quality pre-mixes. AB Sustain's responsible sourcing programme achieved growth during the year and this programme has now been extended into overseas markets.

AB Agri China maintained margins through good procurement and a favourable product mix. Consumer demand for meat in China continues to grow with a particular need to ensure reliable and high-quality sources. As meat production in China therefore transitions from small, family-run concerns towards large-scale commercial operations, there is increasing demand for high-quality feed supplied by modern, efficient feed mills. Construction and commissioning of our new feed mill at Zhenlai was completed to plan in August and good progress is being made with construction of a mill at Rudong, both of which will supply these large, integrated meat processors.

Profit at Frontier was ahead of last year. Fine weather during the planting seasons saw strong demand for cereal and rape seed and the growing conditions of a mild winter and warm spring drove demand for crop inputs such as fungicides. Encouragingly, the warm dry summer resulted in an early wheat harvest of excellent yield and quality.

## AB AGRI CHINA

In 2014, AB Agri China invested £10m in building two new, highly automated, feed mills with bulk feed capability, one in Zhenlai in the north of the country and the other near Shanghai.

The northern mill has fully segregated monogastric and ruminant feed lines with a capacity of 180,000 tonnes, while the southern mill is designed to produce up to 240,000 tonnes of poultry feed for a leading global meat processor.

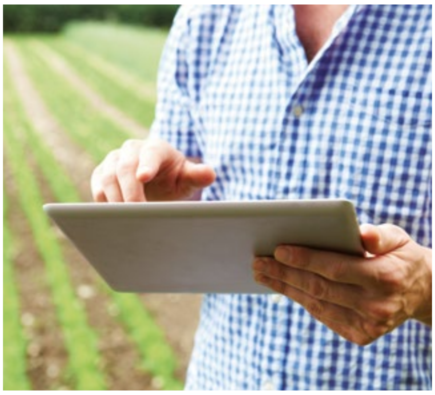
These investments not only show our confidence in the future of AB Agri China, but also our ability to work with major customers to help them develop their businesses and at the same time increase our revenues.

## FRONTIER

Drones are the latest tool being used by SOYL, the precision farming division of Frontier, to help farmers get the best possible output from every hectare.

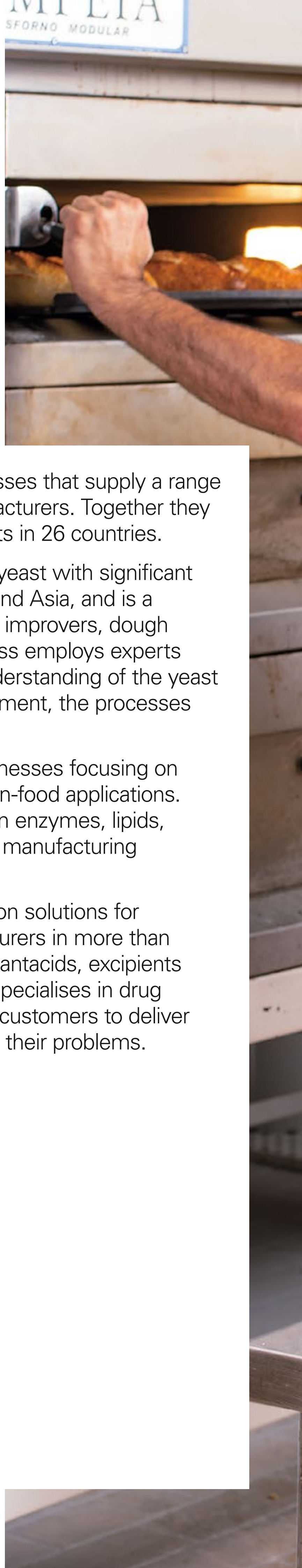
The SOYLsight service uses an unmanned aerial vehicle, or drone, to map fields, enabling growers to look at crops under different wavelengths of light, revealing aspects of crop growth that could not previously be measured. Controlled by GPS systems, it flies remotely over areas of fields or trials, and can monitor crop health, identify weeds, count plants and estimate yields.

## EFFECTIVE PROCUREMENT



Performance improvement initiatives being undertaken across the group include improving procurement effectiveness through rigorous category management and the use of structured supplier engagement tools, many of which are now e-enabled.

Where goods and services are sourced from competitive markets, modern technologies such as electronic tendering and auction tools are increasingly being employed to ensure we achieve the best value for money. Further benefits have been achieved in the procurement of chemicals, packaging, IT, telecoms, maintenance and logistics by the businesses working with one another to improve their negotiating position, develop supplier relationships or take advantage of synergies that would otherwise not be available.






# INGREDIENTS

**Revenue**
£1,261m
2013*: £1,360m
Actual fx: -7%
Constant fx: +4%

**Adjusted operating profit**
£41m
2013*: £5m

**Adjusted operating profit margin**
3.3%
2013*: 0.4%

**Return on average capital employed**
5.8%
2013*: 0.6%

* Restated

Ingredients comprises a number of businesses that supply a range of ingredients to food and non-food manufacturers. Together they employ 8,000 people in more than 70 plants in 26 countries.

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

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

SPI Pharma is a leader in custom formulation solutions for pharmaceutical and nutraceutical manufacturers in more than 50 countries. It manufactures and markets antacids, excipients and drug delivery systems for tablets and specialises in drug development services. It collaborates with customers to deliver value-added and cost-effective solutions to their problems.

## SUPPORTING BUSINESSES

Much of our business is large scale and highly mechanised but we are also committed to supporting small businesses and artisan bakeries that provide an invaluable service in their communities.

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**Ingredients' revenues were 4% ahead of last year at constant currency but with most of these businesses being located overseas, the strengthening of sterling resulted in a decline of 7% at actual rates. Profit recovery was substantial, driven by much stronger trading from AB Mauri and the benefit from the non-recurrence of last year's restructuring and accelerated depreciation charges.**

AB Mauri made progress in all of its regions and in both yeast and bakery ingredients. Good revenue growth was achieved in South America where, in a very competitive market, cost inflation was either recovered through pricing or offset by improvements in efficiency. Higher volumes and a focus on business development drove growth in North America and the new yeast factory in Mexico is now supplying the markets of North and Central America. In China, the site of our Meishan yeast factory in Guangzhou City is to be redeveloped by the local government, the factory has been closed and provision for the small associated cost has been made. Customer requirements will be met from our other factories in China.

In January, AB Mauri completed the acquisition of a small bakery ingredients business operating across western Europe which offers craft and industrial customers a range of high-quality bakery ingredients. Its integration with our existing operations will broaden our product offering and our ability to respond to customer needs in a number of key markets.

At ABF Ingredients, good growth was achieved in extruded cereals in the US and in speciality ingredients which provide enhanced functionality when incorporated into pharmaceutical formulations. Further progress was made in baking enzymes with several new products launched during the year and, following a series of successful trials in the pulp and paper industry, a number of mills have converted to the use of enzymes to reduce costs and lessen their environmental impact. The next phase of expansion at the enzymes manufacturing facility in Finland is under way. The closure of the yeast extracts plant in China, for which provision was made last year end, was well managed and profit benefited from the transfer of production to lower cost facilities elsewhere in the group. The new cereal extrusions factory in the US, at Evansville, Indiana, is now in production, providing increased capacity to meet the growing demand both for extruded cereal products and AB Vista's granulated feed products.

In view of the complementary product portfolios and common customer base, the Australian and New Zealand yeast and bakery ingredients businesses of AB Mauri have been integrated with the flour milling business of George Weston Foods in Australia. This will reduce overheads and allow the combined business to bring its technologies to market more effectively. Reflecting this change, the results of the Australian milling business, which were previously included within the Grocery segment, are now included within the Ingredients segment. The comparative results for 2013 have been restated resulting in £272m of sales and £4m of operating profit being transferred from Grocery to Ingredients.

## AB Mauri achieved a strong turnaround from the challenges of recent years with the promise of further improvement to come.

## ABITEC

ABITEC manufactures a wide range of functional excipients for the pharmaceutical industry. These excipients are critical components in drug formulations and are used in various dosage forms including soft-gel capsules and transdermal products. As drug technology advances, so must the delivery systems that enable the body to absorb the active ingredients. The manufacturing processes to produce these excipients must meet the exacting standards of the international pharmaceutical industry.

ABITEC has world-class technical, scientific, regulatory, and manufacturing expertise. To position the business to be able to assist pharmaceutical customers in their delivery of the next generation of drug formulations, we have embarked on a three-year project to expand and upgrade our manufacturing facility at Janesville, Wisconsin. Foundations have been laid for the factory extension and the new facility will enhance our capabilities and keep the business at the forefront of technology.

## AB ENZYMES

Our enzymes are used in a variety of ways by a range of different industries: in baking they are used to improve texture, extend shelf-life and replace emulsifiers; and in beverages and food specialities they are used to improve yields in the processing of fruits, grains and proteins. In the pulp and paper industry more and more mills have recognised the economic and environmental benefits of using enzymes in their manufacturing process by reducing the use of chemicals in the production process. In the field of detergents, enzymes have been developed to reduce colour fading when washing garments. Most recently we have developed enzymes for the farming industry that enhance the absorption by livestock of the nutrients in animal feed, and Quantum Blue has become our most successful new product for many years.

## PGP INTERNATIONAL

The development of a new specialty ingredients production unit in the US, at Evansville, Indiana, shows the value of collaboration.

Cereals ingredients specialist PGP International was running out of capacity at its two existing locations and identified a need for an additional site in the Mid-West, US. Animal feed supplement producer AB Vista, needed another co-packer as it too was running out of granulation capacity for its flagship product, Quantum Blue. Neither business could justify the capital investment for a stand-alone facility but by coming together they were able to prepare a business case for sharing one facility between them that made economic and good business sense.

By working closely together, the new site was up and running – and selling product – within 14 months.

# RETAIL

**Revenue**
£4,950m
2013: £4,273m
Actual fx: +16%
Constant fx: +17%

**Adjusted operating profit**
£662m
2013*: £513m
Actual fx: +29%
Constant fx: +30%

**Adjusted operating profit margin**
13.4%
2013*: 12.0%

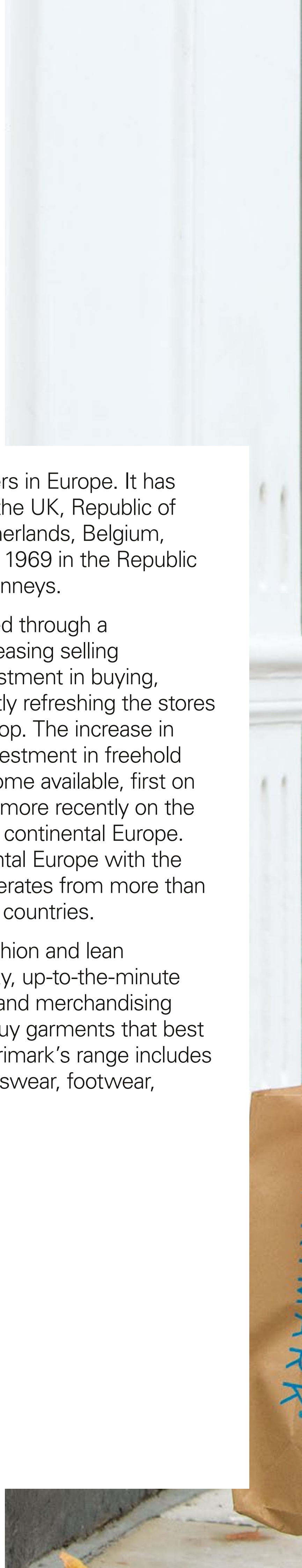
**Return on average capital employed**
33.2%
2013*: 26.0%

* Restated

Primark is one of the largest clothing retailers in Europe. It has 278 stores and employs 54,000 people in the UK, Republic of Ireland, Spain, Portugal, Germany, the Netherlands, Belgium, Austria and France. It was founded in June 1969 in the Republic of Ireland where it continues to trade as Penneys.

Primark's organic growth has been achieved through a combination of like-for-like growth and increasing selling space. The like-for-like growth reflects investment in buying, merchandising and our success in constantly refreshing the stores to ensure they remain exciting places to shop. The increase in selling space has been driven by capital investment in freehold and leasehold properties as they have become available, first on the high streets of the UK and Ireland, and more recently on the high streets and in the shopping centres of continental Europe. 2006 saw Primark's first foray into continental Europe with the opening of a store in Madrid and it now operates from more than 10 million sq ft of selling space across nine countries.

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




## STYLE TRAVELS

ABF has supported the development of an international fashion brand – now as popular in continental Europe as it is in the UK and Ireland. We have leveraged our local market insights and relationships to help Primark continue its international development.

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## SETTING TRENDS

We aim to spot future trends and bring them to market quickly and affordably. This doesn't just apply to high fashion but increasingly to menswear, childrenswear, accessories, sportswear and even homeware.

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**Sales at Primark were 17% ahead of last year at constant currency. This excellent result was driven by an increase in retail selling space, like-for-like sales growth of 4%, and superior sales densities in the new stores. The year was characterised by success for our autumn/winter and spring/summer ranges. Sales over the Christmas period were excellent and were boosted in the third quarter by warm weather, especially in the spring and early summer. We began trading in France in December last year and sales across all five stores have been exceptional. Eight years on from our initial entry into Iberia, this year's like-for-like growth achieved by our Spanish stores was particularly strong.**

The adjusted operating profit margin in the first half was higher than last year reflecting the benefit of warehouse and distribution efficiencies and lower freight rates. These benefits continued in the second half and, with strong trading over the summer resulting in a lower level of markdowns, the margin for the full year reached 13.4%. This lower level of markdowns was a consequence of a strengthening of our buying and merchandising teams and the success of our seasonal range.

In the immediate aftermath of last year's collapse of Rana Plaza in Bangladesh, Primark committed to meeting its responsibilities in full and to paying long-term compensation to the workers employed by its supplier or their dependants. We began making these long-term payments in March 2014 and, throughout the process, we have provided broadly-based support. Primark also paid short-term aid to the families of all the workers employed at Rana Plaza, most of whom were making clothes for its competitors. Primark's total commitment amounts to US$12m, of which US$7m was provided in last year's results and US$5m has been charged this year.

The safety of the staff employed by our suppliers is a high priority. We have now undertaken structural assessments of all of our supplier factories in Bangladesh. We further strengthened our in-country teams of ethical trading specialists who are critical in supporting sustainable improvements within supplier factories, and providing greater visibility across the supply chain. We conducted 2,058 audits in the last calendar year, and ethical trade training continues to be provided to every new Primark employee. We intend to extend our programme of structural assessments to include factories producing for us outside Bangladesh.

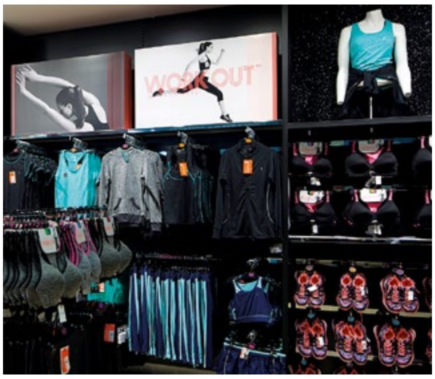
The pace of selling space expansion quickened further this year with the gross addition of 1.4 million sq ft. We relocated three stores, extended three stores and opened in 25 new locations. It is perhaps worth putting this growth into context – in the year 2000 when we opened our 100th store after 31 years of trading, the entire estate was just 1.4 million sq ft and now, 14 years later, the estate is seven times larger. This year saw the entry of Primark into France where we now have five stores: Marseille, Dijon and three in the suburbs of Paris. We closed seven smaller stores, primarily where larger, better located, premises became available in the same city, resulting in a net increase in selling space of 1.2 million sq ft. This brings our total estate to 278 stores and 10.2 million sq ft at the financial year end.

Responding to the increasing scale of our business in continental Europe, we doubled the size of our warehouse in Torija, Spain this summer and the Mönchengladbach warehouse in Germany, which services the stores in northern Europe, is being extended by 60% and will become fully operational early in 2015.

We have a very strong pipeline of new stores in Europe extending over a number of years. We have already opened five new stores since the year end: one in Portugal, two in the Netherlands and two in Germany, with a further five scheduled to open before Christmas including a relocation in Northampton to a store more than three times the size. We expect the increase in selling space for the financial year to be a little less than 1.0 million sq ft, to be followed in the autumn of 2015 by a strong programme of European openings.

We have announced that, after extensive research, we have decided to take Primark to consumers in the north-east of the US. We have chosen stores which are located close to areas of high urban density and which benefit from high levels of existing customer footfall. Our strategy is to generate interest in, and awareness of, the Primark brand. A lease for some 70,000 sq ft of selling space at Downtown Crossing in the heart of Boston, Massachusetts was signed in April and we expect this store to open in late 2015. We have subsequently signed the lease of a further seven stores in this region including an 80,000 sq ft store in the King of Prussia shopping mall in Pennsylvania, one of the busiest in the US. We intend that all eight stores will be trading from 0.5 million sq ft by late 2016. These stores will be supported by leased warehousing.

## SPORTS AND LEISURE



Sportswear is one of the biggest growth areas of the business.

The introduction of more technical fabrics and products means that we now offer a credible sports range that stands up well against the competition. At the same time we are maintaining our credentials for fashionable street-wear alternatives and core workout ranges at low entry price points – extending the offering across all departments with co-ordinated ranges consisting of matching clothing, footwear, accessories, underwear and hosiery.

Following the success of the ladies' and men's ranges, we have turned our attention to childrenswear for Autumn/Winter 2015.

**We have a very strong pipeline of new stores in Europe… and, after extensive research, we have decided to take the Primark concept to consumers in the north-east of the US.**

## Store expansion by region

| | UK | | Iberia | | Northern Continental Europe | | Republic of Ireland | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | sq ft 000 | stores | sq ft 000 | stores | sq ft 000 | stores | sq ft 000 | stores | sq ft 000 | stores |
| September 2013 | 5,760 | 161 | 1,330 | 41 | 880 | 17 | 1,030 | 38 | 9,000 | 257 |
| Change in year | 280 | 3 | 240 | 6 | 680 | 13 | – | (1) | 1,200 | 21 |
| September 2014 | 6,040 | 164 | 1,570 | 47 | 1,560 | 30 | 1,030 | 37 | 10,200 | 278 |
| | **+5%** | | **+18%** | | **+77%** | | **–** | | **+13%** | |



## PRIMARK.COM

Primark.com was launched in October 2013 and has since been rolled out in local languages to each of our countries of operation. The site now reaches almost one million people and is a showcase for the brand, its price message and its fashion credentials. The innovative Primania section, which makes heroes of our customers, receives 300,000 visits every week.

Along with the fashion messages, we have introduced a new ‘Our Ethics’ area to Primark.com which tackles some of the more common questions asked of the brand, its sourcing and supply chain in clear, bite-sized info graphics.

We have also embraced social media – the environment that many of our customers live and breathe – sharing campaign imagery and videos with a fan base of over four million followers, generating huge engagement and awareness.

## BACK OF HOUSE

Over the past three years we have transformed our customer-facing store design but our own ‘Back of House’ working environment had stood still.

It’s typical in retail to think: ‘Why invest in Back of House? It won’t make any money’. But we don’t believe that’s true. In fact we know it isn’t.

Following a pilot in our Leeds Trinity store in December 2013, we are now investing in creating a motivating work environment.

And the effect has been dramatic. Scores in staff feedback surveys are up to 24% higher on areas like ‘Communication’ and ‘Teamwork’ compared with the Primark average. The impact has also improved productivity. For example:

- wi-fi throughout has made it easier for key tasks to be carried out ‘on-the-go’;
- paid absence levels are markedly lower; and
- the new open-plan Back of House environment means more efficiency and collaboration, with staff briefings and inductions taking a third less time – meaning more time on the shop floor.

## NEW STORE OPENINGS:

**Spain**
Albacete
Cartagena
Fuengirola
Huelva
Logrono
Madrid – Plenilunio
Roquetas de Mar
Tenerife

**Germany**
Berlin – Alexanderplatz
Cologne
Dusseldorf

**Portugal**
Lisbon

**Austria**
Vienna

**France**
Dijon
Marseille
Paris – Creteil SC
Paris – O’Parinor
Paris – VLG Quartz

**UK**
Bath
Canterbury
Cardiff
Crawley
Leeds – Trinity
Warrington

**The Netherlands**
Eindhoven
Enschede
Nijmegen
Zoetermeer

## RELOCATIONS OR CLOSURES:

**Spain**
La Coruna
Madrid – Plenilunio
Zaragoza

**UK**
Cardiff
Crawley
Leytonstone

**Republic of Ireland**
Dundalk

**Working capital at the year end was £164m lower than last year reflecting lower food commodity prices and the benefit of management action to reduce the average level of working capital throughout the year.**



# FINANCIAL REVIEW

## Group performance

**Group revenue increased by 1% at constant exchange rates, but the strengthening of sterling against our major trading currencies, particularly in the second half of the year, resulted in a decline in revenues of 3% at actual rates, to £12.9bn. Adjusted operating profit of £1,163m was 2% ahead of last year at constant rates but 1% lower at actual rates. In calculating adjusted operating profit, the amortisation charge on non-operating intangibles and any profits or losses on disposal of non-current assets are excluded. On an unadjusted basis, operating profit was 1% below last year at £1,080m. Comparative results for 2013 have been restated for the effects of adopting the revised accounting standard for employee benefits, details of which are provided under 'Pensions' on page 39.**

During the year we merged the activities of AB Mauri's Australian and New Zealand yeast and bakery ingredients businesses with the flour milling business of George Weston Foods in Australia. The results of the Australian milling business, which were previously included within the Grocery segment, are now included within the Ingredients segment. The comparative results for 2013 have been restated resulting in £272m of sales and £4m of operating profit being transferred from Grocery to Ingredients.

The income statement benefited from the non-recurrence of last year's loss of £128m on the sale or closure of businesses in our Ingredients and Sugar segments.

Finance expense less finance income of £58m compared with a net charge of £87m last year. This reduction reflected the retirement of expensive long-term debt, including the redemption of British Sugar's £150m 10¾% debenture on 4 July 2013 and the repayment of £194m of private placement notes, $120m of which was repaid mid way through last year and $194m was repaid this year. The average level of debt also benefited from another strong cash flow performance.

Profit before tax increased from £868m to £1,020m. On an adjusted basis, where the amortisation of non-operating intangible assets and any profits or losses on the sale of non-current assets and on the sale and closure of businesses are excluded, profit before tax increased by 2% to £1,105m.

## Taxation

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

The tax charge for the year of £237m included an underlying charge of £257m at an effective rate of 23.3%

(2013 – 24.2%) on the adjusted profit before tax. The reduction in the effective rate is a result of the mix of profits earned in different tax jurisdictions and the reduction in the UK corporation tax rate from 23% to 21% with effect from 1 April 2014. A further reduction in the UK rate to 20% is due to take effect on 1 April 2015. The legislation to effect these rate changes was enacted before the prior year balance sheet date and as deferred tax is measured at the rates that are expected to apply in the periods when the underlying timing differences reverse, opening and closing UK deferred tax balances have both been calculated using a rate of 20%.

The overall tax charge for the year benefited from a £21m (2013 – £29m) credit for tax relief on the amortisation of non-operating intangible assets and goodwill arising from previous acquisitions.

**Earnings and dividends**

Earnings attributable to equity shareholders were £762m, £177m higher than last year, and the weighted average number of shares in issue during the year used to calculate earnings per share was 790 million (2013 – 790 million). Earnings per ordinary share were 30% higher than last year at 96.5p with the absence of losses on sales and closure of businesses. Adjusted earnings per share, which provides a more consistent measure of trading performance, increased by 6% from 98.1p to 104.1p.

The interim dividend was increased by 4% to 9.7p and a final dividend has been proposed at 24.3p which represents an overall increase of 6% for the year. The proposed dividend is expected to cost £192m and will be charged next year. Dividend cover, on an adjusted basis, is just over three times.

## Return on capital employed for the group increased further this year to 18.9%.

# We continued to invest in the future growth of the group with net capital investment of £691m during the year.

## Balance sheet

Non-current assets of £6.8bn were similar to last year. Intangible assets were £114m lower, mainly reflecting the amortisation charge for the year and foreign exchange translation losses. Property, plant and equipment increased by £113m with capital expenditure in the year running ahead of depreciation.

Working capital at the year end was £164m lower than last year reflecting lower food commodity prices and the benefit of management action to reduce the average level of working capital throughout the year. When expressed as a percentage of sales, this also showed further improvement. Net borrowings at the year end were £358m lower than last year at £446m as a consequence of the very strong cash flow.

A currency loss of £250m arose on the translation into sterling of the group's foreign currency denominated net assets. The group's net assets increased by £234m to £6,753m.

Return on capital employed (ROCE) for the group increased further this year to 18.9%, up from last year's restated return of 18.4%. All businesses with the exception of Sugar delivered an improvement through higher profits, with the average level of capital employed in the business little changed from last year. ROCE is calculated by expressing adjusted operating profit as a percentage of the average capital employed for the year.

## Cash flow

Net cash flow from operating activities was very strong again this year, increasing from £1,276m to £1,439m with a working capital inflow of £100m compared to last year's outflow of £97m.

We continued to invest in the future growth of the group and the £691m spent on property, plant and equipment and intangibles net of disposals during the year was an increase on last year's investment of £600m. Primark spent £378m on the acquisition of new stores, the fit-out of new and existing stores and warehousing. Expenditure in the food businesses was lower than last year but major projects included further investment in the modernisation of our UK bakeries, new tea packing machines in Twinings' three factories, two animal feed mills in China and the redevelopment of a former bakery site in Western Australia including ground works and utilities in preparation for its sale for housing development.

## Financing

The financing of the group is managed by a central treasury department. The group has total committed borrowing facilities amounting to £2.2bn, which comprise: £579m of US private placement notes maturing between 2016 and 2024; £1.2bn provided under a newly negotiated syndicated, revolving credit facility which matures in July 2019 with an option to extend by two years; a £120m loan from the European Investment Bank maturing in January 2015 and £328m of local committed facilities in Africa and Spain. During the financial year we repaid, from existing cash resources, US$194m of private placement notes. At the year end, £821m was drawn down under these committed facilities. The group also had access to £644m of uncommitted credit lines under which £132m was drawn at the year end. Cash and cash equivalents totalled £519m at the year end.

The financial strength and flexibility of the group is enhanced by diversifying our sources of funding and having certainty of finance over a long period. The strength and breadth of the 12 banks in the syndicate reflect the scale and international presence of the group and during the renegotiation this year we included another European bank in the syndicate to reflect the increasing activities of the group in continental Europe through Primark's expansion. The average fixed interest coupon on the private placement notes is 5.1%.

**Pensions**
Pension liabilities in the group's defined benefit pension schemes exceeded employee benefit assets at the year end by £43m compared with last year's restated deficit of £15m. The UK scheme accounts for 91% of the group's total pension assets and the increase in the market value of these assets during the year was slightly more than the increase in the present value of scheme liabilities. Total contributions to defined benefit plans in the year amounted to £41m (2013 – £69m), the lower amount reflecting the end of the £30m p.a. deficit contributions that were paid in each of the last five years. A triennial valuation of the UK scheme was undertaken as at 5 April 2014, which was agreed by the trustees after the group's year end, and revealed a surplus of £78m. As a result there is no requirement to agree a recovery plan with the trustees.

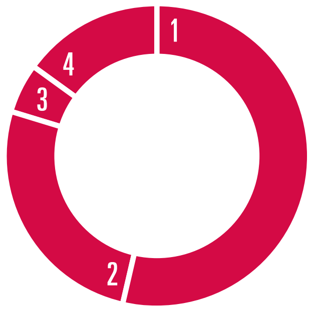
On 1 October 2012 new legislation came into effect which required all eligible UK employees to be automatically enrolled into a qualifying pension scheme. We embraced this new legislation by providing an attractive scheme with employer contribution rates in excess of the statutory minimum and we saw a high take-up.

The charge for the year for the group's defined contribution schemes, which is equal to the contributions made, amounted to £76m (2013 – £66m) and this is the first year that defined contribution costs have exceeded the cash contributions made to the defined benefit schemes reflecting the changing shape of pension provision in the group.

The accounting standard under which the group's pension schemes are accounted, IAS 19 *Employee benefits*, has been revised, and the new provisions were adopted by the group with effect from 15 September 2013. The comparative results for the financial year 2013 have been restated as a prior year adjustment, the effect of which was to reduce the reported operating profit by £5m to reflect a change in the treatment of administration costs, and to increase other financial expenses by £3m due to the replacement of the expected rate of return on assets with the discount rate. There was little difference between the expected rates of return on assets and the discount rates in the group's schemes in 2013 hence the small adjustment.

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

**Total committed borrowing facilities** (£m)
Diversified sources of term funding




| | | £m | |
|---|---|---|---|
| **1** | Banking syndicate | 1,200 | 54% |
| **2** | Private placement | 579 | 26% |
| **3** | EIB | 120 | 5% |
| **4** | Africa & Spain | 328 | 15% |
| | | 2,227 | |

**All our businesses share a common set of principles. These principles ensure that people, the environment and our communities are at the heart of how we operate.**



# CORPORATE RESPONSIBILITY

**All our businesses share a common set of principles: we strive to ensure that our environmental impact and use of resources are minimised; we seek to provide a safe place of work for all of our people; we want to be welcomed as good neighbours by the communities in which we operate; and we take seriously the need to consider the health of our customers, our staff and the communities of which we are part. These principles are underpinned by the Company's overriding tenet of: Encouraging Ethical Business.**

These principles ensure that people, the environment and our communities are at the heart of how we operate. We express this commitment to Corporate Responsibility (CR) in four areas:

- responsible stewardship of our environment;
- being responsible for our people;
- being a responsible neighbour; and
- being responsible for promoting good health.

Further information can be found in the Associated British Foods CR Update 2014 and 2013 CR Report at www.abf.co.uk/responsibility.

## Our greenhouse gas emissions

This year, for the first time, we report on the total greenhouse gas emissions from those activities for which we are directly responsible, which includes the operational and agricultural impacts of our businesses for the 12-month reporting period. This also includes greenhouse gas emissions for entities where we do not have full ownership but have financial control, joint ventures and associates where we do not have a majority shareholding but do have either joint control or significant influence.

Our total greenhouse gas emissions amounted to 9,656,000 tonnes of carbon dioxide equivalent ($CO_2e$) of which 73% is contributed by our sugar businesses. This is due to the extensive use of energy in our processing of sugar and transport use, as well as the generation of emissions from its agricultural activities. Of the 7,025,000 tonnes of emissions that AB Sugar produces, two-thirds comes from the combustion of renewable sugar cane biomass which is generally regarded as carbon neutral.

We developed detailed reporting guidance including estimation methodologies, assumptions and calculation methodologies, which are aligned with ISO 14064/1, the Greenhouse Gas Protocol and the World Business Council for Sustainable Development.

We engaged KPMG LLP to provide limited assurance on our greenhouse gas performance data as described in the table opposite.

KPMG LLP used the International Standard on Assurance Engagements ('ISAE') 3410: 'Assurance Engagements on Greenhouse Gas Statements' to assure the selected greenhouse gas performance data and issued an unqualified opinion. Their full assurance opinion is available at www.abf.co.uk/responsibility/assurance/our-approach/2014-updates.

In order to form their opinion, KPMG LLP performed a range of procedures which included interviews with management, examination of reporting processes and documentation, and testing of selected data from various sites, businesses and at group level. A summary of the work they performed is included within their assurance opinion.

Non-financial performance information, and greenhouse gas quantification in particular, is inherently more subjective than financial information. It is important to read the selected environmental performance data contained within this report in the context of KPMG LLP's full limited assurance opinion and our reporting definitions available at www.abf.co.uk/responsibility/our_policies_and_appendices.

## Fatal injuries

Our first priority is to keep our people safe at work making sure that they return home as fit and well as they were when they came to work. We regret very deeply the six work-related fatalities of employees and contractors during the reporting year. In Africa, four employees were killed: one was crushed when the cane seed vehicle he was driving came off the road; another died while preparing for cane harvest; a third died in a shallow excavation; and a fourth was killed when entangled in moving machinery above head height. A security contractor died in Africa having been the victim of violent criminal assault by an unconnected third party. In China, a contractor driver died after falling off the vehicle he was loading.

We recognise that many of our businesses operate in high hazard environments, such as with heavy machinery, large transport and freight vehicles, confined spaces and working at height. Whenever there is a death or near miss on our sites or linked to our operations, we alert all our businesses and re-emphasise the importance of safe working conditions.

These accidents were fully investigated by our internal safety specialists, our directors and senior managers and external regulatory authorities. All work-related deaths are reported to the Associated British Foods board and local management are held to account for the cause and remedial action at their site.

Our approach to risk management is designed to ensure that the risks are assessed, the relevant precautions and work procedures are implemented, and that there is strong supervision. It is a key principle that all managers are responsible for the safety of their workforce and for ensuring a safe working environment. Each factory and business has safety managers to advise and facilitate. These principles and resources are embedded throughout our businesses.

## Gender and diversity

In our 2013 CR Report, we shared our determination to welcome, promote and develop women across all of our businesses. We have two women and seven men on the Company's board and overall 30% of all managers are women. We are committed to increasing this number in the coming years. To this end we have put in place a number of programmes and groups to support

## Associated British Foods' total greenhouse gas emissions in 2014

For the year ended 31 July 2014 we emitted, in tonnes of carbon dioxide equivalent ($CO_2e$) the following greenhouse gases:

| | |
|---|---|
| Combustion of fuel and operation of facilities | 8,642,000 tonnes |
| Purchased electricity and steam | 1,014,000 tonnes |
| Total emissions | 9,656,000 tonnes |
| Emission intensity | 746 tonnes per £1m of revenue |

Our greenhouse gas emissions can be further analysed by source of emission which helps us to make our operations ever more energy efficient:

| | Tonnes | % of total |
|---|---|---|
| **Source of emissions** | | |
| Use of energy within our factories and stores | 7,918,000 | 82% |
| Operation of our owned and contracted vehicles | 935,000 | 10% |
| Our manufacturing processes | 622,000 | 6% |
| From directly controlled agricultural activities | 181,000 | 2% |
| **Sugar and other divisions** | | |
| Sugar | 7,025,000 | 73% |
| Other | 2,631,000 | 27% |

## Gender metrics

| | Total employees* | Men | Women | Percentage of women in workforce | Number of senior management roles** | Number of women in senior management roles | Percentage of senior management who are women |
|---|---|---|---|---|---|---|---|
| Sugar | 37,487 | 31,645 | 5,842 | 16% | 227 | 33 | 15% |
| Grocery | 17,133 | 11,859 | 5,274 | 31% | 868 | 307 | 35% |
| Ingredients | 7,092 | 5,430 | 1,662 | 23% | 490 | 132 | 27% |
| Agriculture | 2,100 | 1,598 | 502 | 24% | 241 | 57 | 24% |
| Retail | 54,136 | 14,567 | 39,569 | 73% | 123 | 46 | 37% |
| Central | 261 | 156 | 105 | 40% | 57 | 18 | 32% |
| **Total** | **118,209** | **65,255** | **52,954** | **45%** | **2,006** | **593** | **30%** |

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

female employees and help them overcome any barriers they may face in the workforce.

We have now held nine meetings of the Women's Business Education Forum, a network and learning group for high-potential and senior women. More than 150 women have attended these events, giving them the opportunity to network with one another, build their business understanding, and grow their confidence in aspiring to leadership roles.

One of the biggest challenges that our female employees face is returning to work after having children. AB Sugar, Twinings Ovaltine and our UK Grocery businesses have introduced maternity coaching and support to help women manage this important transition in the context of their professional lives.

Another aspect of promoting diversity in the workplace is attracting young women into our businesses. In the UK, British Sugar and AB Agri are corporate members of Women in Science & Engineering, which builds relationships with schools, universities and educational groups. We are developing a Schools Liaison Programme to help build a pipeline of female leaders for the future.

### Our commitment to human rights

We believe that being responsible towards all our stakeholders is fundamental to our responsibility as a business. Our commitment to respect human rights is founded in a strong ethos of workplace safety and employee wellbeing, and is supported by our commitment to ensure compliance with the UN Declaration on Human Rights. Our commitment spans our duty to be responsible for our people, to be a responsible neighbour and also to be responsible stewards of our environment.

Protecting the lives we touch is important to us. This means doing everything we can to respect the human rights of all our employees and workers involved in the supply of products and services in our global supply chain. As a matter of good practice, we risk-assess the impact that our operations may have on the protection and respect of human rights. We ensure a greater focus on operations under the jurisdiction of governments that have a lesser commitment to the protection of human rights.

As part of our commitment in this area Primark will, by the end of 2014, have agreed and adopted a publically available human rights policy. Associated British Foods is working towards having a full policy in place by the end of 2015.

A fuller explanation of our approach to respecting human rights and providing remedy where necessary can be found at www.abf.co.uk/responsibility.

### Responsible stewardship of our environment

The aspects of our operations that have the greatest direct environmental impact are those related to: our use of energy and the resultant emission of greenhouse gases; the abstraction of water; and the generation and disposal of liquid and solid wastes. Our global policy and approach to managing our environmental impacts is to improve the efficient use of natural resources and to minimise any negative impact on the environment. In 2014, our sites received 627 visits from the environmental regulator which is similar to the number of visits last year, and most of which were routine.

**Energy use**

In 2014, our absolute use of energy was 25,416 GWh compared to 23,316 GWh in 2013.

The year-on-year increase of 9% can largely be explained by the reporting, for the first time, of the additional energy use included in the scope of greenhouse gas reporting. For example, we are now reporting energy used in our agricultural operations whereas previously we reported only energy used in our factories, offices and stores.

We are pleased to report that 54% of our energy is derived from renewable sources. This is a 3% increase since last year and demonstrates how our businesses continue to explore reducing dependency on fossil fuels and cut resultant emissions. The majority of our renewable energy comes from the burning of sugar cane fibre once the sugar has been extracted; this makes our on-site energy production and use of by-products

# We are pleased to report that 54% of our energy is derived from renewable sources. This is a 3% increase since last year.



a very efficient closed system. Across Illovo, 93% of all energy consumed is sourced from renewable sources.

**Water usage and disposal of waste water**

Since 2010, we have made extensive investments in developing our operational management and reporting of water. The majority of our businesses have robust measurement and reporting systems in place. A number have implemented water efficiency programmes with the management of water quantity and quality as priorities. Illovo in Africa has prepared a five-year strategic water management plan this year. A new methodology has been implemented for calculating the water footprint of each site to quantify consumption of surface water, groundwater and rain.

We believe more work is required to accurately measure our global water footprint and to be confident that data provides a fair representation of our activities.

This year, over £6m was invested in improving the management of effluent and other waste water. This includes £5m invested by our yeast business (AB Mauri) in new, expanded or improved effluent treatment plants in South America and China.

**Waste**

In 2014 we generated 175,000 tonnes of hazardous and non-hazardous waste which more than halves our previous year's generation of such waste. This significant reduction is due to the closure, last year, of three beet sugar factories in China whose soil and various filter residues were deemed to be waste under Chinese legislation. In addition our businesses have continued to work hard to find uses for what would otherwise be deemed as waste and sent to landfill. We have increased our recycled or reused waste this year by 10% to 942,000 tonnes, thereby diverting more material from increasingly scarce landfill sites.

Our high recycling rate is the positive outcome of focused attention by our businesses on improving their waste segregation and disposal management. This includes a range of site specific activities such as engaging with new waste management contractors and improving waste segregation to allow for targeted reuse. Our waste recycling results in a wide range of applications including: environmental restoration and landscaping; soil pH treatment and fertiliser; the production of paper; and energy generation. We also recycle a number of by-products including plastic, paper and cardboard, metal, glass, mud and ash.

**Packaging**

The quantity of packaging used in our products since 2013 has been reduced by 3% from 238,000 tonnes to 230,000 tonnes. This continues a long-term downward trend in packaging use since 2008.

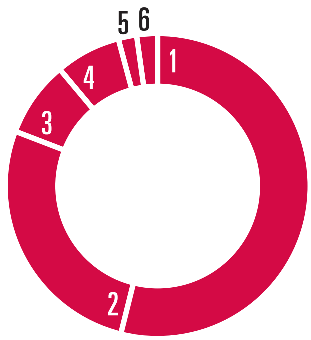
**Responsible sourcing of palm oil**

Over recent years, we have increased our focus on ethical procurement, adapting to emerging customer expectations and our own improved understanding of the environmental impacts potentially associated with our products. Ultimately, we strive for a global farming system and environment that is sustainable.

In 2013, we reported that all our grocery businesses were committed to the responsible sourcing of palm oil and, by 2015, will use only RSPO certified palm products.

We have strengthened this commitment and are now working towards all of our businesses being 100% compliant in sourcing only RSPO certified sustainable palm oil products.

**Type of energy used in 2014** (%)

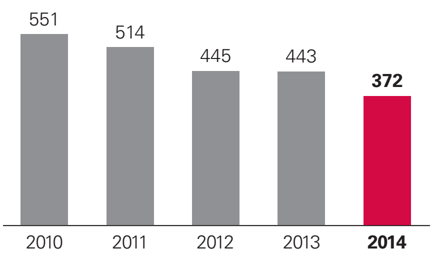



| | | |
|---|---|---|
| **1** | Renewable fuels | 54% |
| **2** | Natural gas | 27% |
| **3** | Solid fuels | 8% |
| **4** | Electricity | 7% |
| **5** | Imported steam | 2% |
| **6** | Liquid fuels | 2% |

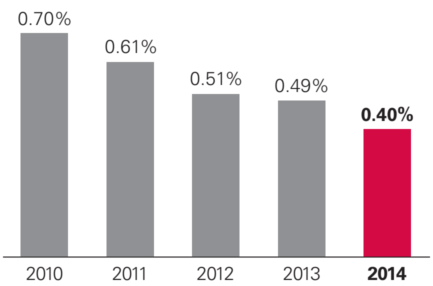
# Since 2008 we have been able to report a downward trend in the total Lost Time Injuries to our employees each year.



**Reportable injuries**
(reportable according to the differing laws of each country)




**Reportable injury rate**




## Being responsible for our people

A business priority is to safeguard the wellbeing, development and safety of our people and those who work with us. We put significant effort into ensuring that our businesses are safe places to work and aim to offer our people the support most suitable for their role. During 2014, we invested £32m in ensuring the safety of our equipment and improving working conditions for our people.

### Health and safety

Providing safe and healthy working conditions are of paramount importance. We try very hard to reduce injuries in every location and have a clear requirement for continuous improvement. During 2014 we received 425 visits from safety regulatory authorities, fewer than the 509 visits we received last year. The regulator visits were mainly routine but also included accident investigations. We ensure that any findings from regulators are acted upon immediately.

### Injuries to our employees

This is the fifth consecutive year that we have reported a reduction in reportable injuries. In 2014 reportable injuries have fallen by a further 16%.

The percentage of employees having a reportable injury has reduced from 0.49% of our total workforce in 2013 to 0.40% in 2014.

Since 2008, we have been able to report a downward trend in the total Lost Time Injuries to our employees each year. In 2014, these totalled 537 which was 6% lower than last year and 45% lower than 2008. This equates to a reduction of 3% in the number of employee days lost due to Lost Time Injuries compared with last year. In total, 386 of our sites did not have a Lost Time Injury. For our reporting purposes, a Lost Time Injury arises out of or in connection with ABF work activities and results in the employee being absent from work for at least one day, or shift, within 12 months of the accident.

These facts demonstrate the continued importance of investing in the strong safety culture of our business.

### Safety fines

During 2014, four sites received fines totalling £31,000 for breaches of safety regulations which is a reduction of 29% from 2013. All businesses are required to report to the group when and how remedial actions are implemented.

## Being a responsible neighbour

A good business takes seriously its responsibility to treat the people who live close to its operations with respect and in a neighbourly manner. We seek to be welcomed around the world as a positive contributor to the life of the community.

### Illovo Socio-Economic and Human Capital Impact

In 2013 Illovo, having identified community collaboration as a key strategic priority, invited sustainability experts Corporate Citizenship to conduct two research projects on its operations in southern Africa. One area of research focused on human capital and the role the business has in supporting the skills, health and education levels of local communities. The other research project focused on the socio-economic impact of the business.

This research revealed that Illovo contributed an estimated £1bn to African economies last year which is equivalent to about 50% of the GDP of Malawi. As well as directly employing 29,000 people, it supports the livelihoods of more than 400,000 people. It also contributed £10.8m in social benefits to employees and neighbouring communities, including healthcare, education, housing and other projects.

**Helping Mexican craft bakers thrive**
AB Mauri wanted to both understand its customers and help them succeed so it set about analysing the craft bakery sector in Mexico. It found that there was a wide range of barriers to success, from a lack of knowledge to a lack of willingness to adapt to new market conditions. It also found that small bakers were uncertain about how to secure new funding and invest wisely. A multi-year initiative, Project Lighthouse, aims to redevelop 100 craft bakeries around Mexico. AB Mauri has committed to being a supportive partner with credible experience and knowledge to help these bakers thrive. The first store to benefit from the project has seen revenues increase by 40% with queues forming at busy times.

## Being responsible for promoting good health

Promoting good health is a principle our businesses put into action every day. At the most direct level, this means striving for the highest standards on food safety and improving the nutritional content of our food and ingredients. Where we have less control, we aim to use our influence to improve the health of the people around us by implementing employee wellbeing programmes and supporting the health of workers in developing countries.

**Making our products even better**
We continue to explore ways in which to improve the nutritional content of our products, particularly by adding nutrients or reducing the proportion of fat and sugar. Maintaining great tasting products is a crucial part of this reformulation activity: we want to help people eat better while still enjoying the products they love.

Jordans Ryvita has sought guidance from leading academics to create a science-based nutrition strategy supported by targets to improve the composition of its products and the balance of its portfolio over time. They have reformulated the Original Crunchy bar which now contains 23% less fat, 24% less sugar and 62% less saturated fat.

We can also improve the nutritional value of a product by adding to it. In March 2014, Allied Milling and Baking launched Kingsmill Great White in the UK which has the same amount of fibre as wholemeal bread. See page 17 for more information.

**Helping our people to be healthy**
In addition to considering the health benefits of our products, many of our businesses have programmes in place to help staff stay fit and well. These initiatives help to improve health, boost morale and lower staff absence, making them good for business as well as for our teams.

AB Sugar signed the UK government's Public Health Responsibility Deal pledge on physical activity and introduced a new 'Future Fit' programme for staff; Speedibake devoted a week in August 2014 to events and presentations; and George Weston Foods has introduced a new training module on Health and Wellbeing.

In September 2013, Azucarera signed the Luxembourg Declaration on Workplace Health Promotion, signalling the company's commitment to improving the health of their employees and promoting wellbeing at work. Since then, Azucarera has implemented a number of health campaigns including offering vaccines and monitoring the risk factors of cardiovascular disease (such as weight gain and elevated blood pressure) in its workers.

**Promoting good health in communities**
For our businesses in developing countries, health challenges are sometimes best addressed at the community level when attempting to limit the spread of a disease. This benefits our workforce, but also their families and neighbours.

In southern Africa, malaria is a persistent threat and Illovo Sugar has invested in an integrated malaria control strategy. In Mozambique, Illovo Sugar is working with the government to expand its programme of home spraying into the local community. In one community in Mozambique, this resulted in a 62% drop in recorded cases of malaria in a year.

Twinings Ovaltine works with three international NGOs, UNICEF, Save the Children and Mercy Corps, on programmes designed to improve the health of workers and wider communities. All three partnerships continue to deliver positive results.

In India, Twinings Ovaltine's collaboration with UNICEF and local tea producers in Assam is aimed at improving the lives of 7,000 women living with family members who work on tea gardens. The project was launched in 2011 and, by March 2014, anaemia levels in adolescent girls living on tea estates had been reduced by 13% and the proportion of girls who are chronically malnourished had been reduced by a third. Twinings Ovaltine is continuing to work with UNICEF in this region, evolving this project to protect 34,000 girls in 63 tea gardens by 2017.

**Our decentralised business model empowers the boards and management of our businesses to identify, evaluate and manage the risks they face on a timely basis.**



# PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

The board reviews annually the material financial and non-financial risks facing our businesses and, on a rolling cycle basis, reviews the effectiveness of the risk management process and the resources that our individual businesses devote to them. The principal risks currently identified by our businesses and reviewed by the board are detailed on the following pages.

## PEOPLE

| Issue | Risk | Mitigation |
|---|---|---|
| **Product safety** | Reputational damage caused by food hygiene or product safety incidents.<br>Non-compliance with regulatory requirements.<br>Public concerns over materials used in packaging and ingredients in products. | Food safety is put before economic considerations.<br>Our businesses employ quality control specialists and operate strict policies to ensure consistently high standards are maintained in our operations and in the sourcing and handling of raw materials.<br>Food safety systems are regularly reviewed for efficacy and legal compliance.<br>We participate in independent food health and safety audits. Quality and food safety audits are undertaken at our manufacturing sites.<br>Documented and tested product recall procedures are embedded in all our businesses and are regularly reviewed.<br>We proactively monitor the regulatory and legislative environment as well as emerging scientific research. |
| **Health and nutrition** | Health concerns over fat, salt and calorie content of foods.<br>Responding correctly to the spectrum of food poverty and malnutrition versus obesity.<br>Inappropriate advertising to children. | Recipes are regularly reviewed and reformulation is conducted to improve the nutritional value of products, with a focus on reducing fat, salt and calorie content where possible.<br>Our UK Grocery group has signed the UK government's 'Public Health Responsibility Deal' and associated pledges to reduce salt, remove trans fats and promote healthy eating and lifestyle options.<br>All of our grocery products are labelled with nutritional information.<br>Our UK Grocery portfolio contains only a small number of products specifically intended for children. These products are marketed responsibly, following accepted codes of practice and within the parameters of a clear, operational business policy.<br>We are looking further to continue programmes related to health and nutrition, and to develop partnerships to help educate people about health and nutrition. |
| **Workplace health and safety** | Potential for fatal accidents and serious injuries to employees, contractors and visitors.<br>Loss of healthy workforce and supply chain due to diseases such as HIV/AIDS, TB and malaria in high-risk countries. | Group Health and Safety Policy and practices are embedded with a strong ethos of workplace safety across the group. We maintain a programme of audits to verify implementation and support continuous improvement.<br>Accountable senior executives and specialists are appointed.<br>We provide health and safety training and continue to share guidance and best practice with our businesses.<br>We have extended the internal and external auditing of health, safety and management reporting.<br>We continue to invest in health and safety management. |
| **Management succession** | Failure to plan for succession to key roles could lead to a lack of management continuity and suboptimal operational or financial performance. | Each business has a succession plan which is reviewed with group management twice a year, and with the board annually.<br>Development of our senior managers is co-ordinated by the Group HR Director and the Head of Executive Development.<br>A small number of executive search companies have been briefed to introduce us to talented executives from other companies who could add value to the group. |

## PEOPLE

| Issue | Risk | Mitigation |
|---|---|---|
| **Suppliers and supply chain reliability** | Damage to brands caused by supply chain weakness, e.g. poor conditions for workers.<br>Problems with supply reliability caused by natural disasters and other incidents.<br>Understanding the sustainability and responsible business practices of our suppliers. | Maintain programme of supplier audits where appropriate. Extensive audit programme for labour standards of suppliers.<br>We have introduced a Supplier Code of Conduct which is being implemented across all our businesses, tailored to their requirements.<br>We continue to work, in partnership with suppliers and NGOs, to improve working conditions, e.g. via training.<br>Continued focus on worker safety and safe working conditions. We have built up an intensive programme of ethical audits in Primark's supply chain.<br>Primark has maintained its classification as a leader, by the Ethical Trade Initiative, and we are mapping second tier suppliers (subcontractors).<br>The Grocery division conducts independent reviews of the environmental and ethical risks in their supply chain to increase understanding.<br>External communication and transparency on the management of our supply chain in Primark and Grocery has been enhanced.<br>Business continuity and disaster recovery plans are regularly reviewed. |
| **Ethical business practices** | Unacceptable business practices which contravene our business principles.<br>Reputational damage through the irresponsible business practices of individuals.<br>Penalties imposed through bribery, corruption or unfair competition. | All businesses are signed up to the group's Business Principles and Anti-Bribery and Corruption Policy.<br>A programme of training and compliance has been implemented for all employees.<br>Appointment of anti-bribery and corruption specialists.<br>Businesses work co-operatively to ensure visibility of reputational risk within supply chains and draw upon best practice management expertise across the group including Primark and Twinings. |

## ENVIRONMENT

| Issue | Risk | Mitigation |
|---|---|---|
| **Environment management including climate change** | Long-term increase in energy prices.<br>Physical threats to operations from climate change, e.g. flooding.<br>Climate change impact altering growth rates of raw materials we use.<br>Increasing cost to operations to adapt to climate change and mitigate impact.<br>Negative impact on the environment and the communities which depend on land used by our operations. | Compliance with the group's Environment Policy and annual reporting of environmental impact.<br>Best available techniques are employed to reduce energy consumption – statutory requirement for all sites subject to the EU's Pollution Prevention and Control regime.<br>Agricultural raw materials are sourced from a wide range of geographical locations and suppliers.<br>We have a continued focus on reducing our environmental impact and implementing changes to our operations to maximise opportunities such as recycling more waste and using more renewable sources of fuel.<br>We have implemented infrastructural protections against weather-related risks such as floods.<br>Greenhouse gas emissions are measured and reported annually and are subject to assurance by KPMG LLP.<br>Substantial investment is made to improve environmental risk management, with a focus on energy efficiency when investing in new capital projects. |
| **Water use and availability** | Securing access to sources of water and maintaining water availability for all.<br>Ensuring good practices in sharing and managing water supplies with local communities.<br>Operating in water stress areas. | Water-intensive sites in areas of water stress identified, and efforts focused on water efficiencies in these areas.<br>Investing heavily in the quality of our water usage data to enable improved measurement and management of water use and water quality.<br>Investment in irrigation systems.<br>Look to build long-term partnerships to address water issues at a local level.<br>Finalise the standardised approach to water measurement across the group so that we can target investment and build an effective water stewardship. |

## FINANCIAL AND REGULATORY

| Issue | Risk | Mitigation |
|---|---|---|
| **Competition rules** | Penalties for failing to comply with the 1998 Competition Act, the 2003 Enterprise Act, relevant EU law and all relevant competition legislation. | Clear policy direction and close support from specialist in-house legal department.<br>Compulsory awareness training. |
| **Financial, currency and commodity risks** | Loss sustained as a result of failure of internal controls or fraud, and exposure to foreign currencies, interest rates, counterparty credit risk, liquidity risk, and changes in market prices especially for energy and commodities. | Adherence to the group's financial control framework and anti-fraud policy.<br>Treasury operations are conducted within a framework of board-approved policies and guidelines.<br>Sufficient funding is maintained by way of external loans and committed bank facilities, which are renewed or extended on a timely basis, having regard to the group's projected funding needs.<br>Financial transactions are dealt through financial institutions with a credit rating of A or better. Details of the group's accounting and risk management policies with respect to financial instruments and associated quantitative and qualitative disclosures are set out in note 24 on pages 118 to 127. |
| **Tax compliance** | Failure to comply with local tax law resulting in underpayment of tax and exposure to related interest and penalties. | The group has a financial control framework and a board adopted tax policy requiring all businesses to comply fully with all relevant local tax law.<br>Provision is made for known issues based on management's interpretation of country-specific tax law and the likely outcome. Any interest and penalties on tax issues are provided for in the tax charge. |
| **IT security breach** | Data loss or theft.<br>Business disruption. | Group IT Security policies and procedures are rolled out across the businesses.<br>Employee awareness campaigns are undertaken to highlight key activities to minimise IT security risks.<br>Technical security controls are in place over key IT platforms.<br>Head of IT Security is tasked with identifying security risks and working with the businesses to implement mitigating controls.<br>Internal audit reviews of compliance with policies and procedures are undertaken. |
| **Loss of a major site** | The loss of one of our key sites could present significant operational difficulties. | Our businesses have in place business continuity plans to manage the impact of such an event and group insurance programmes to mitigate the financial consequences. |
| **Regulatory and political** | Failure to recognise political or cultural differences in the many countries in which we operate could directly impact the success of our operations.<br>Proposals to end sugar quotas in 2017. | We remain vigilant to future changes and the risk presented by operating in emerging markets.<br>We engage with governments and NGOs to ensure the views of our stakeholders are represented and we try to anticipate, and contribute to, important changes in public policy.<br>Our financial control requirements are consistently applied wherever we operate. |
| **Major capital projects and acquisitions** | Risk of overspending initial cost estimates, overrunning construction timelines and failure to meet design specifications. | All major projects are managed by dedicated teams who work in close liaison with business management.<br>Project plans are reviewed and approved by group management and, for larger projects, by the board. Updates on progress are provided throughout the project. |

On behalf of the board.

**Charles Sinclair**
**Chairman**

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

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

# BOARD OF DIRECTORS

## Charles Sinclair
**Chairman (age 66)**

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

Committee membership: Chairman of the Nomination and Remuneration committees.

## George G Weston
**Chief Executive (age 50)**

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

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

## John Bason
**Finance Director (age 57)**

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

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

## Emma Adamo
**Non-executive director (age 51)**

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

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

## Ruth Cairnie

**Independent non-executive director (age 60)**

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

Other appointments: She is a non-executive director of Keller Group plc and of Rolls-Royce Holdings plc.

Committee membership: Member of the Audit and Remuneration committees.

## Timothy Clarke

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

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

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

Committee membership: Member of the Nomination and Remuneration committees.

## Lord Jay of Ewelme GCMG

**Independent non-executive director (age 68)**

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

Other appointments: He is a non-executive director of Candover Investments plc, Valeo (the French-based automobile parts company) and of Electricité de France. He has been an independent member of the House of Lords since 2006. He is also chairman of the British Library Advisory Council.

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

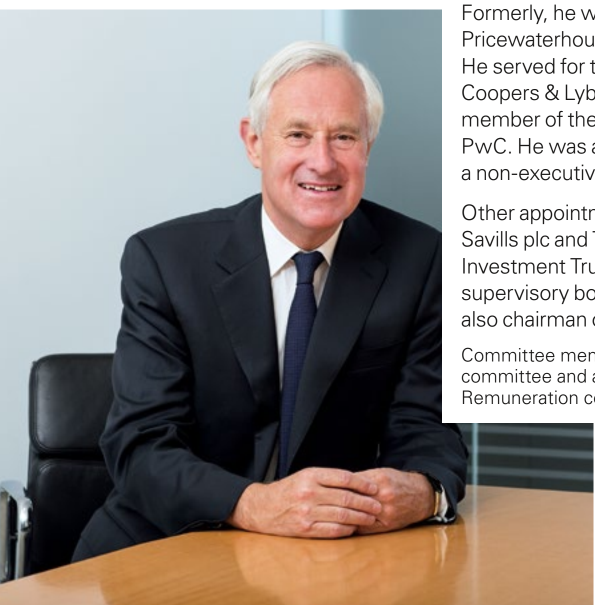
## Peter Smith

**Independent non-executive director (age 68)**

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

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

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



## Javier Ferrán

**Independent non-executive director (age 58)**

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

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

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

# CORPORATE GOVERNANCE

**Dear shareholder**

Maintaining and promoting a high standard of corporate governance remains fundamental to the board's ability to discharge its duties to shareholders and it is central to my role as Chairman of Associated British Foods.

As I have already highlighted in my Chairman's statement on page 5, in May, we were delighted to welcome Ruth Cairnie to the board as an independent non-executive director. Ruth brings a wealth of strategic and international experience and her appointment broadens the range of perspectives on the board. The formal, rigorous process by which Ruth was appointed is described in the Nomination committee report on page 59.

I believe that Associated British Foods already benefits from a strong, cohesive board. However we will continue to assess and refresh the composition of the board to maintain an appropriate balance and diversity of skills and experience and to ensure that it evolves in line with the group's needs.

After a successful externally facilitated board evaluation carried out in 2012, we undertook evaluations internally both last year and in the year under review. In last year's report we set out a number of key points identified for action and I have monitored the progress in implementing these actions during the year. On page 55, we report on the progress made and provide a description of the process we used in this year's evaluation exercise, along with a summary of the key findings.

At this year's annual general meeting, all the directors will stand for election or re-election. During the year under review, the Financial Conduct Authority introduced changes to the listing regime which focused on companies such as Associated British Foods with a controlling shareholder. One of the new requirements arising out of these enhanced regulations is that our independent non-executive directors will be subject to a dual vote by shareholders at the annual general meeting to be held in December. As set out in the Explanatory notes accompanying the Notice of AGM, this means that each resolution to elect or re-elect an independent non-executive director must be approved by both a majority vote of all shareholders and a majority vote of the Company's independent shareholders.

In the following pages, we outline our approach to governance and I hope that we are able to demonstrate clearly how our corporate governance practices support our strategy to create sustainable, long-term growth for shareholders. We will continue to keep our corporate governance practices under review, particularly in light of the updated version of the UK Corporate Governance Code published in September this year, which first applies to companies with financial years beginning on or after 1 October 2014. We welcome questions or comments from shareholders either via our website www.abf.co.uk or in person at the annual general meeting.

**Charles Sinclair**
**Chairman**

## Compliance with the UK Corporate Governance Code

As a premium listed company on the London Stock Exchange, the Company is reporting in accordance with the UK Corporate Governance Code published in September 2012 (the 'Code') which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. The Code is published by the UK Financial Reporting Council ('FRC') and a copy of the Code is available from the FRC website (www.frc.org.uk).

The board considers that the Company has, throughout the year ended 13 September 2014, applied the main principles and complied with the provisions set out in the Code, with the following exception:

| Code provision | Status | Explanation |
|---|---|---|
| D.2.1 – The Chairman should not chair the Remuneration committee | Charles Sinclair is both Chairman of the Company and chairman of the Remuneration committee. | The board of Associated British Foods plc considers that Charles Sinclair, due to his experience, is best suited to chair this committee. No director has any involvement in the determination of his own remuneration. The board believes that the Company has maintained robust governance while at the same time benefiting from having Charles Sinclair as the chairman of the Remuneration committee. |

## Leadership

### The board

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

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

- annual business strategy and objectives, budget and forecasts;
- monitoring delivery of the group's business strategy and objectives;

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

Certain specific responsibilities are delegated to the board committees, notably the Audit, Remuneration and Nomination committees, which operate within clearly defined terms of reference, and report regularly to the board. For further details, please see 'Board committees' section below.

### Chairman and Chief Executive

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

### Senior Independent Director

Tim Clarke is the Company's recognised Senior Independent Director. The role of the Senior Independent Director is to act as a sounding board for the Chairman and to serve as an intermediary for other directors where necessary. He is also available to shareholders should a need arise to convey concerns to the board which they have been unable to convey through the Chairman or through the executive directors. During the year, led by the Senior Independent Director, the non-executive directors met once without the presence of the Chairman to appraise his performance.

### The non-executive directors

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

### Election and re-election of directors

In accordance with the Code's recommendations, all directors will be proposed for election or re-election at the 2014 annual general meeting to be held in December.

## Board meetings

The board held eight meetings during the year. Periodically, board meetings take place overseas and, during the year under review, one of the meetings was held in Marseille. The board visited the Primark store in Marseille providing the non-executive directors in particular with the opportunity to meet local management and other employees.

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

The attendance of the directors at board and committee meetings during the year to 13 September 2014 is shown in the table below.

## Board committees

The board has established three principal board committees, to which it has delegated certain of its responsibilities. These are the Audit committee, the Nomination committee, and the Remuneration committee. The membership, responsibilities and activities of these committees are described later in this corporate governance report and, in the case of the Remuneration committee, in the Remuneration report on page 78. Membership of these committees is reviewed annually. Minutes of committee meetings are made available to all directors on a timely basis.

The chairman of each of the Audit, Nomination and Remuneration committees intend to be present at the annual general meeting to answer questions on the work of their respective committees.

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

## Directors' insurance

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

| | Board | Audit committee | Nomination committee | Remuneration committee |
|---|---|---|---|---|
| Charles Sinclair | 8/8 | – | 1/1 | 6/6 |
| George Weston | 8/8 | – | – | – |
| John Bason | 8/8 | – | – | – |
| Emma Adamo | 8/8 | – | – | – |
| Ruth Cairnie[1] | 3/3 | 2/2 | – | 3/3 |
| Tim Clarke | 8/8 | – | 1/1 | 6/6 |
| Javier Ferrán[2] | 7/8 | 5/5 | 0/1 | 6/6 |
| Lord Jay | 8/8 | 5/5 | 1/1 | 6/6 |
| Peter Smith | 8/8 | 5/5 | 1/1 | 6/6 |

1 Ruth Cairnie was appointed as a director, and as a member of the Audit and Remuneration committees, with effect from 1 May 2014.
2 Javier Ferrán was unable to attend a board meeting and Nomination committee meeting because of other business and personal commitments. However, he reviewed the relevant papers and provided comments as appropriate to the Chairman.

## The work of the board during the year

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

### Strategy

- Annual discussion focusing on strategy.
- Expansion of Primark into the US including visits to the Boston area by a number of directors.

### Governance and risk

- Approving the Company's full year and interim results.
- Recommending the 2013 final dividend and approving the 2014 interim dividend.
- Annual review of the material financial and non-financial risks facing the group's businesses.
- Receiving both regular divisional food safety updates and an annual groupwide update.
- Participating in the annual board performance evaluation and receiving a report on the evaluation.
- Receiving regular updates on regulatory matters.
- Confirming directors' independence.

### Performance monitoring

- Receiving regular reports to the board from the Chief Executive.
- Receiving, on a rolling 18-month basis, senior management presentations from each of the group's business areas.
- Approving the group budget for the 2014/15 financial year.
- Undertaking an annual impairment review of goodwill and property, plant and equipment.
- Receiving regular feedback on directors' meetings held with institutional investors.
- Receiving reports from the Audit committee chairman.

### Corporate responsibility

- Approving the Corporate Responsibility Report 2013 and 2014 updates.
- Receiving regular management reports on health, safety and environment issues.
- Receiving an update on Primark ethical sourcing.

### People

- Appointment of Ruth Cairnie as an independent non-executive director.
- Receiving and considering updates on senior management succession planning and people activities.

### Various

- Approving updated terms of reference for the Audit committee and the Remuneration committee.
- Undertaking appropriate preparations for the holding of the annual general meeting and, subsequently, discussing issues arising from that meeting.

## Effectiveness

### Board composition

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

**Chairman**
Charles Sinclair

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

**Non-executive directors**
Emma Adamo
Ruth Cairnie
Tim Clarke
Javier Ferrán
Lord Jay
Peter Smith

Ruth Cairnie was appointed as a non-executive director with effect from 1 May 2014.

Emma Adamo is not considered as independent by the board in view of her relationship with Wittington Investments Limited, the Company's majority shareholder. She was appointed in December 2011 to represent this shareholding on the board of the Company. The board considers that the other five non-executive directors are independent in character and judgement and that they are each free from any business or other relationships which would materially interfere with the exercise of their independent judgement.

The board continues to keep Tim Clarke's independence under review, being mindful that the Code requires that, if a director has served on the board for more than nine years, the board should state its reasons why it considers the director, notwithstanding his or her length of service, to be independent. Having given the matter careful consideration, the board is satisfied that Tim Clarke continues to demonstrate the qualities of independence in carrying out his role as a non-executive director and Senior Independent Director, supporting the team in an objective and independent manner. Tim will retain his role as Senior Independent Director and will offer himself for re-election at this year's annual general meeting. The board will continue to keep his independence under review.

Biographical and related information about the directors is set out on pages 50 and 51.

### Appointments to the board

There is a formal, rigorous and transparent procedure for the appointment of new directors to the board. Details are available in the Nomination committee report set out on page 58 which also provides details of the committee's role and activities.

### Commitment

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

### Board development

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

### Board induction – Ruth Cairnie

Ruth Cairnie joined the board as a non-executive director on 1 May 2014 and undertook a formal, tailored programme of induction facilitated by the Chairman and the Company Secretary.

The purpose of the induction programme was to familiarise Ruth with the way the group operates through its five strategic business segments and with its governance arrangements. The programme took into account Ruth's experience and business perspectives and the committees on which she is to serve. New directors are encouraged to accelerate their knowledge of the group by visiting a number of its businesses and operations.

Key elements of the induction programme and site visits undertaken by Ruth following her appointment to date are set out below:

**Board and governance**

- Legal and regulatory duties of a UK listed company director.
- The board and committee structure, schedule of matters reserved to the board for its decision and committee terms of reference.
- Restrictions and process for dealing in the Company's shares.
- Procedure for dealing with board conflicts.
- The group's approach to corporate responsibility and diversity.

**Management meetings and site visits**

- Visit to Twinings' site at Andover and attending budget review meeting.
- Attending budget review meetings for AB Mauri, AB Ingredients, AB Sugar and George Weston Foods.
- AB Vista site visit, including meetings with senior management.
- Visit to AB Agri, including meetings with members of the senior management team.
- AB Sugar site visit and meetings with senior management.
- Audit committee briefing with the Group Financial Controller.
- Remuneration committee briefing with the Group HR Director and Head of Reward.
- Visit to George Weston Foods in Australia including meetings with senior management and site visits to Castlemaine and Chullora.

### Training and development

The board is kept up-to-date on legal, regulatory and governance matters through regular papers from the Company Secretary and by presentations from internal and external advisers. During the year, the board received updates on developments in narrative reporting and executive remuneration reporting, the impact of the UK and EU reviews of the audit market and other corporate governance developments.

### Information flow

The Company Secretary manages the provision of information to the board at appropriate times in consultation with the Chairman and Chief Executive. In addition to formal meetings, the Chairman and Chief Executive maintain regular contact with all directors. The Chairman also holds informal meetings with non-executive directors, without any of the executives being present, to discuss any issues affecting the group, if this is thought necessary. Regular management updates are sent to directors to keep the non-executive directors informed of events throughout the group between board meetings and to ensure that they are kept fully advised of the latest issues affecting the group.

### Board performance evaluation

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

This year's review, which took place in the final quarter of the financial year, was led by one of the independent non-executive directors, Lord Jay, together with non-executive director, Emma Adamo.

#### Process

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

- risk management and governance – including the expanded role of the board in reviewing certain risk and governance issues such as food safety, project management, environmental responsibility, health and safety, ethics and supply chain and management succession;
- board structure, organisation and dynamics – covering the combination of skills, experience, knowledge and diversity (including gender diversity), the clarity of leadership given to the organisation's purpose, direction and values, how well the board works as a unitary body, the individual and collective contribution of all members to the working of the board;
- board efficiency and effectiveness – considering whether agendas are appropriately focused on strategy, performance, value creation and accountability, the quality of divisional presentations, the adequacy of time devoted to exchange of views and discussion before key decisions are taken, the content of board papers on investment decisions including the rigour with which assumptions have been tested, leadership by the Chairman, and the quality of strategic review and debate;
- business performance – including the level and quality of reporting measures on business performance, the trading updates provided to the board by the Chief Executive and whether these provide an appropriate degree of insight into the key opportunities and challenges facing the group;
- people issues – covering management development and succession planning, the board's exposure to senior divisional management, the group's ability to attract sufficient talent to meet the group's needs, and remuneration strategy;
- board committees – considering whether each key committee is working effectively, addressing the key issues and being effectively chaired, assessing whether the quality and clarity of information provided and depth of debate is in each case satisfactory and whether committee activities are reported back to the board in appropriate detail; and
- key issues for 2014 – both strategic and operational.

Lord Jay and Emma Adamo undertook a confidential, unattributable interview with each director, the Company Secretary and each other based on the discussion guide. Following the meetings, Lord Jay and Emma Adamo produced a written report, which was discussed with the Chairman and the Chief Executive before being sent to board members and discussed at the following board meeting.

A list of recommended action points arising from the 2013 evaluation was implemented under the direction of the Chairman and included the actions set out in the table below.

| Objective |
| --- |
| **Board impact**<br>The agenda was shaped to give sufficient prominence to certain key business issues identified during the 2013 evaluation, namely the expansion of Primark, the development of the food portfolio, the implications of EU sugar regime reform, and enhancing the performance of Ingredients and George Weston Foods. |
| **Corporate responsibility**<br>Regular, additional time was made available on the board agenda to address the further development of the groupwide CR agenda, the implications for each business division and the associated communication challenges. |
| **Risk management**<br>The board increased its focus on certain key risks arising from competitive, regulatory, health or CR issues in each business division. |
| **Major investments**<br>Information was provided to the board in the area of key market demand and competitive dynamics when a major investment or proposal is under consideration. |

Based on the responses and results from the 2014 evaluation, it was the directors' overall view that the board was cohesive and was continuing to work effectively as a unitary body with a good balance of support, challenge and mutual trust. It was also their view overall that the board committees continued to function efficiently and effectively. Each of the directors was considered to be making a valuable contribution and with proper commitment, including of time, to their respective roles.

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

| Objective |
| --- |
| **Board impact**<br>An increased focus by the board at each board meeting on Primark, including fuller details of Primark's performance metrics and the progress of its expansion into the US.<br>Particular board focus to be given to the Sugar division as further EU sugar regime reforms approach.<br>More structured discussion at the board after each divisional presentation to consider the performance of the division and to allow comparison with the performance of other operations within the group.<br>Divisional presentations to the board to provide increased level of information on key competitors and market demand.<br>Regular discussions to take place between board members individually, and separately, with the Chairman and the Chief Executive.<br>The board to consider whether the board evaluation exercise, when not carried out by an external consultant, should regularly be carried out, in rotation, by two non-executive directors. |
| **Risk management**<br>The handling of risk to continue to be a priority for the Audit committee and the board with each business division encouraged to cover risk routinely in their presentations to the board. |
| **Corporate responsibility**<br>The annual report to the board on the environment to be separated from the report on health and safety, given the growing importance of environmental issues to the group. |
| **Remuneration Committee**<br>The chairmanship of the Remuneration committee to be kept under review. |

### 2015 evaluation

In accordance with the Code requirement that the annual performance evaluation should be conducted by an external facilitator at least every three years, the board intends to appoint an external facilitator to lead the 2015 evaluation.

### Conflicts of interest procedure

The Company has procedures in place to deal with the situation where a director has a conflict of interest. As part of this process, the board:

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

The board has complied with these procedures during the year.

## Accountability

### Financial and business reporting

The board is required by the Code to present a fair, balanced and understandable assessment of the Company's position and prospects. In relation to this requirement, reference is made to the statement of directors' responsibilities for preparing the financial statements set out on page 83 of this annual report and accounts. The board recognises that its responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive public reports, reports to regulators, and information required to be presented by statutory requests.

### Business model

A description of the Company's business model for sustainable growth is set out in the group business model and strategy section on pages 8 and 9 and in the business strategies section on pages 10 and 11. These sections provide an explanation of the basis on which the group generates value and preserves it over the long term and its strategy for delivering its objectives.

### Going concern

After making enquiries the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, and consistent with the guidance contained in the document titled 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' published by the FRC, they continue to adopt the going concern basis in preparing the annual financial statements.

### Internal control and risk management

The board acknowledges its responsibilities for the group's system of internal control to facilitate the identification, assessment and management of risk, the protection of shareholders' investments and the group's assets. The directors recognise that they are responsible for providing a return to shareholders, which is consistent with the responsible assessment and mitigation of risks.

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

The directors confirm that there is a process for identifying, evaluating and managing the risks faced by the group and the operational effectiveness of the related controls, which has been in place for the year under review and up to the date of approval of the annual report and accounts. They also confirm that they have regularly reviewed the system of internal controls utilising the review process set out below.

#### Standards

There are guidelines on the minimum groupwide requirements for health and safety and environmental standards. There are also guidelines on the minimum level of internal control that each of the divisions should exercise over specified processes. Each business has developed and documented policies and procedures to comply with the minimum control standards established, including procedures for monitoring compliance and taking corrective action. The board of each business is required to confirm twice yearly that it has complied with these policies and procedures.

#### High level controls

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

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

#### Financial reporting

Detailed management accounts are prepared every four weeks, consolidated in a single system and reviewed by senior management and the board. They include a comprehensive set of financial reports and key performance indicators covering commercial, operational, environmental and people issues. Performance against budgets and forecasts is discussed regularly at board meetings and at meetings between operational and group management. The adequacy and suitability of key performance indicators is reviewed regularly. All chief executives and finance directors of the group's operations are asked to sign an annual confirmation that their business has complied with the Group Accounting Manual in the preparation of consolidated financial statements and specifically to confirm the adequacy and accuracy of accounting provisions.

#### Internal audit

The group's businesses employ internal auditors (both employees and resources provided by Ernst & Young where appropriate) with skills and experience relevant to the operation of each business. All of the internal audit activities are co-ordinated centrally by the group's Director of Financial Control, who is accountable to the Audit committee.

All group businesses are required to comply with the group's financial control framework that sets out minimum control standards. A key function of the group's internal audit resources is to undertake audits to ensure compliance with the financial control framework and make recommendations for improvement in controls where appropriate. Internal audit also conducts regular reviews to ensure that risk management procedures and controls are observed. The Audit committee receives regular reports on the results of internal audit's work and monitors the status of recommendations arising. The committee reviews annually the adequacy, qualifications and experience of the group's internal audit resources and the nature and scope of internal audit activity in the overall context of the group's risk management system. The Director of Financial Control meets with the chairman of the Audit committee as appropriate but at least annually, without the presence of executive management, and has direct access to the Chairman of the board.

## Remuneration

A separate Remuneration report is set out on pages 64 to 79 and provides details of our remuneration policy and how it has been implemented, together with the activities of the Remuneration committee.

## Articles of association and share capital

Information in relation to share capital, the appointment and powers of directors, the issue and buy back of shares, and significant interests in share capital is set out in the Directors' report on pages 80 and 81.

## Relations with shareholders

### Engaging with shareholders

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

The Company announces its achievements and prospects to shareholders by way of interim management statements, the interim results and annual report and accounts. Significant matters relating to the trading or development of the business are disseminated to the market by way of Stock Exchange announcements and by press release and postings on the Company's website.

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

The Senior Independent Director is available to shareholders in the event that communication with the Chairman, Chief Executive or Finance Director has failed to resolve concerns or where such contact is inappropriate.

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

### Annual general meeting (AGM)

The AGM will be held on Friday, 5 December 2014 at 11.00 am at the Congress Centre in London. The board views the AGM as a valuable opportunity to communicate with private shareholders in particular, for whom it provides the opportunity to hear about the general development of the business and to ask questions of the Chairman and, through him, the chairmen of the key committees and other directors. The practice has been for a short film to be shown at the meeting explaining a particular area of the group's business. At this year's AGM, the film focuses on Associated British Foods as a Company that nurtures and develops businesses of all sizes. The film looks at three ABF businesses: AB Vista, Twinings US and AB World Foods which were small ten years ago and which have transformed over that time into significant operations, operating across many markets.

The Notice of AGM, which sets out in full the resolutions for consideration by shareholders together with explanatory notes, has been sent to shareholders and is also available on the Investors section of the Company's website (www.abf.co.uk).

## Nomination committee report

### Members

During the year and at the date of this report:

Charles Sinclair (Chairman)
Tim Clarke
Javier Ferrán
Lord Jay
Peter Smith

### Key duties

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

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

### Governance

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

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

The Chairman does not chair the Nomination committee when it is dealing with the appointment of his successor.

In these circumstances the committee is chaired by an independent non-executive director elected by the remaining members.

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

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

The full terms of reference of the Nomination committee, can be viewed on the Investors section of the Company's website (www.abf.co.uk).

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

**Meetings**
The committee met once during the year under review.

**Committee activities during the year**

**Appointment of new independent non-executive director**
Both the Nomination committee and the board are committed to the principle that appointments to the board should be made on the basis of merit.

During the year and with the progressive refreshing of the board in mind, the Chairman led the process for the appointment of a new independent non-executive director.

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

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

Following a rigorous process of interviews and assessments and, on the recommendation of the Nomination committee, the board approved the appointment of Ruth Cairnie with effect from 1 May 2014.

**Diversity policy at board level**
As a board, we recognise that diversity is key for introducing different perspectives into board debate and decision-making. A genuinely diverse board comprises individuals with a range of personal attributes, perspectives, skills, experience and backgrounds, as well as representing differences in nationality, race and gender.

While gender remains an important aspect of creating an optimal board in terms of balance and composition, it remains the board's policy to make new appointments based on merit. Candidates for future board appointments will be considered from the widest possible pool, although we will continue to ask any executive search agencies engaged to ensure that half of the candidates they put forward for consideration are women.

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

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

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

## Audit committee report

**Members**
During the year and at the date of this report:

Peter Smith (Chairman)
Lord Jay
Javier Ferrán
Ruth Cairnie (from 1 May 2014).

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

- monitoring the integrity of the group's financial statements and any formal announcements relating to the Company's performance, reviewing significant financial reporting judgements contained in them before their submission to the board for approval;
- at the request of the board, reviewing the content of the annual report and accounts and advising whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- reviewing the group's internal financial controls, including the policies and overall process for assessing established systems of internal financial control and timeliness and effectiveness of corrective action taken by management;
- overseeing the group's arrangements for the prevention and detection of fraud, and whistleblowing;
- monitoring and reviewing the role and effectiveness of the group's internal audit function in the context of the group's overall financial risk management system; and
- overseeing the relationship with the group's external auditors, including reviewing and monitoring their objectivity and independence, agreeing the scope of their work and fees paid to them for audit, and agreeing the policy in relation to the provision of non-audit services.

## Governance

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

The committee structure requires the inclusion of one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies) with recent and relevant financial experience. Currently, the committee chairman fulfils this requirement. All committee members are expected to be financially literate and to have an understanding of the following areas:

- the principles of, and developments in, financial reporting including the applicable accounting standards and statements of recommended practice;
- key aspects of the Company's operations including corporate policies and the group's internal control environment;
- matters which may influence the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the role of internal and external auditing and risk management; and
- the regulatory framework for the group's businesses.

The committee invites the Group Finance Director, Group Financial Controller, Director of Financial Control and senior representatives of the external auditors to attend its meetings in full, although it reserves the right to request any of these individuals to withdraw. Other senior managers are invited to present such reports as are required for the committee to discharge its duties.

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

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

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

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

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

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

## Meetings

The Audit committee met five times during the year including an additional meeting to consider tendering of the external audit. The committee agenda are linked to events in the group's financial calendar.

## Activities during the year

In order to fulfil its terms of reference, the Audit committee receives and reviews presentations and reports from the group's senior management, consulting as necessary with the external auditors.

### Monitoring the integrity of reported financial information

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

During the year it formally reviewed the group's interim and annual reports and the interim management statements, issued for the first and third quarters. These reviews considered:

- the accounting principles, policies and practices adopted in the group's financial statements, any proposed changes to them, and the adequacy of their disclosure in the annual report;
- important accounting issues, areas of complexity and the actions, estimates and judgements of management in relation to financial reporting;
- any significant adjustments to financial reporting arising from the audit;
- litigation and contingent liabilities affecting the group; and
- potential tax contingencies, compliance with statutory tax obligations and the group's tax policy.

**Significant accounting issues considered by the Audit committee in relation to the group's financial statements**
In the preparation of these financial statements a number of areas required the exercise of management judgement or a degree of estimation. Set out below are the areas considered by the Audit committee to be the most significant accounting issues, of which impairment and tax provisions were the most material, together with details of how the committee concluded that such judgements and estimates were appropriate.

| Significant accounting issue | Audit committee assurance |
|---|---|
| **Impairment of goodwill, tangible and intangible assets**<br>Assessment for impairment involves comparing the book value of an asset with its recoverable amount (being the higher of value in use and fair value less costs to sell). Value in use is determined with reference to projected future cash flows discounted at an appropriate rate. Both the cash flows and the discount rate involve a significant degree of estimation uncertainty. | The committee considered the reasonableness of cash flow projections which were based on the most recent budget approved by the board and reflected management's expectations of sales growth, operating costs and margins based on past experience and external sources of information. Long-term growth rates for periods not covered by the annual budget were challenged to ensure they were appropriate for the products, industries and countries in which the relevant cash generating units operate. The committee also reviewed the key assumptions made in deriving these projections: discount rates, growth rates, and expected changes in production and sales volumes, selling prices and direct costs. Refer to note 8 to the financial statements for more details of these assumptions.<br>The committee was satisfied that the discount rate assumptions appropriately reflected current market assessments of the time value of money and the risks associated with the particular assets. The other assumptions were all considered to be reasonable.<br>The external auditor explained the results of their own review of the estimate of value in use, including their challenge of management's underlying cash flow projections as well as the long-term growth assumptions and discount rates. On the basis of their audit work, and their challenge of the key assumptions, the external auditor concurred that no impairments were required. |
| **Biological assets**<br>The valuation of growing sugar cane requires management to estimate:<br>• the sucrose content in the cane and the expected cane and sucrose yields for the following season taking into account weather conditions, harvesting programmes, and an assessment of the maturity of the cane at the balance sheet date; and<br>• the sucrose price, which depends on the markets to which the forthcoming crop is likely to be sold, the probable domestic and export prices, and related foreign currency exchange rates. | The sugar business has a good track record of calculating reliable estimates and any significant over or under-estimation becomes apparent in subsequent profit realisation.<br>Actual results were reviewed for consistency of measurement in the light of profit budgets and forecasts and the actual results of prior periods. The committee was satisfied that appropriate assumptions had been made and consistently applied. As biological assets represent just 2% of total assets and 3% of net assets, material misstatement of the financial statements was considered highly unlikely. |
| **Post-retirement benefits**<br>Valuation of the group's pension schemes and post-retirement medical benefit schemes require various subjective judgements to be made including mortality assumptions, discount rates and general inflation, salary inflation, and the rate of increase for pensions in payment and those in deferment. | Actuarial valuations of the group's pension schemes are undertaken every three years by independent qualified actuaries who also provide advice to management on the assumptions to be used, in intervening years, to update those valuations. Details of the assumptions made in the current and previous two years are disclosed in note 12 to the financial statements together with the bases on which those assumptions have been made.<br>The committee reviewed the assumptions by comparison with externally derived data and also considered the adequacy of disclosures in respect of the sensitivity of the surplus/deficit to changes in these key assumptions.<br>The principal accounting policy change in 2014 was the adoption of International Accounting Standard 19 relating to Employee Benefits. In particular, the committee reviewed the impact that this change had on pension liability disclosures and the resultant requirement to restate earnings per share for 2013 to ensure that a meaningful comparison could be made with 2014 earnings. Further details of the accounting policy change can be found on page 95. |
| **Tax provisions**<br>The level of current and deferred tax recognised in the financial statements is dependent on subjective judgements as to the outcome of decisions by tax authorities in various jurisdictions around the world and the ability of the group to use tax losses within the time limits imposed by the various tax authorities. See also Tax compliance on page 49. | The committee annually reviews the company's principles for managing tax risks.<br>The committee reviewed and challenged the provisions recorded at the balance sheet date and management confirmed that they represent their best estimate of the likely financial exposure faced by the Group.<br>The external auditor explained to the committee the work they had conducted during the year, including how their audit procedures were focused on those provisions requiring the highest degree of judgement. The committee discussed with both management and the external auditor the key judgements which had been made. It was satisfied that the judgements were reasonable and that, accordingly, the provision amounts recorded were appropriate. |

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



### Internal financial control and risk management
The committee is required to assist the board to fulfil its responsibilities relating to the adequacy and effectiveness of the control environment, controls over financial reporting and the group's compliance with the UK Corporate Governance Code. To fulfil these duties, the committee reviewed:

- the external auditors' management letters and their Audit committee memoranda;
- internal audit reports on key audit areas and significant deficiencies in the financial control environment;
- reports on the systems of internal financial controls and risk management;
- reports on fraud perpetrated against the group; and
- the group's approach to IT, cyber security and whistleblowing.

### Internal audit
The Audit committee is required to assist the board to fulfil its responsibilities relating to the adequacy of the resourcing and plans of internal audit. To fulfil these duties, the committee reviewed:

- internal audit's reporting lines and access to the committee and all members of the board;
- internal audit's plans and its achievement of the planned activity;
- the results of key audits and other significant findings, the adequacy of management's response and the timeliness of resolution;
- statistics on staff numbers, qualifications and experience and timeliness of reporting;
- the level and nature of non-audit activity performed by internal audit; and
- changes since the last annual assessment in the nature and extent of significant financial risks and the group's ability to respond to changes in its business and the external environment.

### Whistleblowing and fraud
The group's 'whistleblowing' policy contains arrangements for an independent external service provider to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit committee as appropriate. The Audit committee reviewed reports from internal audit and the external service provider and the actions arising therefrom.

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

### External audit
#### Auditor independence
The Audit committee is responsible for the development, implementation and monitoring of policies and procedures on the use of the external auditors for non-audit services, in accordance with professional and regulatory requirements. These policies are kept under review to meet the objective of ensuring that the group benefits in a cost-effective manner from the cumulative knowledge and experience of its auditors whilst also ensuring that the auditors maintain the necessary degree of independence and objectivity. Consequently, any non-audit work to be undertaken by the auditor in excess of £300,000 requires authorisation by the chairman of the Audit committee and the Group Finance Director prior to its commencement. Individual assignments less than £300,000 are approved by the Group Finance Director. The aggregate expenditure with the group auditors is reviewed by the Audit committee.

Typically, the committee is required to approve the use of the external auditors to provide: accounting advice and training; employee benefit plan audits; corporate responsibility, IT and other assurance services; due diligence in respect of acquisitions and disposals; certain specified tax services including tax compliance, tax planning and related implementation advice; and certain other services when it is in the best interests of the Company to do so and they can be undertaken without jeopardising auditor independence. No individually significant non-audit assignments that would require disclosure were undertaken in the financial year.

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

The Audit committee has formally reviewed the independence of its auditors. KPMG LLP has provided a letter confirming that it believes it remains independent within the meaning of the regulations on this matter and in accordance with their professional standards.

To fulfil its responsibility to ensure the independence of the external auditors, the Audit committee reviewed:

- changes in external audit executives in the audit plan for the current year;
- a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditors.

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

### Auditor effectiveness

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

- the external auditors' fulfilment of the agreed audit plan and variations from it;
- reports highlighting the major issues that arose during the course of the audit;
- feedback from the businesses evaluating the performance of each assigned audit team; and
- a report from the Audit Quality Review Team of the Financial Reporting Council (FRC).

The Audit committee holds private meetings with the external auditors after each committee meeting to review key issues within their sphere of interest and responsibility.

To fulfil its responsibility for oversight of the external audit process, the Audit committee reviewed:

- the terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditors' engagement letter for the forthcoming year;
- the external auditors' overall work plan for the forthcoming year;
- the external auditors' fee proposal;
- the major issues that arose during the course of the audit and their resolution;
- key accounting and audit judgements;
- the level of errors identified during the audit; and
- recommendations made by the external auditors in their management letters and the adequacy of management's response.

### Auditor appointment

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

Richard Pinckard was appointed as KPMG lead audit partner for the financial year ended September 2012 and would ordinarily be expected to continue as lead audit partner until the conclusion of the 2016 audit. Upon his appointment Mr Pinckard undertook a detailed review of the external audit arrangements across the group including a review of senior audit executives, and he presented his findings and recommendations to the Audit committee. As part of the normal partner rotation arrangements, no changes were necessary in the current year but one divisional audit executive was changed.

The Audit committee is satisfied with the auditors' effectiveness and independence and has recommended to the board that KPMG LLP be reappointed as the Company's external auditor for 2014/15.

KPMG LLP, or one of its predecessor firms, have been reappointed annually by shareholders as auditor to the Company since its incorporation in 1935. Whilst the Company has kept the effectiveness of the relationship under review, no formal tender of the audit process has been carried out since the original appointment. Mindful of the requirements of the UK Corporate Governance Code that the audit should be put out to tender every ten years, and the UK Competition & Market Authority's Order requiring mandatory audit tendering at ten-year intervals which comes into force in 2015, the Company has notified KPMG LLP of its intention to put the audit out to tender during 2015, with a view to a new firm being appointed to audit the financial statements for the year ending 17 September 2016.

The total fees paid to KPMG LLP for the year ended 13 September 2014 were £9.1m of which £3.2m related to non-audit work. Further details are provided in note 2 to the financial statements.

# REMUNERATION REPORT

## Annual statement by the Remuneration Committee Chairman

### 2013/14 performance and incentive outcomes

Associated British Foods is a group of businesses that trade all over the world. These businesses are expected to grow profitably in the long term, but are subject to short-term pressures which prevent this from time to time.

The group has achieved strong growth in earnings for a number of years and the growth in shareholder return over the last five years in particular has been well above that achieved by the constituents of the FTSE 100 index as shown on page 76. Vesting under our Long-Term Incentive Plan (LTIP) for the period from 2011–14 reflects the growth of the business since September 2011. The committee is satisfied that this level of vesting represents a fair level of reward for executives for their contribution to the growth in value of the Company.

The committee must ensure that targets are stretching but they must also be realistic and, where necessary, reflect the challenges faced by the business in order to encourage executives to strive for great performance. In my statement last year as chairman of the Remuneration committee, I noted that one of our larger businesses, European Sugar, would come under pressure in the years leading up to reform of the EU sugar regime in 2017. 2014 proved to be a challenging year for this business and the effects of the fall in EU sugar prices are expected to be a further influence on the group's overall performance in the short term.



When setting short-term incentive targets for 2013/14 the committee was mindful of the expected pressure on sugar prices and the consequences for the group's results. During the course of the year, the committee adjusted the target range for the short-term incentive down by £10m to reflect unbudgeted costs for restructuring the sugar business to ensure that we are better positioned for the future. This cost would otherwise have been included in the budget for 2014/15 and been included in the incentive target range for that year. It was in the best long-term interests of the business for this restructuring to be commenced in, and reflected in performance targets for, the 2013/14 financial year.

We are satisfied that pay outcomes for the financial year 2013/14 reflect overall business performance. With the exception of Sugar, adjusted operating profit increased in all divisions. AB Agri achieved another record result; Grocery made very good progress with profit and margin well ahead of last year; Ingredients is achieving a strong turnaround from the challenges of recent years; and Primark had another excellent year and is well positioned to maintain its growth momentum. This performance resulted in a short-term incentive payment slightly above on-target for the financial element of the plan.

For our long-term incentive plan for 2014–17, the committee has determined that the current earnings per share target range remains appropriate, particularly given the significant challenges facing the sugar business over that timeframe.

### Directors' remuneration at Associated British Foods

The committee's approach to remuneration is that it should be kept as simple as possible. We believe that our current policy is well aligned to the business strategy and to growing long-term shareholder value. We seek to ensure that remuneration directly reflects individual accountability for business results and that pay is managed fairly, prioritising long-term profit development over short-term results. Our framework for executive remuneration is based on our guiding principles, including a belief in 'line of sight' and 'doing the right thing'.

As previously disclosed, in December 2012, the committee reduced vesting on the LTIP from 100% to 97.5% to reflect an asset impairment charge relating to Don KRC. Property development deals relating to a Don KRC site, which are not included in the annual operating profit calculation, mean that the committee now feels it is appropriate to return to the executive directors some, but not all, of the previously reduced value. The Committee has therefore determined to exercise its discretion to increase the personal element of the incentive payment by 2.4% of salary for George Weston and 2.45% of salary for John Bason.

During the year, the committee determined that a mandatory two-year holding period would apply for shares vesting under the LTIP to executive directors for allocations made after the 2014 AGM if and when the remuneration policy set out in this report is formally approved.

Having introduced clawback and malus to the long-term incentive plan approved by shareholders in December 2013, the committee determined that the same approach should be applied to the short-term incentive plan. The committee also agreed that executives should now formally acknowledge the committee's powers of discretion, clawback and malus as a condition of participation in the group's incentive schemes.

### Your feedback and what we have planned for 2014/15

As Chairman of the board, I invite the larger institutional shareholders each year to discuss their views on the group's strategy, governance and remuneration. Those who have taken up the invitation this year have expressed confidence with the way the group has managed remuneration, and discussion has again been characterised by informed enquiry and open debate.

Remuneration is one of those subjects on which every shareholder has a point of view. I hope that our principles of clarity, relative simplicity, accountability and fairness help to explain what the committee does.

We are not planning any changes to remuneration policy or its implementation in the new financial year. I am happy to discuss any remuneration matters that help us shape our policy and practice, at any time.

**Charles Sinclair**
**Remuneration Committee Chairman**

## Remuneration policy

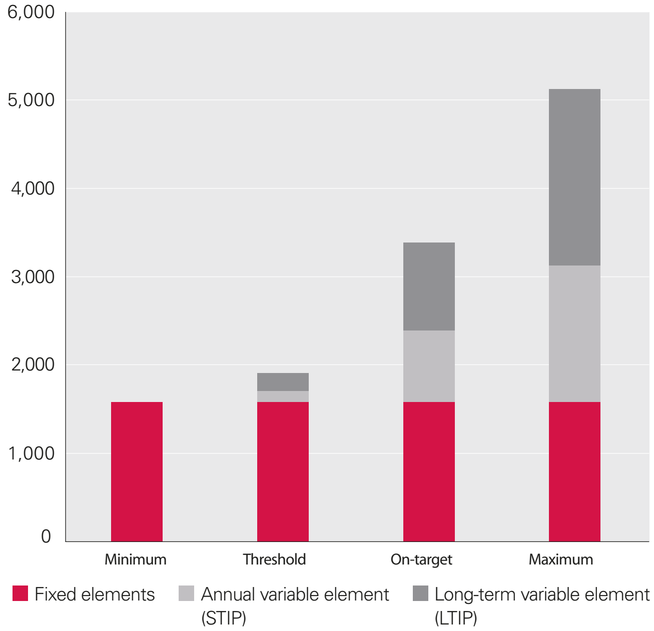
The policy for executive directors, set out below, will apply from the date of the 2014 AGM (subject to approval). The provisions of the last remuneration policy, as presented in last year's Remuneration report will continue to apply for unvested share awards until such time as all long-term incentive awards granted under that policy have vested.

The committee will consider the approved remuneration policy annually to ensure that it remains aligned with the Company's strategic objectives. If the committee determines that amendments to the policy are needed, it will first discuss the proposals with shareholders before seeking their approval at a general meeting. However, it is intended that the policy set out below will apply for three years from the 2014 AGM and the Company therefore next expects to seek shareholder approval for its remuneration policy at the 2017 AGM.

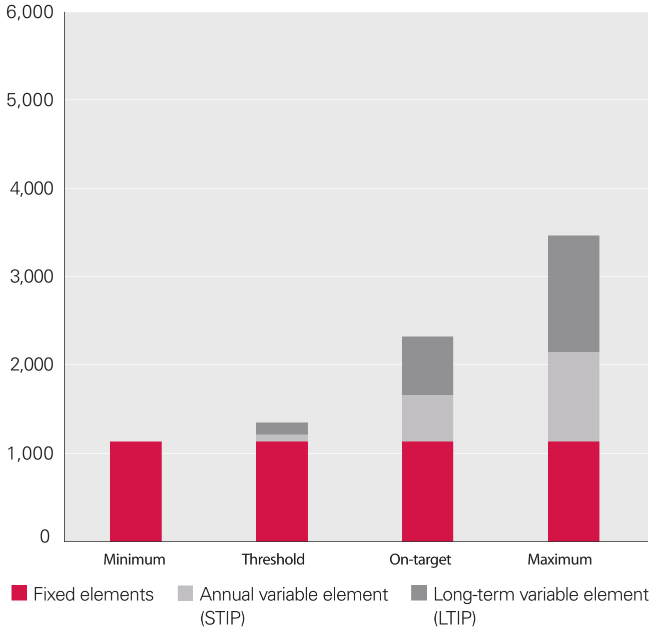
### Executive directors' reward potential – illustration of remuneration policy 2014/15



**George Weston** (£000)




**John Bason** (£000)




Notes:
1. Fixed elements for George Weston comprise salary of £998,000, benefits of £15,000 and pension of £569,000 and applies to minimum, threshold, on-target and maximum performance.
2. Fixed elements for John Bason comprise salary of £649,000, benefits of £18,000 and pension of £464,000 and applies to minimum, threshold, on-target and maximum performance.
3. Annual variable element – bonus is calculated on base salary at the end of the financial year.
4. Long-term variable element – value is calculated on base salary at the date of allocation and excludes share price movement.
5. Minimum – No STIP or LTIP payment for failure to achieve threshold performance.
6. Threshold – STIP of 12% of base salary (12% of base salary for threshold financial performance and 0% for failure to achieve threshold personal performance). LTIP vesting at 10% of maximum (i.e. an allocation of 20% of grant date base salary) following achievement of threshold performance targets.
7. On target – STIP of 78.3% of base salary (65% for target financial performance and 13.3% for target personal performance). LTIP vesting at 50% of maximum (i.e. an allocation of 100% of grant date base salary) for target performance.
8. Maximum – STIP of 150% of base salary (130% for maximum financial performance and 20% for achieving maximum personal performance). LTIP vesting at 100% of maximum (i.e. an allocation of 200% of grant date base salary).

## FUTURE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

| Element and purpose | Operation and link to business strategy | Maximum opportunity |
|---|---|---|
| **Base salary (100% cash)** | | |
| To provide core reward for the role, recognising responsibility for setting and delivering the strategy. | Base salaries are normally reviewed on an annual basis or following a significant change in responsibilities. Factors taken into account include market pay movements, the level of increases awarded to UK employees across the group and the impact of any increase on the total remuneration package. | Increases will usually be limited to those available for other UK employees. In line with other employees, if there is a significant change in role responsibility, increases will reflect this. |
| **Benefits (excluding relocation)** | | |
| To provide a competitive and cost-effective benefits package appropriate to role. | Benefits are restricted to typical UK market levels for executive directors and include, but are not limited to, death in service payment, permanent health insurance, company car plus private fuel, family healthcare and, where relevant, fees to maintain professional memberships. Executives are provided with the technology they require to carry out their roles efficiently and effectively. | The cost of these benefits is not expected to exceed 10% of salary but is dependent on factors, such as insurance premium rates, that can vary. |
| **Short-Term Incentive Plan (STIP) (100% cash)** | | |
| To encourage and reward the attainment of challenging financial targets and the achievement of personal performance objectives over a one-year period. | **Performance measures**<br>Group financial performance is assessed against prime financial measures, such as adjusted operating profit and working capital, used across the group on a day-to-day basis to drive and monitor performance.<br>The personal element of the STIP is calculated as a percentage of base salary on achieving certain personal targets set by the Company Chairman for the Chief Executive or by the Chief Executive for the Finance Director.<br>**Target setting**<br>Budget performance is set as the 'on-target' performance level at the start of each financial year. The committee sets a range around target to incentivise delivery of truly stretching performance.<br>Individual personal objectives are also set each year. These may be specific short-term goals or milestones towards medium or long-term objectives, but are closely aligned to the overall strategy of the group. Following the end of the financial year, the Chairman reviews the performance of the Chief Executive against these objectives and makes a recommendation to the Remuneration committee about the appropriate level of payout for the personal element. Similarly, the Chief Executive makes a recommendation to the Remuneration committee regarding the Finance Director following an assessment of his performance.<br>**Discretion, clawback and malus**<br>In specific circumstances the Remuneration committee retains discretion, including in relation to malus and, from 2014-15 onwards, clawback, as set out in the notes that follow this table. | 150% of base salary:<br>• 130% based on financial results; and<br>• 20% on personal performance. |

## FUTURE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

| Element and purpose | Operation and link to business strategy | Maximum opportunity |
|---|---|---|
| **Long-Term Incentive Plan (LTIP)** | | |
| To reward long-term business growth, promote executive retention and align the interests of executives and shareholders. | Executive directors are eligible to participate in the Associated British Foods Long-Term Incentive Plan (the LTIP). Annual allocations of conditional shares vest over a three-year period, subject to agreed performance targets being satisfied. LTIPs are granted over shares to the value of 200% of salary. For maximum performance 100% of the shares vest, for target performance 50% vest, for threshold performance 10% vest and below threshold level awards lapse.<br>A mandatory two-year holding period will apply for any shares allocated under the LTIP from the 2014 AGM onwards, if this policy is approved by shareholders.<br>**Performance measures**<br>Group performance is measured against an absolute range of compound annual growth in adjusted earnings per share (eps).<br>This measure was chosen because it:<br>• reflects the group's objective of sustained long-term earnings growth;<br>• is a measure which is well understood both by participants and shareholders;<br>• is a published figure with limited adjustments; and<br>• encompasses the diverse nature of the group.<br>An absolute, rather than a relative measure is used, as the group is a global business for which UK inflation factors are of limited impact.<br>Other financial measures have been considered, but found to be unhelpful or inappropriate.<br>**Target setting**<br>Targets are set by the committee at the beginning of each three-year performance period, taking into account the state of the markets in which the group operates as well as the scale of investments made in the pursuit of long-term growth. In determining a fair but stretching target, the committee also considers:<br>• the results of the long-term incentive plan to date;<br>• market expectations and internal forecasts for the next few years; and<br>• advice from its appointed remuneration advisors.<br>**Discretion, clawback and malus**<br>When the Company introduced the new LTIP, approved by shareholders in 2013, malus and clawback were introduced into the plan rules. In specific circumstances the Remuneration committee retains discretion in relation to the plan. Further information can be found in the notes to this table. | 200% of base salary at allocation on achievement of maximum vesting. |

## FUTURE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

| Element and purpose | Operation and link to business strategy | Maximum opportunity |
|---|---|---|
| **Long-Term Incentive Plan** continued | | |
| | **Previous plan**<br>Conditional shares already allocated for 2011–14, 2012–15 and 2013–16 will vest, or not, under the terms of the Executive Share Incentive Plan 2003. These allocations were subject to earnings per share performance targets and, in contrast to the new plan, do not have clawback in place. | |
| **Shareholding requirement** | | |
| To demonstrate commitment to, and align personal interests with, the success of the Company and its shareholders. | Executive directors are required to build and maintain a shareholding in the Company to a value at least equal to their pre-tax base salary.<br>In order to achieve this target, executives are required to retain at least 50% of the post-tax value of any shares vesting each year and then to manage their shareholding in such a way as to continue to meet the requirement. | Shareholding of 100% of salary. |
| **Pension** | | |
| To provide a competitive retirement benefit in line with best practice standards adopted by major companies in the United Kingdom and continental Europe. | **Defined benefit pension arrangements – closed to new members**<br>The current executive directors are members of the Company's HMRC approved defined benefit pension scheme, which closed to new entrants in October 2002. Both executive directors opted out of the scheme on 5 April 2006, but retain their accrued benefits up to that date. The scheme is designed to provide retirement benefits of around two-thirds of final pensionable salary at age 65 (62 for John Bason).<br>The current executive directors have, since 5 April 2006, earned benefits in an Employer-Financed Retirement Benefit Scheme (EFRBS). The EFRBS is unregistered, but is designed to broadly mirror the provisions of the defined benefit pension scheme by providing retirement benefits of around two-thirds of final pensionable salary at normal retirement age.<br>**Defined contribution pension arrangements**<br>Future executive directors, who are not already entitled to defined benefit pension arrangements at the time of appointment, would benefit from an HMRC approved defined contribution arrangement, with a Company contribution of 25% of base salary.<br>**Cash alternative**<br>Where a UK-based pension arrangement is not possible, or is not tax efficient, a cash supplement equivalent to the normal pension contribution may be paid in lieu of pension contributions. | For directors entitled to benefits under the Company's defined benefit pension scheme and/or EFRBS, a retirement benefit target of around two-thirds of final pensionable salary is payable at normal retirement age.<br>For directors entitled to defined contribution pension arrangements, executives may receive Company contributions (or cash equivalent) up to a maximum of 25% of base salary. |

## Notes to the Remuneration policy table

### Target-setting and commercial sensitivity

The committee selected the performance conditions shown in the preceding table because these are the key measures used by the executive directors to manage the business. The performance targets are set by the committee annually taking into account the views of their advisors and management.

The committee is of the opinion that performance targets for the annual bonus are commercially sensitive and that it would be detrimental to the interests of the Company to disclose them before the start of the financial year. Achievement against financial targets will be disclosed after the end of the relevant financial year in that year's Remuneration report.

### Discretion, malus and clawback

The committee may, at any time within two years of the vesting date of an LTIP award (under the new plan) or payment of an STIP award, determine that clawback shall apply if the committee determines that performance outcomes were misstated; an erroneous calculation was made in assessing the extent to which performance targets were met; or the participant is found to have committed, at any time prior to vesting/payment, including prior to grant, an act or omission which justifies, or, in the opinion of the Remuneration committee, would have justified, summary dismissal.



As a condition of participating in the STIP and LTIP from the 2014/15 financial year onwards, all participants will be required to agree that the committee may cause any STIP or LTIP award in which they participate to lapse (in whole or in part) and may operate clawback under any share scheme or bonus scheme in which they participate operated by a group company and may operate clawback by reducing any amounts payable to the participant and/or by requiring the participant to immediately transfer shares or cash back to the Company.

The committee will apply discretion, where necessary and by exception, to ensure that there are no unintended consequences from the operation of the remuneration policy. The committee has a robust set of principles that it applies to ensure that the outcome is consistent with business performance and aligned with shareholder interests. Any material exercises of discretion by the committee in relation to the STIP and LTIP will be in line with scheme rules or other applicable contractual documentation and will be fully disclosed and explained in the relevant year's report on the implementation of remuneration policy and will not exceed scheme maxima.

### Remuneration for other employees compared with that of executive directors

First line reports to the Chief Executive and other senior executives are rewarded broadly within the same overall remuneration policy as executive directors, in order to ensure fairness and common purpose across the group. In general, other executives therefore participate in incentive arrangements similar to those of the executive directors, but with lower levels of potential payout. The proportion of variable pay to base salary for first line executives is around 1.2 to 1 for 'on-target' performance and 2.25 to 1 for maximum performance. The Remuneration committee regularly reviews the reward package for other groups of senior executives below board level to ensure that they remain at a level sufficient to attract and retain high-calibre individuals.

Associated British Foods is geographically dispersed and therefore subject to very different pay markets, so it is difficult to make sensible comparisons with all employees across the group. The salaries of executive directors are reviewed in line with UK employees of Associated British Foods. In December 2013, when the target salary increase for employees in the UK was between c.2.0% and c.3.0%, the Chief Executive received a salary increase of 2.56%.

In order to drive and reward performance, and to align better the interests of executives and shareholders, the executive directors have a greater proportion of their total reward package at risk than other employees. This means that in years of very good performance, the Chief Executive's package increases proportionately more than that of most other employees and conversely in years of lower performance it may decrease. However, the structure and principles of incentives are consistent further down the organisation including:

- the belief that employees should be encouraged to do the right thing for the long-term benefit and success of the organisation;
- the belief that individuals should have line of sight to their performance targets; and
- the belief in combining profit and return measures with personal measures in the STIP.

The committee operates share-based long-term incentives for approximately 150 senior individuals across the Company.

### Executive directors serving as non-executive directors

To encourage self-development and allow external insight and practice, the committee has determined that, with the consent of the Chairman and CEO, executive directors may serve as non-executive directors of other companies in an individual capacity and will retain any fees earned.

## Remuneration policy – consideration of employment conditions elsewhere in the Company

### How pay and conditions of employees were taken into account when setting directors' remuneration policy

The committee considered the salary increases proposed for the employee population generally and other changes to the remuneration policy within the Company when reviewing executive salaries at its September and October meetings. As outlined in the policy table, the committee typically limits the range of increases for executive directors to the range of increases available to employees unless there has been a change of role.

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

### Consideration of employees' views

In setting the remuneration policy, the committee seeks to act in the best interests of the Company. Whilst the views of employees are not explicitly sought, employees are able to feed back their opinions through employee opinion surveys or directly to the Company's management.



## Remuneration policy – executive director contracts, recruitment, retention and loss of office

### Recruitment arrangements – all executive directors

As we may need to recruit future executive directors from outside the UK or from companies with more aggressive incentive policies than our own, and as our long-term incentive plans do not give us significant headroom to make awards to new joiners above the levels set out in the policy table, the arrangements below are intended to give us the flexibility to recruit the right individuals should we need to.

**Core package – in line with remuneration policy table on pages 66 to 68**

Salary – Based on a combination of market information, internal relativities and individual experience

Benefits – In line with remuneration policy

Pension – Defined contribution pension or cash alternative to pension in line with policy

STIP – Pro rata in year of recruitment. Part of STIP may be guaranteed to reduce the need for additional cash payments to hire new joiners.

LTIP – Prorated grant for the year of recruitment. A mandatory two-year holding period will apply for any shares vesting under the LTIP for any newly appointed executive directors from 1 September 2014 onwards.

**Buy-out arrangements – in addition to remuneration policy table on pages 66 to 68**

The committee may, when it considers this to be in the best interest of the Company, make a one-off award of additional cash and/or shares to replace incentives foregone from a previous company. The committee would seek validation of the value of incentives foregone, including the nature, time horizon and performance requirements attaching to that remuneration. Additional awards will not exceed the committee's advisors' calculation of the value of the original awards. If possible, additional incentive awards will be tied to group performance targets.

**Other elements – in addition to remuneration policy table on pages 66 to 68**

The committee may, when it considers this to be in the best interest of the Company, make a one-off additional award of cash and/or shares as an incentive to join. This may, for example, be necessary if recruiting an individual from overseas. If possible, additional incentive awards will be tied to group performance targets.

Total maximum additional incentive value will not exceed 200% of salary.

**Internal appointments**

For internal appointments, awards in respect of the prior role may be allowed to vest according to the terms of the scheme, adjusted as relevant to take account of the new appointment. In addition, ongoing prior remuneration obligations may continue.

**Relocation**

If a new executive director needs to relocate, the Company may pay:

- actual relocation costs and other reasonable expenses relating to moving house;
- disturbance allowance of up to 5% of salary, some of which may be tax-free for qualifying expenditure;
- school fees for dependent children where there are cultural or language considerations;
- medical costs for the overseas family, where relevant;
- one business class return fare per annum each for the executive, his/her partner and dependent children in order to maintain family or other links where an executive is recruited from outside the UK;
- reasonable fees and taxes for buying and/or selling a family home and/or appropriate rental costs; and
- any tax due, grossed up, on any relocation related payments listed above.

**Service contracts and payments for loss of office**

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

The executive directors' service contracts allow for the Company to terminate the employment by paying the director in lieu of some or all of his notice period. The Company may determine that a payment in lieu of notice is made in monthly instalments or as a lump sum. A payment in lieu of notice will comprise the salary, benefits and pension provision that the director would otherwise have received during the relevant period. The Company is committed to the principle of mitigation. If the committee determines that a payment in lieu of notice will be paid in monthly payments, it would reduce the instalments to take account of amounts received from alternative employment.



In addition, the executive director may be entitled to a payment in respect of his statutory rights. The committee may also determine that a contribution will be made to the director's legal fees in connection with his termination and may agree to make reasonable payments to him in respect of outplacement. In limited circumstances, in addition to making a full payment in lieu of notice, the Company may permit an executive director to stay employed after the announcement of his departure for a limited period to ensure an effective hand-over and/or to allow time for a successor to be appointed. It would be open to the Company to consider terminating an executive director's service agreement in breach (i.e. not to make a payment to him in lieu of notice) and instead to make a payment of damages to him which compensates him for the loss he will suffer as a result of the termination of his contract, taking into account his duty to mitigate his loss.

There is no automatic entitlement to accrued STIP/LTIP awards on termination; the approach to determining whether or not a payment might be made is set out in the table below. Pro-rated STIP and LTIP awards will not usually take account of notice periods, but the committee retains the discretion to determine that they will. The committee would not expect to do so in the case of poor performance.

| Reason for termination | Salary and contractual benefits | STIP | LTIP | Repatriation |
|---|---|---|---|---|
| Good leaver including:<br>• ill health/injury/disability<br>• redundancy<br>• retirement<br>• employing company or undertaking being transferred outside the group<br>• other reason determined by the committee<br>• death | Paid up to date of termination or death.<br>The committee has discretion to pay in lieu of notice as set out above. | The committee will consider making a pro rata payment for the financial year in which the termination/death took place.<br>Any agreed payment will be made in the December following the year end.<br>In the case of death, payment may be accelerated. | The committee will consider allowing awards due to vest in relation to the financial year of termination to vest. Other awards lapse unless the committee uses its discretion to allow them to vest. The committee has never previously done this.<br>Vesting will take place on the usual vesting date, subject to performance conditions unless the committee determines that the award should vest earlier pro rata, in which case the committee may determine whether the executive's notice period will be taken into account in any pro rating. | If an executive was recruited from overseas and relocated to the UK at the start of his/her employment, his/her repatriation may be paid. |
| Resignation | Paid up to termination date. | If an executive director ceases to be employed before/is under notice when full year results are published, no award will be made unless the committee determines otherwise. The committee has never previously determined otherwise. | All conditional share awards will be cancelled unless the committee determines otherwise. The committee has never previously determined otherwise. | Not paid. |
| Gross misconduct | Paid up to termination date. | No award will be made. | All conditional share awards will be cancelled. | Not paid. |

## Remuneration policy for non-executive directors

### Summary of remuneration policy for non-executive directors

Non-executive directors' fees are reviewed periodically in the light of fees payable in comparable companies and the importance attached to the retention and attraction of high-calibre individuals as non-executive directors. Fees are paid on a per annum basis and are not varied for the number of days worked. Non-executive directors receive no other benefits and take no part in any discussion or decision concerning their own fees.

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

| Element | Purpose | Operation |
|---|---|---|
| **Chairman** | | |
| Fees | To attract and retain a high-calibre chairman by providing a competitive core reward for the role. | The Chairman is paid a single fee for all his responsibilities.<br>The level of this fee is reviewed every other year by the committee (in the absence of the Chairman) and the executive directors in the light of fees payable in comparable companies.<br>Fees are paid in cash on a monthly basis. |
| Benefits | To provide market competitive benefits. | Private medical insurance (for Chairman and spouse). |
| **Other non-executive directors** | | |
| Fees | To attract and retain high-calibre non-executive directors by offering market competitive fees. | Fees are paid on a per annum basis and are not varied for the number of days worked.<br>The Chairman and executive directors review non-executive directors' fees every other year in the light of fees payable in comparable companies.<br>The Senior Independent Director and chairman of the Audit committee are paid an additional fee to reflect their extra responsibilities.<br>Fees, paid in cash on a quarterly basis, were last reviewed on 3 September 2014. |



### Non-executive directors' terms of appointment

It is the Company's policy that all non-executive directors are subject to specified terms of appointment. Appointment is for an initial term of three years unless terminated by either party on six months' notice. Continuation of the contract of appointment is contingent on satisfactory performance and re-election at forthcoming annual general meetings. Non-executive directors are typically expected to serve two three-year terms, although the board may invite a non-executive director to serve for an additional period.

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

Where an individual retires at the annual general meeting and does not stand for re-election, they are not paid in lieu of notice.

### Approach to recruitment for non-executive directors

The approach to fees outlined above would apply to new non-executive directors.

We would not pay to relocate a non-executive director to the head office location but would reimburse reasonable expenses incurred in travelling on behalf of the business. In the first year, such expenses may be higher than usual as part of the individual's induction into the business.

## Remuneration policy – statement of consideration of shareholders views

Each year the chairman of the committee invites our larger institutional shareholders to discuss with him their views on the group's remuneration, strategy and governance.

Ahead of the 2013 AGM, we received feedback from some investors who did not feel that our earnings per share targets were sufficiently stretching. The committee robustly reviews targets each year, with detailed input from our advisors and from the Company. We have satisfied ourselves, in the context of the challenges facing the sugar business, that the targets that we set for the LTIP in 2013 for the period from 2013–2016 and those proposed for the period from 2014–2017 are indeed challenging and that delivering this level of performance will represent a good performance by the executive directors on behalf of shareholders.

We are not planning any changes of remuneration policy in the current year and expect to implement the policy set out in the following report in the same manner as we have in the past. The committee chairman remains happy to discuss any remuneration matters at any time to help shape our policy and practice.

## Annual report on directors' remuneration

The annual report on directors' remuneration sets out the elements of remuneration paid to directors in the financial year 2013/14. The notes to the single figure table provide further detail, including measures and outcomes for 2013/14, where relevant, for each of the elements that make up the total single figure of remuneration in respect of each of the executive directors.

This report is subject to an advisory vote at the 2014 AGM.

## Single total figure of remuneration – executive directors (audited information)

| | Salary or fees | | Taxable benefits | | Pensions | | Annual bonus[6] | | Long-term incentive[7,8] | | Single total figure[9] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **£000** | £000 | **£000** | £000 | **£000** | £000 | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| **Executive directors** | | | | | | | | | | | | |
| George Weston | **973** | 948 | **15** | 14 | **457** | 518[5] | **894** | 1,219 | **4,816** | 3,133 | **7,155** | 5,832 |
| John Bason | **633** | 617 | **18** | 16 | **373** | 383[5] | **582** | 808 | **3,169** | 2,103 | **4,775** | 3,927 |
| **Non-executive directors** | | | | | | | | | | | | |
| Charles Sinclair | **349** | 346[1] | **1[4]** | 1 | | | | | | | **350** | 347 |
| Tim Clarke | **82** | 81[1] | **–** | – | | | | | | | **82** | 81 |
| Lord Jay | **65** | 64[1] | **–** | – | | | | | | | **65** | 64 |
| Javier Ferrán | **65** | 64[1] | **–** | – | | | | | | | **65** | 64 |
| Peter Smith | **82** | 81[1] | **–** | – | | | | | | | **82** | 81 |
| Emma Adamo | **65** | 64[1] | **–** | – | | | | | | | **65** | 64 |
| Ruth Cairnie | **24** | – | **–** | – | | | | | | | **24** | –[10] |

1 The value shown reflects the split across the year from the previous fee rate to the revised rates of £65,000 for non-executive directors and £350,000 for the Chairman.
2 The value of George Weston's benefits comprised £12,964 taken in cash and £1,540 taxed as benefits-in-kind.
3 The value of John Bason's benefits comprised £12,964 taken in cash and £4,991 taxed as benefits-in-kind.
4 The value of Charles Sinclair's benefits reflects the provision of health care benefits, which are taxed as a benefit-in-kind.
5 2013 pensions values for George Weston and John Bason have been adjusted from £520,000 and £377,000 respectively to reflect current reporting requirements to report based on CPI indexation over the year to September in the tax year prior to the date of the Company's year end. These calculations previously used the CPI inflation over the Company year in question.
6 The annual bonus is paid in December in respect of the preceding financial year. None of the incentive is subject to deferral.
7 As required by the regulations, vesting under the long-term incentive plan for 2010–2013 has been recalculated to update last year's estimates using the actual share price of 2271.4962p that applied on vesting. Information relating to performance targets, weightings and outcomes can be found on page 73 of the 2013 annual report.
8 Vesting under the long-term incentive plan for 2011–2014 has been estimated using the average mid-market closing price over the last quarter of the 2013/14 financial year (13 June to 13 September 2014) of 2890.94p. Vesting will be on 24 November 2014 and a figure recalculated for the actual share price on that date will be presented in the 2015 Remuneration report. Information relating to performance targets, weightings and outcomes can be found on page 74.
9 The single total figure for 2013 has been updated to reflect the LTIP adjustment noted in 8 above.
10 Ruth Cairnie joined the board on 1 May 2014.

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

This section sets out supporting information for the single total figure columns. In particular, it provides information on the extent to which performance conditions have been satisfied for the STIP and LTIP.

### Single total figure – base salary

Executive directors' salaries were reviewed on 1 December 2013 in accordance with normal policy and were increased in line with average increases for the company's UK-based employees.

| | Dec 2012 | Increase in Dec 2013 | Dec 2013 |
|---|---|---|---|
| George Weston | 977,000 | 2.56% | 1,002,000 |
| John Bason | 643,000 | 2.64% | 660,000 |

### Single total figure – benefits

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

### Pensions

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

**George G Weston**

The director has an overall benefit promise of a minimum of 2/3rds of Final Pay or 1/45th of Final Pensionable Earnings for each year of Pensionable Service. The director opted out of the Associated British Foods Pension Scheme on 5 April 2006, and has a deferred benefit in the Scheme; the balance of the promise is provided under an EFRBS. The directors' benefits are payable from age 65. There is no additional benefit entitlement for the members if they take early retirement. The pension accrued by the director at 13 September 2014 was £477,363.

**John G Bason**

The director has an overall benefit promise of a minimum of 2/3rds of Final Pay or 1/45th of Final Pensionable Earnings for each year of Pensionable Service, less an allowance for the directors' retained benefits from previous employment. The director opted out of the Associated British Foods Pension Scheme on 5 April 2006, and has a deferred benefit in the Scheme; the balance of the promise is provided under an EFRBS. The directors' benefits are payable from age 62. There is no additional benefit entitlement for the members if they take early retirement. The pension accrued by the director at 13 September 2014 was £284,064.



### Short-term incentive plan – 2013/14

In December 2014 there will be a payout of 70.74% of salary to executive directors in respect of the financial element of the annual bonus for the 2013/14 financial year (72.86% of salary based on adjusted operating profit performance multiplied by 0.9709 in respect of average working capital performance). This reflects the performance of the group with adjusted operating profit slightly ahead of target and working capital as a percentage of sales just below target.

| | Actual | Below bonus threshold | Below target | Target | Above target | Maximum |
|---|---|---|---|---|---|---|
| Adjusted operating profit | £1,163m | | | | ✓ | |
| Average working capital as a percentage of sales | 14.56% | | ✓ | | | |

The committee applied its discretion to reduce the incentive range downwards by £10m at cut-in, target and maximum this year. As outlined in the section on discretion, the committee has a robust process that it applies when considering whether or not any adjustment to incentive targets is appropriate. In light of the challenge in the sugar business, the Company made the decision to significantly restructure this business in the current year, which had a £22m impact on reported operating profit. As this cost was not included in the budget, and therefore incentive targets for the year, the committee agreed to an adjustment to incentive targets of £10m in recognition of the fact that accelerating this action to restructure the business was in the best interests of Company performance and of shareholders in the long term.

Following a review of personal performance against specific objectives for the 2013/14 financial year, the committee determined that George Weston will receive 16.1% of salary in relation to strong performance against set objectives, cost base reductions and continuous improvement in the sugar business, continuing the international roll-out of Primark and increasing internationalisation of the grocery businesses. In addition, there has been good progress on succession planning, both for the board and divisional leadership teams. John Bason will receive 15% of base salary for the individual element of the annual bonus, reflecting overall performance that is ahead of expectations with all objectives having been attained and good performance delivered on acquisitions, IT projects, refinancing and pension funding. Personal objectives set for each of the executive directors were closely aligned to the overall strategy of the group and will not be disclosed because of commercial sensitivity.

In addition to the above percentages, the committee has determined to increase the personal element of the incentive payment by a further 2.4% for George Weston and 2.45% for John Bason for the reasons detailed in the Remuneration Committee chairman's statement on page 64.

### Long-term incentive plan – 2011–2014

The performance measures for each three-year LTIP cycle are set by the committee. Awards are made annually, at the discretion of the committee, and eligible executives receive shares at the end of the performance period, subject to achievement of the performance measures. For the 2011–2014 cycle the threshold level of compound earnings per share growth was 5% per annum with on target at 8% and maximum at 11%. The actual earnings per share growth over the period was more than 12% compound per annum. In November 2014 executive directors will therefore receive 100% of the conditional shares allocated in 2011 – George Weston will receive 166,606 shares and John Bason 109,614 shares. No further deferral will be applied to these shares, as outlined in the remuneration policy.

### Grant policy for share plans

Conditional share awards are granted each year in the last 10 days of November, following announcement of the Company's results. In addition, further awards are made, following approval by the committee, between the end of November and 1 June each year to new starters or newly promoted individuals who are eligible to participate. The share price used to determine the number of shares in an allocation is the average of the closing share prices on the five trading days immediately preceding the award date.

Until the AGM on 6 December 2013, awards were made under the Associated British Foods Executive Share Incentive Plan 2003. Since then, awards have been made under the Associated British Foods Long-Term Incentive Plan. All awards are settled using shares bought in the market.

### Scheme interests awarded in 2013/14 (audited information)

The table below details the conditional share interests awarded to the executive directors. The awards made were in line with our normal policy and are subject to performance conditions over the vesting period.

| | | | Maximum award | | | Shares vesting | | | |
|---|---|---|---|---|---|---|---|---|---|
| Executive director | Award date | Vesting date | % salary | Face value | Market price at grant | Maximum | Target (50% of maximum) | Threshold (10% of maximum) | Below threshold (0% of maximum) |
| George Weston | 25/11/13 | 25/11/16 | 200% | £1,954,000 | 2321.2p | 84,181 | 42,090 | 8,418 | 0 |
| John Bason | 25/11/13 | 25/11/16 | 200% | £1,286,000 | 2321.2p | 55,402 | 27,701 | 5,540 | 0 |

The committee determined that performance for this award should be measured against an absolute range of 5% to 11% compound annual growth in adjusted earnings per share. The committee believes that the range remains achievable but stretching over the next three-year period. In setting this target, the committee has taken into account:

- the volatility present in many of the markets in which the group operates;
- the scale of investments made in the pursuit of long-term growth;
- the results of the long-term incentive to date;
- market expectations;
- internal forecasts for the next few years; and
- advice from their appointed remuneration advisors.

As outlined in the remuneration policy, following vesting there will be no further holding period in place for these shares other than as detailed in the share ownership requirements section.

### Executive directors' shareholding requirements and share interests (audited information)

The executive directors are required to build up a beneficially owned shareholding of 100% of salary. No share option awards from earlier years are outstanding.

| Executive directors | Holding requirement | **Beneficial 13 September 2014** | **Beneficial as % of salary[1]** | **Conditional[2] 13 September 2014** | **Total 13 September 2014** | Total as at 14 September 2013 |
|---|---|---|---|---|---|---|
| **George Weston[3]** | | | | | | |
| Wittington Investments Limited, ordinary shares of 50p | n/a | **2,446** | **n/a** | **n/a** | **2,446** | 2,446 |
| Associated British Foods plc, ordinary shares of $5^{15}/_{22}$p | 100% of salary | **3,460,882[4]** | **9053%** | **383,339** | **3,844,221** | 3,845,908 |
| **John Bason** | | | | | | |
| Associated British Foods plc, ordinary shares of $5^{15}/_{22}$p | 100% of salary | **112,724** | **448%** | **252,221** | **364,945** | 387,459 |

1 Calculated using share price as at 12 September 2014 of £26.21.
2 These awards, detailed in the preceding and following tables are conditional allocations under the long-term incentive plans described in the policy section.
3 George Weston is a director of Wittington Investments Limited which, together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares in Associated British Foods plc as at 13 September 2014.
4 The increase in George Weston's holding of Associated British Foods plc shares, as at 13 September 2014, arises in part from a release of shares under the LTIP on 25 November 2013 and in part from an in-depth exercise that has been carried out to comply with the new controlling shareholder requirements.
5 The interests above remained the same at 4 November 2014.

In addition to the interests awarded in the year, the executive directors have the following conditional interests in ABF shares.

| | Scheme name | Dates of award and vesting | Market price at award | Maximum (shares) | Face value (£000) | End of performance period |
|---|---|---|---|---|---|---|
| George Weston | Share incentive plan | 23.11.11 – 24.11.14 | 1098.4p | 166,606 | 1,830 | 13.09.14 |
| | | 23.11.12 – 23.11.15 | 1433.4p | 132,552 | 1,900 | 12.09.15 |
| John Bason | Share incentive plan | 23.11.11 – 24.11.14 | 1098.4p | 109,614 | 1,204 | 13.09.14 |
| | | 23.11.12 – 23.11.15 | 1433.4p | 87,205 | 1,250 | 12.09.15 |

1 For each of the above tranches, performance is against an absolute range of 5% to 11% compound annual growth in adjusted earnings per share.

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

There is no shareholding requirement for non-executive directors. The following shareholdings are ordinary shares of Associated British Foods plc unless stated otherwise.

| | **Beneficial 13 September 2014** | Beneficial 14 September 2013 | **Total 13 September 2014** | Total 14 September 2013 |
|---|---|---|---|---|
| Charles Sinclair | **12,760** | 12,760 | **12,760** | 12,760 |
| Tim Clarke | **4,000** | 4,000 | **4,000** | 4,000 |
| Lord Jay | **1,000** | 1,000 | **1,000** | 1,000 |
| Javier Ferrán | **2,400** | 2,400 | **2,400** | 2,400 |
| Peter Smith | **2,000** | 2,000 | **2,000** | 2,000 |
| Emma Adamo[1] | | | | |
| Wittington Investments Limited, ordinary shares of 50p | **1,322** | 1,322 | **1,322** | 1,322 |
| Associated British Foods plc, ordinary shares of $5^{15}/_{22}$p | **504,465** | 504,465 | **504,465** | 504,465 |
| Ruth Cairnie[2] | **–** | – | **–** | – |

1 Emma Adamo is a director of Wittington Investments Limited which, together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares in Associated British Foods plc as at 13 September 2014. Emma Adamo's interest in Associated British Foods plc shares as at 14 September 2013, has been re-stated to include 38,231 shares held by her husband.
2 Ruth Cairnie was appointed a director on 1 May 2014.



### Payments to past directors (audited information)

No payments were made to past directors in 2013/14.

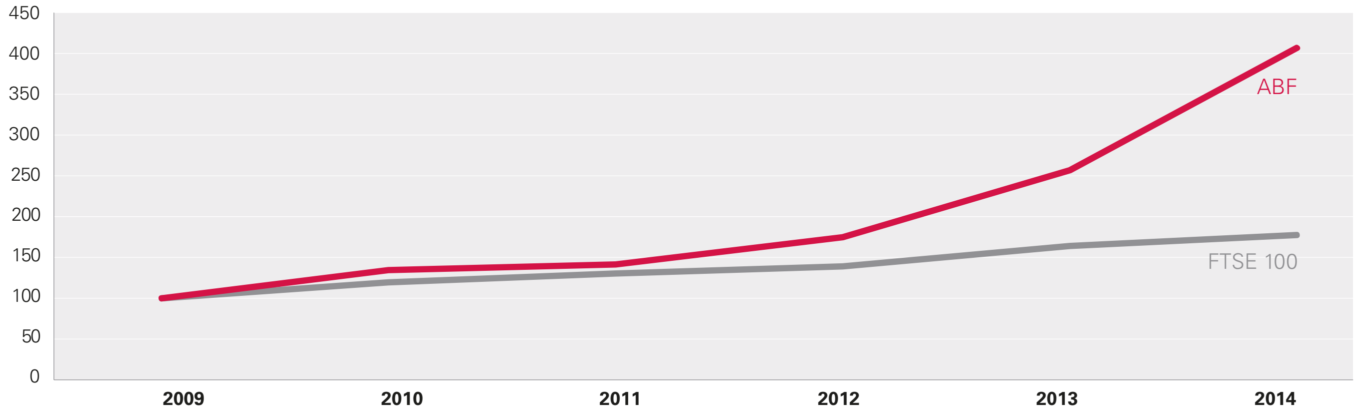
### Payments for loss of office (audited information)

No payments were made for loss of office in 2013/14.

### TSR performance and Chief Executive's pay

The performance graph below illustrates the performance of the Company over the past five years from September 2009 to September 2014, in terms of total shareholder return compared with that of the companies comprising the FTSE 100 index. This index has been selected because it represents a cross-section of leading UK companies.

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




| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Total remuneration (single figure, £000) | | 3,886 | 3,182 | 3,859 | 5,832 | 7,155 |
| Annual variable pay (£000) | | 1,266 | 438 | 864 | 1,219 | 894 |
| Potential maximum annual variable pay (£000) | | 1,310 | 1,373 | 1,425 | 1,466 | 1,503 |
| Annual variable pay (% of maximum) | | 97% | 32% | 61% | 83% | 59% |
| Long-term variable pay – shares vesting as % of maximum | | 99.12% | 83.80% | 97.42% | 85.00% | 100.00% |

At close of business on 12 September 2014, the last trading day before the end of the financial year, the market value of the Company's ordinary shares was 2621p. During the previous 12 months, the market value ranged from 1822p to 3125p.

**Percentage change in remuneration of the Chief Executive**
Between 2013 and 2014, the increase in the Chief Executive's salary was 2.64% and the average increase in salaries for our UK employees was 2–3%. The total increase in reward for the Chief Executive was 22.65%, reflecting full vesting on the LTIP and the increase in the share price over the last year. The overall increase in spend on reward for all of our employees was 3%. These numbers are based on aggregate data presented on page 101 as it is very difficult, in a decentralised group of the Company's size, to separate the increase in spend on incentives and benefits.

**Executive directors serving as non-executive director**
During the year, George Weston served as a non-executive director of Wittington Investments Limited, for which he received no compensation.

John Bason is a non-executive director and chairman of the audit committee of Compass Group PLC, for which he received a total fee of £103,000 in the 2013/14 financial year. He also served as a trustee of Voluntary Service Overseas and as deputy chairman of the charity FareShare, but received no compensation in respect of either of these roles.



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

| Expenditure | **2014 £m** | 2013 £m | % Change |
|---|---|---|---|
| Pay spend for the group | **2,006** | 1,948[1] | 3% |
| Dividends relating to the period | **269** | 253 | 6% |
| Income taxes paid | **246** | 252 | –2% |

1 Pay spend for the group for 2013 has been adjusted to reflect the new accounting standard on pensions.

## Implementation of policy 2014/15
We do not intend to implement our policy differently in 2014/15 than in 2013/14.

**Base salary**
Executive directors' salaries are subject to review on 1 December 2014 and will be increased as shown in the table below.

| | Dec 2013 | Increase in Dec 2014 | **Dec 2014** |
|---|---|---|---|
| George Weston | 1,002,000 | 26,000 | **1,028,000** |
| John Bason | 660,000 | 17,000 | **677,000** |

**Benefits and pension**
No change to current operation.

**Short-Term Incentive Plan – 2014/15**
The STIP will be operated in 2014/15 in line with the remuneration policy and with previous Company practice on implementation.

| | Payout based on operating profit only | Modification to payout based on average working capital | Overall financial payout | | Personal element | | Total bonus |
|---|---|---|---|---|---|---|---|
| Maximum | 108.3% | x1.2 | 130% | + | 20.0% | = | 150.0% |
| On-target (budget) | 65.0% | x1.0 | 65% | | 13.3% | | 78.3% |
| Threshold | 15.0% | x0.8 | 12% | | 0.0% | | 12.0% |
| Below threshold | 0.0% | x0.8 | 0.0% | | 0.0% | | 0.0% |

As detailed in our remuneration policy, we believe that the detailed targets used for our short-term incentive plan are commercially sensitive. We believe that our targets are set at a stretching level and will disclose achievement against them retrospectively in our 2015 Remuneration report as we have done for 2013/14. As the committee has the right to claw back awards under the STIP, we will ask participants to confirm their acceptance of the terms of the award to ensure that they have understood this.

### Long-Term Incentive Plan – 2014–17

The LTIP will be operated in line with the remuneration policy and with the continuing Company grant policy (see page 67). As the committee has the right to claw back awards under the LTIP, we will ask participants to confirm their acceptance of the terms of the award to ensure that they have understood this.

### Service contracts

| | Date of appointment | Date of current contract/ letter of appointment | Notice from Company | Notice from individual | Unexpired period of service contract |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| George Weston | 19.04.99 | 01.06.05 | 12 months | 12 months | Rolling contract |
| John Bason | 04.05.99 | 16.03.99 | 12 months | 12 months | Rolling contract |
| **Non-executive directors** | | | | | |
| Charles Sinclair | 01.10.08 | 21.04.09 | 6 months | 6 months | Rolling contract |
| Tim Clarke | 03.11.04 | 03.11.04 | 6 months | 6 months | Rolling contract |
| Lord Jay | 01.11.06 | 01.11.06 | 6 months | 6 months | Rolling contract |
| Javier Ferrán | 01.11.06 | 01.11.06 | 6 months | 6 months | Rolling contract |
| Peter Smith | 28.02.07 | 28.02.07 | 6 months | 6 months | Rolling contract |
| Emma Adamo | 09.12.11 | 09.12.11 | 6 months | 6 months | Rolling contract |
| Ruth Cairnie | 01.05.14 | 01.05.14 | 6 months | 6 months | Rolling contract |



### Non-executive directors' fees for 2014/15

| | Dec 2013 | Increase in Dec 2014 | **Dec 2014** |
|---|---|---|---|
| Chairman | £350,000 | £40,000 | **£390,000** |
| Senior Independent Director | £82,500 | £10,000 | **£92,500** |
| Chairman of Audit committee | £82,500 | £10,000 | **£92,500** |
| Director | £65,000 | £7,500 | **£72,500** |

The non-executive directors' fees were last revised in December 2012. Since then the group has grown in scale and complexity and corporate governance responsibilities have increased. The fee levels proposed for December 2014 are consistent with market rates.

## Annual report on remuneration – governance

### Remuneration committee

The committee comprises the following members, all of whom are independent non-executive directors:

| Name | Role on committee | Independence | Year of appointment | Meetings attended (total of 6) |
|---|---|---|---|---|
| Charles Sinclair | Chairman | Chairman | 2008 | 6 |
| Tim Clarke | Member | Senior Independent Director | 2004 | 6 |
| Lord Jay | Member | Independent Director | 2006 | 6 |
| Peter Smith | Member | Independent Director | 2007 | 6 |
| Javier Ferrán | Member | Independent Director | 2006 | 6 |
| Ruth Cairnie | Member | Independent Director | 2014 | 3[1] |

[1] Ruth Cairnie attended all meetings from her date of joining.

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

### Remuneration committee advisors and fees

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

Towers Watson is a member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting. The only other advice that Towers Watson provides to the Company is in survey provision and remuneration benchmarking. The fees paid to Towers Watson for committee assistance over the past financial year totalled £80,151.

### Role of the committee
The Remuneration committee is responsible to the board for determining:

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



The committee's remit is set out in detail in its terms of reference, which are reviewed regularly and were updated in July 2014. They are available on the website at www.abf.co.uk/investorrelations under corporate governance/board committees, or from the Company Secretary's office on request.

### Remuneration principles
The overall remuneration policy of the Company aims to:

- provide alignment between remuneration and the Company's business objectives;
- align executive rewards with shareholder value;
- attract and retain high-calibre executive directors;
- motivate executive directors to achieve challenging performance levels and reward them for so doing;
- recognise both individual and group achievement; and
- reflect the diversity of the group's interests.

### Statement on shareholder voting
At the last AGM in December 2013 the voting results on the remuneration resolution 'To receive and approve the Remuneration report for the year ended 14 September 2013' were as follows:

(i) the total number of votes cast in relation to the resolution was 656,638,825: 643,199,668 'for' and 13,439,157 'against'
(ii) the percentage 'for' was 97.95% and the percentage 'against' was 2.05%
(iii) the number of abstentions was 1,405,427

### Compliance statement
The Remuneration committee has made major changes to the structure and content of the 2014 Remuneration report in recognition of the government's new reporting requirements set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The Policy section of this report will be subject to a binding vote at the forthcoming annual general meeting of the Company. It is our intention that this policy will be reviewed annually. However, we expect this policy to apply for three years and will seek shareholder approval before making any changes to the policy.

The Annual Implementation section of this report will be subject to an advisory vote at the forthcoming annual general meeting of the Company. The vote will have advisory status in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration.

KPMG LLP has audited the report to the extent required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

By order of the board

**Paul Lister**
**Company Secretary**

4 November 2014

# DIRECTORS' REPORT

## Introduction

The directors of Associated British Foods plc (the 'Company') present their report for the year ended 13 September 2014, in accordance with section 415 of the Companies Act 2006. The UKLA's Disclosure and Transparency Rules and Listing Rules also require the Company to make certain disclosures, some of which have been included in other appropriate sections of the annual report and accounts.



The information set out on pages 1 to 3 and 83 and, in particular, the following cross-referenced material, is incorporated into this Directors' report:

- likely future developments in the group's business (pages 4 to 49);
- greenhouse gas emissions (pages 40 and 41); and
- the Board of directors and the Corporate governance report (pages 50 to 63).

## Results and dividends

The consolidated income statement is on page 86. Profit for the financial year attributable to equity shareholders amounted to £762m.

The directors recommend a final dividend of 24.3p per ordinary share to be paid, subject to shareholder approval, on 9 January 2015. Together with the interim dividend of 9.7p per share paid on 4 July 2014, this amounts to 34.0p for the year. Dividends are detailed on page 102.

## Directors

The names of the persons who were directors of the Company during the financial year and as at 4 November 2014 appear on pages 50 and 51. All the directors are standing for election or re-election at this year's AGM in December.

## Appointment of directors

The Company's articles of association (the 'Articles') give the directors power to appoint and replace directors. Under the terms of reference of the Nomination committee, any appointment must be recommended by the Nomination committee for approval by the board of directors. A person who is not recommended by the directors may only be appointed as a director where details of that director have been provided at least seven and not more than 35 days prior to the relevant meeting by at least two members of the Company. The Articles require directors to retire and submit themselves for election at the first AGM following appointment and all directors who held office at the time of the two preceding AGMs and, in any event, not less than one third of the relevant directors (excluding those directors who retire other than by rotation), to submit themselves for re-election. The Articles notwithstanding, all directors will stand for election or re-election at the AGM this year in compliance with the UK Corporate Governance Code. Details of unexpired terms of directors' service contracts is set out in the Remuneration report on page 78.

## Power of directors

The directors are responsible for managing the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes, to any directions given by special resolution and to the Company's Articles. The Articles, for example, contain specific provisions and restrictions concerning the Company's power to borrow money. As indicated above, powers relating to the issuing of shares are also included in the Articles and such authorities are renewed by shareholders at the AGM each year.

## Directors' indemnities

Three directors of operating subsidiaries, benefited from qualifying third-party indemnity provisions provided by the Company's wholly owned subsidiary, ABF Investments plc, during the financial year and at the date of this report.

One director benefited from a qualifying pension scheme indemnity provision during the financial year and at the date of this report.

## Directors' share interests

Details regarding the share interests of the directors and their connected persons in the share capital of the Company, including any interests under the long-term incentive plan, are set out in the Remuneration report on pages 75 and 76.

## Employees

During the year under review, the group employed an average of 118,209 people worldwide (2013: 112,652) of whom 41,942 (2013: 40,071) were employed in the UK. The group abides by the following principles, recognising that people are its most crucial resource:

- equal opportunities – the group is committed to offering equal opportunities in recruitment, training, career development and promotion to all people, including those with disabilities, having regard for their particular aptitudes and abilities. As a matter of policy, full and fair consideration is given to applicants with disabilities and every effort is made to give employees who become disabled whilst employed by the group an opportunity for retraining and for continuation in employment. It is group policy that the training, career development and promotion of disabled persons should, as far as possible, be the same as those of other employees;
- health and safety – health and safety are considered as equal in importance to that of any other function of the group and its business objectives. The health and safety policy is available on the Company's website at www.abf.co.uk;
- harrassment – sexual, mental or physical harassment in the workplace will not be tolerated. It is expected that incidents of harassment to be reported to the appropriate human resources director;
- human rights – managers must take account of the core International Labour Organization labour conventions and strive to observe the UN Universal Declaration of Human Rights, by respecting the dignity and human rights of group employees and in particular as stated below:

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

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

- communication – employees and their representatives are briefed and consulted on all relevant matters on a regular basis in order to take their views into account with regard to decision-making and to achieve a common awareness of all the financial and economic factors affecting the performance of the group. Information relevant to the employees will be provided systematically to employees; and
- security – the security of our staff and customers is paramount and the group will, at all times, take the necessary steps to minimise risks to their safety.

Employees are provided with information on the performance of their local business and their involvement is encouraged in a variety of ways, such as through engagement surveys.

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

## Controlling interest

Details of a controlling interest in the shares of the Company are given in note 28 on page 129.

## Disclosures required under Listing Rule 9.8.4R

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

| Information required | Location in annual report |
|---|---|
| Amount of interest capitalised | Note 9 on page 106 |
| Dividend waiver | Note 22 on page 117 |

## Major interests in shares

As at 31 October 2014, the Company had received formal notification, under the Disclosure and Transparency Rules, of the following material interest in its shares:

| Shareholder | Number of ordinary shares | % of issued share capital | Date of notification of interest |
|---|---|---|---|
| The Capital Group Companies, Inc. | 55,452,249 | 7.0044 | 21 January 2014 |

## Share capital

Details of the Company's share capital and the rights attached to the Company's shares are set out in note 20 on page 115. The Company has one class of share capital: ordinary shares of $5^{15}/_{22}$p. The rights and obligations attaching to these shares are governed by UK law and the Company's articles of association.

No shareholder holds securities carrying special rights with regard to the control of the Company. There are no restrictions on voting rights.

There are no restrictions on the transfer of ordinary shares other than the standard restrictions for a UK-quoted company set out in article 32 of the Company's Articles.

## Authority to issue shares

At the last annual general meeting ('AGM'), held on 6 December 2013, authority was given to the directors to allot unissued relevant securities in the Company up to a maximum of an amount equivalent to two-thirds of the shares in issue (of which one-third must be offered by way of rights issue). This authority expires on the date of this year's AGM to be held on 5 December 2014. No such shares have been issued. The directors propose to renew this authority at the 2014 AGM for the following year.

A further special resolution passed at that meeting granted authority to the directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 2006. This authority also expires on the date of the 2014 AGM and the directors will seek to renew this authority for the following year.

## Authority to purchase own shares

The Companies Act 2006 empowers the Company to purchase its own shares subject to the necessary shareholder approval. The Company has no existing authority to purchase its own shares.

## Amendment to Company's articles of association

Any amendments to the Articles may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution of the shareholders.

## Significant agreements – change of control

The group has contractual arrangements with many parties including directors, employees, customers, suppliers and banking groups. The following arrangements are considered to be significant in terms of their potential impact on the business of the group as a whole and could alter or terminate on a change of control of the Company:



- the group has a number of borrowing facilities provided by various banking groups. These facility agreements generally include change of control provisions which, in the event of a change in ownership of the Company, could result in their renegotiation or withdrawal. The most significant of these are the £1.2bn syndicated loan facility signed on 15 July 2014 and a £120m loan from the European Investment Bank signed on 5 December 2007 which was fully drawn down at the year end. There were no drawdowns at the year end under the £1.2bn facility. The syndicated loan facility for £1.15bn signed on 13 July 2010 was cancelled upon executing the £1.2bn syndicated facility.
- in addition to these bank facilities, in March 2009 the Company issued US$610m of private placement notes to institutional investors and, in December 2011 and March 2012, the Company issued a further US$626m of private placement notes. In accordance with the scheduled maturities, US$194m of these notes were repaid in March 2014. In the event of a change in ownership of the Company, the Company is obliged to make an offer of immediate repayment to the remaining note holders.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment that occurs as a result of a takeover bid.

## Political donations

The Company did not make any political donations during the year.

## Financial risk management

Details of the group's use of financial instruments, together with information on our risk objectives and policies and our exposure to price, credit, liquidity, cash flow and interest rate risks, can be found in note 24 on pages 118 to 127.

## Research and development

Innovative use of existing and emerging technologies will continue to be crucial to the successful development of new products and processes for the group.

The Company has a major technical centre in the UK at the Allied Technical Centre. Facilities also exist at ACH Food Companies in the US, Weston Technologies and AB Mauri in Australia and the Netherlands, and AB Enzymes in Germany. These centres support the technical resources of the trading divisions in the search for new technology and in monitoring and maintaining high standards of quality and food safety.

## Branches

The Company, through various subsidiaries, has established branches in a number of different countries in which the group operates.

## Post-balance sheet events

Significant events affecting the group that have arisen between 13 September 2014 and the date of this report and that require disclosure are described in note 29 on page 130.

## Disclosure of information to auditors

Each of the directors who held office at the date of approval of this Directors' report confirm that:

- so far as he/she is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each director has taken all the reasonable steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

For these purposes, relevant audit information means information needed by the Company's auditors in connection with the preparation of their report on pages 84 and 85.

## Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming AGM.

## Annual general meeting

The AGM will be held on 5 December 2014 at 11.00 am at Congress Centre, 28 Great Russell Street, London WC1B 3LS. Details of the resolutions to be proposed are set out in a separate Notice of meeting which accompanies this report for shareholders receiving hard copy documents and which is available at www.abf.co.uk for those who elected to receive documents electronically. At the 2014 AGM, all voting will be by polls using electronic handsets.

On behalf of the board

**Paul Lister**
**Company Secretary**

4 November 2014

Associated British Foods plc
Registered office:
Weston Centre
10 Grosvenor Street
London W1K 4QY

Company No. 293262

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

### Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit and loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Fair, balanced and understandable

The board considers that the Company's Annual Report and Accounts 2014, taken as a whole, is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's performance, business model and strategy.

### Directors' responsibility statement

We, the directors of the Company, confirm that to the best of our knowledge:

- the financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board

**Charles Sinclair**
**Chairman**

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

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

4 November 2014

# INDEPENDENT AUDITORS' REPORT

## Opinions and conclusions arising from our audit

### 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Associated British Foods plc for the 52 week period ended 13 September 2014 set out on pages 86 to 135.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 13 September 2014 and of the group's profit for the 52 weeks then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

### 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks that had the greatest effect on our audit and the key procedures we applied to address them are set out below. Those procedures were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual risks.

### Carrying value of AB Mauri ($1,078m), North China Sugar (£185m) and the Australian meat business (A$286m)

Refer to pages 61 (Audit committee Report), 96 (accounting policy) and 104 to 106 (financial disclosures).

#### The risk

AB Mauri, North China Sugar and the Australian meat business have all experienced difficult trading environments in recent years.

AB Mauri has seen increased competitive pressure through pricing in some of its businesses around the world. The profitability of North China Sugar has suffered from low world sugar prices. The Australian meat business has seen continuing retailer price competition, competitor activity and operational challenges.

In light of these trading challenges, there is a risk that the group's significant capitalised goodwill, other intangibles and property, plant and equipment balances may not be recoverable.

Due to the inherent uncertainty involved in forecasting and discounting future cash flows which are the basis of the assessment of recoverability, this is one of the key judgemental areas upon which our audit is focused.

#### Our response

Our audit procedures included, among others, testing the principles and mathematical integrity of the group's discounted cash flow models for each cash generating unit (CGU).

We compared the group's assumptions to externally derived data as well as our own assessments in relation to key assumptions such as projected economic growth, operational improvements in agriculture, cost inflation, margin improvement initiatives, selling prices, volumes and discount rates, as well as performing break-even analysis on the assumptions. We compared the sum of the discounted cash flows to the group's market capitalisation to assess the reasonableness of those cash flows.

We tested the sensitivity of the impairment calculations to changes in the key assumptions used by the directors.

We also assessed whether the group's disclosures relating to the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuation of goodwill, other intangibles and property, plant and equipment.

### Tax provisioning (included within income tax creditor of £193m)

Refer to pages 61 (Audit committee Report), 96 (accounting policy) and 102 (financial disclosures).

#### The risk

Tax provisioning requires the directors to make judgements and estimates in relation to tax issues and exposures. This is one of the key judgemental areas upon which our audit is focused due to the group operating in a number of tax jurisdictions, the complexities of transfer pricing and other international tax legislation and the time taken for tax matters to be agreed with tax authorities.

#### Our response

Our audit procedures included, among others, using our own tax specialists to assist us in assessing and challenging the assumptions and judgements made by the directors; checking the accuracy of the computation of local income tax amounts; and assessment of specific local tax issues. In assessing the directors' assumptions, we have used both our own tax specialists' knowledge of recent tax cases and, where available, information on recent tax settlements.

We also considered the adequacy of the group's disclosures in respect of tax and uncertain tax positions.

### 3. Our application of materiality and an overview of the scope of our audit

The materiality for the group financial statements as a whole was set at £50m. This has been determined with reference to a benchmark of group profit before taxation, which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the group. Materiality represents 4.9% of group profit before tax and 4.5% after adjusting for non-trading items as disclosed on the face of the income statement.

We agreed with the Audit committee to report to it all uncorrected misstatements we identified through our audit with a value in excess of £1m for income statement items, in addition to other audit misstatements we believed warranted reporting on qualitative grounds.

Audits for group reporting purposes were performed by component auditors in 60 locations with key reporting components being in the following countries: United Kingdom, Ireland, US, Spain, Malawi, Thailand, South Africa, Germany, Australia, Zambia, Argentina and China. These group procedures covered 88% of total group revenue; 89% of total group profits and losses that made up the group's profit before taxation; and 94% of total group assets. The remaining 12% of revenue, 11% of group profit before tax and 6% of total group assets is represented by 262 reporting components around the world. Whilst none of these individual 262 reporting components represented more than 1.6% of revenue, profit before tax or total group assets we considered the aggregate risk from these components when performing our audit planning and during our final analytical procedures over the group financial statements. Local statutory audits are performed over some of these components, but generally these are completed at different times during the year.

The audits undertaken for group reporting purposes at all key reporting components of the group were performed to local materiality levels. These local materiality levels were set individually at each component and agreed with the group audit team and ranged from £2,000 to £34m.

Detailed instructions were sent to all the auditors in these locations. These instructions covered the significant areas that should be addressed by the component auditors (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the group audit team. In addition to those components audited directly by the group audit team, members of the group audit team visited China, Germany, Ireland, Mexico, Spain, South Africa and the US. Telephone meetings were also held with the auditors at those locations and the majority of the other locations that were not physically visited.

**4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion:

- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**5. We have nothing to report in respect of the matters on which we are required to report by exception**

Under International Standards on Auditing (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that 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 group's performance, business model and strategy; or
- the Governance section of the annual report describing the work of the Audit committee does not appropriately address matters communicated by us to the Audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 57, in relation to going concern; and
- the part of the Corporate governance statement on page 52 relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

## Scope of report and responsibilities

As explained more fully in the Statement of directors' responsibilities set out on page 83, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Richard Pinckard**
**(Senior Statutory Auditor)**
for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

4 November 2014

# CONSOLIDATED INCOME STATEMENT

for the 52 weeks ended 13 September 2014

| Continuing operations | Note | 2014 £m | 2013 (restated) £m |
|---|---|---|---|
| **Revenue** | 1 | **12,943** | 13,315 |
| Operating costs | 2 | **(11,865)** | (12,240) |
| | | **1,078** | 1,075 |
| Share of profit after tax from joint ventures and associates | 11 | **13** | 13 |
| Profits less losses on disposal of non-current assets | | **(11)** | – |
| **Operating profit** | | **1,080** | 1,088 |
| Adjusted operating profit | 1 | **1,163** | 1,180 |
| Profits less losses on disposal of non-current assets | | **(11)** | – |
| Amortisation of non-operating intangibles | 8 | **(72)** | (92) |
| Profits less losses on sale and closure of businesses | 21 | **(2)** | (128) |
| **Profit before interest** | | **1,078** | 960 |
| Finance income | 4 | **15** | 13 |
| Finance expense | 4 | **(73)** | (100) |
| Other financial income/(expense) | 4 | **–** | (5) |
| **Profit before taxation** | | **1,020** | 868 |
| Adjusted profit before taxation | | **1,105** | 1,088 |
| Profits less losses on disposal of non-current assets | | **(11)** | – |
| Amortisation of non-operating intangibles | 8 | **(72)** | (92) |
| Profits less losses on sale and closure of businesses | 21 | **(2)** | (128) |
| Taxation – UK | | **(117)** | (111) |
| – Overseas | | **(120)** | (129) |
| | 5 | **(237)** | (240) |
| **Profit for the period** | | **783** | 628 |
| **Attributable to** | | | |
| Equity shareholders | | **762** | 585 |
| Non-controlling interests | | **21** | 43 |
| **Profit for the period** | | **783** | 628 |
| Basic and diluted earnings per ordinary share (pence) | 7 | **96.5** | 74.0 |
| Dividends per share paid and proposed for the period (pence) | 6 | **34.0** | 32.0 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 52 weeks ended 13 September 2014

| | 2014 £m | 2013 (restated) £m |
|---|---|---|
| **Profit for the period recognised in the income statement** | **783** | 628 |
| **Other comprehensive income** | | |
| Remeasurements of defined benefit schemes | **(25)** | 33 |
| Deferred tax associated with defined benefit schemes | **3** | (7) |
| Items that will not be reclassified to profit or loss | **(22)** | 26 |
| Effect of movements in foreign exchange | **(275)** | (114) |
| Net gain/(loss) on hedge of net investment in foreign subsidiaries | **25** | (20) |
| Deferred tax associated with movements in foreign exchange | **–** | 2 |
| Current tax associated with movements in foreign exchange | **2** | – |
| Reclassification adjustment for movements in foreign exchange on subsidiaries disposed | **–** | 7 |
| Movement in cash flow hedging position | **55** | 6 |
| Deferred tax associated with movement in cash flow hedging position | **(11)** | (2) |
| Share of other comprehensive income of joint ventures and associates | **(5)** | – |
| Items that are or may be subsequently reclassified to profit or loss | **(209)** | (121) |
| **Other comprehensive income for the period** | **(231)** | (95) |
| **Total comprehensive income for the period** | **552** | 533 |
| **Attributable to** | | |
| Equity shareholders | **580** | 527 |
| Non-controlling interests | **(28)** | 6 |
| **Total comprehensive income for the period** | **552** | 533 |

# CONSOLIDATED BALANCE SHEET

at 13 September 2014

| | Note | 2014 £m | 2013 (restated) £m | 2012 (restated) £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 8 | **1,467** | 1,581 | 1,769 |
| Property, plant and equipment | 9 | **4,665** | 4,552 | 4,541 |
| Biological assets | 10 | **96** | 97 | 89 |
| Investments in joint ventures | 11 | **180** | 182 | 174 |
| Investments in associates | 11 | **32** | 36 | 40 |
| Employee benefits assets | 12 | **90** | 81 | 45 |
| Deferred tax assets | 13 | **152** | 273 | 189 |
| Other receivables | 14 | **164** | 148 | 151 |
| **Total non-current assets** | | **6,846** | 6,950 | 6,998 |
| **Current assets** | | | | |
| Inventories | 15 | **1,631** | 1,581 | 1,500 |
| Biological assets | 10 | **109** | 112 | 109 |
| Trade and other receivables | 14 | **1,293** | 1,342 | 1,236 |
| Derivative assets | 24 | **74** | 27 | 33 |
| Cash and cash equivalents | 16 | **519** | 362 | 391 |
| **Total current assets** | | **3,626** | 3,424 | 3,269 |
| **Total assets** | | **10,472** | 10,374 | 10,267 |
| **Current liabilities** | | | | |
| Loans and overdrafts | 17 | **(358)** | (394) | (538) |
| Trade and other payables | 18 | **(2,046)** | (1,881) | (1,752) |
| Derivative liabilities | 24 | **(15)** | (38) | (50) |
| Income tax | | **(193)** | (166) | (150) |
| Provisions | 19 | **(72)** | (47) | (98) |
| **Total current liabilities** | | **(2,684)** | (2,526) | (2,588) |
| **Non-current liabilities** | | | | |
| Loans | 17 | **(607)** | (772) | (914) |
| Provisions | 19 | **(29)** | (30) | (38) |
| Deferred tax liabilities | 13 | **(266)** | (431) | (373) |
| Employee benefits liabilities | 12 | **(133)** | (96) | (112) |
| **Total non-current liabilities** | | **(1,035)** | (1,329) | (1,437) |
| **Total liabilities** | | **(3,719)** | (3,855) | (4,025) |
| **Net assets** | | **6,753** | 6,519 | 6,242 |
| **Equity** | | | | |
| Issued capital | 20 | **45** | 45 | 45 |
| Other reserves | 20 | **175** | 175 | 175 |
| Translation reserve | 20 | **238** | 440 | 532 |
| Hedging reserve | 20 | **29** | (13) | (17) |
| Retained earnings | | **5,950** | 5,508 | 5,120 |
| **Total equity attributable to equity shareholders** | | **6,437** | 6,155 | 5,855 |
| Non-controlling interests | | **316** | 364 | 387 |
| **Total equity** | | **6,753** | 6,519 | 6,242 |

The financial statements on pages 86 to 130 were approved by the board of directors on 4 November 2014 and were signed on its behalf by:

**Charles Sinclair**
**Chairman**

**John Bason**
**Director**

# CONSOLIDATED CASH FLOW STATEMENT

for the 52 weeks ended 13 September 2014

| | 2014 £m | 2013 (restated) £m |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit before taxation | **1,020** | 868 |
| Profits less losses on disposal of non-current assets | **11** | – |
| Profits less losses on sale and closure of businesses | **2** | 128 |
| Finance income | **(15)** | (13) |
| Finance expense | **73** | 100 |
| Other financial expense | **–** | 5 |
| Share of profit after tax from joint ventures and associates | **(13)** | (13) |
| Amortisation | **94** | 130 |
| Depreciation | **402** | 405 |
| Impairment of property, plant and equipment | **–** | 27 |
| Impairment of operating intangibles | **–** | 4 |
| Impairment of goodwill | **–** | 10 |
| Net change in the fair value of biological assets | **(21)** | (26) |
| Share-based payment expense | **15** | 15 |
| Pension costs less contributions | **7** | (24) |
| Increase in inventories | **(119)** | (112) |
| Decrease/(increase) in receivables | **19** | (158) |
| Increase in payables | **200** | 173 |
| Purchases less sales of current biological assets | **(3)** | (2) |
| Increase in provisions | **13** | 11 |
| Cash generated from operations | **1,685** | 1,528 |
| Income taxes paid | **(246)** | (252) |
| **Net cash from operating activities** | **1,439** | 1,276 |
| **Cash flows from investing activities** | | |
| Dividends received from joint ventures and associates | **17** | 11 |
| Purchase of property, plant and equipment | **(676)** | (593) |
| Purchase of intangibles | **(32)** | (22) |
| Purchase of non-current biological assets | **–** | (1) |
| Sale of property, plant and equipment | **17** | 15 |
| Purchase of subsidiaries, joint ventures and associates | **(8)** | (75) |
| Sale of subsidiaries, joint ventures and associates | **15** | 35 |
| Loans to joint ventures | **(15)** | (4) |
| Purchase of non-controlling interests | **–** | (1) |
| Interest received | **10** | 10 |
| **Net cash from investing activities** | **(672)** | (625) |
| **Cash flows from financing activities** | | |
| Dividends paid to non-controlling interests | **(21)** | (29) |
| Dividends paid to equity shareholders | **(256)** | (232) |
| Interest paid | **(77)** | (107) |
| Financing: | | |
| Decrease in short-term loans | **(158)** | (258) |
| Decrease in long-term loans | **(10)** | (23) |
| Sale of shares in subsidiary undertakings to non-controlling interests | **1** | 1 |
| Movements from changes in own shares held | **(59)** | (10) |
| **Net cash from financing activities** | **(580)** | (658) |
| **Net increase/(decrease) in cash and cash equivalents** | **187** | (7) |
| Cash and cash equivalents at the beginning of the period | **243** | 245 |
| Effect of movements in foreign exchange | **(31)** | 5 |
| **Cash and cash equivalents at the end of the period** | **399** | 243 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 52 weeks ended 13 September 2014

| | | Attributable to equity shareholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | 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 15 September 2012 (restated, see page 95) | | 45 | 175 | 532 | (17) | 5,120 | 5,855 | 387 | 6,242 |
| **Total comprehensive income** | | | | | | | | | |
| Profit for the period recognised in the income statement (restated) | | – | – | – | – | 585 | 585 | 43 | 628 |
| Remeasurements of defined benefit schemes (restated) | | – | – | – | – | 35 | 35 | (2) | 33 |
| Deferred tax associated with defined benefit schemes (restated) | | – | – | – | – | (7) | (7) | – | (7) |
| Items that will not be reclassified to profit or loss | | – | – | – | – | 28 | 28 | (2) | 26 |
| Effect of movements in foreign exchange | | – | – | (86) | – | – | (86) | (28) | (114) |
| Net loss on hedge of net investment in foreign subsidiaries | | – | – | (13) | – | – | (13) | (7) | (20) |
| Deferred tax associated with movements in foreign exchange | | – | – | – | – | 2 | 2 | – | 2 |
| Reclassification adjustment for movements in foreign exchange on subsidiaries disposed | | – | – | 7 | – | – | 7 | – | 7 |
| Movement in cash flow hedging position | | – | – | – | 6 | – | 6 | – | 6 |
| Deferred tax associated with movement in cash flow hedging position | | – | – | – | (2) | – | (2) | – | (2) |
| Items that are or may be subsequently reclassified to profit or loss | | – | – | (92) | 4 | 2 | (86) | (35) | (121) |
| Other comprehensive income | | – | – | (92) | 4 | 30 | (58) | (37) | (95) |
| Total comprehensive income | | – | – | (92) | 4 | 615 | 527 | 6 | 533 |
| **Transactions with owners** | | | | | | | | | |
| Dividends paid to equity shareholders | 6 | – | – | – | – | (232) | (232) | – | (232) |
| Net movement in own shares held | | – | – | – | – | 5 | 5 | – | 5 |
| Dividends paid to non-controlling interests | | – | – | – | – | – | – | (29) | (29) |
| Total transactions with owners | | – | – | – | – | (227) | (227) | (29) | (256) |
| Balance as at 14 September 2013 | | 45 | 175 | 440 | (13) | 5,508 | 6,155 | 364 | 6,519 |
| **Total comprehensive income** | | | | | | | | | |
| Profit for the period recognised in the income statement | | – | – | – | – | 762 | 762 | 21 | 783 |
| Remeasurements of defined benefit schemes | | – | – | – | – | (25) | (25) | – | (25) |
| Deferred tax associated with defined benefit schemes | | – | – | – | – | 3 | 3 | – | 3 |
| Items that will not be reclassified to profit or loss | | – | – | – | – | (22) | (22) | – | (22) |
| Effect of movements in foreign exchange | | – | – | (224) | – | – | (224) | (51) | (275) |
| Net gain on hedge of net investment in foreign subsidiaries | | – | – | 25 | – | – | 25 | – | 25 |
| Current tax associated with movements in foreign exchange | | – | – | 2 | – | – | 2 | – | 2 |
| Movement in cash flow hedging position | | – | – | – | 53 | – | 53 | 2 | 55 |
| Deferred tax associated with movement in cash flow hedging position | | – | – | – | (11) | – | (11) | – | (11) |
| Share of other comprehensive income of joint ventures and associates | | – | – | (5) | – | – | (5) | – | (5) |
| Items that are or may be subsequently reclassified to profit or loss | | – | – | (202) | 42 | – | (160) | (49) | (209) |
| Other comprehensive income | | – | – | (202) | 42 | (22) | (182) | (49) | (231) |
| Total comprehensive income | | – | – | (202) | 42 | 740 | 580 | (28) | 552 |
| **Transactions with owners** | | | | | | | | | |
| Dividends paid to equity shareholders | 6 | – | – | – | – | (256) | (256) | – | (256) |
| Net movement in own shares held | | – | – | – | – | (44) | (44) | – | (44) |
| Current tax associated with share-based payments | | – | – | – | – | 2 | 2 | – | 2 |
| Dividends paid to non-controlling interests | | – | – | – | – | – | – | (21) | (21) |
| Acquisition of non-controlling interests | | – | – | – | – | – | – | 1 | 1 |
| Total transactions with owners | | – | – | – | – | (298) | (298) | (20) | (318) |
| **Balance as at 13 September 2014** | | **45** | **175** | **238** | **29** | **5,950** | **6,437** | **316** | **6,753** |

# SIGNIFICANT ACCOUNTING POLICIES

for the 52 weeks ended 13 September 2014

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 13 September 2014 comprise those of the Company and its subsidiaries (together referred to as 'the group') and the group's interest in associates and joint ventures.

The financial statements were authorised for issue by the directors on 4 November 2014.

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS').

The Company has elected to prepare its parent company financial statements under UK Generally Accepted Accounting Practice. These are presented on pages 131 to 135.

## Basis of preparation

The going concern basis has been applied in these accounts. The consolidated financial statements are presented in sterling, rounded to the nearest million. They are prepared on the historical cost basis except that biological assets and certain financial instruments are stated at fair value. Assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements under Adopted IFRS requires management to make judgements, estimates and assumptions about the reported amounts of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on experience. Actual results may differ from these estimates. Judgements made by management in the application of Adopted IFRS that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment next year, are discussed in Accounting estimates and judgements detailed on page 96.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised from the period in which the estimates are revised.

The accounting policies set out below have been applied to all periods presented, except where detailed otherwise.

Details of new accounting standards which came into force in the year are set out at the end of this note.

The consolidated financial statements of the group are prepared to the Saturday nearest to 15 September. Accordingly, these financial statements have been prepared for the 52 weeks ended 13 September 2014. 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 2014. The results of Illovo are included for the period to 30 September 2014 in line with Illovo's local reporting date. Adjustments are made as appropriate for significant transactions or events occurring between 13 September and 30 September.

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 6 to 35. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 36 to 39. In addition, the Principal risks and uncertainties on pages 46 to 49 and note 24 on pages 118 to 127 provide details of the group's policy on managing its financial and commodity risks.

The group has considerable financial resources, good access to debt markets, a diverse range of businesses and a wide geographic spread. It is therefore well placed to manage business risks successfully.

## Basis of consolidation

The consolidated financial statements include the results of the Company and all of its subsidiaries from the date that control commences to the date that control ceases. The consolidated financial statements also include the group's share of the after-tax results, other comprehensive income and net assets of its joint ventures and associates on an equity-accounted basis from the point at which joint control or significant influence respectively commences, to the date that it ceases.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Changes in the group's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity.

Joint ventures are those entities over whose activities the group has joint control, typically established by contractual agreement and requiring the venturers' unanimous consent for strategic financial and operating decisions.

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

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

## Business combinations

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired, reflecting conditions at the date of acquisition. Adjustments to fair values include those made to bring accounting policies into line with those of the group. Provisional fair values are finalised within 12 months of the business combination date and, where significant, are adjusted by restatement of the comparative period in which the acquisition occurred. Non-controlling interests are measured at the proportionate share of the net identifiable assets acquired.

For business combinations executed before 3 September 2004, goodwill is included on the basis of its deemed cost, represented by the net book value recorded under previous GAAP.

For business combinations executed in periods ending on or before 12 September 2009, goodwill arising on a business combination was the excess of the carrying amount of any existing equity interest plus the fair value of consideration payable for the additional stake over the fair value of the share of net identifiable

# SIGNIFICANT ACCOUNTING POLICIES
for the 52 weeks ended 13 September 2014



assets and liabilities acquired (including separately identified intangible assets), net of non-controlling interests. Total consideration included acquisition costs. Contingent consideration was measured at fair value at the date of the business combination. Subsequent changes to contingent consideration other than settlements are accounted for as adjustments to goodwill.

For business combinations executed on or after 13 September 2009, existing equity interests in the acquiree are remeasured to fair value as at the date of the business combination, with any resulting gain or loss taken to the income statement.

Goodwill arising on a business combination is the excess of the remeasured carrying amount of any existing equity interest plus the fair value of consideration payable for the additional stake over the fair value of the share of net identifiable assets and liabilities acquired (including separately identified intangible assets), net of non-controlling interests. Total consideration does not include acquisition costs, which are expensed as incurred.

Contingent consideration is measured at fair value at the date of the business combination, classified as a liability or equity (usually as a liability), and subsequently accounted for in line with that classification. Changes in contingent consideration classified as a liability resulting other than from the finalisation of provisional fair values are accounted for in the income statement.

### Revenue
Revenue represents the invoiced value of sales made to customers after deduction of discounts and sales taxes. Discounts include sales rebates, price discounts, customer incentives, certain promotional activities and similar items. Revenue does not include sales between group companies. Revenue is recognised when the risks and rewards of the underlying products have been substantially transferred to the customer and when it can be measured reliably.

Revenue from the sale of goods is generally recognised on dispatch or delivery to customers, dependent on shipping terms. Discounts are provided for as a reduction to revenue at the time a sale is recorded, based on management's best estimate of the amount required to meet claims by customers.

### Borrowing costs
Borrowing costs are accounted for using the effective interest method. For qualifying items of property, plant and equipment where the commencement date for capitalisation was on or after 13 September 2009, the group capitalises borrowing costs directly attributable to the acquisition, construction or production of those qualifying assets as part of their cost. The group previously expensed all borrowing costs as incurred. Interest capitalised is taxed under current or deferred tax as appropriate.

### Exceptional items
Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure on the face of the income statement in accordance with IAS 1.

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

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

### Foreign currencies
In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rate prevailing at the balance sheet date. Any resulting differences are taken to the income statement.

On consolidation, assets and liabilities of foreign operations that are denominated in foreign currencies are translated into sterling at the rate of exchange at the balance sheet date. Income and expense items are translated into sterling at weighted average rates of exchange.

Differences arising from the retranslation of opening net assets of group companies, together with differences arising from the restatement of the net results of group companies from average rates to rates at the balance sheet date, are taken to the translation reserve in equity.

### Pensions and other post-employment benefits
The impact of applying the revised IAS 19 *Employee Benefits* is set out on page 95.

The group's principal pension schemes are defined benefit plans. In addition the group has defined contribution plans and other unfunded post-employment liabilities. For defined benefit plans, the amount charged in the income statement is the cost of benefits accruing to employees over the year, plus any benefit improvements granted to members by the group during the year. It also includes net interest expense or income calculated by applying the liability discount rate to the net pension asset or liability. For each plan, the difference between market value of assets and present value of liabilities is disclosed as an asset or liability in the balance sheet.

Any related deferred tax (to the extent recoverable) is disclosed separately in the balance sheet. Remeasurements are recognised immediately in other comprehensive income. Surpluses are recognised only to the extent that they are recoverable. Movements in irrecoverable surpluses are recognised immediately as remeasurement in other comprehensive income.

Contributions payable by the group in respect of defined contribution plans are charged to operating profit as incurred. Other unfunded post-employment liabilities are accounted for in the same way as defined benefit pension plans.

### Share-based payments
The fair value of share awards at grant date is recognised as an employee expense with a corresponding increase in equity, spread over the period during which

the employees become unconditionally entitled to the shares. The amount recognised is adjusted to reflect expected and actual levels of vesting except where the failure to vest is as a result of not meeting a market condition.

## Income tax

Income tax on profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items taken directly to other comprehensive income.

Current tax is the tax expected to be payable on taxable income for the year, using tax rates enacted or substantively enacted during the period, together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill; initial recognition of assets or liabilities affecting neither accounting nor taxable profit other than those acquired in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

## Financial assets and liabilities

Financial assets and financial liabilities, except for other non-current investments and derivatives, are measured initially at fair value, plus directly attributable transaction costs, and thereafter at amortised cost. Other non-current investments (classified under other non-current receivables) comprise available-for-sale investments measured at market prices where available. Where quoted market prices in an active market are not available, and where fair value cannot be reliably measured, unquoted equity instruments are measured at cost less impairment.

## Cash and cash equivalents

Cash and cash equivalents comprise bank and cash balances, call deposits and short-term investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

## Derivatives

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

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

Changes in the value of derivatives are recognised in the income statement unless they qualify for hedge accounting, when recognition of any change in fair value depends on the nature of the item being hedged.

The purpose of hedge accounting is to mitigate the impact on the group's income statement of changes in foreign exchange or interest rates and commodity prices, by matching the impact of the hedged risk and the hedging instrument in the income statement.

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

When the future cash flow results in the recognition of a non-financial asset or liability, the gains and losses previously recognised in the hedging reserve are included in the initial measurement of that asset or liability. Otherwise, gains and losses previously recognised in the hedging reserve are recognised in the income statement at the same time as the hedged transaction.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in the hedging reserve is retained in the hedging reserve until the forecast transaction occurs. Gains or losses on hedging instruments relating to an underlying exposure that no longer exists are taken to the income statement.

Hedges of the group's net investment in foreign operations principally comprise borrowings in the currency of the investment's net assets.

The group economically hedges foreign currency exposure on recognised monetary assets and liabilities but does not normally seek hedge accounting under IAS 39. Any derivatives that the group holds to hedge this exposure are classified as 'held for trading' within derivative assets and liabilities. Changes in the fair value of such derivatives and the foreign exchange gains and losses arising on the related monetary items are recognised within operating profit.

## Intangible assets other than goodwill

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

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

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

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

# SIGNIFICANT ACCOUNTING POLICIES

for the 52 weeks ended 13 September 2014

## Goodwill

Goodwill is defined under 'Business combinations' on pages 91 and 92. Certain commercial assets associated with the acquisition of a business are not capable of being recognised in the acquisition balance sheet. In such circumstances, goodwill is recognised, which may include, but is not necessarily limited to, workforce assets and the benefits of expected future synergies.

Goodwill is not amortised but is subject to an annual impairment review.

## Research and development

Research expenditure is expensed as incurred. Development expenditure is capitalised if the product or process is technically and commercially feasible but is otherwise expensed as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment charges.

## Impairment

The carrying amounts of the group's intangible assets and property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangibles without a finite life, the recoverable amount is estimated at each balance sheet date.

An impairment charge is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.

Impairment charges recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to that CGU and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

### Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less costs to sell and their value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

### Reversals of impairment

An impairment charge in respect of goodwill is not subsequently reversed. For other assets, an impairment charge is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the new carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment charge had been recognised.

## Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment charges.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment sufficient to reduce them to estimated residual value. Land is not depreciated. Estimated useful lives are generally deemed to be no longer than:

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

## Leases

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or a series of payments, the right to use a specific asset for an agreed period of time.

Where the group is a lessee and has substantially all the risks and rewards of ownership of an asset, the arrangement is considered a finance lease. Finance leases are recognised as assets of the group within property, plant and equipment at the inception of the lease at the lower of fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Payments made under finance leases are apportioned between capital repayments and interest expense charged to the income statement. Other leases where the group is a lessee are treated as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease, as is the benefit of lease incentives.

Where the group is a lessor under an operating lease, the asset is capitalised within property, plant and equipment and depreciated over its useful economic life. Payments received under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

## Biological assets

Biological assets are measured at fair value less costs to sell. Cane roots and growing cane are stated at fair value on the following bases:

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

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

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

The fair value of cane roots and growing cane is determined using inputs that are unobservable, using the best information available in the circumstances for using the cane roots and the growing cane, and therefore fall into the level 3 fair value category.

## Inventories

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

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

## New accounting policies

The revised IAS 19 *Employee Benefits* is applied for the first time in 2014 and makes changes to measurement and disclosure requirements for defined benefit post-employment arrangements. The expected return on plan assets and the interest charge on scheme liabilities have been replaced by net interest expense or income calculated by applying the liability discount rate to the net pension asset or liability. Scheme administration costs are expensed as incurred and the reserve for scheme expenses, which was previously included in scheme liabilities, has been removed. IAS 19 service cost is charged to operating profit and pension financing costs are charged to other financial expense.

The new standard is applied for the first time in the 2014 financial year, but with retrospective effect from the 2012 balance sheet date. The impact of all changes is reflected in retained earnings in equity and is wholly attributable to equity shareholders.

The £95m net pension liability in the 2012 balance sheet has been replaced by a net liability of £67m, and net deferred tax liabilities of £177m increased by £7m to £184m.

In 2013, the impact was an increase of £5m in service cost and an increase of £3m in net pension finance costs. The taxation charge decreased by £2m. Remeasurements in 2013 of £24m have been replaced with remeasurements of £33m and the deferred tax associated with remeasurements of defined benefit schemes increased by £2m, from £5m to £7m. The £44m net pension liability in the 2013 balance sheet has been replaced by a net liability of £15m, and net deferred tax liabilities of £151m increased by £7m to £158m.

2013 basic earnings per share decreased 0.8p from 74.8p to 74.0p, and adjusted earnings per share decreased 0.8p from 98.9p to 98.1p.

The group has adopted the following new and amended IFRSs and IFRIC interpretations with no material impact (all effective from 15 September 2013):

- Certain elements of *Annual Improvements to IFRSs 2009–2011*;
- Amendments to IFRS 7 *Financial Instruments: Disclosures*; and
- IFRS 13 *Fair Value Measurement* (effective prospectively from the 2014 financial year).

The group is also assessing the impact of the following revised standards and interpretations or amendments that are not yet effective. Where already endorsed by the EU, these changes will be adopted on the effective dates noted. Where not yet endorsed by the EU, the adoption date is less certain. The impact of these standards is currently under review (all effective from 14 September 2014 unless otherwise stated):

- Certain elements of *Annual Improvements to IFRSs 2010–2012, 2011–2013 and 2012–2014* (effective 2017 financial year);
- IFRS 9 *Financial Instruments: Classification and Measurement* effective 2019 financial year (not yet endorsed by the EU);
- IFRS 10 *Consolidated Financial Statements* effective 2015 financial year;
- IFRS 11 *Joint Arrangements* effective 2015 financial year;
- IFRS 12 *Disclosure of Interests in Other Entities* effective 2015 financial year;
- IFRS 15 *Revenue from Contracts with Customers* effective 2018 financial year (not yet endorsed by the EU);
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* effective 2017 financial year, which changes the accounting requirements for bearer plants (cane roots, in the case of the group) (not yet endorsed by the EU); and
- IAS 28 *Investments in Associates and Joint Ventures* effective 2015 financial year.

# ACCOUNTING ESTIMATES AND JUDGEMENTS

for the 52 weeks ended 13 September 2014

In applying the accounting policies detailed on pages 91 to 95, management has made estimates in a number of areas and the actual outcome may differ from those calculated. Key sources of estimation uncertainty at the balance sheet date with the potential for material adjustment to the carrying value of assets and liabilities within the next financial year are set out below.

### Forecasts and discount rates



The carrying values of a number of items on the balance sheet are dependent on estimates of future cash flows arising from the group's operations which, in some circumstances, are discounted to arrive at a net present value.

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

The realisation of deferred tax assets is dependent on the generation of sufficient future taxable profits. The group recognises deferred tax assets to the extent that it is considered probable that sufficient taxable profits will be available in the future. Deferred tax assets are reduced to the extent that it is no longer considered probable that the related tax benefit will be realised.

### Post-retirement benefits

The group's defined benefit pension schemes and similar arrangements are assessed annually in accordance with IAS 19. The accounting valuation, which has been assessed using assumptions determined with independent actuarial advice, resulted in a net liability of £43m being recognised as at 13 September 2014. The size of this net liability is sensitive to the market value of the assets held by the schemes, to the discount rate used in assessing liabilities, to the actuarial assumptions (which include price inflation, rates of pension and salary increases, mortality and other demographic assumptions) and to the level of contributions. Further details are included in note 12.

### Biological assets

Cane roots valuation requires an estimation by management of the average number of ratoons expected from the crop. The carrying value of cane roots is disclosed in note 10.

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

### Taxation

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

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 52 weeks ended 13 September 2014

### 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. The board is the chief operating decision-maker.

Inter-segment pricing is determined on an arm's length basis. Segment result is adjusted operating profit, as shown on the face of the consolidated income statement. Segment assets comprise all non-current assets except employee benefits assets and deferred tax assets, and all current assets except cash and cash equivalents. Segment liabilities comprise trade and other payables, derivative liabilities and provisions. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and expenses, cash, borrowings, employee benefits balances and current and deferred tax balances. Segment non-current asset additions are the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year, comprising property, plant and equipment, operating intangibles and biological assets.

The group is comprised of the following operating segments:

**Grocery**
The manufacture of grocery products, including hot beverages, sugar & sweeteners, vegetable oils, bread & baked goods, cereals, ethnic foods, herbs & spices, and meat products, which are sold to retail, wholesale and foodservice businesses.

**Sugar**
The growing and processing of sugar beet and sugar cane for sale to industrial users and to Silver Spoon, which is included in the grocery segment.

**Agriculture**
The manufacture of animal feeds and the provision of other products 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.

## 1. Operating segments continued

### 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 | |
|---|---|---|---|---|
| | **2014** **£m** | 2013 £m | **2014** **£m** | 2013 (restated) £m |
| **Operating segments** | | | | |
| Grocery | **3,337** | 3,568 | **269** | 224 |
| Sugar | **2,083** | 2,677 | **189** | 434 |
| Agriculture | **1,312** | 1,410 | **50** | 47 |
| Ingredients | **1,261** | 1,360 | **41** | 5 |
| Retail | **4,950** | 4,273 | **662** | 513 |
| Central | **–** | – | **(49)** | (51) |
| | **12,943** | 13,288 | **1,162** | 1,172 |
| Businesses disposed: | | | | |
| Grocery | **–** | – | **1** | 2 |
| Ingredients | **–** | 27 | **–** | 6 |
| | **12,943** | 13,315 | **1,163** | 1,180 |
| **Geographical information** | | | | |
| United Kingdom | **5,631** | 5,728 | **602** | 710 |
| Europe & Africa | **3,924** | 3,790 | **393** | 386 |
| The Americas | **1,211** | 1,282 | **127** | 103 |
| Asia Pacific | **2,177** | 2,488 | **40** | (27) |
| | **12,943** | 13,288 | **1,162** | 1,172 |
| Businesses disposed: | | | | |
| The Americas | **–** | 27 | **–** | 6 |
| Asia Pacific | **–** | – | **1** | 2 |
| | **12,943** | 13,315 | **1,163** | 1,180 |

The comparative results for 2013 have been restated for the adoption of IAS 19 Revised *Employee Benefits*. See New Accounting Policies on page 95 for further details.

During the year, the activities of AB Mauri's yeast and bakery ingredients businesses in Australia and New Zealand were merged with the flour milling business of George Weston Foods. The results of the flour milling business, which were previously included within the Grocery segment, are now included in the Ingredients segment. The comparative results for 2013 have been reclassified, resulting in £272m of revenue and £4m of adjusted operating profit being transferred from Grocery to Ingredients. Segment assets and liabilities have also been restated in this respect.

Disposed businesses comprise the disposal during the year of the group's interest in a US associate in the Ingredients segment, and an associated Australian royalty stream in the Grocery segment, together with the prior year disposal of the group's US whey protein business in the Ingredients segment.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 1. Operating segments continued
For the 52 weeks ended 13 September 2014

| | Grocery £m | Sugar £m | Agriculture £m | Ingredients £m | Retail £m | Central £m | Total £m |
|---|---|---|---|---|---|---|---|
| Revenue from continuing businesses | 3,344 | 2,164 | 1,312 | 1,423 | 4,950 | (250) | 12,943 |
| Internal revenue | (7) | (81) | – | (162) | – | 250 | – |
| External revenue from continuing businesses | 3,337 | 2,083 | 1,312 | 1,261 | 4,950 | – | 12,943 |
| Businesses disposed | – | – | – | – | – | – | – |
| Revenue from external customers | 3,337 | 2,083 | 1,312 | 1,261 | 4,950 | – | 12,943 |
| Adjusted operating profit before joint ventures and associates | 254 | 215 | 36 | 31 | 662 | (49) | 1,149 |
| Share of profit after tax from joint ventures and associates | 15 | (26) | 14 | 10 | – | – | 13 |
| Businesses disposed | 1 | – | – | – | – | – | 1 |
| Adjusted operating profit | 270 | 189 | 50 | 41 | 662 | (49) | 1,163 |
| Profits less losses on disposal of non-current assets | 6 | – | 1 | – | (14) | (4) | (11) |
| Amortisation of non-operating intangibles | (50) | (17) | (3) | (2) | – | – | (72) |
| Profits less losses on sale and closure of businesses | – | – | – | (2) | – | – | (2) |
| Profit before interest | 226 | 172 | 48 | 37 | 648 | (53) | 1,078 |
| Finance income | | | | | | 15 | 15 |
| Finance expense | | | | | | (73) | (73) |
| Taxation | | | | | | (237) | (237) |
| **Profit for the period** | 226 | 172 | 48 | 37 | 648 | (348) | 783 |
| Segment assets (excluding joint ventures and associates) | 2,431 | 2,327 | 312 | 1,266 | 2,948 | 215 | 9,499 |
| Investments in joint ventures and associates | 38 | 13 | 113 | 48 | – | – | 212 |
| **Segment assets** | 2,469 | 2,340 | 425 | 1,314 | 2,948 | 215 | 9,711 |
| Cash and cash equivalents | | | | | | 519 | 519 |
| Deferred tax assets | | | | | | 152 | 152 |
| Employee benefits assets | | | | | | 90 | 90 |
| **Segment liabilities** | (495) | (385) | (125) | (251) | (784) | (122) | (2,162) |
| Loans and overdrafts | | | | | | (965) | (965) |
| Income tax | | | | | | (193) | (193) |
| Deferred tax liabilities | | | | | | (266) | (266) |
| Employee benefits liabilities | | | | | | (133) | (133) |
| **Net assets** | 1,974 | 1,955 | 300 | 1,063 | 2,164 | (703) | 6,753 |
| Non-current asset additions | 153 | 103 | 28 | 65 | 394 | 1 | 744 |
| Depreciation | 96 | 80 | 7 | 44 | 171 | 4 | 402 |
| Amortisation | 64 | 20 | 6 | 4 | – | – | 94 |
| Impairment of goodwill on closure of business | – | – | – | 4 | – | – | 4 |

| **Geographical information** | United Kingdom £m | Europe & Africa £m | The Americas £m | Asia Pacific £m | Total £m |
|---|---|---|---|---|---|
| Revenue from external customers | 5,631 | 3,924 | 1,211 | 2,177 | 12,943 |
| Segment assets | 3,951 | 3,220 | 968 | 1,572 | 9,711 |
| Non-current asset additions | 279 | 351 | 34 | 80 | 744 |
| Depreciation | 184 | 122 | 27 | 69 | 402 |
| Amortisation | 22 | 19 | 43 | 10 | 94 |
| Impairment of goodwill on closure of business | – | – | – | 4 | 4 |

## 1. Operating segments continued

For the 52 weeks ended 14 September 2013 (restated)

| | Grocery £m | Sugar £m | Agriculture £m | Ingredients £m | Retail £m | Central £m | Total £m |
|---|---|---|---|---|---|---|---|
| Revenue from continuing businesses | 3,576 | 2,808 | 1,410 | 1,544 | 4,273 | (323) | 13,288 |
| Internal revenue | (8) | (131) | – | (184) | – | 323 | – |
| External revenue from continuing businesses | 3,568 | 2,677 | 1,410 | 1,360 | 4,273 | – | 13,288 |
| Businesses disposed | – | – | – | 27 | – | – | 27 |
| Revenue from external customers | 3,568 | 2,677 | 1,410 | 1,387 | 4,273 | – | 13,315 |
| | | | | | | | |
| Adjusted operating profit before joint ventures and associates | 216 | 449 | 35 | (3) | 513 | (51) | 1,159 |
| Share of profit after tax from joint ventures and associates | 8 | (15) | 12 | 8 | – | – | 13 |
| Businesses disposed | 2 | – | – | 6 | – | – | 8 |
| Adjusted operating profit | 226 | 434 | 47 | 11 | 513 | (51) | 1,180 |
| Amortisation of non-operating intangibles | (19) | (21) | (1) | (51) | – | – | (92) |
| Profits less losses on sale and closure of businesses | – | (15) | – | (113) | – | – | (128) |
| Profit before interest | 207 | 398 | 46 | (153) | 513 | (51) | 960 |
| Finance income | | | | | | 13 | 13 |
| Finance expense | | | | | | (100) | (100) |
| Other financial expense | | | | | | (5) | (5) |
| Taxation | | | | | | (240) | (240) |
| **Profit for the period** | 207 | 398 | 46 | (153) | 513 | (383) | 628 |
| | | | | | | | |
| Segment assets (excluding joint ventures and associates) | 2,510 | 2,432 | 319 | 1,315 | 2,677 | 187 | 9,440 |
| Investments in joint ventures and associates | 33 | 34 | 99 | 52 | – | – | 218 |
| **Segment assets** | 2,543 | 2,466 | 418 | 1,367 | 2,677 | 187 | 9,658 |
| Cash and cash equivalents | | | | | | 362 | 362 |
| Deferred tax assets | | | | | | 273 | 273 |
| Employee benefits assets | | | | | | 81 | 81 |
| **Segment liabilities** | (496) | (398) | (121) | (250) | (619) | (112) | (1,996) |
| Loans and overdrafts | | | | | | (1,166) | (1,166) |
| Income tax | | | | | | (166) | (166) |
| Deferred tax liabilities | | | | | | (431) | (431) |
| Employee benefits liabilities | | | | | | (96) | (96) |
| **Net assets** | 2,047 | 2,068 | 297 | 1,117 | 2,058 | (1,068) | 6,519 |
| | | | | | | | |
| Non-current asset additions | 158 | 158 | 10 | 77 | 220 | 6 | 629 |
| Depreciation | 102 | 86 | 7 | 55 | 151 | 4 | 405 |
| Amortisation | 36 | 37 | 3 | 54 | – | – | 130 |
| Impairment of property, plant and equipment | – | 8 | – | 19 | – | – | 27 |
| Impairment of operating intangibles | – | 4 | – | – | – | – | 4 |
| Impairment of goodwill | – | 10 | – | – | – | – | 10 |
| Impairment of property, plant and equipment on closure of business | – | 3 | – | 74 | – | – | 77 |
| Impairment of goodwill on sale of business | – | 14 | – | – | – | – | 14 |

99

| **Geographical information** | United Kingdom £m | Europe & Africa £m | The Americas £m | Asia Pacific £m | Total £m |
|---|---|---|---|---|---|
| Revenue from external customers | 5,728 | 3,790 | 1,309 | 2,488 | 13,315 |
| Segment assets | 3,863 | 3,096 | 1,022 | 1,677 | 9,658 |
| Non-current asset additions | 260 | 209 | 51 | 109 | 629 |
| Depreciation | 177 | 102 | 28 | 98 | 405 |
| Amortisation | 35 | 26 | 39 | 30 | 130 |
| Impairment of property, plant and equipment | – | 19 | – | 8 | 27 |
| Impairment of operating intangibles | – | – | – | 4 | 4 |
| Impairment of goodwill | – | – | – | 10 | 10 |
| Impairment of property, plant and equipment on closure of business | – | – | – | 77 | 77 |
| Impairment of goodwill on sale of business | – | – | – | 14 | 14 |

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 2. Operating costs

| | Note | 2014 £m | 2013 (restated) £m |
|---|---|---|---|
| **Operating costs** | | | |
| Cost of sales (including amortisation of intangibles) | | **9,793** | 10,095 |
| Distribution costs | | **1,271** | 1,314 |
| Administration expenses | | **801** | 831 |
| | | **11,865** | 12,240 |
| **Operating costs are stated after charging/(crediting):** | | | |
| Employee benefits expense | 3 | **2,006** | 1,948 |
| Amortisation of non-operating intangibles | 8 | **72** | 92 |
| Amortisation of operating intangibles | 8 | **22** | 38 |
| Profits less losses on disposal of non-current assets | | **11** | – |
| Depreciation of owned property, plant and equipment | 9 | **402** | 405 |
| Impairment of property, plant and equipment | 9 | **–** | 27 |
| Impairment of operating intangibles | 8 | **–** | 4 |
| Impairment of goodwill | 8 | **–** | 10 |
| Operating lease payments under property leases | | **175** | 155 |
| Operating lease payments for hire of plant and equipment | | **14** | 14 |
| Other operating income | | **(19)** | (22) |
| Research and development expenditure | | **38** | 25 |
| Fair value gains on financial assets and liabilities held for trading | | **(12)** | (14) |
| Fair value losses on financial assets and liabilities held for trading | | **5** | 15 |
| Foreign exchange gains on operating activities | | **(33)** | (30) |
| Foreign exchange losses on operating activities | | **43** | 31 |



| Auditors' remuneration | 2014 £m | 2013 £m |
|---|---|---|
| **Fees payable to the Company's auditor and its associates in respect of the audit** | | |
| Group audit of these financial statements | **0.6** | 0.6 |
| Audit of the Company's subsidiaries' financial statements | **5.2** | 5.3 |
| Total audit remuneration | **5.8** | 5.9 |
| **Fees payable to the Company's auditor and its associates in respect of non-audit related services** | | |
| Audit-related assurance services | **0.3** | 0.3 |
| Tax compliance services | **0.7** | 0.6 |
| Tax advisory services | **1.3** | 1.2 |
| Information technology services | **0.1** | 0.1 |
| All other services | **0.8** | 0.6 |
| Total non-audit related remuneration | **3.2** | 2.8 |
| **Fees payable to the Company's auditor and its associates in respect of the group's pension schemes** | | |
| Audit of the pension schemes | **0.1** | 0.2 |
| | **0.1** | 0.2 |

## 3. Employees

| | | 2014 | 2013 |
|---|---|---|---|
| **Average number of employees** | | | |
| United Kingdom | | **41,942** | 40,071 |
| Europe & Africa | | **54,852** | 49,247 |
| The Americas | | **4,210** | 4,036 |
| Asia Pacific | | **17,205** | 19,298 |
| | | **118,209** | 112,652 |

| | Note | £m | £m (restated) |
|---|---|---|---|
| **Employee benefits expense** | | | |
| Wages and salaries | | **1,672** | 1,640 |
| Social security contributions | | **194** | 180 |
| Contributions to defined contribution schemes | 12 | **76** | 66 |
| Charge for defined benefit schemes | 12 | **49** | 47 |
| Equity-settled share-based payment schemes | 22 | **15** | 15 |
| | | **2,006** | 1,948 |

Details of directors' remuneration, share options and pension entitlements are shown in the Remuneration report on pages 64 to 79.

## 4. Interest and other financial income and expense

| | Note | 2014 £m | 2013 (restated) £m |
|---|---|---|---|
| **Finance income** | | | |
| Cash and cash equivalents | | **15** | 13 |
| | | **15** | 13 |
| **Finance expense** | | | |
| Bank loans and overdrafts | | **(39)** | (42) |
| All other borrowings | | **(32)** | (54) |
| Finance leases | | **(1)** | (1) |
| Other payables | | **(1)** | (2) |
| Unwinding of discount on provisions | | **–** | (1) |
| | | **(73)** | (100) |
| **Other financial income/(expense)** | | | |
| Expected return on employee benefit scheme assets | 12 | **148** | 135 |
| Interest charge on employee benefit scheme liabilities | 12 | **(148)** | (137) |
| Net financial income from employee benefit schemes | | **–** | (2) |
| Net foreign exchange losses on financing activities | | **–** | (3) |
| Total other financial expense | | **–** | (5) |

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 52 weeks ended 13 September 2014

## 5. Income tax expense

| | 2014 £m | 2013 (restated) £m |
|---|---|---|
| **Current tax expense** | | |
| UK – corporation tax at 22.1% (2013 – 23.5%) | **137** | 143 |
| Overseas – corporation tax | **148** | 145 |
| UK – under/(over) provided in prior periods | **3** | (9) |
| Overseas – overprovided in prior periods | **(2)** | (10) |
| | **286** | 269 |
| **Deferred tax expense** | | |
| UK deferred tax | **(17)** | (23) |
| Overseas deferred tax | **(19)** | 2 |
| UK – overprovided in prior periods | **(6)** | – |
| Overseas – overprovided in prior periods | **(7)** | (8) |
| | **(49)** | (29) |
| **Total income tax expense in income statement** | **237** | 240 |
| **Reconciliation of effective tax rate** | | |
| Profit before taxation | **1,020** | 868 |
| Less share of profit after tax from joint ventures and associates | **(13)** | (13) |
| **Profit before taxation excluding share of profit after tax from joint ventures and associates** | **1,007** | 855 |
| Nominal tax charge at UK corporation tax rate of 22.1% (2013 – 23.5%) | **222** | 201 |
| Different tax rates on overseas earnings | **(11)** | (15) |
| Effect of changes in tax rates on income statement | **4** | (19) |
| Expenses not deductible for tax purposes | **25** | 24 |
| Disposal of assets covered by tax exemptions or unrecognised capital losses | **2** | 39 |
| Deferred tax not recognised | **7** | 37 |
| Adjustments in respect of prior periods | **(12)** | (27) |
| | **237** | 240 |
| **Income tax recognised directly in equity** | | |
| Deferred tax associated with defined benefit schemes | **(3)** | 7 |
| Current tax associated with share-based payments | **(2)** | – |
| Deferred tax associated with movement in cash flow hedging position | **11** | 2 |
| Deferred tax associated with movements in foreign exchange | **–** | (2) |
| Current tax associated with movements in foreign exchange | **(2)** | – |
| | **4** | 7 |

Following the enactment of legislation by the UK government prior to 14 September 2013 to reduce the corporation tax rate to 20% with effect from 1 April 2015, UK deferred tax has been calculated using a rate of 20%. The impact of this change was a reduction of £18m in the deferred tax charge for the year ended 14 September 2013.

Deferred taxation balances are analysed in note 13.

## 6. Dividends

| | 2014 pence per share | 2013 pence per share | 2014 £m | 2013 £m |
|---|---|---|---|---|
| 2012 final | **–** | 20.00 | **–** | 158 |
| 2013 interim | **–** | 9.35 | **–** | 74 |
| 2013 final | **22.65** | – | **179** | – |
| 2014 interim | **9.70** | – | **77** | – |
| | **32.35** | 29.35 | **256** | 232 |

The 2014 interim dividend was declared on 23 April 2014 and paid on 4 July 2014. The 2014 final dividend of 24.3 pence, total value of £192m, will be paid on 9 January 2015 to shareholders on the register on 12 December 2014.

Dividends relating to the period were 34.0 pence per share totalling £269m (2013 – 32.0 pence per share totalling £253m).

## 7. Earnings per share

The calculation of basic earnings per share at 13 September 2014 was based on the net profit attributable to equity shareholders of £762m (2013 – £585m), and a weighted average number of shares outstanding during the year of 790 million (2013 – 790 million). The calculation of the weighted average number of shares excludes the shares held by the Employee Share Ownership Plan Trust on which the dividends are being waived.

Adjusted earnings per ordinary share, which exclude the impact of profits less losses on disposal of non-current assets and the sale and closure of businesses, amortisation of non-operating intangibles and any associated tax credits, is shown to provide clarity on the underlying performance of the group.

The diluted earnings per share calculation takes into account the dilutive effect of share incentives. The diluted, weighted average number of shares is 790 million (2013 – 790 million). There is no difference between basic and diluted earnings.

| | **2014** **£m** | 2013 (restated) £m |
|---|---|---|
| **Adjusted profit for the period** | **822** | 775 |
| Disposal of non-current assets | **(11)** | – |
| Sale and closure of businesses | **(2)** | (128) |
| Tax effect on above adjustments | **(1)** | (6) |
| Amortisation of non-operating intangibles | **(72)** | (92) |
| Tax credit on non-operating intangibles amortisation and goodwill | **21** | 29 |
| Non-controlling interests' share of amortisation of non-operating intangibles net of tax | **5** | 7 |
| **Profit for the period attributable to equity shareholders** | **762** | 585 |

| | **2014** **pence** | 2013 (restated) pence |
|---|---|---|
| **Adjusted earnings per share** | **104.1** | 98.1 |
| Disposal of non-current assets | **(1.4)** | – |
| Sale and closure of businesses | **(0.3)** | (16.2) |
| Tax effect on above adjustments | **(0.1)** | (0.8) |
| Amortisation of non-operating intangibles | **(9.1)** | (11.7) |
| Tax credit on non-operating intangibles amortisation and goodwill | **2.7** | 3.7 |
| Non-controlling interests' share of amortisation of non-operating intangibles net of tax | **0.6** | 0.9 |
| **Earnings per ordinary share** | **96.5** | 74.0 |

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 52 weeks ended 13 September 2014

## 8. Intangible assets

| | | Non-operating | | | | | Operating | |
|---|---|---|---|---|---|---|---|---|
| | Goodwill £m | Technology £m | Brands £m | Customer relationships £m | Grower agreements £m | Other £m | Other £m | Total £m |
| **Cost** | | | | | | | | |
| At 15 September 2012 | 1,320 | 235 | 373 | 104 | 166 | 8 | 210 | 2,416 |
| Acquisitions – externally purchased | – | – | – | – | – | – | 40 | 40 |
| Acquired through previous business combinations | 2 | – | – | – | – | – | – | 2 |
| Reversal of deferred consideration | (7) | – | – | – | – | – | – | (7) |
| Businesses disposed | (27) | – | – | – | – | – | – | (27) |
| Other disposals | – | – | – | – | – | – | (21) | (21) |
| Effect of movements in foreign exchange | (22) | (8) | (3) | (2) | (26) | (1) | (4) | (66) |
| At 14 September 2013 | 1,266 | 227 | 370 | 102 | 140 | 7 | 225 | 2,337 |
| Acquisitions – externally purchased | – | – | – | – | – | – | 42 | 42 |
| Acquired through business combinations | – | – | – | 4 | – | – | – | 4 |
| Other disposals | – | – | – | – | – | – | (12) | (12) |
| Effect of movements in foreign exchange | (43) | (32) | (8) | (9) | (17) | (1) | (7) | (117) |
| **At 13 September 2014** | **1,223** | **195** | **362** | **97** | **123** | **6** | **248** | **2,254** |
| **Amortisation and impairment** | | | | | | | | |
| At 15 September 2012 | 5 | 187 | 189 | 94 | 100 | 8 | 64 | 647 |
| Amortisation for the year | – | 50 | 23 | 4 | 15 | – | 38 | 130 |
| Impairment | 10 | – | – | – | – | – | 4 | 14 |
| Impairment on sale of business | 14 | – | – | – | – | – | – | 14 |
| Disposals | – | – | – | – | – | – | (13) | (13) |
| Effect of movements in foreign exchange | – | (10) | (4) | (2) | (17) | (1) | (2) | (36) |
| At 14 September 2013 | 29 | 227 | 208 | 96 | 98 | 7 | 91 | 756 |
| Amortisation for the year | – | – | 52 | 7 | 13 | – | 22 | 94 |
| Impairment on closure of business | 4 | – | – | – | – | – | – | 4 |
| Other disposals | – | – | – | – | – | – | (3) | (3) |
| Effect of movements in foreign exchange | – | (32) | (5) | (10) | (12) | (1) | (4) | (64) |
| **At 13 September 2014** | **33** | **195** | **255** | **93** | **99** | **6** | **106** | **787** |
| **Net book value** | | | | | | | | |
| At 15 September 2012 | 1,315 | 48 | 184 | 10 | 66 | – | 146 | 1,769 |
| At 14 September 2013 | 1,237 | – | 162 | 6 | 42 | – | 134 | 1,581 |
| **At 13 September 2014** | **1,190** | **–** | **107** | **4** | **24** | **–** | **142** | **1,467** |



### Impairment

As at 13 September 2014, the consolidated balance sheet included goodwill of £1,190m (2013 – £1,237m). Goodwill is allocated to the group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the business combination that gave rise to the goodwill, as follows:

| **CGU or group of CGUs** | Primary reporting segment | Discount rate | **2014 £m** | 2013 £m |
|---|---|---|---|---|
| ACH | Grocery | 13.9% | **236** | 241 |
| AB Mauri | Ingredients | 12.7% | **291** | 341 |
| Twinings Ovaltine | Grocery | 10.0% | **119** | 119 |
| Capullo | Grocery | 15.7% | **58** | 58 |
| Illovo | Sugar | 14.0% | **121** | 137 |
| AB World Foods | Grocery | 11.4% | **78** | 78 |
| North China Sugar | Sugar | 12.0% | **45** | 46 |
| Other (not individually significant) | Various | Various | **242** | 217 |
| | | | **1,190** | 1,237 |

## 8. Intangible assets continued

A CGU, or group of CGUs, to which goodwill has been allocated must be assessed for impairment annually, or more frequently if events or circumstances indicate that the carrying amount may not be recoverable.

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

For some recently acquired intangible assets, management expects to achieve growth over the next three to five years in excess of the long-term growth rates for the applicable country or region. In these circumstances, budgeted cash flows are extended, generally to between three and five years, using specific growth assumptions and taking into account the specific business risks.

The key assumptions on which the cash flow projections for the most recent annual budget are based relate to discount rates, growth rates and expected changes in volumes, selling prices and direct costs.

The cash flow projections have been discounted using the group's pre-tax weighted average cost of capital adjusted for country, industry and market risk. The rates used were between 10.0% and 15.7% (2013 – between 9.1% and 13.8%).

The growth rates to perpetuity beyond the initial budgeted cash flows, applied in the value in use calculations for goodwill allocated to each of the CGUs or groups of CGUs that are significant to the total carrying amount of goodwill, were in a range between 0% and 5%, consistent with the inflation factors included in the discount rates applied (2013 – between 0% and 3.5%).

Changes in volumes, selling prices and direct costs are based on past results and expectations of future changes in the market.

**Sensitivity to changes in key assumptions**

Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. Each of the group's CGUs had significant headroom under the annual impairment review with the exception of AB Mauri and the North China sugar business.

Notwithstanding a substantial improvement in profit in the current year, AB Mauri has continued to experience competitive pressure in a number of markets around the world. Management has reviewed detailed forecasts for this business for a period of ten years to reflect the time required for completion of the dry yeast production strategy, and has concluded that the assets are not impaired. Key drivers of the forecast improvement in performance include improved reach and competitiveness in the global dry yeast market from the new yeast factory in Mexico, implementation of a number of margin improvement initiatives, particularly in cost reduction, and continuing growth in the global bakery ingredients business. Headroom was $306m on a CGU carrying value of $1,078m (2013 – headroom of $103m on a CGU carrying value of $1,195m). The discount rate used was 12.7% (2013 – 11.5%) and would have to increase to more than 15.0% (2013 – 12.1%) before value in use fell below the CGU carrying value. Estimates of long-term growth rates beyond the forecast periods were 2.5%–3% (2013 – 2.5%–3%) per annum dependent on location.

In North China Sugar, profitability has suffered as a result of low sugar prices and lower volume due to flooding. Current forecasts for the North China Sugar business continue to support the carrying value of the assets, but the achievement of these forecasts depends on the continuation of significant improvements already underway in a variety of operational parameters, including agricultural yields, factory volumes and sugar prices. Management has reviewed detailed forecasts for this business taking those issues into account for a period of ten years due to the nature and complexity of agricultural improvements and has concluded that no impairment is required. Headroom was £43m on a CGU carrying value of £185m (2013 – £2m headroom on a CGU carrying value of £221m). The discount rate used was 12.0% (2013 – 13.0%). The estimate of long-term growth beyond the forecast period was 2% per annum (2013 – 2% per annum).

For all goodwill other than AB Mauri and North China Sugar, management has concluded that no reasonably possible change in key assumptions on which it has determined value in use would cause carrying values to materially exceed value in use.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 9. Property, plant and equipment

| | Land and buildings £m | Plant and machinery £m | Fixtures and fittings £m | Assets under construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 15 September 2012 | 2,176 | 3,173 | 1,453 | 250 | 7,052 |
| Acquisitions – externally purchased | 102 | 125 | 176 | 181 | 584 |
| Interest capitalised | – | – | – | 4 | 4 |
| Businesses disposed | (1) | (12) | – | – | (13) |
| Other disposals | (8) | (132) | (20) | – | (160) |
| Transfers from assets under construction | 49 | 229 | 7 | (285) | – |
| Effect of movements in foreign exchange | (20) | (97) | 14 | – | (103) |
| At 14 September 2013 | 2,298 | 3,286 | 1,630 | 150 | 7,364 |
| Acquisitions – externally purchased | 103 | 127 | 324 | 148 | 702 |
| Acquired through business combinations | 1 | 1 | – | – | 2 |
| Other disposals | (7) | (91) | (61) | – | (159) |
| Transfers from assets under construction | 28 | 111 | 3 | (142) | – |
| Effect of movements in foreign exchange | (79) | (159) | (40) | (7) | (285) |
| **At 13 September 2014** | **2,344** | **3,275** | **1,856** | **149** | **7,624** |
| **Depreciation and impairment** | | | | | |
| At 15 September 2012 | 425 | 1,591 | 495 | – | 2,511 |
| Depreciation for the year | 53 | 209 | 143 | – | 405 |
| Impairment | 8 | 19 | – | – | 27 |
| Impairment on closure of business | 30 | 47 | – | – | 77 |
| Businesses disposed | (1) | (5) | – | – | (6) |
| Other disposals | (5) | (116) | (19) | – | (140) |
| Effect of movements in foreign exchange | (8) | (57) | 3 | – | (62) |
| At 14 September 2013 | 502 | 1,688 | 622 | – | 2,812 |
| Depreciation for the year | 49 | 189 | 164 | – | 402 |
| Other disposals | (2) | (56) | (61) | – | (119) |
| Effect of movements in foreign exchange | (29) | (94) | (13) | – | (136) |
| **At 13 September 2014** | **520** | **1,727** | **712** | **–** | **2,959** |
| **Net book value** | | | | | |
| At 15 September 2012 | 1,751 | 1,582 | 958 | 250 | 4,541 |
| At 14 September 2013 | 1,796 | 1,598 | 1,008 | 150 | 4,552 |
| **At 13 September 2014** | **1,824** | **1,548** | **1,144** | **149** | **4,665** |

| | **2014 £m** | 2013 £m |
|---|---|---|
| Net book value of finance lease assets | **10** | 11 |
| Land and buildings at net book value comprise: | | |
| – freehold | **1,399** | 1,388 |
| – long leasehold | **322** | 313 |
| – short leasehold | **103** | 95 |
| | **1,824** | 1,796 |
| Capital expenditure commitments – contracted but not provided for | **324** | 215 |

### Impairment
The impairment assessments undertaken for goodwill in respect of AB Mauri and North China Sugar were consistent with those undertaken to assess property, plant and equipment for impairment. See note 8 for further details.

An impairment of A$150m (£98m) was recorded in 2012 in the Australian meat business. Although good progress was made in the current year to reduce the factory cost base and improve efficiency, continuing retailer price competition and slower than forecast recovery in production volumes held back the rate of improvement. Following a detailed assessment, management has concluded that the carrying value of the assets in the meat business is not further impaired. Headroom was A$26m on a CGU carrying value of A$286m. The discount rate used was 10.5% (2013 – 10.5%). Estimates of long-term growth rates beyond the forecast periods were 2.0% (2013 – 2.0%) per annum.

## 10. Biological assets

| | Current | | | Non-current |
|---|---|---|---|---|
| | Growing cane £m | Other £m | Total £m | Cane roots £m |
| At 15 September 2012 | 101 | 8 | 109 | 89 |
| Transferred to inventory | (112) | (23) | (135) | – |
| Purchases | – | 2 | 2 | 1 |
| Changes in fair value | 124 | 22 | 146 | 15 |
| Effect of movements in foreign exchange | (10) | – | (10) | (8) |
| At 14 September 2013 | 103 | 9 | 112 | 97 |
| Transferred to inventory | (72) | (25) | (97) | – |
| Purchases | – | 3 | 3 | – |
| Changes in fair value | 80 | 26 | 106 | 12 |
| Effect of movements in foreign exchange | (15) | – | (15) | (13) |
| **At 13 September 2014** | **96** | **13** | **109** | **96** |

| **Cane roots** | **2014** | 2013 |
|---|---|---|
| **Area under cane as at the end of the period (hectares)** | | |
| South Africa | **8,176** | 8,729 |
| Malawi | **19,908** | 20,031 |
| Zambia | **16,994** | 16,848 |
| Swaziland | **8,646** | 8,646 |
| Tanzania | **9,643** | 9,565 |
| Mozambique | **6,176** | 5,900 |
| | **69,543** | 69,719 |

### Growing cane

The following assumptions have been used in the determination of the estimated sucrose tonnage at 13 September 2014:

| | South Africa | Malawi | Zambia | Swaziland | Tanzania | Mozambique |
|---|---|---|---|---|---|---|
| Expected area to harvest (hectares) | 4,499 | 19,401 | 16,686 | 8,383 | 9,676 | 5,966 |
| Estimated yield (tonnes cane/hectare) | 69.5 | 106.1 | 118.8 | 97.2 | 84.2 | 87.5 |
| Average maturity of cane | 57.0% | 66.7% | 67.3% | 66.7% | 50.0% | 66.7% |

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

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

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 11. Investments in joint ventures and associates

| | Joint ventures | | | Associates | | |
|---|---|---|---|---|---|---|
| | Shares £m | Goodwill £m | Total £m | Shares £m | Goodwill £m | Total £m |
| At 15 September 2012 | 156 | 18 | 174 | 39 | 1 | 40 |
| Acquisitions | 2 | – | 2 | – | – | – |
| Profit for the period | 10 | – | 10 | 3 | – | 3 |
| Dividends received | (6) | – | (6) | (5) | – | (5) |
| Effect of movements in foreign exchange | 2 | – | 2 | (2) | – | (2) |
| At 14 September 2013 | 164 | 18 | 182 | 35 | 1 | 36 |
| Acquisitions | 5 | – | 5 | – | – | – |
| Disposals | – | – | – | (2) | – | (2) |
| Profit for the period | 8 | – | 8 | 5 | – | 5 |
| Dividends received | (13) | – | (13) | (4) | – | (4) |
| Effect of movements in foreign exchange | (1) | (1) | (2) | (3) | – | (3) |
| **At 13 September 2014** | **163** | **17** | **180** | **31** | **1** | **32** |

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

Included in the consolidated financial statements are the following items that represent the group's share of the assets, liabilities and profit of joint ventures and associates:

| | Joint ventures | | Associates | |
|---|---|---|---|---|
| | **2014 £m** | 2013 £m | **2014 £m** | 2013 £m |
| Non-current assets | **230** | 241 | **16** | 18 |
| Current assets | **301** | 275 | **128** | 135 |
| Current liabilities | **(198)** | (179) | **(111)** | (116) |
| Non-current liabilities | **(170)** | (173) | **(2)** | (2) |
| Goodwill | **17** | 18 | **1** | 1 |
| Net assets | **180** | 182 | **32** | 36 |
| Revenue | **1,260** | 1,322 | **81** | 88 |
| Expenses | **(1,252)** | (1,311) | **(74)** | (82) |
| Taxation | **–** | (1) | **(2)** | (3) |
| Profit for the period | **8** | 10 | **5** | 3 |

## 12. Employee entitlements

The group operates a number of defined benefit and defined contribution retirement benefit schemes in the UK and overseas. The defined benefit schemes expose the group to a variety of actuarial risks including demographic assumptions such as mortality and financial assumptions such as discount rate, inflation risk and market (investment) risk. The group is not exposed to any unusual, entity-specific or scheme specific risks. All schemes comply with local legislative requirements.

The impact of applying the revised version of IAS 19 *Employee Benefits* for the first time is set out in New Accounting Policies on page 95.

### UK defined benefit scheme

The group's principal UK defined benefit scheme is the Associated British Foods Pension Scheme, which is a funded final salary scheme that is closed to new members. Defined contribution arrangements are in place for other employees. The UK defined benefit schemes represent 91% (2013 – 91%) of the group's defined benefit plan assets and 89% (2013 – 89%) of the defined benefit scheme liabilities. The Scheme is governed by a trustee board which is independent of the group and which agrees a schedule of contributions with the Company each time a formal funding valuation is performed.

The previous triennial funding valuation of the Scheme was carried out as at 5 April 2011, using the current unit method. The market value of plan assets was £2,559m, representing 101% of members' accrued benefits after allowing for expected future salary increases. By agreement with the trustees, the Company agreed to eliminate the deficit identified at the time of the 2008 triennial funding valuation with five annual payments of £30m totalling £150m. Although the Scheme was in surplus at the time of the 2011 valuation, the Company made the final two payments in March 2012 and March 2013. The most recent triennial funding valuation of the Scheme was carried out as at 5 April 2014, was agreed by the trustees after the group's year end and revealed a surplus of £78m. There will be no material increase in funding requirements.

The Scheme's assets are managed using a risk controlled investment strategy, which includes a liability-driven investment policy which seeks to match, where appropriate, the profile of the liabilities. This includes the use of derivative instruments to hedge inflation, interest and foreign exchange risks. The Scheme utilises both market and solvency triggers to develop the level of hedges in place. To date, the Scheme is fully hedged for 30% of inflation sensitivity and 24% of interest rate risk. It is intended to hedge 80% of total exposure.

## 12. Employee entitlements continued

The Scheme is forbidden by the trust deed from holding direct investments in the equity of the Company, although it is possible that the Scheme may hold indirect interests through investments in some equity funds. The Scheme owns the freehold of an office building in London which is leased to the group at an open market rent. The fair value of this building is £6m (2013 – £5m).

### Overseas defined benefit schemes

The group also operates defined benefit retirement schemes in a number of overseas businesses, which are primarily funded final salary schemes, as well as a small number of unfunded post-retirement medical benefit schemes, which are accounted for in the same way as defined benefit retirement schemes.

### Defined contribution schemes

The group operates a number of defined contribution schemes for which the charge was £38m in the UK and £38m overseas, totalling £76m (2013 – UK £27m, overseas £39m, total £66m).

### Actuarial assumptions

The principal actuarial assumptions for the group's defined benefit schemes at the year end were:

| | **2014 UK %** | **2014 Overseas %** | 2013 UK % | 2013 Overseas % |
|---|---|---|---|---|
| Discount rate | **4.1** | **1.5 – 15.7** | 4.7 | 2.3 – 14.0 |
| Inflation | **3.4** | **0.8 – 9.2** | 3.5 | 0.0 – 10.0 |
| Rate of increase in salaries | **3.9** | **0.5 – 10.7** | 4.5 | 0.5 – 11.8 |
| Rate of increase for pensions in payment | **3.2** | **1.2 – 6.3** | 3.3 | 1.6 – 8.8 |
| Rate of increase for pensions in deferment (where provided) | **2.9** | **1.2 – 6.3** | 3.0 | 0.5 – 8.8 |

The mortality assumptions used to value the UK defined benefit schemes are derived from the S2 (2013 – S1NA generational) mortality tables with improvements in line with the 2013 (2013 – 2009) projection model prepared by the Continuous Mortality Investigation of the UK actuarial profession, with no rating for males (2013 – no rating) and a +0.7 year rating down for females (2013 – +0.2 year rating up), both with a long-term trend of 1.5% (2013 – 1.5%). These mortality assumptions take account of experience to date, and assumptions for further improvements in life expectancy of scheme members. Examples of the resulting life expectancies in the UK defined benefit schemes are as follows:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| **Life expectancy from age 65 (in years)** | **Male** | **Female** | Male | Female |
| Member aged 65 in 2014 (2013) | **22.7** | **25.2** | 22.7 | 24.8 |
| Member aged 65 in 2034 (2033) | **24.8** | **27.6** | 25.0 | 27.2 |

Other demographic assumptions for the UK defined benefit schemes are set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic funding valuation of the schemes.

For the overseas schemes, regionally appropriate assumptions for mortality, financial and demographic factors have been used.

A sensitivity analysis on the principal assumptions used to measure UK defined benefit scheme liabilities at 13 September 2014 is:

| | Change in assumption | Impact on scheme liabilities |
|---|---|---|
| Discount rate | decrease/increase by 0.5% | increase/decrease by 9.5% |
| Inflation | increase/decrease by 0.5% | increase/decrease by 8.7% |
| Rate of increase in salaries | increase/decrease by 0.5% | increase/decrease by 1.5% |
| Rate of mortality | reduce by one year | increase by 2.8% |

A sensitivity to the rate of increase in pensions in payment and pensions in deferment is represented by the inflation sensitivity, as all pensions increases and deferred revaluations are linked to inflation.

The sensitivity analysis above has been determined based on reasonably possible changes in the respective assumptions occurring at the end of the period and may not be representative of the actual change. It is based on a change in the specific assumption while holding all other assumptions constant. When calculating the sensitivities, the same method used to calculate scheme liabilities recognised in the balance sheet has been applied. The method and assumptions used in preparing the sensitivity analysis have not changed since the prior year.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 12. Employee entitlements continued

### Balance sheet

| | 2014 | | | 2013 (restated) | | |
|---|---|---|---|---|---|---|
| | **UK £m** | **Overseas £m** | **Total £m** | UK £m | Overseas £m | Total £m |
| Equities | **1,243** | **146** | **1,389** | 1,133 | 137 | 1,270 |
| Government bonds | **543** | **41** | **584** | 849 | 36 | 885 |
| Corporate and other bonds | **628** | **55** | **683** | 527 | 66 | 593 |
| Property | **229** | **6** | **235** | 163 | 4 | 167 |
| Cash and other assets | **535** | **59** | **594** | 260 | 58 | 318 |
| Plan assets | **3,178** | **307** | **3,485** | 2,932 | 301 | 3,233 |
| Scheme liabilities | **(3,120)** | **(396)** | **(3,516)** | (2,878) | (358) | (3,236) |
| Aggregate net deficit | **58** | **(89)** | **(31)** | 54 | (57) | (3) |
| Irrecoverable surplus (a) | **–** | **(12)** | **(12)** | – | (12) | (12) |
| Net pension asset/(liability) | **58** | **(101)** | **(43)** | 54 | (69) | (15) |
| Analysed as | | | | | | |
| Schemes in surplus | **87** | **3** | **90** | 77 | 4 | 81 |
| Schemes in deficit | **(29)** | **(104)** | **(133)** | (23) | (73) | (96) |
| | **58** | **(101)** | **(43)** | 54 | (69) | (15) |
| Unfunded liability included in the present value of scheme liabilities above | **(29)** | **(48)** | **(77)** | (23) | (44) | (67) |

(a) The surpluses in the plans are only recoverable to the extent that the group can benefit from either refunds formally agreed or from future contribution reductions.

Corporate and other bonds relating to UK schemes of £628m includes £46m (2013 – £4m) of assets whose valuation is not derived from quoted market prices. The valuation for all other equity assets, government bonds, corporate and other bonds is derived from quoted market prices. The carrying value of UK property assets is based on a 31 March market valuation, adjusted for purchases, disposals and price indexation between the valuation and the balance sheet dates.

For financial reporting in the group's accounts, liabilities are assessed by actuaries using the projected unit method. The accounting value is different from the result obtained using the funding basis, mainly due to different assumptions used to project scheme liabilities.

The defined benefit scheme liabilities comprise 33% (2013 – 31%) in respect of active participants, 20% (2013 – 19%) for deferred participants and 47% (2013 – 50%) for pensioners.

The weighted average duration of the defined benefit scheme liabilities at the end of the year is 18 years (UK schemes – 18 years and overseas schemes – 19 years).

### Income statement

The charge to the income statement for employee benefit schemes comprises:

| | **2014 £m** | 2013 (restated) £m |
|---|---|---|
| Charged to operating profit: | | |
| Defined benefit schemes | | |
| Current service cost | **(48)** | (47) |
| Past service cost | **(1)** | – |
| Defined contribution schemes | **(76)** | (66) |
| Total operating cost | **(125)** | (113) |
| Reported in other financial income/(expense): | | |
| Net interest income/(expense) on the net pension asset/(liability) | **–** | (2) |
| Net impact on profit before tax | **(125)** | (115) |

## 12. Employee entitlements continued

### Cash flow

Group cash flow in respect of employee benefits schemes comprises contributions paid to funded schemes of £41m (2013 – £69m) and benefits paid in respect of unfunded plans of £nil (2013 – £nil). Contributions to funded defined benefit plans are subject to periodic review. Contributions to defined contribution plans amounted to £76m (2013 – £66m).

Total contributions to funded plans and benefit payments by the group in respect of unfunded plans in 2015 are currently expected to be approximately £29m in the UK and £8m overseas, totalling £37m (2014 – UK £31m, overseas £11m, totalling £42m).

### Other comprehensive income

Remeasurements of the net asset/liability recognised in other comprehensive income are as follows:

| | **2014 £m** | 2013 (restated) £m |
|---|---|---|
| Return on plan assets excluding amounts included in net interest in the income statement | **211** | 156 |
| Actuarial gains/(losses) arising from changes in financial assumptions | **(262)** | (113) |
| Actuarial gains/(losses) arising from changes in demographic assumptions | **5** | – |
| Experience gains/(losses) on scheme liabilities | **21** | (4) |
| Change in unrecognised surplus | **–** | (6) |
| Remeasurements of the net pension asset/(liability) | **(25)** | 33 |

### Reconciliation of change in assets and liabilities

| | **2014 assets £m** | 2013 assets (restated) £m | **2014 liabilities £m** | 2013 liabilities (restated) £m | **2014 net £m** | 2013 net (restated) £m |
|---|---|---|---|---|---|---|
| At beginning of year | **3,233** | 3,003 | **(3,236)** | (3,062) | **(3)** | (59) |
| Current service cost | **–** | – | **(48)** | (47) | **(48)** | (47) |
| Employee contributions | **10** | 9 | **(10)** | (9) | **–** | – |
| Employer contributions | **41** | 69 | **–** | – | **41** | 69 |
| Benefit payments | **(138)** | (132) | **138** | 132 | **–** | – |
| Settlements | **(2)** | – | **2** | – | **–** | – |
| Past service cost | **–** | – | **(1)** | – | **(1)** | – |
| Interest income/(expense) | **148** | 135 | **(148)** | (137) | **–** | (2) |
| Return on plan assets less interest income | **211** | 156 | **–** | – | **211** | 156 |
| Actuarial gains/(losses) arising from changes in financial assumptions | **–** | – | **(262)** | (113) | **(262)** | (113) |
| Actuarial gains/(losses) arising from changes in demographic assumptions | **–** | – | **5** | – | **5** | – |
| Actuarial gains/(losses) arising from experience on scheme liabilities | **–** | – | **21** | (4) | **21** | (4) |
| Acquisitions | **–** | – | **(1)** | – | **(1)** | – |
| Effect of movements in foreign exchange | **(18)** | (7) | **24** | 4 | **6** | (3) |
| At end of year | **3,485** | 3,233 | **(3,516)** | (3,236) | **(31)** | (3) |

### Reconciliation of change in irrecoverable surplus

| | **2014 £m** | 2013 £m |
|---|---|---|
| At beginning of year | **(12)** | (8) |
| Change recognised in other comprehensive income | **–** | (6) |
| Effect of movements in foreign exchange | **–** | 2 |
| At end of year | **(12)** | (12) |

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 13. Deferred tax assets and liabilities

| | Property, plant and equipment £m | Intangible assets £m | Employee benefits £m | Financial assets and liabilities £m | Other temporary differences £m | Tax value of carry-forward losses £m | Total £m |
|---|---|---|---|---|---|---|---|
| At 15 September 2012 (restated) | 179 | 95 | (19) | (4) | 33 | (100) | 184 |
| Amount charged/(credited) to the income statement | (21) | 2 | 4 | – | (12) | 17 | (10) |
| Amount charged/(credited) to other comprehensive income | – | – | 7 | 2 | (2) | – | 7 |
| Effect of changes in tax rates on income statement | (12) | (2) | – | – | (3) | (2) | (19) |
| Effect of movements in foreign exchange | (2) | (3) | – | – | (3) | 4 | (4) |
| At 14 September 2013 | 144 | 92 | (8) | (2) | 13 | (81) | 158 |
| Amount charged/(credited) to the income statement | (6) | (6) | (5) | – | (42) | 6 | (53) |
| Amount charged/(credited) to other comprehensive income | – | – | (3) | 11 | – | – | 8 |
| Acquired through business combinations | – | 1 | – | – | – | – | 1 |
| Effect of changes in tax rates on income statement | 5 | – | – | – | 1 | (2) | 4 |
| Effect of movements in foreign exchange | (5) | (1) | – | – | (2) | 4 | (4) |
| **At 13 September 2014** | **138** | **86** | **(16)** | **9** | **(30)** | **(73)** | **114** |

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Deferred tax assets | **(152)** | (273) |
| Deferred tax liabilities | **266** | 431 |
| | **114** | 158 |

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. Other deferred tax assets totalling £88m (2013 – £82m) have not been recognised on the basis that their future economic benefit is uncertain.

In addition, there are temporary differences of £2,122m (2013 – £2,514m) relating to investments in subsidiaries. No deferred tax has been provided in respect of these differences, since the timing of the reversals can be controlled and it is probable that the temporary differences will not reverse in the future.

## 14. Trade and other receivables

| | 2014 £m | 2013 £m |
|---|---|---|
| **Non-current – other receivables** | | |
| Loans and receivables | **160** | 144 |
| Other non-current investments | **4** | 4 |
| | **164** | 148 |
| **Current – trade and other receivables** | | |
| Trade receivables | **973** | 1,033 |
| Other receivables | **122** | 126 |
| Accrued income | **31** | 24 |
| | **1,126** | 1,183 |
| Prepayments and other non-financial receivables | **167** | 159 |
| | **1,293** | 1,342 |



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

For details of credit risk exposure on trade and other receivables, see note 24.

Trade and other receivables include £14m (2013 – £15m) in respect of finance lease receivables, with £11m in non-current loans and receivables and £3m in current other receivables (2013 – £12m in non-current loans and receivables and £3m in current other receivables). Minimum lease payments receivable are £3m within one year and £11m between one and five years (2013 – £4m within one year, £12m between one and five years).

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

## 15. Inventories

| | 2014 £m | 2013 £m |
|---|---|---|
| Raw materials and consumables | **334** | 348 |
| Work in progress | **23** | 29 |
| Finished goods and goods held for resale | **1,274** | 1,204 |
| | **1,631** | 1,581 |
| Write down of inventories | **(78)** | (78) |

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 16. Cash and cash equivalents

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Cash** | | | |
| Cash at bank and in hand | | **231** | 231 |
| Cash equivalents | | **288** | 131 |
| Cash and cash equivalents | 24 | **519** | 362 |
| **Reconciliation to the cash flow statement** | | | |
| Bank overdrafts | 17 | **(120)** | (119) |
| Cash and cash equivalents in the cash flow statement | | **399** | 243 |

Cash at bank and in hand generally earns interest at rates based on the daily bank deposit rate.



Cash equivalents generally comprise:

(i) deposits placed on money markets for periods up to three months which earn interest at a short-term deposit rate; and

(ii) funds invested with fund managers that have a maturity of less than or equal to three months and are at fixed rates.

The carrying amount of cash and cash equivalents approximates fair value.

## 17. Loans and overdrafts

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Current loans and overdrafts** | | | |
| Secured loans | | **2** | 51 |
| Unsecured loans and overdrafts | | **356** | 343 |
| | | **358** | 394 |
| **Non-current loans** | | | |
| Secured loans | | **14** | 44 |
| Unsecured loans | | **581** | 716 |
| Finance leases | 25 | **12** | 12 |
| | | **607** | 772 |
| | 24 | **965** | 1,166 |

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| Secured loans | | | |
| – USD floating rate | | **–** | 9 |
| – USD fixed rate | | **–** | 1 |
| – EUR floating rate | | **–** | 21 |
| – Other floating rate | | **16** | 64 |
| Unsecured loans and overdrafts | | | |
| – Bank overdrafts | 16 | **120** | 119 |
| – GBP floating rate | | **113** | 123 |
| – GBP fixed rate | | **159** | 160 |
| – USD floating rate | | **29** | 4 |
| – USD fixed rate | | **421** | 531 |
| – EUR floating rate | | **29** | 34 |
| – EUR fixed rate | | **–** | 17 |
| – RMB floating rate | | **58** | 57 |
| – RMB fixed rate | | **–** | 7 |
| – Other floating rate | | **7** | 5 |
| – Other fixed rate | | **1** | 2 |
| Finance leases (fixed rate) | | **12** | 12 |
| | | **965** | 1,166 |

Secured loans comprise amounts borrowed from commercial banks and are secured by floating charges over the assets of subsidiaries. Bank overdrafts generally bear interest at floating rates.

## 18. Trade and other payables

| | 2014 £m | 2013 £m |
|---|---|---|
| Trade payables | **910** | 903 |
| Accruals | **883** | 753 |
| | **1,793** | 1,656 |
| Deferred income and other non-financial payables | **253** | 225 |
| | **2,046** | 1,881 |

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

## 19. Provisions



| | Restructuring £m | Deferred consideration £m | Other £m | Total £m |
|---|---|---|---|---|
| At 14 September 2013 | 35 | 3 | 39 | 77 |
| Acquisitions – business combinations | 4 | – | – | 4 |
| Created | 35 | 1 | 9 | 45 |
| Utilised | (11) | (1) | (5) | (17) |
| Released | (1) | – | (4) | (5) |
| Effect of movements in foreign exchange | (1) | (1) | (1) | (3) |
| **At 13 September 2014** | **61** | **2** | **38** | **101** |
| Current | 47 | 1 | 24 | 72 |
| Non-current | 14 | 1 | 14 | 29 |
| | **61** | **2** | **38** | **101** |

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

**Restructuring**
Restructuring provisions relate to the cash costs, including redundancy, associated with the group's announced reorganisation plans, of which a majority will be utilised in 2014/15.

**Deferred consideration**
Deferred consideration comprises estimates of amounts due to the previous owners of businesses acquired by the group which are often linked to performance or other conditions.

**Other**
Other provisions mainly comprise litigation claims and warranty claims arising from the sale and closure of businesses. The extent and timing of the utilisation of these provisions is more uncertain given the nature of the claims and the period of the warranties.

## 20. Share capital and reserves

**Share capital**

| | Ordinary shares of $5^{15}/_{22}$p each 000 | Nominal value £m |
|---|---|---|
| **Issued and fully paid** | | |
| At 14 September 2013 and 13 September 2014 | 791,674 | 45 |

At 13 September 2014, the Company's issued share capital comprised 791,674,183 ordinary shares of $5^{15}/_{22}$p each, carrying one vote per share.

**Other reserves**
£173m of other reserves arose from the cancellation of share premium account by the Company in 1993. The remaining £2m arose in 2010 as a transfer to capital redemption reserve following redemption of two million £1 deferred shares at par. Both are non-distributable.

**Translation reserve**
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the group's net investment in foreign subsidiaries.

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

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 21. Acquisitions and disposals

**2014**

During 2014, the group acquired a bakery ingredients business in western Europe and a small animal feed specialist in the UK, which had the following effect on the group's assets and liabilities:

| | Note | Recognised values on acquisition £m |
|---|---|---|
| **Net assets** | | |
| Non-operating intangibles | 8 | 4 |
| Property, plant and equipment | 9 | 2 |
| Inventories | | 4 |
| Trade and other receivables | | 11 |
| Cash and cash equivalents | | 5 |
| Trade and other payables | | (8) |
| Loans | 23 | (4) |
| Provisions | 19 | (4) |
| Employee benefits liabilities | 12 | (1) |
| Taxation | | (1) |
| Net assets and liabilities and total consideration | | 8 |
| **Satisfied by** | | |
| Cash consideration | | 7 |
| Deferred consideration | | 1 |
| **Net cash** | | |
| Cash consideration | | 7 |
| Cash and cash equivalents acquired | | (5) |
| | | 2 |



Pre-acquisition carrying amounts were the same as recognised values on acquisition apart from a £4m non-operating intangible recognised in respect of customer relationships. The acquisitions in aggregate contributed revenue of £27m and adjusted profit before tax of £1m for the period between the dates of acquisition and 13 September 2014. Aggregate contributions to revenue and adjusted profit before tax had the acquisitions occurred at the beginning of the period have not been disclosed, as appropriate financial information prepared under Adopted IFRS is not available.

The net cash of £2m in the acquisition table above differs by £6m from the cash outflow of £8m on the purchase of subsidiaries, joint ventures and associates shown in the cash flow statement. This difference relates to a £5m investment in an existing joint venture and £1m of deferred consideration paid in respect of prior year acquisitions.

During the year, the group disposed of its interest in a US associate in the Ingredients segment for a profit of £7m. Cash consideration was £12m, deferred consideration was £1m, share of net assets disposed was £2m and provisions made were £4m. In addition, a charge of £9m was made in the Ingredients segment in China and India for restructuring costs associated with business closures, including a £4m impairment of goodwill.

**2013**

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

Loss on sale and closure of businesses of £128m comprised £113m for disposals and closures in the Ingredients segment and £15m for the loss on disposal of the sugar business in Chifeng, north China. Included within the amount charged in the Ingredients segment was a loss of £26m in respect of the disposal of our US whey protein operation. Cash consideration for the US disposal was £20m, tangible assets disposed amounted to £8m and goodwill disposed was £27m. Provisions made were £4m and foreign exchange differences recycled from equity were £7m. A charge of £72m was made to write down the carrying value of certain Ingredients assets in China and to provide for restructuring costs, and a charge of £13m to write down the value of yeast plants in India. Cash flow on sale of subsidiaries, joint ventures and associates of £35m comprised £20m in respect of the US whey protein business and £15m of deferred consideration received for previous disposals.

## 22. Share-based payments

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

### Associated British Foods Executive Share Incentive Plan 2003 ('the Share Incentive Plan')

The Share Incentive Plan was approved and adopted by the Company at the annual general meeting held on 5 December 2003. It takes the form of conditional allocations of shares which are released if, and to the extent that, performance targets are satisfied, typically over a three-year performance period. The Share Incentive Plan expired in December 2013. The last grant of allocations under the Share Incentive Plan was made in November 2013. Conditional shares allocated under the Share Incentive Plan will vest under the terms of the Share Incentive Plan.

### Associated British Foods Long-Term Incentive Plan ('the LTIP')

The LTIP was approved and adopted by the Company at the annual general meeting held on 6 December 2013. It takes the form of conditional allocations of shares which will be released if, and to the extent that, performance targets are satisfied, typically over a three-year performance period.

Further information regarding the operation of the above plans can be found in the Remuneration report on pages 64 to 79.

Total conditional allocations under the group's equity-settled share-based payment plans are as follows:

| | Balance outstanding at the beginning of the year | Granted/ awarded | Vested | Expired/ lapsed | Balance outstanding at the end of the year |
|---|---|---|---|---|---|
| 2014 | 5,013,465 | 1,177,056 | (932,626) | (892,554) | 4,365,341 |
| 2013 | 5,175,939 | 2,067,195 | (1,273,950) | (955,719) | 5,013,465 |

### Employee Share Ownership Plan Trust

Ordinary shares subject to allocation under the group's equity-settled share-based payment plans are held in a separate Employee Share Ownership Plan Trust. The Trust is funded by the Company. Voting rights attached to shares held by the Trust are exercisable by the trustee, who is entitled to consider any recommendation made by a committee of the Company. At 13 September 2014 the Trust held 3,062,447 (2013 – 1,995,073) ordinary shares of the Company. The market value of these shares at the year end was £80m (2013 – £36m). The Trust has waived its right to dividends. Movements in the year were releases of 932,626 and purchases of 2,000,000 (2013 – releases of 1,273,950 and purchases of 500,000).

### Fair values

The weighted average fair value of conditional grants made was determined by taking the market price of the shares at the time of grant and discounting for the fact that dividends are not paid during the vesting period. The weighted average fair value of the conditional shares allocated during the year was 2,226 pence (2013 – 1,345 pence) and the weighted average share price was 2,393 pence (2013 – 1,446 pence). The dividend yield used was 2.5%.

## 23. Analysis of net debt

| | At 14 September 2013 £m | Cash flow £m | Acquisitions £m | Non-cash items £m | Exchange adjustments £m | **At 13 September 2014 £m** |
|---|---|---|---|---|---|---|
| Cash at bank and in hand, cash equivalents and overdrafts | 243 | 187 | – | – | (31) | **399** |
| Short-term loans | (275) | 158 | (4) | (124) | 7 | **(238)** |
| Long-term loans | (772) | 10 | – | 124 | 31 | **(607)** |
| | (804) | 355 | (4) | – | 7 | **(446)** |

Cash and cash equivalents comprise bank and cash balances, call deposits and short-term investments with original maturities of three months or less. Bank overdrafts that are repayable on demand of £120m form an integral part of the group's cash management and are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 24. Financial instruments
### a) Carrying amount and fair values of financial assets and liabilities

| | 2014 £m | 2013 £m |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | **519** | 362 |
| **Loans and receivables** | | |
| Trade and other receivables | **1,126** | 1,183 |
| Other non-current receivables (fair value 2014 – £137m; 2013 – £143m) | **164** | 148 |
| **At fair value through profit or loss** | | |
| Derivative assets not designated in a cash flow hedging relationship: | | |
| – currency derivatives | **8** | 1 |
| **Designated net investment hedging relationships** | | |
| Derivative assets designated as net investment hedging instruments: | | |
| – currency derivatives | **2** | 6 |
| **Designated cash flow hedging relationships** | | |
| Derivative assets designated and effective as cash flow hedging instruments: | | |
| – currency derivatives | **50** | 11 |
| – commodity derivatives | **14** | 9 |
| **Total financial assets** | **1,883** | 1,720 |
| **Financial liabilities** | | |
| **Financial liabilities at amortised cost** | | |
| Trade and other payables | **(1,793)** | (1,656) |
| Secured loans | **(16)** | (95) |
| Unsecured loans and overdrafts (fair value 2014 – £999m; 2013 – £1,153m) | **(937)** | (1,059) |
| Finance leases (fair value 2014 – £17m; 2013 – £16m) | **(12)** | (12) |
| Provisions | **(101)** | (77) |
| **At fair value through profit or loss** | | |
| Derivative liabilities not designated in a cash flow hedging relationship: | | |
| – currency derivatives | **(3)** | (4) |
| – commodity derivatives | **(1)** | – |
| **Designated cash flow hedging relationships** | | |
| Derivative liabilities designated and effective as cash flow hedging instruments: | | |
| – currency derivatives | **(3)** | (33) |
| – commodity derivatives | **(8)** | (1) |
| **Total financial liabilities** | **(2,874)** | (2,937) |
| **Net financial liabilities** | **(991)** | (1,217) |

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

## 24. Financial instruments continued

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

| Financial asset/liability | Fair value determination |
|---|---|
| Cash and cash equivalents<br>Trade receivables, other receivables and accrued income<br>Trade payables, other payables and accruals | Fair values have been stated at book values due to short maturities or otherwise immediate or short-term access and realisability. |
| Other non-current investments (recorded within other non-current receivables) | These comprise minority shareholdings held primarily in privately owned, unquoted companies, where there is no active market available to value them. Where the fair value of the equity instruments cannot be reliably measured, they are recorded at cost.<br><br>Where shareholdings are held in publicly quoted companies, bid price is used to estimate fair value. |
| Other non-current receivables<br>Loans and overdrafts<br>Finance leases | Fair values for these level 2 financial instruments have been estimated by discounting expected future cash flows (see below). |
| Derivatives | Fair values are typically determined either by reference to third-party valuations (usually from a bank), or by reference to readily observable market prices.<br><br>The group's derivatives primarily cover a period of no more than 12 months from the balance sheet date, and information derived from an active market is almost always available to assist with the valuation of derivatives. |
| Provisions | These are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. Consequently, fair value is equivalent to book value. |

### Valuation of financial instruments carried at fair value

Financial instruments carried at fair value in the balance sheet comprise other non-current investments and derivatives. The group classifies these financial instruments using a fair value hierarchy that reflects the relative significance of both objective evidence and subjective judgements on the inputs used in making the fair value measurements:

- Level 1: financial instruments are valued using observable inputs that reflect unadjusted quoted market prices in an active market for identical instruments. An example of an item in this category is a widely traded equity instrument with a normal quoted market price.
- Level 2: financial instruments are valued using techniques based on observable inputs, either directly (i.e. market prices and rates) or indirectly (i.e. derived from market prices and rates). An example of an item in this category is a currency derivative, where forward exchange rates and yield curve data, which are observable in the market, are used to derive fair value.
- Level 3: financial instruments are valued using techniques involving significant unobservable inputs.

### b) Derivatives

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

| | **2014** | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Contractual/ notional amounts £m** | **Level 1 £m** | **Level 2 £m** | **Total £m** | Contractual/ notional amounts £m | Level 1 £m | Level 2 £m | Total £m |
| Financial assets | | | | | | | | |
| Currency derivatives | **1,805** | **–** | **60** | **60** | 783 | – | 18 | 18 |
| Commodity derivatives | **178** | **9** | **5** | **14** | 264 | 6 | 3 | 9 |
| | **1,983** | **9** | **65** | **74** | 1,047 | 6 | 21 | 27 |
| Financial liabilities | | | | | | | | |
| Currency derivatives | **402** | **–** | **(6)** | **(6)** | 1,450 | – | (37) | (37) |
| Commodity derivatives | **113** | **(2)** | **(7)** | **(9)** | 22 | – | (1) | (1) |
| | **515** | **(2)** | **(13)** | **(15)** | 1,472 | – | (38) | (38) |

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 24. Financial instruments continued

### c) Cash flow hedging reserve

The following table identifies the movements in the cash flow hedging reserve during the year, and the periods in which the cash flows are expected to occur. The periods in which the cash flows are expected to impact profit or loss are materially the same.

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Currency derivatives £m** | **Commodity derivatives £m** | **Total £m** | Currency derivatives £m | Commodity derivatives £m | Total £m |
| Opening balance | **16** | **(6)** | **10** | 14 | – | 14 |
| Losses/(gains) recognised in the hedging reserve | **46** | **(1)** | **45** | 26 | (5) | 21 |
| Amount removed from the hedging reserve and included in the income statement: | | | | | | |
| – revenue | **8** | **–** | **8** | 1 | – | 1 |
| – cost of sales | **–** | **(8)** | **(8)** | (2) | (1) | (3) |
| – other financial income | **11** | **–** | **11** | – | – | – |
| Amount removed from the hedging reserve and included in a non-financial asset: | | | | | | |
| – inventory | **(124)** | **13** | **(111)** | (22) | (3) | (25) |
| Deferred tax | **13** | **(2)** | **11** | (1) | 3 | 2 |
| Closing balance | **(30)** | **(4)** | **(34)** | 16 | (6) | 10 |
| Cash flows are expected to occur: | | | | | | |
| – within six months | **(27)** | **(4)** | **(31)** | 15 | (6) | 9 |
| – between six months and one year | **(7)** | **–** | **(7)** | 3 | – | 3 |
| – between one and two years | **–** | **–** | **–** | (2) | – | (2) |
| – between two and five years | **1** | **–** | **1** | – | – | – |
| – after five years | **3** | **–** | **3** | – | – | – |
| | **(30)** | **(4)** | **(34)** | 16 | (6) | 10 |

120

Of the closing balance of £(34)m, £(29)m is attributable to equity shareholders and £(5)m to non-controlling interests (2013 – £13m attributable to equity shareholders and £(3)m to non-controlling interests). Of the net movements in the year of £(44)m, £(42)m is attributable to equity shareholders and £(2)m to non-controlling interests (2013 – £(4)m wholly attributable to equity shareholders).

### d) Financial risk identification and management

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

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

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

The group sources and sells products and manufactures goods in many locations around the world. These operations expose the group to potentially significant price volatility in the financial and commodity markets. Trading and risk management teams have been established in the group's major businesses to manage this exposure by entering into a range of products, including physical and financial forward contracts, futures and, where appropriate, options. These teams work closely with group Treasury and report regularly to executive management.

Treasury operations and commodity procurement are conducted within a clearly defined framework of board-approved policies and guidelines to manage the group's financial and commodity risks. Treasury works closely with the group's procurement teams to manage commodity risks. Treasury policy seeks to ensure that adequate financial resources are available to the group at all times, for the management and development of the group's businesses, whilst effectively managing its market risk and credit risk. The group's risk management policy explicitly forbids the use of financial or commodity derivatives (outside its risk management framework of mitigating financial and commodity risks) for speculative purposes.

### e) Foreign currency translation

The group presents its financial statements in sterling. As a result of its worldwide operations, the group is exposed to foreign currency translation risk where overseas operations have a functional currency other than sterling. Changes in foreign currency exchange rates impact the translation into sterling of both the income statement and net assets of these foreign operations.

## 24. Financial instruments continued

Where appropriate, the group finances its operations by borrowing locally in the functional currency of its operations. This reduces net asset values reported in functional currencies other than sterling, thereby reducing the economic exposure to fluctuations in foreign currency exchange rates on translation.

The group also finances its operations by obtaining funding at group level through external borrowings and, where they are not in sterling, these borrowings may be designated as net investment hedges. This enables gains and losses arising on retranslation of these foreign currency borrowings to be charged to other comprehensive income, providing a partial offset in equity against the gains and losses arising on translation of the net assets of foreign operations.

The group does not actively hedge the translation impact of foreign exchange rate movements on the income statement (other than via the partial economic hedge arising from the servicing costs on non-sterling borrowings).

The group designates certain of its intercompany loan arrangements as quasi-equity for the purposes of IAS 21. The effect of the designation is that any foreign exchange volatility arising within the borrowing entity and/or the lending entity is accounted for directly within other comprehensive income.

The group has foreign currency borrowings that have been designated as hedges of its net investment in foreign operations in euros and US dollars. The value of these financial liabilities used as hedging instruments at the balance sheet date was:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Euro | **–** | 17 |
| US dollar | **174** | 532 |
| | **174** | 549 |

A net foreign exchange gain of £29m (2013 – loss of £26m) on retranslation of these loans has been taken to the translation reserve on consolidation, all of which was attributable to equity shareholders (2013 – £19m loss attributable to equity shareholders and £7m loss to non-controlling interests). The group also held currency forwards and cross currency swaps that have been designated as hedges of its net investments in Australian dollars and euros, whose change in fair value of £4m has been debited to the translation reserve (2013 – £6m credited to the translation reserve).

### f) Market risk

Market risk is the risk of movements in the fair value of future cash flows of a financial instrument or forecast transaction as underlying market prices change. The group is exposed to changes in the market price of commodities, interest rates and foreign exchange rates. These risks are known as ‘transaction’ (or recognised) exposures and ‘economic’ (or forecast) exposures.

#### (i) Commodity price risk

Commodity price risk arises from the procurement of raw materials and the consequent exposure to changes in market prices.

The group purchases a wide range of commodities in the ordinary course of business. Exposure to changes in the market price of certain of these commodities including wheat, edible oils, soya beans, meat, sugar raws, cocoa, rice, tea and energy is managed through the use of forward physical contracts and hedging instruments, including futures and options contracts, primarily to convert floating or indexed prices to fixed prices. The use of such contracts to hedge commodity exposures is governed by the group’s risk management policies and is continually monitored by group Treasury. Commodity derivatives also provide a way to meet customers’ pricing requirements whilst achieving a price structure consistent with the group’s overall pricing strategy.

Some of the group’s commodity derivatives are treated as ‘own use’ contracts, since they are both entered into, and continue to be held, for the purposes of the group’s ordinary operations, and the group takes physical delivery of the commodity concerned. ‘Own use’ contracts do not require accounting entries until the commodity purchase actually crystallises. Certain other commodity derivatives are accounted for as cash flow hedges, but some are not eligible for treatment as ‘own use’ contracts and are not contracts for which the strict requirements of hedge accounting can be satisfied. This occurs typically where the group does not take physical delivery of the commodity concerned. Such commodity derivatives are used only where the business believes they provide an economic hedge of an underlying exposure. These instruments are classified as held for trading and are marked to market through the income statement.

The majority of the group’s forward physical contracts and commodity derivatives have original maturities of less than one year.

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

#### (ii) Interest rate risk

Interest rate risk comprises two primary elements:

- interest price risk results from financial instruments bearing fixed interest rates. Changes in floating interest rates therefore affect the fair value of these fixed rate financial instruments; and
- interest cash flow risk results from financial instruments bearing floating rates. Changes in floating interest rates affect cash flows on interest receivable or payable.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 24. Financial instruments continued
The group's policy is to maintain floating rate debt for a significant proportion of its bank finance, although it periodically assesses its position with respect to interest price and cash flow risk.

At 13 September 2014, £593m (61%) (2013 – £730m and 63%) of total debt was subject to fixed rates of interest. Following the redemption in July 2013 of the £150m secured redeemable debenture stock, the majority of the group's fixed rate debt is the US private placement loans of £579m (2013 – £710m).

Floating rate debt comprises bank borrowings bearing interest rates fixed in advance, for various time periods up to 12 months, by reference to official market rates (e.g. LIBOR).

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



### (iii) Foreign currency risk
The group conducts business worldwide and consequently in many foreign currencies. As a result, it is exposed to movements in foreign currency exchange rates which affect the group's transaction costs. The group also publishes its financial statements in sterling and is therefore exposed to movements in foreign exchange rates on the translation of the results and underlying net assets of its foreign operations into sterling.

Translation risk is discussed in section e) on page 120.

#### Transaction risk
Currency transaction exposure occurs where a business makes sales and purchases in a currency other than its functional currency. It also arises where monetary assets and liabilities of a business are not denominated in its functional currency, and where dividends or surplus funds are remitted from overseas. The group's policy is to match transaction exposures wherever possible, and to hedge actual exposures and firm commitments as soon as they occur by using forward foreign currency contracts. All foreign currency instruments contracted with non-group entities to manage transaction exposures are undertaken by group Treasury or, where foreign currency controls restrict group Treasury acting on behalf of subsidiaries, under its guidance. Identification of transaction exposures is the responsibility of each business.

The group uses derivatives (principally forward foreign currency contracts and time options) to hedge its exposure to movements in exchange rates on its foreign currency trade receivables and payables. The group does not seek formal fair value hedge accounting for such transaction hedges. Instead, such derivatives are classified as held for trading and marked to market through the income statement. This offsets the income statement impact of the retranslation of the foreign currency trade receivables and payables.

#### Economic (forecast) risk
The group also uses forward foreign currency contracts to hedge its exposure to movements in exchange rates on its highly probable forecast foreign currency sales and purchases on a rolling 12-month basis. The group does not formally define the proportion of highly probable forecast sales and purchases to hedge, but agrees an appropriate percentage on an individual basis with each business by reference to the group's risk management policies and prevailing market conditions. The group documents currency derivatives used to hedge its forecast transactions as cash flow hedges. To the extent that cash flow hedges are effective, gains and losses are deferred in equity until the forecast transaction occurs, at which point the gains and losses are recycled either to the income statement or to the non-financial asset acquired.

The majority of the group's currency derivatives have original maturities of less than one year.

The group's most significant currency transaction exposures are:

- sugar prices in British Sugar to movements in the sterling/euro exchange rate;
- sugar prices in Illovo to movements in the South African rand/US dollar/euro exchange rates; and
- sourcing for Primark – costs are denominated in a number of currencies, predominantly sterling, euros and US dollars.

Elsewhere, a number of businesses make sales and purchase a variety of raw materials in foreign currencies (primarily US dollars and euros), giving rise to transaction exposures. In all other material respects, businesses tend to operate in their functional currencies and, as a result, further transaction exposure to foreign currency exchange rate movements is modest.

## 24. Financial instruments continued

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

| 2014 | Sterling £m | US dollar £m | Euro £m | Other £m | Total £m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | **8** | **12** | **1** | **14** | **35** |
| Trade and other receivables | **–** | **23** | **52** | **9** | **84** |
| | **8** | **35** | **53** | **23** | **119** |
| **Financial liabilities** | | | | | |
| Trade and other payables | **(25)** | **(186)** | **(31)** | **(12)** | **(254)** |
| Unsecured loans and overdrafts | **(9)** | **(420)** | **(1)** | **(1)** | **(431)** |
| | **(34)** | **(606)** | **(32)** | **(13)** | **(685)** |
| **Currency derivatives** | | | | | |
| Gross amounts receivable | **63** | **1,377** | **35** | **168** | **1,643** |
| Gross amounts payable | **(1)** | **(126)** | **(660)** | **(110)** | **(897)** |
| | **62** | **1,251** | **(625)** | **58** | **746** |
| | **36** | **680** | **(604)** | **68** | **180** |

| 2013 | Sterling £m | US dollar £m | Euro £m | Other £m | Total £m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 7 | 13 | 4 | 6 | 30 |
| Trade and other receivables | – | 25 | 46 | 12 | 83 |
| | 7 | 38 | 50 | 18 | 113 |
| **Financial liabilities** | | | | | |
| Trade and other payables | (5) | (209) | (27) | (10) | (251) |
| Unsecured loans and overdrafts | (11) | (533) | (17) | (2) | (563) |
| | (16) | (742) | (44) | (12) | (814) |
| **Currency derivatives** | | | | | |
| Gross amounts receivable | 41 | 1,122 | 134 | 131 | 1,428 |
| Gross amounts payable | (47) | (127) | (537) | (103) | (814) |
| | (6) | 995 | (403) | 28 | 614 |
| | (15) | 291 | (397) | 34 | (87) |

The following significant exchange rates applied during the year:

| | Average rate | | Closing rate | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| US dollar | **1.66** | 1.56 | **1.62** | 1.59 |
| Euro | **1.22** | 1.19 | **1.25** | 1.19 |
| Rand | **17.43** | 14.37 | **17.86** | 15.76 |
| Renminbi | **10.18** | 9.68 | **9.96** | 9.71 |
| Australian dollar | **1.80** | 1.56 | **1.80** | 1.72 |

### Sensitivity analysis

The following sensitivity analysis illustrates the impact that a 10% strengthening of the group's operating currencies against local functional currencies would have had on profit and equity. The analysis covers currency translation exposures at year end on businesses' financial assets and liabilities that are not denominated in the functional currencies of those businesses. A similar but opposite impact would be felt on both profit and equity if the group's main operating currencies weakened against local functional currencies by a similar amount.

The exposure to foreign exchange gains and losses on translating the financial statements of subsidiaries into sterling is not included in this sensitivity analysis, as there is no impact on the income statement, and the gains and losses are recorded directly in the translation reserve in equity (see below for a separate sensitivity). This sensitivity is presented before taxation and non-controlling interests.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 24. Financial instruments continued

| 10% strengthening against other currencies of | 2014 impact on profit for the year £m | 2014 impact on total equity £m | 2013 impact on profit for the year £m | 2013 impact on total equity £m |
|---|---|---|---|---|
| Sterling | **(1)** | **3** | (1) | (1) |
| US dollar | **3** | **74** | (5) | 44 |
| Euro | **1** | **(61)** | 1 | (54) |
| Other | **1** | **3** | 1 | (3) |

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



| 10% strengthening of sterling against | 2014 impact on profit for the year £m | 2013 impact on profit for the year £m |
|---|---|---|
| US dollar | **(6)** | (6) |
| Euro | **(22)** | (18) |
| Rand | **(1)** | (2) |
| Renminbi | **3** | 16 |
| Australian dollar | **(2)** | 1 |

### g) Credit risk
Credit risk is the risk that counterparties to financial instruments do not perform according to the terms of the contract or instrument. The group's businesses are exposed to counterparty credit risk when dealing with customers, and from certain financing activities.

The immediate credit exposure of financial instruments is represented by those financial instruments that have a net positive fair value by counterparty at 13 September 2014. The group considers its maximum exposure to credit risk to be:

| | 2014 £m | 2013 £m |
|---|---|---|
| Cash and cash equivalents | **519** | 362 |
| Loans and receivables (see note 24a) | **1,290** | 1,331 |
| Derivative assets at fair value through profit and loss | **8** | 1 |
| Derivative assets in designated net investment hedging relationships | **2** | 6 |
| Derivative assets in designated cash flow hedging relationships | **64** | 20 |
| | **1,883** | 1,720 |

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

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

#### Trade and other receivables
Concentrations of credit risk are limited as a result of the group's large and diverse customer base. The group has an established credit policy applied by each business under which the credit status of each new customer is reviewed before credit is advanced. This includes external credit evaluations where possible and in some cases bank references. Credit limits are established for all significant or high-risk customers, which represent the maximum amount permitted to be outstanding without requiring additional approval from the appropriate level of management. Outstanding debts are continually monitored by each business. Credit limits are reviewed on a regular basis, and at least annually. Customers that fail to meet the group's benchmark creditworthiness may only transact with the group on a prepayment basis. Aggregate exposures are monitored at group level.

Many of the group's customers have been transacting with the group for many years and the incidence of bad debts has been low. Where appropriate, goods are sold subject to retention of title so that, in the event of non-payment, the group may have a secured claim. The group does not typically require collateral in respect of trade and other receivables.

The group provides for impairment of financial assets including trade and other receivables based on known events, and makes a collective provision for losses yet to be identified, based on historical data. The majority of the provision comprises specific amounts.

## 24. Financial instruments continued

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

| | 2014 £m | 2013 £m |
|---|---|---|
| UK | **415** | 460 |
| Europe & Africa | **239** | 234 |
| The Americas | **154** | 149 |
| Asia Pacific | **318** | 340 |
| | **1,126** | 1,183 |

Trade receivables can be analysed as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Not overdue | **826** | 894 |
| Up to 1 month past due | **125** | 126 |
| Between 1 and 2 months past due | **21** | 15 |
| Between 2 and 3 months past due | **8** | 6 |
| More than 3 months past due | **29** | 27 |
| Provision for doubtful debts | **(36)** | (35) |
| | **973** | 1,033 |

Based on past experience, the group believes that no impairment allowance is necessary in respect of trade receivables that are not past due.

Trade and other receivables are stated net of the following provision for irrecoverable amounts:

| | 2014 £m | 2013 £m |
|---|---|---|
| Opening balance | **35** | 37 |
| Amounts provided for during the year | **5** | 7 |
| Amounts released during the year | **(4)** | (5) |
| Amounts utilised during the year | **(3)** | (3) |
| Acquisitions | **4** | – |
| Effect of movements in foreign exchange | **(1)** | (1) |
| Closing balance | **36** | 35 |

No trade and other receivables (2013 – none) were written off directly to the income statement in the year.

The directors consider that the carrying amount of trade and other receivables approximates fair value.

### Cash and cash equivalents

Banking relationships are generally limited to those banks that are members of the core relationship group. These banks are selected for their credit status, global reach and their ability to meet the businesses' day-to-day banking requirements. The credit ratings of these institutions are monitored on a continuing basis. In locations where the core relationship banking group cannot be used, operating procedures including choice of bank, opening of bank accounts and repatriation of funds must be agreed with group Treasury. The group has not recorded impairments against cash or cash equivalents, nor have any recoverability issues been identified with such balances. Such items are typically recoverable on demand or in line with normal banking arrangements.

### Other financial assets

Other non-current investments are typically equity investments with no fixed maturity or recoverability date. No impairment issues have been identified with respect to other non-current investments.

Since derivative assets are recorded at fair value, either through profit and loss for those not in a designated cash flow hedging relationship, or otherwise through the hedging or net investment hedging reserve, no impairment issues have been identified.

### h) Liquidity risk

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

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

Details of the group's borrowing facilities are given in section i) on page 126.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 52 weeks ended 13 September 2014

### 24. Financial instruments continued

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

| | Note | Due within 6 months £m | Due between 6 months and 1 year £m | Due between 1 and 2 years £m | Due between 2 and 5 years £m | Due after 5 years £m | Contracted amount £m | Carrying amount £m |
|---|---|---|---|---|---|---|---|---|
| | | **2014** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | 18 | **(1,784)** | **(9)** | **–** | **–** | **–** | **(1,793)** | **(1,793)** |
| Secured loans | 17 | **(2)** | **–** | **(2)** | **(12)** | **–** | **(16)** | **(16)** |
| Unsecured loans and overdrafts | 17 | **(360)** | **(29)** | **(103)** | **(280)** | **(333)** | **(1,105)** | **(937)** |
| Finance leases | 25 | **(1)** | **–** | **(1)** | **(2)** | **(38)** | **(42)** | **(12)** |
| Provisions | 19 | **(51)** | **(20)** | **(15)** | **(1)** | **(14)** | **(101)** | **(101)** |
| **Derivative financial liabilities** | | | | | | | | |
| – Currency derivatives (net payments) | | **(5)** | **(1)** | **–** | **–** | **–** | **(6)** | **(6)** |
| – Commodity derivatives (net payments) | | **(32)** | **(8)** | **(1)** | **–** | **–** | **(41)** | **(9)** |
| **Total financial liabilities** | | **(2,235)** | **(67)** | **(122)** | **(295)** | **(385)** | **(3,104)** | **(2,874)** |

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

The above tables do not include forecast data for liabilities which may be incurred in the future but which were not contracted at 13 September 2014.

The principal reasons for differences between carrying values and contractual undiscounted cash flows are coupon payments on the fixed rate debt to which the group is already committed, future interest payments on the group's finance leases, and cash flows on derivative financial instruments which are not aligned with their fair value.

### i) Borrowing facilities

The group has substantial borrowing facilities available to it. The undrawn committed facilities available at 13 September 2014, in respect of which all conditions precedent have been met, amounted to £1,406m (2013 – £1,364m):

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Facility £m** | **Drawn £m** | **Undrawn £m** | Facility £m | Drawn £m | Undrawn £m |
| £1.2bn syndicated facility | **1,200** | **–** | **1,200** | – | – | – |
| £1.15bn syndicated facility | **–** | **–** | **–** | 1,150 | – | 1,150 |
| US private placement | **579** | **579** | **–** | 710 | 710 | – |
| European Investment Bank | **120** | **120** | **–** | 120 | 120 | – |
| Illovo | **198** | **93** | **105** | 228 | 130 | 98 |
| Azucarera | **130** | **29** | **101** | 149 | 34 | 115 |
| Other | **–** | **–** | **–** | 1 | – | 1 |
| | **2,227** | **821** | **1,406** | 2,358 | 994 | 1,364 |

## 24. Financial instruments continued

Uncommitted facilities available at 13 September 2014 were:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Facility £m** | **Drawn £m** | **Undrawn £m** | Facility £m | Drawn £m | Undrawn £m |
| Money market lines | **100** | **–** | **100** | 100 | – | 100 |
| Illovo | **65** | **41** | **24** | 90 | 50 | 40 |
| China banking | **362** | **57** | **305** | 452 | 59 | 393 |
| Other | **117** | **34** | **83** | 131 | 51 | 80 |
| | **644** | **132** | **512** | 773 | 160 | 613 |

In addition to the above facilities there are also £225m (2013 – £406m) of undrawn and available credit lines for the purposes of issuing letters of credit and guarantees in the normal course of business.

The group also has £12m (2013 – £12m) of finance lease liabilities which are not included in the tables above, but which are included in the group's loans and overdrafts in note 17.

During the year, the £1.15bn syndicated facility which was due to mature in July 2015 was replaced by a comparable £1.2bn syndicated facility which matures in July 2019 with an option to extend for two years. In addition to the bank debt, the Company has £579m of private placement notes in issue to institutional investors in the US and Europe. At 13 September 2014, these had an average remaining duration of 5.7 years and an average fixed coupon of 5.1%. The other significant core committed debt facilities comprise a £120m EIB loan (maturing 2015), as well as local committed facilities in Illovo and Azucarera.

Uncommitted bank borrowing facilities are normally reaffirmed by the banks annually, although they can theoretically be withdrawn at any time.

Refer to note 9 for details of the group's capital commitments and to note 26 for a summary of the group's guarantees. An assessment of the group's current liquidity position is given in the Financial review on page 38.

### j) Capital management

The capital structure of the group is presented in the balance sheet. The statement of changes in equity provides details on equity and note 17 provides details of loans and overdrafts. Short and medium-term funding requirements are provided by a variety of loan and overdraft facilities, both committed and uncommitted, with a range of counterparties and maturities. Longer term funding is sourced from a combination of these facilities, the private placement notes and committed syndicated loan facilities.

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to enable successful future development of the business. The board monitors return on capital by division and determines the overall level of dividends payable to shareholders.

From time to time the trustee of the Employee Share Ownership Plan Trust purchases the Company's shares in the market to satisfy awards under the group's long-term incentive plan. Once purchased, shares are not sold back into the market. The group does not have a defined share buy-back plan.

There were no changes to the group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 25. Lease commitments

### Operating leases

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

Rental receipts of £8m (2013 – £7m) were recognised in the income statement in the period relating to operating leases. The total of future minimum rental receipts expected to be received is £61m (2013 – £66m).

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

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 25. Lease commitments continued
The future minimum lease payments under operating leases are as follows:

| | 2014 land and buildings £m | 2014 plant and equipment £m | 2014 total £m | 2013 land and buildings £m | 2013 plant and equipment £m | 2013 total £m |
|---|---|---|---|---|---|---|
| Within one year | **189** | **11** | **200** | 163 | 11 | 174 |
| Between one and five years | **780** | **26** | **806** | 646 | 24 | 670 |
| After five years | **2,342** | **2** | **2,344** | 2,037 | 3 | 2,040 |
| | **3,311** | **39** | **3,350** | 2,846 | 38 | 2,884 |

### Finance leases
Finance lease liabilities are payable as follows:



| | 2014 minimum lease payments £m | 2014 interest £m | 2014 principal £m | 2013 minimum lease payments £m | 2013 interest £m | 2013 principal £m |
|---|---|---|---|---|---|---|
| Within one year | **1** | **1** | **–** | 1 | 1 | – |
| Between one and five years | **3** | **2** | **1** | 3 | 2 | 1 |
| After five years | **38** | **27** | **11** | 38 | 27 | 11 |
| | **42** | **30** | **12** | 42 | 30 | 12 |

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

The group has adopted the amendments to IAS 39 in relation to financial guarantee contracts which apply for periods commencing on or after 1 January 2006. Where group companies enter into financial guarantee contracts to guarantee the indebtedness of other group companies, the group considers these to be insurance arrangements and has elected to account for them as such in accordance with IFRS 4. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the relevant group company issuing the guarantee will be required to make a payment under the guarantee.

As at 13 September 2014, group companies have provided guarantees in the ordinary course of business amounting to £916m (2013 – £777m).

## 27. Related parties
The group has a controlling related party relationship with its parent company, Wittington Investments Limited, which is also its ultimate parent company (see note 28). The group also has a related party relationship with its associates and joint ventures (see note 28) and with its directors. In the course of normal operations, related party transactions entered into by the group have been contracted on an arm's length basis.

Material transactions and year end balances with related parties were as follows:

| | Sub note | 2014 £000 | 2013 £000 |
|---|---|---|---|
| Charges to Wittington Investments Limited in respect of services provided by the Company and its subsidiary undertakings | | **403** | 338 |
| Dividends paid by Associated British Foods and received in a beneficial capacity by: | | | |
| (i) trustees of the Garfield Weston Foundation | 1 | **9,125** | 8,277 |
| (ii) directors of Wittington Investments Limited who are not trustees of the Foundation | | **1,442** | 1,297 |
| (iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited | 2 | **43** | 30 |
| (iv) a member of the Weston family employed within the Associated British Foods group | 3 | **952** | 864 |
| Sales to a fellow subsidiary undertaking on normal trading terms | 4 | **93** | 2 |
| Sales to companies with common key management personnel on normal trading terms | 5 | **12,459** | 16,538 |
| Commissions paid to companies with common key management personnel on normal trading terms | 5 | **1,418** | 787 |
| Amounts due from companies with common key management personnel | 5 | **1,456** | 2,227 |
| Sales to joint ventures on normal trading terms | 6 | **21,337** | 18,488 |
| Sales to associates on normal trading terms | 6 | **30,248** | 19,460 |
| Purchases from joint ventures on normal trading terms | 6 | **372,496** | 397,449 |
| Purchases from associates on normal trading terms | 6 | **16,266** | 20,805 |
| Amounts due from joint ventures | 6 | **182,254** | 163,170 |
| Amounts due from associates | 6 | **3,274** | 1,790 |
| Amounts due to joint ventures | 6 | **33,095** | 30,806 |
| Amounts due to associates | 6 | **6,640** | 1,059 |

## 27. Related parties continued

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 13 September 2014 was the beneficial owner of 683,073 shares (2013 – 683,073 shares) in Wittington Investments Limited representing 79.2% (2013 – 79.2%) of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 13 September 2014 trustees of the Foundation comprised two children and two grandchildren of the late W Garfield Weston and five children of the late Garry H Weston.
2. Details of the directors are given on pages 50 and 51. Their interests, including family interests, in the Company and its subsidiary undertakings are given on pages 75 and 76. Key management personnel are considered to be the directors, and their remuneration is disclosed within the Remuneration report on page 73.
3. A member of the Weston family who is employed by the group and is not a director of the Company or Wittington Investments Limited and is not a trustee of the Foundation.
4. The fellow subsidiary undertaking is Fortnum and Mason plc.
5. The companies with common key management personnel are the George Weston Limited group, in Canada, and Selfridges & Co. Limited.
6. Details of the group's principal joint ventures and associates are set out in note 28.

Amounts due from joint ventures comprise £14m (2013 – £15m) of finance lease receivables (see note 14) and £145m (2013 – £130m) of loan receivables. The remainder of the balance is trading balances. The loan receivables are all non-current (2013 – all non-current), and all but £3m (2013 – £3m) of the finance lease receivables are non-current.

## 28. Group entities

### Control of the group

The largest group in which the results of the Company are consolidated is that headed by Wittington Investments Limited, the accounts of which are available at Companies House, Crown Way, Cardiff CF14 3UZ. It is the ultimate holding company, is incorporated in Great Britain and is registered in England.

At 13 September 2014 Wittington Investments Limited together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares (2013 – 431,515,108) representing in aggregate 54.5% (2013 – 54.5%) of the total issued ordinary share capital of Associated British Foods plc.

### Significant subsidiaries

A list of the group's significant subsidiaries is given below. The entire share capital of the companies listed is held within the group except where percentages are shown. These percentages give the group's ultimate interest and therefore allow for the situation where subsidiaries are owned by partly owned intermediate subsidiaries.

| | Country of incorporation |
|---|---|
| **Manufacturing activities** | |
| AB Agri Limited | UK |
| AB Azucarera Iberia, S.L. Sociedad Unipersonal | Spain |
| AB Brasil Indústria e Comércio de Alimentos Ltda | Brazil |
| AB Calsa S.A. de C.V. | Mexico |
| AB Enzymes GmbH | Germany |
| AB Enzymes Oy | Finland |
| ABF Grain Products Limited | UK |
| AB Food & Beverages Australia Pty Ltd | Australia |
| AB Food & Beverages Philippines, Inc. | Philippines |
| AB Food & Beverages (Thailand) Limited | Thailand |
| AB (Harbin) Food Ingredients Company Limited | China |
| AB Mauri (Canada) Limited | Canada |
| AB Mauri Food Inc. | US |
| AB Mauri Food, S.A. | Spain |
| AB Mauri India (Private) Limited | India |
| AB Mauri Italy S.p.A. | Italy |
| AB Mauri Malaysia Sdn. Bhd. (52%) | Malaysia |
| AB Mauri Portugal, SA (96%) | Portugal |
| AB Mauri Vietnam Ltd (66%) | Vietnam |
| AB World Foods Limited | UK |

| | Country of incorporation |
|---|---|
| **Manufacturing activities** | |
| Abitec Corporation | US |
| ABNA Feed (Liaoning) Co., Ltd | China |
| ABNA (Shanghai) Feed Co., Ltd | China |
| ACH Food Companies, Inc. | US |
| ACH Foods Mexico, S.de R.L.de C.V. | Mexico |
| Anzchem Pty Limited | Australia |
| Bo Tian Sugar Industry Company Limited | China |
| British Sugar plc | UK |
| Cereform Limited | UK |
| Compañia Argentina de Levaduras S.A.I.C | Argentina |
| Food Investments Limited | UK |
| Foods International S.A.S. | France |
| G. Costa and Company Limited | UK |
| George Weston Foods Limited | Australia |
| George Weston Foods (NZ) Limited | New Zealand |
| Germain's (UK) Limited | UK |
| Guangxi Bo Hua Food Co., Ltd (71%) | China |
| Guangxi Boqing Food Co., Ltd (60%) | China |
| Guangxi Boxuan Food Co., Ltd (70%) | China |
| Harbin Mauri Yeast Co., Ltd (85%) | China |

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 28. Group entities continued

| | Country of incorporation |
|---|---|
| **Manufacturing activities** | |
| Hebei Mauri Food Co., Ltd | China |
| Illovo Sugar Limited (51%) | South Africa |
| Illovo Sugar (Malawi) Limited (39%) | Malawi |
| Jacksons of Piccadilly Limited | UK |
| Kilombero Sugar Company Limited (28%) | Tanzania |
| Maragra Aćucar SARL (46%) | Mozambique |
| Mauri Maya Sanayi A.S. | Turkey |
| Mauri Products Limited | UK |
| PGP International, Inc. | US |
| Premier Nutrition Products Limited | UK |
| R. Twining and Company Limited | UK |
| Shanghai AB Food & Beverages Co., Ltd | China |
| SPI Pharma Inc. | US |
| The Billington Food Group Limited | UK |
| The Jordans & Ryvita Company Limited | UK |
| Twinings North America Inc. | US |
| Ubombo Sugar Limited (31%) | Swaziland |
| Wander AG | Switzerland |
| Zambia Sugar plc (42%) | Zambia |

| | Country of incorporation |
|---|---|
| **Retailing activities** | |
| Lojas Primark Portugal-Exploracao, Gestao e Administracao de Espacos Comerciais S.A. | Portugal |
| Primark | Republic of Ireland |
| Primark Austria Ltd & Co.KG | Austria |
| Primark Deutschland GmbH | Germany |
| Primark France SAS | France |
| Primark Mode Ltd & Co.KG | Germany |
| Primark Netherlands BV | Netherlands |
| Primark NV | Belgium |
| Primark Stores Limited | UK |
| Primark Tiendas S.L.U. | Spain |
| **Investment and other activities** | |
| A.B. Exploration Limited | UK |
| A.B.F. Holdings Limited | UK |
| ABF Investments plc | UK |
| ABF Overseas Limited | UK |
| ABF (UK) Limited | UK |
| Talisman Guernsey Limited | Guernsey, Channel Islands |

The group's interest in subsidiaries are all equity investments.

### Interest in joint ventures and associates

A list of the group's significant interests in joint ventures and associates is given below:

| | Country of incorporation | Group % |
|---|---|---|
| **Joint ventures** | | |
| Levaduras Collico S.A. | Chile | 50 |
| Roal Oy | Finland | 50 |
| Qingdao Xinghua Cereal Oil & Foodstuff Co., Ltd | China | 25 |
| Frontier Agriculture Limited | UK | 50 |
| Vivergo Fuels Limited | UK | 47 |
| Stratas Foods LLC | US | 50 |
| Uniferm GmbH & Co. KG | Germany | 50 |
| **Associates** | | |
| C. Czarnikow Limited | UK | 43 |
| New Food Coatings Pty Ltd | Australia | 50 |
| Murray Bridge Bacon Pty Ltd | Australia | 20 |
| Gledhow Sugar Company (Pty) Limited | South Africa | 30 |

Each joint venture and associate carries out manufacturing and food processing activities and operates mainly in its country of incorporation.

The companies listed herein are those subsidiaries, joint ventures and associates whose results or financial position, in the opinion of the directors, principally affected the figures shown in these annual accounts as a list of all group companies would result in information of excessive length being given. A full list of subsidiaries will be annexed to the next annual return of Associated British Foods plc delivered to the Registrar of Companies.

## 29. Subsequent events

At the end of May, the group exchanged contracts to acquire 100% of Dorset Cereals, subject to clearance by the Competition and Markets Authority in the UK, which was received on 6 October 2014. The acquisition was completed on 20 October 2014 for net consideration of £60m. The premium brand, with particular strength in the growing Muesli sector, will complement the group's existing Jordans cereals and Ryvita crispbread brands. Since the acquisition was only completed shortly before the approval of these financial statements, the initial accounting for the acquisition has not yet been finalised, but will be included in the group's 2015 interim results.

Since year end, Primark has signed the lease of seven stores in the north-east United States.

# COMPANY BALANCE SHEET
at 13 September 2014

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 1 | **14** | 19 |
| Investments in subsidiaries | 2 | **658** | 647 |
| | | **672** | 666 |
| **Current assets** | | | |
| Debtors | | | |
| – due within one year | 3 | **4,863** | 3,656 |
| – due after one year | 3 | **376** | 923 |
| Derivative assets | | **3** | – |
| Cash at bank and in hand | | **299** | 160 |
| | | **5,541** | 4,739 |
| **Creditors:** amounts falling due within one year | | | |
| Bank loans and overdrafts – unsecured | | **(134)** | (154) |
| Other creditors | 4 | **(2,981)** | (2,940) |
| | | **(3,115)** | (3,094) |
| **Net current assets** | | **2,426** | 1,645 |
| **Total assets less current liabilities** | | **3,098** | 2,311 |
| **Creditors:** amounts falling due after one year | | | |
| Bank loans – unsecured | | **(574)** | (706) |
| Amounts owed to subsidiaries | 4 | **(318)** | (1,188) |
| | | **(892)** | (1,894) |
| **Net assets excluding pension liability** | | **2,206** | 417 |
| Net pension liability | | **(22)** | (17) |
| **Net assets** | | **2,184** | 400 |
| **Capital and reserves** | | | |
| Issued share capital | 5 | **45** | 45 |
| Capital redemption reserve | 5 | **2** | 2 |
| Hedging reserve | | **(4)** | – |
| Profit and loss reserve | 5 | **2,141** | 353 |
| **Equity shareholders' funds** | | **2,184** | 400 |

The financial statements on pages 131 to 135 were approved by the board of directors on 4 November 2014 and were signed on its behalf by:

**Charles Sinclair**
**Chairman**

**John Bason**
**Director**



# RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS
for the 52 weeks ended 13 September 2014

| | 2014 £m | 2013 £m |
|---|---|---|
| Profit for the financial year | **2,092** | 263 |
| Net movement in own shares held | **(44)** | 5 |
| Remeasurement of defined benefit pension scheme | **(5)** | – |
| Deferred tax associated with defined benefit pension scheme | **1** | – |
| Movement in cash flow hedging position | **(4)** | – |
| Dividends | **(256)** | (232) |
| **Net increase in equity shareholders' funds** | **1,784** | 36 |
| Opening equity shareholders' funds | **400** | 364 |
| **Closing equity shareholders' funds** | **2,184** | 400 |

# ACCOUNTING POLICIES
for the 52 weeks ended 13 September 2014

## Basis of preparation

The financial statements are presented in sterling, rounded to the nearest million. They are prepared under the historical cost convention, except that derivative financial instruments are stated at their fair value, and in accordance with applicable United Kingdom accounting standards (UK GAAP) and the Companies Act 2006.

As permitted by section 408(4) of the Companies Act 2006, a separate profit and loss account for the Company has not been included in these financial statements. As permitted by FRS 1, no cash flow statement for the Company has been included on the grounds that the group includes the Company in its own published consolidated financial statements. As permitted by FRS 8, no related party disclosures in respect of transactions with wholly owned subsidiaries have been included.

The Company has taken advantage of the exemption in FRS 25 *Financial Instruments: Disclosure and Presentation*, not to prepare a note to the financial statements relating to financial instruments as the information is available in the published financial statements of the group.



## Intangible assets – goodwill
Intangible assets comprise goodwill arising on acquisitions since 17 September 1998, being the excess of the fair value of the purchase consideration of businesses over the fair value of net assets acquired. Goodwill is capitalised in accordance with FRS 10 and amortised over its useful life, not exceeding 20 years. Goodwill previously written off against reserves has not been reinstated.

## Investments in subsidiaries
Investments in subsidiaries are reported at cost less any provision for impairment.

## Financial instruments
All financial assets and financial liabilities are measured initially at fair value plus directly attributable transaction costs, and thereafter at amortised cost.

## Pensions and other post-employment benefits
The Company operates defined contribution and defined benefit pension schemes. Contributions to the defined contribution scheme are charged to the profit and loss account as they become payable. The principal defined benefit scheme is a multi-employer scheme and the Company is unable to identify its share of underlying assets and liabilities on a consistent and reasonable basis. Contributions to this scheme are accounted for as if they were contributions to a defined contribution scheme. The Company has one small unfunded defined benefit scheme which it accounts for in accordance with FRS 17 using the advice of professional actuaries. The amount charged to the profit and loss account is the cost of benefits accruing to employees over the year, plus any benefit improvements granted to members during the year. It also includes a charge equal to the expected interest on plan liabilities over the year. The present value of plan liabilities is disclosed as a liability on the balance sheet net of any related deferred tax.

## Share-based payments
The Company's equity-settled share-based payment plans take the form of conditional allocations of shares to employees which are released if, and to the extent that, performance targets are satisfied, typically after a three-year performance period. The fair value of the conditional allocations is recognised as an employee expense with a corresponding increase in reserves. The fair value is measured at grant date and spread over the period during which the executives become unconditionally entitled to the shares. The fair value of the conditional allocations is measured taking into account the terms and conditions under which the shares were allocated. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest.

Where the Company grants allocations of shares to employees of its subsidiaries, these are accounted for on the same basis as allocations to employees of the Company, except that the fair value is recognised as an increase to investment in subsidiaries with a corresponding increase in reserves.

Shares in the Company are held in a separate trust and are deducted in arriving at equity shareholders' funds.

## Derivatives
Derivatives are used to manage the Company's economic exposure to financial risks. The principal instruments used are foreign exchange contracts and swaps (the 'hedging instrument').

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

Changes in the value of derivatives are recognised in the income statement unless they qualify for hedge accounting, when recognition of any change in fair value depends on the nature of the item being hedged.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the 52 weeks ended 13 September 2014

## 1. Intangible assets – goodwill

| | £m |
|---|---|
| **Cost** | |
| At 14 September 2013 and 13 September 2014 | 71 |
| **Amortisation** | |
| At 14 September 2013 | 52 |
| Provided during the year | 5 |
| **At 13 September 2014** | **57** |
| **Net book value** | |
| Net book value at 14 September 2013 | 19 |
| **Net book value at 13 September 2014** | **14** |



## 2. Investments in subsidiaries

| | £m |
|---|---|
| At 14 September 2013 | 647 |
| Additions | 11 |
| **At 13 September 2014** | **658** |

The additions relate to the allocation of shares under equity-settled share-based payment plans to employees of the Company's subsidiaries.

There were no provisions for impairment in either year.

## 3. Debtors

| | **2014 £m** | 2013 £m |
|---|---|---|
| **Amounts falling due within one year** | | |
| Amounts owed by subsidiaries | **4,820** | 3,635 |
| Other debtors | **5** | 5 |
| Corporation tax recoverable | **38** | 16 |
| | **4,863** | 3,656 |
| **Amounts falling due after one year** | | |
| Amounts owed by subsidiaries | **376** | 923 |

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

## 4. Other creditors

| | **2014 £m** | 2013 £m |
|---|---|---|
| **Amounts falling due within one year** | | |
| Other taxation and social security | **1** | 1 |
| Accruals and deferred income | **53** | 49 |
| Amounts owed to subsidiaries | **2,927** | 2,890 |
| | **2,981** | 2,940 |
| **Amounts falling due after one year** | | |
| Amounts owed to subsidiaries | **318** | 1,188 |

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

# NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the 52 weeks ended 13 September 2014

## 5. Capital and reserves

| | Ordinary shares of $5^{15}/_{22}$p each 000 | Nominal value £m |
|---|---|---|
| **Issued and fully paid** | | |
| At 14 September 2013 and 13 September 2014 | 791,674 | 45 |

At 13 September 2014, the Company's issued share capital comprised 791,674,183 ordinary shares of $5^{15}/_{22}$p each, carrying one vote per share.



| | Share capital £m | Capital redemption reserve £m | Hedging reserve £m | Profit and loss reserve £m | Total £m |
|---|---|---|---|---|---|
| At 14 September 2013 | 45 | 2 | – | 353 | 400 |
| Profit for the year | – | – | – | 2,092 | 2,092 |
| Net movement in own shares held | – | – | – | (44) | (44) |
| Remeasurement of defined benefit pension scheme, net of tax | – | – | – | (4) | (4) |
| Movement in cash flow hedging position | – | – | (4) | – | (4) |
| Dividends | – | – | – | (256) | (256) |
| **At 13 September 2014** | **45** | **2** | **(4)** | **2,141** | **2,184** |

### Capital redemption reserve
The non-distributable capital redemption reserve arose following redemption of two million £1 deferred shares at par in 2010.

### Dividends
Details of dividends paid and proposed are provided in note 6 to the consolidated financial statements.

### Own shares held reserve and share-based payments
Ordinary shares subject to allocation under the Company's equity-settled share-based payment plans are held in a separate Employee Share Ownership Plan Trust. The Trust is funded by the Company. Voting rights attached to shares held by the Trust are exercisable by the trustee, who is entitled to consider any recommendation made by a committee of the Company.
At 13 September 2014, the Trust held 3,062,447 (2013 – 1,995,073) ordinary shares of the Company. The market value of these shares at the year end was £80m (2013 – £36m). The Trust has waived its right to dividends. Refer to note 22 of the consolidated financial statements for further information on the group and Company's equity-settled share-based payment plans.

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

## 6. Contingent liabilities
Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. The guarantee contract is treated as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company has provided £109m of guarantees in the ordinary course of business as at 13 September 2014 (2013 – £117m).

## 7. Related parties

The Company has a controlling related party relationship with its parent company, Wittington Investments Limited, which is also its ultimate parent company. The Company also has a related party relationship with its subsidiaries, associates and joint ventures and directors. In the course of normal operations, related party transactions entered into by the Company have been contracted on an arm's length basis.

Material transactions and year end balances with related parties (excluding wholly owned subsidiaries) were as follows:

| | Sub note | **2014 £000** | 2013 £000 |
|---|---|---|---|
| Charges to Wittington Investments Limited in respect of services provided by the Company | | **403** | 338 |
| Charges to a fellow subsidiary | 1 | **40** | – |
| Dividends paid by the Company and received in a beneficial capacity by: | | | |
| (i) trustees of the Garfield Weston Foundation | 1 | **9,125** | 8,277 |
| (ii) directors of Wittington Investments Limited who are not trustees of the Foundation | 1 | **1,442** | 1,297 |
| (iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited | 1 | **43** | 30 |
| (iv) a member of the Weston family employed within the Associated British Foods group | 1 | **952** | 864 |
| Charges to non-wholly owned subsidiaries | 2 | **92** | 1,212 |
| Interest income earned from non-wholly owned subsidiaries | 2 | **361** | 1,417 |
| Interest paid to non-wholly owned subsidiaries | 2 | **–** | 202 |
| Amounts due from non-wholly owned subsidiaries | 2 | **3,454** | 17,009 |
| Amounts due to non-wholly owned subsidiaries | 2 | **9** | – |

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



## 8. Other information

### Emoluments of directors

The remuneration of the directors of the Company is shown in the Remuneration report for the group on page 73.

### Employees

The Company had an average of 135 employees in 2014 (2013 – 122).

The Company is a member of the Associated British Foods Pension Scheme, which is a funded final salary scheme that is closed to new members. Defined contribution arrangements are in place for other employees. For the defined contribution scheme, the pension costs are the contributions payable. Because the Company is unable to identify its share of the scheme's assets and liabilities on a consistent basis, as permitted by FRS 17, the scheme is accounted for by the Company as if it were a defined contribution scheme.

The last triennial funding valuation of the Scheme was carried out as at 5 April 2011. The market value of plan assets was £2,559m, representing 101% of members' accrued benefits after allowing for expected future salary increases. The most recent triennial funding valuation of the Scheme was carried out as at 5 April 2014, was agreed by the trustees after the year end and revealed a surplus of £78m.

Further details are contained in note 12 in the consolidated financial statements. There is no material difference in the valuation methodologies under IAS 19 and FRS 17.

### Auditors' fees

Note 2 to the consolidated financial statements of the group provides details of the remuneration of the Company's auditors on a group basis.

# PROGRESS REPORT
Saturday nearest to 15 September

| | 2010 £m | 2011 £m | 2012 £m | 2013 £m | **2014 £m** |
|---|---|---|---|---|---|
| Revenue | 10,167 | 11,065 | 12,252 | 13,315 | **12,943** |
| Adjusted operating profit | 909 | 920 | 1,077 | 1,180 | **1,163** |
| Exceptional items | – | – | (98) | – | **–** |
| Amortisation of non-operating intangibles | (81) | (83) | (100) | (92) | **(72)** |
| Profits less losses on disposal of non-current assets | (9) | 5 | (6) | – | **(11)** |
| Profits less losses on sale and closure of businesses | 28 | – | (9) | (128) | **(2)** |
| Finance income | 12 | 9 | 9 | 13 | **15** |
| Finance expense | (88) | (101) | (114) | (100) | **(73)** |
| Other financial income/(expense) | (8) | 7 | 2 | (5) | **–** |
| Profit before taxation | 763 | 757 | 761 | 868 | **1,020** |
| Taxation | (194) | (180) | (178) | (240) | **(237)** |
| Profit for the period | 569 | 577 | 583 | 628 | **783** |
| Basic and diluted earnings per ordinary share (pence) | 69.3 | 68.7 | 70.3 | 74.0 | **96.5** |
| Adjusted earnings per share (pence) | 72.2 | 74.0 | 87.2 | 96.5 | **104.1** |
| Dividends per share (pence) | 23.8 | 24.75 | 28.5 | 32.0 | **34.0** |



# COMPANY DIRECTORY

**Associated British Foods plc**
Registered office
Weston Centre
10 Grosvenor Street
London W1K 4QY
Company registered in England, number 293262

**Company Secretary**
Paul Lister

**Registrars and transfer office**
Equiniti
Aspect House
Spencer Road
Lancing BN99 6DA

**Auditors**
KPMG LLP Chartered Accountants

**Bankers**
Barclays Bank PLC
Lloyds Banking Group plc
The Royal Bank of Scotland plc

**Brokers**
Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ

Barclays Bank PLC
5 North Colonnade
Canary Wharf
London E14 4BB

**Timetable**
Interim dividend paid
4 July 2014

Final dividend to be paid
9 January 2015

Annual general meeting
5 December 2014

Interim results to be announced
21 April 2015

**Website**
www.abf.co.uk

This report contains forward-looking statements. These have been made by the directors in good faith based on the information available to them up to the time of their approval of this report. The directors can give no assurance that these expectations will prove to have been correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

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**CONRAN DESIGN GROUP**

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