



A VERY PRODUCTIVE YEAR

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REVIEW OF THE YEAR ONLINE:

 WWW.ABF.CO.UK/AR2017

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

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

FINANCIAL HEADLINES

Group revenue

£15.4bn

Actual: +15% Constant currency: +6%

Adjusted operating profit

£1,363m

Actual: +22% Constant currency: +13%

Adjusted profit before tax

£1,310m

Up 22%

Adjusted earnings per share

127.1p

Up 20%

Dividends per share

41.0p

Up 12%

Gross investment

£945m

Net cash

£673m

Operating profit

£1,336m

Up 21%

Profit before tax

£1,576m

Up 51%

Basic earnings per share

151.6p

Up 47%

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

CHAMPIONING

OUR GROCERY BRANDS

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BUILDING

THE WORLD'S LEADING SUGAR BUSINESS

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PIONEERING

NEW TECHNIQUES IN AGRICULTURE

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INNOVATING

HIGH-QUALITY INGREDIENTS FOR OUR CUSTOMERS

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EXCITING

FASHION AND BEAUTY IN RETAIL

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OUR DIVERSIFIED BUSINESS

The group operates through five strategic business segments

GROCERY MADE GOOD PROGRESS INTERNATIONALLY

Revenue

£3,381m 2016: £3,097m

Adjusted operating profit

£303m 2016: £294m

International

Twinings and Ovaltine are our global hot beverage brands.

Europe

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

The Americas

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

Australia

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



GROCERY

SUGAR PROFIT RECOVERED STRONGLY

Revenue

£2,174m 2016: £1,636m

Adjusted operating profit

£223m 2016: £35m

Europe

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

Southern Africa

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

China

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



SUGAR

AGRICULTURE ACHIEVED GOOD REVENUE GROWTH

Revenue

£1,203m 2016: £1,084m

Adjusted operating profit

£50m 2016: £58m

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

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

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



AGRICULTURE

INGREDIENTS FURTHER IMPROVED PROFITABILITY

Revenue

£1,493m 2016: £1,294m

Adjusted operating profit

£125m 2016: £93m

Yeast and bakery ingredients

AB Mauri operates globally in yeast and bakery ingredients production with 50 plants in 25 countries supplying plant and artisanal bakers and the foodservice and wholesale channels. It is a technology leader in bread improvers, dough conditioners and bakery mixes.

Speciality ingredients

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



INGREDIENTS

RETAIL INCREASED ITS MARKET PRESENCE WITH 30 NEW STORES

Revenue

£7,053m 2016: £5,949m

Adjusted operating profit

£735m 2016: £689m

Primark

Primark is a major retail group employing 73,000 people. It operates stores in the UK, Republic of Ireland, Spain, Portugal, Germany, the Netherlands, Belgium, Austria, France, Italy and the US.

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

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



RETAIL



EXCELLENT PROGRESS THIS YEAR WITH ADJUSTED EARNINGS PER SHARE UP 20%

CHARLES SINCLAIR, CHAIRMAN



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

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

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

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

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

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

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

Corporate responsibility

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

Remuneration

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

The board

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

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

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

Employees

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

"We are a responsible business"



WWW.ABF.CO.UK/RESPONSIBILITY

Dividends

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

Outlook

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

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

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

Charles Sinclair
Chairman



A VERY PRODUCTIVE YEAR

GEORGE WESTON, CHIEF EXECUTIVE



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

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

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

The expansion of Primark's selling space continued apace this year and trading was excellent, particularly over the summer, delivering strong increases in market share. Our determination to be the best value on the high street drove the decision not to pass on to our customers the higher input costs arising from sterling weakness against the US dollar. The gross impact of this on Primark's margin was, to some extent, mitigated by the work of the buying

and merchandising teams and margin declined by less than expected at the beginning of the year to 10.4%. Notwithstanding this highly successful year, Primark constantly seeks better ways of delivering value to customers, be that through store design and location, stock availability, or enhancing its reputation for on-trend fashion. The Primark website and social media are playing an ever more important role in the relationship with our customers in driving awareness of our products and footfall in our stores. Primark will continue to expand its selling space across all its countries of operation with another strong programme of new store openings scheduled for the coming year.

Implications of the EU referendum

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

We are pleased with the Government's commitment that least developed countries will not face an increase in tariffs on their exports to the UK after it leaves the EU. This will provide benefits both for UK consumers and trade with these countries which plays an important part in securing the livelihoods of local workforces. In common with many other businesses, we share a concern about the risk of abrupt changes to the UK's customs procedures. We therefore welcome the Government's intention to have a transition period beyond March 2019 in which to implement the necessary systems and processes.

George Weston
Chief Executive

2017 HAS BEEN A BUSY YEAR FOR OUR BUSINESSES



GROCERY
REFRESHING OUR BRANDS

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SUGAR
THE SCIENCE OF
SEED PROTECTION

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AGRICULTURE
EVOLUTION THROUGH
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INGREDIENTS
EMBRACING TECHNOLOGY

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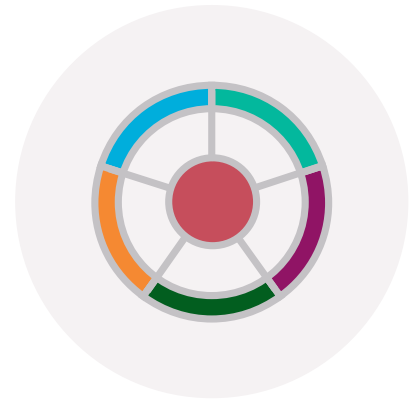


RETAIL
IT'S ALL ABOUT
THE EXPERIENCE

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ASSOCIATED BRITISH FOODS IS A DIVERSIFIED INTERNATIONAL FOOD, INGREDIENTS AND RETAIL GROUP

BUSINESS STRUCTURE



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

The group is managed as five business segments that bring together common industry expertise, operational capability and market intelligence. Operational decisions are made locally because, in our experience, they are most successful when made by the people who have the best understanding of their markets and who have to implement them.

The corporate centre aims to provide a framework in which our business leaders have the freedom and decision-making authority to pursue opportunities with entrepreneurial flair. The centre is small and uses short lines of communication to ensure prompt, incisive and unambiguous decision-making. It seeks to ensure that business activities are appropriately monitored and supported.



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, legal support, tax and treasury management, where specialist expertise is brought together in one place for the benefit of the group as a whole. The centre also co-ordinates selected value-added capabilities to support the businesses in their local markets such as talent management and development, procurement, and the sharing of best practice in, for example, health and safety or engineering risk management. We operate to high ethical standards as an organisation and expect the same of our employees. We encourage an open and honest culture in all our dealings and ensure that our core values are fully implemented throughout the group.

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BUSINESS STRATEGIES

ORGANIC GROWTH



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

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.

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OPERATING REVIEW

OUR PEOPLE



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

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

Being part of Associated British Foods means being part of a community that respects human rights and celebrates diversity. We recognise the United Nations Guiding Principles on Business and Human Rights and aim to adhere to the core ILO conventions and all relevant laws relating to working conditions and employment. We strive to promote diversity and generate new and equal opportunities, a good example being our Gender Diversity Task Force which has a clear and simple goal: 'No Barriers to Talent'. The task force aims to optimise talent by embedding practices into our core processes that enable women to develop on an equal footing to their male colleagues. We invest in our people to ensure they are equipped to deliver and excel at work, with a key focus on training and development across the group. Business-specific examples of such activities are highlighted throughout this report and also in our 2016 Corporate Responsibility Report and the 2017 update.

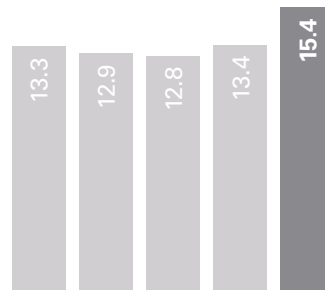
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CORPORATE RESPONSIBILITY

MEASURING OUR PERFORMANCE ACROSS THE WHOLE BUSINESS

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

Group revenue (£bn)

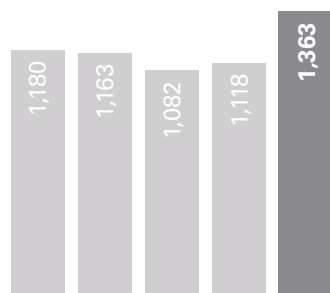


2013 2014 2015 2016 2017

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

FINANCIAL

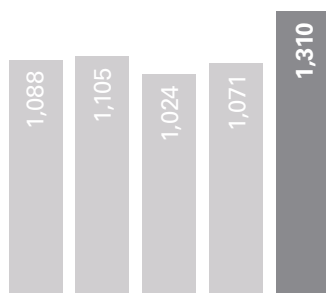
Adjusted operating profit (£m)



2013 2014 2015 2016 2017

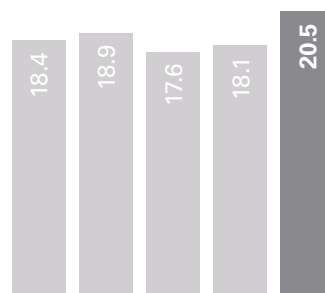
Adjusted profit and earnings measures are used to provide a consistent indicator of underlying performance year-on-year and are aligned with incentive targets.

Adjusted profit before tax (£m)



2013 2014 2015 2016 2017

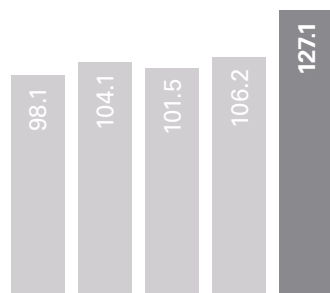
Return on capital employed (%)



2013 2014 2015 2016 2017

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

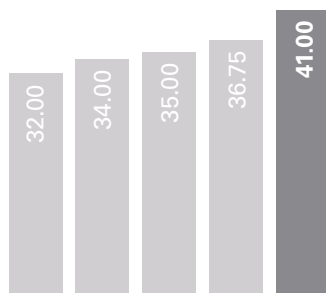
Adjusted EPS (pence)



2013 2014 2015 2016 2017

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

Dividend per share (pence)



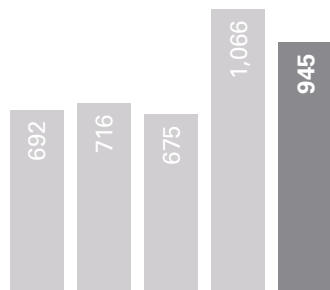
2013 2014 2015 2016 2017

Adjusted operating profit is stated before amortisation of non-operating intangibles, transaction costs and profits less losses on disposal of non-current assets.

These items, together with profits less losses on sale and closure of businesses, are excluded from adjusted profit before tax and adjusted earnings per share.

NON-FINANCIAL

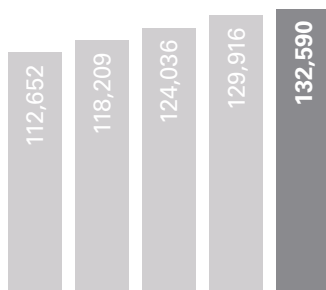
Gross investment (£m)



2013 2014 2015 2016 **2017**

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

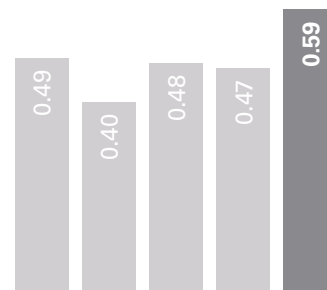
Number of employees



2013 2014 2015 2016 **2017**

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

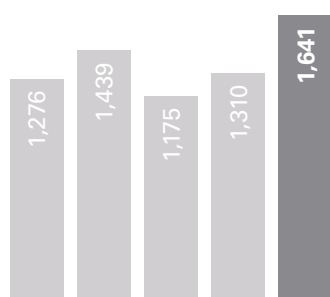
Reportable injury rate (%)



2013 2014 2015 2016 **2017**

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

Cash generation (£m)



2013 2014 2015 2016 **2017**

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

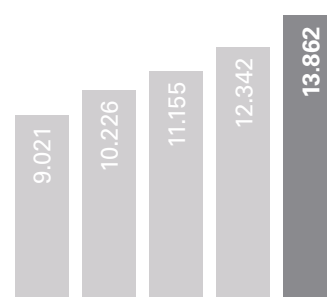
Number of countries of operation (Primark)



2013 2014 2015 2016 **2017**

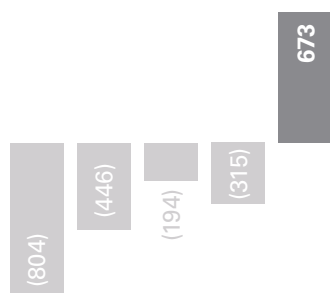
The number of countries and the retail selling space from which Primark operates are measures of the breadth, scale and growth of the business.

Primark selling space (ft²m)



2013 2014 2015 2016 **2017**

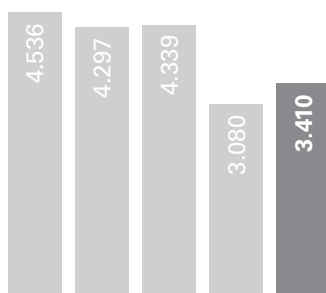
Net cash/(debt) (£m)



2013 2014 2015 2016 **2017**

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

Tonnes of sugar produced (m)



2013 2014 2015 2016 **2017**

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

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

PROVIDING OUR BUSINESS LEADERS WITH THE FREEDOM AND DECISION-MAKING AUTHORITY TO PURSUE OPPORTUNITIES

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

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



GROCERY

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

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



SUGAR

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

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

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

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OPERATING REVIEW, SUGAR



INGREDIENTS

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

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

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OPERATING REVIEW, INGREDIENTS



AGRICULTURE

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

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

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OPERATING REVIEW, AGRICULTURE



RETAIL

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

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

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OPERATING REVIEW, RETAIL

GROCERY



About Grocery

Grocery comprises consumer-facing businesses that manufacture and market a variety of well-known brands both nationally and internationally. Twinings Ovaltine has the broadest geographical reach, selling premium teas and malted beverages in more than 100 countries.

AB World Foods focuses on the creation and development of world flavours and its Patak's and Blue Dragon branded products are sold internationally. Westmill Foods specialises in high-quality ethnic foods including rice, spices, sauces, oils, flour and noodles sold under brands such as Rajah, Lucky Boat and Elephant.

Jordans, Dorset and Ryvita operate in the better-for-you cereal and savoury biscuits categories with increasing international presence. Jordans has a heritage of using traditional methods in the production of its wholegrain cereals and cereal bars. Dorset's award-winning muesli and granolas are renowned for the quality of their natural ingredients. Ryvita has a strong reputation in healthy snacking and is the UK category leader in crispbreads. Allied Bakeries produces a range of bakery products under the Kingsmill, Sunblest, Allinson and Burgen brands, with flour and semolina produced by sister company, Allied Mills. Speedibake specialises in own-label baked goods for retail and foodservice customers. Silver Spoon and Billington's are our two retail sugar brands in the UK, complemented by a range of dessert toppings and syrups under the Askeys and Crusha brands. HIGH5 and Reflex Nutrition are recently acquired brands in the sports nutrition sector.

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

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CHAMPIONING OUR

OVALTINE
Nutritiously Delicious

EST. 1958
TIPTOP
- BAKERY -

Good on ya Mum!



EVERYDAY FOOD PRODUCTS ENJOYED ALL OVER THE WORLD

CONTINUING BUSINESSES

Revenue

£3,381m

2016: £3,097m

Actual fx: +9%
Constant fx: level

Adjusted operating profit

£303m

2016: £294m

Actual fx: +3%
Constant fx: -6%

Adjusted operating profit margin

9.0%

2016: 9.5%

Return on average capital employed

24.7%

2016: 24.2%

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

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

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

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

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

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

On 12 October 2017 we completed the acquisition of Acetum S.p.A., the leading Italian producer of Balsamic Vinegar of Modena for €317m including debt assumed. These vinegars have been granted European Protected Geographical Indication status due to the unique nature of their production, their provenance and high quality.

Creating
new
opportunities
for local
communities



IN AUSTRALIA DON CREATED NEW OPPORTUNITIES FOR LOCAL COMMUNITIES BY OFFERING STABLE EMPLOYMENT

The 'Karen' are an ethnic group originating primarily from Myanmar. Tens of thousands have become refugees due to persecution in their native country.

Some 11,000 Karen refugees have made their way to Australia with 1,000 resettling and building a new community in the regional town of Bendigo, 35 kilometres from the Don meat factory at Castlemaine, Victoria. Don has been working to reduce its dependence on casual labour by creating more permanent positions at the Castlemaine site where ongoing skills can be developed through a more reliable and permanent workforce.

This has included proactively exploring, with local communities and government bodies, how best to source people for these positions.

As part of a trial with the local state government recruitment agency, a small number of Karen people were included as part of an initial recruitment intake. They were a resounding success. Managers praised their work ethic and commitment to the organisation and the Karen people had access to permanent work to assist them with their assimilation into the local community. It was a great match.

1,000
*Karen refugees
resettled in
Castlemaine area*

To date Don has recruited 40 Karen people with immediate plans for a further 20, and more thereafter. In order to facilitate their transition, induction materials have been translated into the Karen language with translators on hand during the induction process.

This has been a rewarding experience for Don, fulfilling its need for more permanent local labour while continuing to invest in and support the local community.

40
*Karen people
employed after
successful trial*





A CUT ABOVE THE REST

Acetum was founded by Cesare Mazzetti and Marco Bombarda, both of whom will remain in the business, and its brands include Mazzetti, the leading brand in Germany and Australia, as well as Acetum and Fini. Its products are sold in more than 60 countries and, in the year ended 31 December 2016, generated net sales of €102m. This business will benefit from the group's existing capability in selling and marketing speciality foods internationally and we have ambitious plans to grow.

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

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

The Don smallgoods business in Australia has consistently demonstrated its ability to drive increased consumption and category profitability for its customers through the strength of the Don brand, its superior category management skills and a strong engagement with customers across all functions and levels.

A twin-pronged approach of driving increased purchase of everyday items through a strong pre-packaged offering, coupled with a premium range to be sold at in-store delicatessen counters have resulted in Don growing sales strongly over the last three years.

During the last year the business has partnered with Coles, one of Australia's leading supermarkets, to deliver a major change in Deli ham. In what has been nicknamed 'The Ham Revolution' a new range of clearly differentiated hams was introduced with a 'good, better, best' tiering. All nine hams in the range have their own positioning and reason for being, providing consumers with more choice, and, with reinvigorated merchandising, the Don product offering within Coles has been brought to life.

To make sure the excitement of this new initiative was followed through in-store, 58 two-hour engagement sessions were held in 25 locations

nationally. Over five days, 700 Deli managers were introduced to 'The Ham Revolution', with more remote stores utilising an e-learning module to ensure they were fully informed. A 'Ham Hotline' was created to respond to any questions and the launch was supported by a strong in-store merchandising programme including badges and hats for the Deli team, posters and a variety of display features.

This project saw Don working closely with several teams within the Coles business, including Merchandising, Replenishment and Supply, to ensure the success of this groundbreaking initiative. Over five months, weekly meetings were held to ensure alignment around all aspects of what proved to be an excellent launch. Great work was done to reduce packaging and raw material sourcing timelines to meet launch deadlines – free-range ham was even available in the Deli three weeks earlier than expected! In the first three months some 212,000 cartons were ordered with a 99% customer service level. Latest store sales data indicates a significant level of category growth and Coles' 'voice of the consumer' insights are very positive.

The level of engagement between Don and Coles around 'The Ham Revolution' was nothing short of 'Hamazing' and set a new benchmark for excellence. Coles were so pleased with the project that it was nominated for three trophies at their annual Supplier Awards, and was successful in the Supply Chain Excellence category.



STAYING ONE STEP AHEAD

BLUE DR



AB World Foods' Blue Dragon brand is the clear leader in the UK Ambient Oriental category, having established a strong position over 40 years since its launch in 1977.

Over the years the product range has developed to meet consumers' changing expectations and today the line-up comprises a wide range of products including Chinese, Thai and Japanese cuisines. Whereas, in the early days, the main comparison might have been with the local Chinese takeaway, today increasing numbers of people are travelling to Asia and bringing back their experiences with a desire to recreate the dishes they have discovered and enjoyed.

This was the challenge presented to the Blue Dragon marketing team – the recipes were exciting and vibrant but this wasn't matched by the packaging which was more reminiscent of traditional China. Several elements of the packaging had also been copied by others and it no longer stood out on shelf. A totally new identity for the Blue Dragon brand was developed which captures the excitement of today's Asian cuisines, but in a way that is unmistakably Blue Dragon. This new design, which was introduced from early 2017, is now unmissable on the shelves of supermarkets and convenience stores across the UK, and has been greeted by a very positive consumer response.



3

STEPS TO FLAVOUR PERFECTION



Patak's is a strong leader of the ambient Indian category and has delivered sustained growth over a number of years.

An important way of ensuring continuing growth is keeping our brands relevant to consumers' evolving tastes and needs through the development of new products. This includes offering consumers new ways to enjoy authentic tasting Indian cuisine that suit them.

Consumers increasingly want to be more involved in cooking meals for themselves and for their families, but in many cases they have neither sufficient time nor expertise to deliver a quality result. Patak's has therefore launched a range of 3-step kits which include the necessary ingredients and step-by-step instructions to preparing a curry that is guaranteed to taste fabulous.

Patak's 3-step kits include a number of components: a variety of individual dry spices; pastes of blended authentic spices preserved in oil; and specially developed finishing sauces, which together combine to provide an involving and rewarding experience for home chefs. Patak's has taken the hard work out of ingredient preparation and because it has expertly blended and balanced all the ingredients, the 3-step kits deliver a fantastic flavoured dish every time.



A unique blend of English heritage, quality and innovation is keeping Twinings at the top of the tea table.

Much-loved blends

The Earl Grey and English Breakfast blends remain the best-known teas behind Twinings' worldwide fame. Earl Grey, created by Twinings in 1831, and English Breakfast, which followed a century later, are now sold in 117 countries.



BEAUTIFUL BLENDS

80,000

Public votes cast

1.5m

Shares on social media

Attracting new consumers

Another central factor in Twinings' ongoing success has been its ability to attract devotees of non-black tea – particularly younger consumers – to less traditional brews.

Its herbal and fruit infusions and green teas – including such combinations as mango and lychee, orange and lotus flower, and ginger and buttermint among many new blends – have brought new generations to the ever-broadening brand offering.

Exquisite black teas

Twinings builds on the devotion for its heritage blends with the introduction of other exquisite teas. January 2017, for example, marked the introduction of a new Morning Tea in Australia, where Twinings is already market leader.

Intense national interest in this full-bodied Ceylon-based tea was boosted by a high profile 'Twinings Design Challenge', which involved 33 inspirational Australian women competing to design the packaging.

Innovative promotion

The winning pack design, featuring a ballerina, by Australian TV presenter Carrie Bickmore, was revealed at a celebrity-packed Sydney Harbour event and projected across the harbour. More than 80,000 people voted for their favourite, with around 1.5 million sharing the result on social media.

A contribution from each sale of Morning Tea over the next four years will go to the winner's own charity, Carrie's Beanies 4 Brain Cancer.

Such innovative promotion has been key to Twinings' global growth, particularly in conveying the message that, despite its exceptional quality, the 311-year-old brand's tea is not just for special occasions.



SUGAR

About Sugar

AB Sugar is a leading producer of sugar and sugar-derived co-products in southern Africa, the UK, Spain, and north China. We operate 24 plants in ten countries with the capacity to produce some 4.5 million tonnes of sugar and around 600 million litres of ethanol annually and are a significant employer. Our products are sold into industry sectors including food and drink, pharmaceutical, industrial, agricultural, power and energy.

In the EU, Azucarera is the largest producer in Iberia and British Sugar is the sole processor of the UK sugar beet crop. Illovo Sugar is the biggest sugar processor in Africa and in June 2016, ABF acquired full ownership putting both AB Sugar and Illovo Sugar into a stronger position to navigate the complex sugar landscape whilst capitalising on Africa's growth market. We have a beet sugar business in north China that has achieved a strong record of performance improvement in agriculture and production efficiencies. We also operate one of Europe's largest bioethanol producers based in the UK, serving half of the UK's demand for bioethanol.

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

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

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

25 **CONTINUOUS IMPROVEMENT**

27 **THE SCIENCE OF SEED PROTECTION**

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BUILDING
THE
WORLD'S

LEADING
SUGAR

BUSINESS

A WORLD-LEADING SUGAR BUSINESS FOCUSED ON EXCELLENCE

CONTINUING BUSINESSES

Revenue

£2,174m

2016: £1,636m

Actual fx: +33%
Constant fx: +21%

Adjusted operating profit

£223m

2016: £35m

Actual fx: +537%
Constant fx: +374%

Adjusted operating profit margin

10.3%

2016: 2.1%

Return on average capital employed

14.1%

2016: 2.3%

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

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

UK profitability improved significantly. Sugar production of 900,000 tonnes in the 2016/17 year was abnormally low as a consequence of the reduction in the contracted growing area in order to reduce the high level of stocks brought forward from the prior year. EU stocks were at a low level at the end of this marketing year and, in anticipation of the abolition of quota and export restrictions from October 2017, our contracted area

for the 2017/18 season was increased by a third. The crop has developed well, with favourable rainfall and temperatures during the growing season, and the latest sugar production estimate for 2017/18 is in excess of 1.4 million tonnes.

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

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

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

Enabling
our employees
to develop
and share
insight



AN EXCHANGE PROGRAMME THAT ALLOWS EMPLOYEES TO DEVELOP AND INSIGHT TO BE DISTRIBUTED THROUGHOUT THE BUSINESS

AB Sugar's International Experience Programme (IEP) is enriching the capabilities of our businesses and our people.

The IEP provides an opportunity for employees from our core factory operations or agriculture functions to work for up to six months in another part of our business in a different country. It is open to people with development potential at any age or career stage. Reflecting our international footprint, since the programme's 2012 launch, participants have come from Africa, China, Spain and the UK.

All-round benefits

The IEP offers major benefits for our people. Employees learn about a new part of AB Sugar; experience a different culture; develop their language skills, technical ability and personal resilience; and extend and strengthen their internal networks. Among their new contacts will be a support team established by AB Sugar for each participant, including home and host line managers and a dedicated local 'buddy'.

The business also benefits from the IEP through the transfer of knowledge between operations, the ongoing collaboration enabled by expanded networks and the development and increased engagement of employees. Participants' identification of cost-saving or profit-making initiatives in their host country, or on return to their home business, has also delivered significant returns.

Overall, the opportunities that the IEP opens up for individuals and the wider company are supporting AB Sugar's foundations and building capability for the future to deliver even greater performance improvement in a more competitive environment.

Since the launch in
2012

participants have come from
Africa, China, Spain and The UK



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

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



AB Sugar operates in a diverse and continually changing environment with many opportunities and challenges.

The period since June 2013, when the European Council of Ministers confirmed that existing quota arrangements in the EU would cease on 30 September 2017, has been one of the most significant in the sugar industry's history.

We enter this new era post-deregulation with confidence, having built upon our continued development and innovation to meet the changing needs of our customers, by improving our operations and by working with growers to drive sustainable, efficient agricultural production.

In part, we have achieved this by introducing a performance improvement programme (PIP) that we launched in 2009, recognising that the competitive environment was only going to get tougher. Our first step was to determine a template for the fit and nimble group we aspired to be, by benchmarking ourselves extensively against internal and external models of best practice.

Setting ambitious goals

Having established ambitious goals for our group, in 2011 we began a four-stage programme to achieve them:

- we empowered our people to identify, execute and maintain local projects that reduced costs, improved processes and enhanced operational performance. To enable this, we invested extensively in training, for example in 'Lean' production techniques which aimed to increase value for customers by making businesses more efficient and responsive to market needs, whilst reducing waste;

- we then tackled transformational projects that simplified and improved business processes. These projects tended to be large in scale, had a step-change impact and required low capital investment;
- capital expenditure was our next area of focus. Deepening our already exacting scrutiny of investments, we ensured that all capital projects, whether related to land, buildings, machinery or equipment, all delivered strong financial returns to the business; and
- we launched a global procurement process to increase profit through the implementation of a variety of best practice principles. This resulted in group-wide visibility of purchasing which delivered significant economies of scale.

A culture of continuous improvement

By being open minded about just how much we could possibly achieve and by making a long-term commitment, we have had time to embed the PIP process across the group. International employee exchanges, centres of excellence, networking and deployment of projects on a group-wide basis have all helped ensure good practice is shared consistently and effectively and, as our pipeline of future projects testifies, PIP has become self-sustaining. Continuous improvement is now part of our culture; we are a more efficient and customer-focused organisation and have delivered substantial cost and performance benefits across each of our businesses.

"We enter this new era post-deregulation with confidence, having built upon our continued development and innovation to meet the changing needs of our customers."

THE SCIENCE



OF SEED PROTECTION

Germain's is one of the world's leading seed technology suppliers with facilities in the UK, the Netherlands, Spain and North America. It works closely with partners, stakeholders and customers to ensure long-term, sustainable and profitable growth.

79 billion

In 2016/17 Germain's processed **79 billion sugar beet seeds** and **110 billion horticulture seeds**

40

Germain's treats over **40 different species of seeds**

How we started

Founded in 1871, Germain's Seed Technology develops innovative, industry-leading conventional and organic solutions for sugar beet, vegetables and flower seeds. It specialises in a range of seed-borne technologies including priming, pelleting, filmcoating and health. Germain's offers a wide range of benefits to growers such as faster crop emergence, increased plant uniformity (allowing easier harvest), higher yields and better protection against a variety of diseases and pests. Using such technologies reduces the need for chemical spraying, controls dust release into the environment and also the amount of chemical required to treat the crop.

Transforming our business model

Since the 1940s Germain's has pioneered the use of seed treatment technology for sugar beet. Working closely with seed companies, Germain's has developed a range of products (Advantage[®], Xbeet[®] and Xbeet[®]plus) which increase crop yield by at least 10% compared with untreated seed.

While continuing to invest in sugar beet and maintaining its strong position in the market, over the last five years Germain's has accelerated the development of its horticulture business which now accounts for 50% of its operations and covers a wide range of crops, particularly lettuce, onion, celery and Swiss chard. Working closely with its customers, the business invests heavily in research and development (R&D) to deliver optimised and unique solutions that allow growers to maximise the potential from all seeds.

Investing in the future

The increased focus on horticulture has been driven by significant R&D investment across Europe and North America. In 2012, an R&D centre was established in Enzhuizen, at the centre of the Dutch horticulture industry, the so-called 'Seed Valley'.

In 2015, R&D capability was further enhanced with investment in the Norwich Research Park in the UK. Adjacent to many leading research institutions, this facility works predominantly on researching the molecular development of the seed to understand how this can be influenced by novel seed treatments. This year has seen further investment in people and equipment in the North American business and in Growth Rooms near the Kings Lynn facility in the UK. These are controlled environment facilities which allow accelerated R&D activity and will further increase the speed to market of Germain's' new products.

Innovation in action

The recently launched North American product, ProBio[®] SafeGuard[™], is a great example of how Germain's introduces innovative technology with the benefit of customer insight. By working in partnership with industry bodies and in close co-operation with seed companies, growers and distributors, emerging problems can be identified and addressed.

Over the last 10 years, the majority of organic spinach growers experienced problems caused by a soil borne pathogen, Pythium Ultimum, and were unable to meet consumer demand for fresh spinach for the salad industry. In infected fields, growers were losing 10–40% of the seed they planted due to the disease. Working with industry partners, Germain's developed a unique product solution which targets early plant protection – Pythium damage typically takes place in the first 14 days after planting. ProBio[®] SafeGuard[™] establishes a barrier around the emerging plant and its developing root system that protects the plant during germination and first leaf stage. This allows a greater establishment of the plants resulting in a much improved yield.

There are over 35,000 spinach seeds in 1 lb and Germain's utilises rotary film coating technology to coat a precise application of seed protection chemistry to each one. The seeds rotate at 30–40 rpm and get coated with a fine mist of the seed technology product. The fast rotation and the application of the fine mist evenly distribute the seed coating, while the air movement quickly dries the seeds to keep them from sticking together.

BUILDING

Our Malawian sugar business has successfully responded to challenges in European and regional African markets by transforming its commercial and marketing operations to focus on strong sales growth at home.

With EU preferential markets for bulk raws becoming less attractive, and with lower prices per tonne and increasing competition, Illovo Sugar refocused on maximising the best opportunity for growth in the Malawian domestic market by improving the structuring of the product range, pricing and brand execution for the Malawian consumer and retailer customers.

Increasing domestic sales

Illovo's growth strategy aims to accelerate revenue growth by building stronger links with, and understanding of, domestic retailers and end-consumers. This is a new direction for the business in Malawi, where we formerly concentrated entirely on large distributors in the fragmented wholesale market.

To gain greater insight into Malawian consumers – many of whom have had their already low disposable income squeezed by extreme weather and a deteriorating economy – we launched an extensive programme to reshape our brand, products, price points and promotional activity. In re-engineering our commercial approach, we drew on extensive market research, interviewing hundreds of consumers, retailers and wholesalers, in both urban and rural settings.

STRONGER



Improving our route to market

The repositioning of our Malawian route-to-market approach has included:

- introducing a larger and stronger commercial team to drive sales, support retailers and resellers and maintain good levels of availability in the market;
- satisfying demand for smaller, lower-cost bags of sugar by launching 220g and 500g packs, to complement the existing 1kg and 2kg packs;
- fortifying all products with Vitamin A in line with the Malawian Government's campaign to reduce infant and maternal mortality; and
- launching a more robust packaging design, backed by high-profile retail displays and nationwide advertising. The new brand packaging recognises and celebrates Malawians' strong sense of national pride and heritage, featuring local language and imagery.



Strategic insights

The programme's insights and its impact on the Malawian supply chain will further inform how the Illovo group improves the route to market in neighbouring Zambia and Tanzania. It will also contribute to our overall strategy of being a world-class and highly efficient organisation, operating in Africa.

The Illovo team's efforts in providing 'an improved, secure and safe supply of sugar in sizes to accommodate difficult daily challenges' won them second place in a Chartered Institute of Customer Management's service excellence award.





AGRICULTURE

About Agriculture

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

Specialised feed ingredients

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

Co-product innovation and marketing

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

Finished feed manufacture

A major global manufacturer and supplier of pig, poultry and dairy feeds, with 27 production sites in the UK, continental Europe and China. We work closely with major processors and producers to benchmark productivity and performance and develop tailored feeds and new feeding regimes to improve performance for every customer.

Supply chain solutions

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

Commodity risk management

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

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EVOLUTION THROUGH INNOVATION

34

AGROKORN – ALTERNATIVE PROTEINS



ANALYSING AGRI AND GAINING INSIGHT



ADDING VALUE BY IMPROVING THE SUSTAINABILITY OF FOOD PRODUCTION

Revenue

£1,203m

2016: 1,084m

Actual fx: +11%
Constant fx: +8%

Adjusted operating profit

£50m

2016: £58m

Actual fx: -14%
Constant fx: -21%

Adjusted operating profit margin

4.2%

2016: 5.4%

Return on average capital employed

14.2%

2016: 17.7%

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

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

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

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

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

We are
committed
to employee
wellbeing



AN AB AGRI WELLBEING PROGRAMME IS GIVING EMPLOYEES THE TOOLS TO BOOST THEIR PHYSICAL, EMOTIONAL AND FINANCIAL HEALTH

The new programme brings healthy living practices to the heart of the workplace, focusing every month on different themes – from stopping smoking to financial planning.

We are piloting the scheme at our Peterborough site, where up to 400 of our people work. Wellbeing fairs have enabled employees to find out about local gyms and clubs, chat to nutritionists, experience taster exercise classes and receive health MOTs. Following the pilot, the programme will be rolled out across AB Agri's 40 international sites, driven by HR teams and wellbeing champions.

Such local activities are complemented by a new global employee wellbeing portal, which sits within our wider benefits website. This resource includes expert advice from our wellbeing partners, including Living Sport, which encourages sports participation, and healthcare specialist Bupa.



Following the pilot, the programme will be rolled out across AB Agri's

40
international sites

Good for people

This wellbeing focus demonstrates AB Agri's objective to be 'good for people' and ensure 'agriculture is a first choice career', as part of our Formula 24 strategic commitment to responsible agriculture. It also builds on our existing portfolio of colleague benefits, such as our employee assistance programme and private medical insurance offering.

Our wellbeing emphasis also reflects our evolution beyond traditional health and safety – although this remains key – to more holistic employee support. This, in turn, mirrors the changing demands of the modern workforce and our efforts to attract, engage and retain great talent.

REIMAGINED REPURPOSED REWARDED

Evolution through innovation

AB Agri continues to evolve its operations through innovation, as exemplified in its latest venture which uses a co-product from one of ABF's other operations, Vivergo Fuels, to create value – and power – in another, Amur, an anaerobic digestion business that was launched last year.

AB Agri has an established relationship with Vivergo's bioethanol plant in Hull as AB Connect already sells a quality animal feed co-product from biofuel production. The business is now successfully channelling a liquid co-product from Vivergo to feed a large number of anaerobic digesters through the Amur business.

Environmental and business benefits

The liquid, which is made up of wheat proteins, fibres and yeast extracts, is produced during the fermentation/distillation stage of bioethanol production. A proportion of this liquid was previously sent to landfill, at a cost to both the environment and the Vivergo business. However, using our expertise in livestock nutrition to analyse the liquid, we identified that its nutrient profile would help drive cost-effective gas production in anaerobic digestion.

Since March 2016, in the region of 60,000 tonnes of the co-product has been marketed into a range of anaerobic digestion plants that generate power for the National Grid.

In our own Amur operation we have also produced a new organic fertiliser from the digestate which we now sell. This provides an offset for some of the carbon produced at our feed mills.

Identification of the potential value of the liquid's composition reflects AB Agri's ability to adapt its core nutrition expertise to new, developing markets. It also adds to its track record of deriving profit from co-products and evolving its traditional animal feed business into new markets, thereby helping to maintain its market leadership.

The purchase of Danish company, Agrokorn, has brought new vigour to AB Agri's alternative proteins operation, which was formed as an AB Agri new venture in 2014.

Since launch, the small team has worked with experts from across the AB Agri group to develop a strong presence in the fast-growing alternative proteins sector. The acquisition and development of Agrokorn marked a significant step forward.

When AB Agri bought Agrokorn in spring 2016 it was already a strong player in its native Denmark. Since then, AB Agri has helped transform the business and its core alternative protein product, AlphaSoy (Agrokorn's flagship brand), to reach new levels.

Team members from alternative proteins and the AB Agri group worked with Agrokorn to improve AlphaSoy to deliver better performance and overcome export constraints and open up new markets. As a result, the business has already expanded its international reach beyond Denmark into Asia, the US and Central America.

SHARING



The success of Agrokorn's development in such a short time since acquisition is an example of AB Agri's strength in enabling companies to raise and achieve their ambitions. By bringing its international experience to local companies, applying its world-leading nutritional expertise to evolve products, and providing the investment to make expansion possible, it is turning exciting opportunities into major business propositions.

KNOWLEDGE





INGREDIENTS

About Ingredients

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

ABF Ingredients comprises businesses focusing on high-value ingredients for food, feed, pharmaceutical and industrial applications: AB Enzymes (enzymes); Abitec (speciality lipids and surfactants); Ohly (yeast extracts and seasoning powders); PGP International (extruded ingredients and speciality rice flours); and SPI Pharma (pharmaceutical excipients and antacids).

ABF Ingredients operates a global footprint with production facilities in Europe, the Americas and India and customers in more than 50 countries.

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EMBRACING TECHNOLOGY

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ENZYMES EXPANSION



GIVING INGREDIENTS A FRESH

PERSPECTIVE

PROVIDING INNOVATIVE, HIGH-QUALITY, INGREDIENTS GLOBALLY

Revenue

£1,493m

2016: £1,294m

Actual fx: +15%
Constant fx: +2%

Adjusted operating profit

£125m

2016: £93m

Actual fx: +34%
Constant fx: +18%

Adjusted operating profit margin

8.4%

2016: 7.2%

Return on average capital employed

15.3%

2016: 13.1%

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

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

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

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

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

Promoting
gender
diversity
across our
business



WE ARE COMMITTED TO PROMOTING GENDER DIVERSITY AND SUPPORTING CAREER ADVANCEMENT ACROSS OUR BUSINESS

AB Enzymes operates across a number of territories, making it difficult for its employees to participate in centralised activities designed to support women.

The business therefore chose to establish a Women's Business Forum with the objective of helping its female employees advance their careers. Meetings are scheduled quarterly to coincide with other business events to increase attendance and minimise travel. Members unable to attend in person can join by Webex.

The Forum acts as a focal point for women to come together and gain a better understanding of the business. It also allows them to build a network of contacts with whom they can share information and experience.

The Forum has now been running for two years and has proved very successful. Issues discussed have ranged from how to create an effective personal development plan, to what to consider if working in a lab while pregnant. The Forum has also encouraged women to discuss and debate issues to be raised with the senior leadership team, giving them a stronger voice within AB Enzymes.

The Women's Business Forum has been running

*2 years
and has proved
very successful*



INSIDE OUR INGREDIENTS BUSINESS:

EMBRACING TECHNOLOGY

The International Baking Industry Exposition (IBIE) is held every three years in Las Vegas, Nevada. At the most recent event held in October 2016, IBIE drew baking industry attendees from around the world with more than 23,000 customers, manufacturers and consumers attending from more than 100 different countries.

Promoting its excellent credentials as a baking technology company, AB Mauri showcased the latest in artisanal bread sampling using Aromaferm™ cereal ferments as well as a documentary highlighting our unique and collaborative 'AB Mauri Model' filmed on location at several key industrial and artisanal bakery customers.

AB Mauri is taking a proactive role in promoting baked products to consumers. Markets are changing and evolving rapidly across the globe, and AB Mauri is keeping pace with these changes ensuring that our customers are always well-positioned to maximise new opportunities.

To reinforce our creativity and the relevance of technology, this message was communicated at IBIE through an immersive 360-degree Virtual Reality (VR) experience. 1,500 delegates put on VR goggles, most of whom were using this new and growing technology for the first time. They took a journey through the world of baking from the first discovery of the properties of yeast, through its propagation from a pinhead-sized sample to large scale quantities, ending with modern day examples of baking applications that included a ride on baking bread in a conveyor oven.

23,000

Customers, manufacturers and consumers attending

1,500

Delegates tried out the 360-degree VR experience



FULL STEAM AHEAD

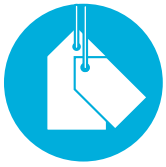
Our joint-venture manufacturing facility at Rajamäki in Finland, part of the Roal enzymes business, is now at full production following completion of an extensive eight-year, three-phase expansion programme.

The first phase was commissioned in April 2009 to increase fermentation capacity and was followed, in 2013, by Phase II which focused on delivering utilities and services for future expansion. With the completion of Phase III in August this year, the business has increased its fermentation capacity further and significantly reduced its operating costs and environmental footprint.

Phase III of the project started in September 2015, primarily to meet the ever-increasing demand for Roal's enzymes, particularly animal feed, detergent and bakery enzymes, in a sustainable and efficient way. New buildings, additional fermenters, an industry-leading filtration system and increased storage capacity were added, the ERP system was expanded and downstream processing equipment was upgraded to improve the plant's core processes.

This was a complex project requiring the considerable expertise of a dedicated project team and the use of cutting-edge solutions to overcome a series of technical challenges, not the least of which was to maintain production during the project without disruption to customer service. As many as 125 third-party contractors worked on site at any one time which added health, safety and environmental complexity. The commitment to planning, and the dedication of the Technical and Health and Safety teams contributed immeasurably to the safety of all those who worked on the project.

With all three phases of Rajamäki's expansion now complete, Roal has increased enzyme production capacity, lowered operational costs, created more jobs and made the facility an even safer and more efficient place to work.



RETAIL

About Retail

Primark is one of the largest clothing retailers in Europe. It has 345 stores and employs 73,000 people in the UK, Republic of Ireland, Spain, Portugal, Germany, the Netherlands, Belgium, Austria, France, Italy and the US. It was founded in June 1969 in the Republic of Ireland where it continues to trade as Penneys.

Primark's organic growth has been 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 and the US. 2006 saw Primark's first foray into continental Europe with the opening of a store in Madrid and it now operates from over 13 million sq ft of selling space across 11 countries.

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

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CIAO ITALIA!

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IT'S ALL ABOUT THE EXPERIENCE



A young woman with long brown hair, wearing a bright red long-sleeved top, white pants, and dark sunglasses, is posing in front of a colorful graffiti wall. She is making a peace sign with her right hand and has her left hand on her hip. The word 'FASHION' is painted in large white letters on the wall behind her. Overlaid on the image in large, bold, white, italicized capital letters is the word 'FORWARD'.

FASHION FORWARD

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

Revenue

£7,053m

2016: £5,949m

Actual fx: +19%
Constant fx: +12%

Adjusted operating profit

£735m

2016: £689m

Actual fx: +7%
Constant fx: +3%

Adjusted operating profit margin

10.4%

2016: 11.6%

Return on average capital employed

27.3%

2016: 30.2%

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

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

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

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

Supporting
employees
returning
to full-time
work



PRIMARK IS GIVING PEOPLE THE OPPORTUNITY AND FLEXIBILITY TO GET BACK INTO FULL-TIME WORK IN THE RETAIL SECTOR

One element of Primark's recruitment strategy is to seek to attract those who, for a variety of reasons, have been out of the workforce for an extended period of time. Not only is this socially responsible, it also forms an important part of building teams that work well together, particularly in new stores.

During 2016/17, 28% of those hired for new UK stores were returning to work after an extended period. In Iberia the percentage rose to 56% and in Italy, our newest market, 46% of recruits were in this category. In both Belgium and The Netherlands, 35% of all hires came via the unemployment service.

My name is Stefano and I am 41 years old with a wife and two beautiful little children. I have been working in Primark as a Retail Assistant since the opening of the Arese store. Previously, I was employed in a chemist and at a warehouse. I was also employed for eight years as a payroll clerk in a temporary employment agency. In 2014, I lost my job after a change in company management. I was unemployed for two years and this was a difficult period for me. Fortunately, in early 2016, I applied to Primark for an interview and now, a year later, I have a permanent job with this great company!

Stefano
Arese, Italy



I am a mother of 21 year old twins whom I looked after until they went to university. Returning to work as a woman over 50 years old was difficult. For two years I applied for office and translating jobs but was unsuccessful as most employers just saw a woman over 50 years old with a massive gap in employment. I think they assumed I did not know how to use email or a computer. Just over a month ago my daughter suggested I apply to Primark. I applied to the Marble Arch store because of its mix of cultures and languages where I believed my skills would be best used.

The process brought to mind my grandmother who is now 100 years old and was a dress maker which is where I get my love of fashion. I was apprehensive about the interview but the next day I received a call informing me that I had got the job. I cried but was really excited. When arriving for my first shift I was nervous but my team were great and made me very welcome; at times I feel like their mother. I believe I have brought a different set of skills: as a mother I am used to teaching how to fold clothes and organise things and although I am not working in an office, my skills are relevant. Working in this store I get to meet a great variety of people. I love watching them buy for their loved ones and it feels good to see them leave happily after I have assisted them. Finally, it feels great to be earning my own money again and looking forward to payday.

Maria
Marble Arch, UK

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

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

This year's increase in the scale and breadth of the Primark estate was very strong: 1.5 million sq ft of selling space and a net 30 stores were opened across nine countries. This brought the total estate to 345 stores and 13.9 million sq ft

at the financial year end. Eleven stores were added in the UK; three in each of Spain, France, the Netherlands, Italy and the US; two in Germany and one each in Belgium and Ireland. Our city centre flagship store at Oxford Street East was extended by 40% during the year, increasing it to 114,000 sq ft. The stores in Sheffield and Reading were relocated to bigger, better locations and two stores have been temporarily relocated while their existing sites are redeveloped.

NEW STORE OPENINGS

UK

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

Spain

Granada
Mallorca
Tarragona

France

Evry, Paris
Lille
Val d'Europe, Paris

Belgium

Charleroi

The Netherlands

Damrak, Amsterdam
Hilversum
Zwolle

Germany

Hamburg
Mannheim

Ireland

Liffey Valley, Dublin

Italy

Brescia
Florence
Verona

US

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

RELOCATIONS

UK

Reading
Sheffield

We continue to explore opportunities to bring our unique offer of 'Amazing Fashion, Amazing Prices' to new markets across Europe

Launching in the Italian market in 2016, we were confident our brand would make an impact in a country famous for its fashion credentials. We felt, despite being a relatively unknown retailer in Italy, that we still had an advantage over our competitors.

Our first store was in the Il Centro shopping centre in Arese, about 12km from fashion capital Milan. A former Alfa Romeo factory which has been transformed into the largest shopping centre in the country, Arese has over 200 shops and a projected footfall of 13 million people each year.

At the Arese store opening, the first customer in the queue enthusiastically commented: "I couldn't sleep last night because I was so excited; I'm a huge Primark fan! I cannot wait to see what the store looks like inside but I'm sure it'll be great because the windows look fantastic." The opening was supported with a live stream on Facebook that gave an exclusive first look at the new store. The post reached 3.3 million people with 1.1 million views on the platform. Since then we have had three more, highly successful, Italian store openings in Brescia, Florence and Verona.

We are trading above expectations in this new market with both our men's and women's clothing departments demonstrating higher sales mix than other European markets. Licensed merchandise is performing particularly well as consumers have responded positively to the broad selection of products available at a lower price point than our competitors. For example, during the last autumn/winter season, the Arese store experienced the strongest sales of the Harry Potter range when compared with the rest of the business. An important part of engaging our customers is the provision of an outstanding, cutting-edge, shopping experience. We have made significant advances in window presentation, visual merchandising, digital communication and the look and feel of each department, most notably with the introduction of 'trend rooms'.

These areas are dedicated to calling out our strongest fashion pieces every six weeks and highlighting the regularly changing items available across our range.

Our Italian store designs reflect the concept introduced in the US market: a stripped back industrial look with design details – concrete floors, pared back fittings and high-impact visual merchandising displays. Both Brescia Elnòs Shopping and Florence Il Gigli have generous space at the front of the store that brings our brand promise 'Amazing Fashion, Amazing Prices' to life and provides a welcoming entrance. Shoppers are greeted by mannequins positioned on plinths creating a 'fashion catwalk' showcasing our latest looks and emphasising the great value that Primark offers. All four Italian stores give our customers the excitement of shopping in a contemporary, fashionable environment.

Brand building remains a focus, particularly as we enter new markets. Ahead of our entry into Italy, fashion influencers and press were introduced to Primark with a spring/summer press event in Milan.

The space was transformed into a welcoming 'home' featuring our womenswear, menswear, kidswear, beauty and homeware collections. Consumer media were invited to attend during the day with the real 'house party' happening in the evening with the arrival of over 180 digital influencers.

The Primark branded logo wall encouraged guests to pose and post pictures using the hashtag #CiaoPrimark. Both hashtags #CiaoPrimark and #CasaPrimark received significant engagement across social media platforms, trending on Twitter and Instagram in Italy.

There were more than 30 fashion events happening in Milan on the same day yet our event still received an overwhelming turnout from the traditional press, and the blogger party was oversubscribed.

Opening in one of the world's most renowned fashion capitals was an exciting proposition, and we are very proud of our success to date as Italy further cements our fashion credibility.





CIAO ITALIA!

INSTA-GLAM

The power of social media storytelling continues to grow in popularity. Primark boasts an incredibly engaged community across all social channels with beauty posts on Instagram regularly achieving in excess of 60,000 likes and Snapchats can get over 1.5 million views.

Female beauty bloggers attract consumers who are increasingly disillusioned with traditional brand advertising. We regularly partner with leading beauty bloggers to co-create exclusive content for our digital channels, such as 'how-to' YouTube tutorials for key product ranges around events such as music festivals.



IT'S ALL ABOUT THE
EXPERIENCE

POSITIONING FOR SUCCESS

With a constant stream of beauty looks, techniques and trends being communicated online, beauty has become an obsession for many.

When it comes to beauty products, customers want value but not at the expense of quality. The PS... Beauty range is within everyone's reach, with products that provide the innovation and performance they expect, but without the big price tag. Primark has established itself as a respected health and beauty retailer endorsed by beauty industry leaders.



EXCITING BEAUTY

In a global beauty industry worth over \$382 billion, Primark's PS... Beauty range has become a trusted brand in just three years.

Our range includes more than 1,000 items across make-up, accessories, fragrance and skincare and is one of our fastest growing categories, offering shoppers a comprehensive choice of cosmetics. Products range from the functional (brushes, blenders and cleansers) to the fabulous (lipsticks, contour and highlighter palettes, false eyelashes and nail varnishes), and have mass appeal. In a crowded and competitive market, our varied offering at consistently low prices has established Primark as a leader.



KEEPING IT ON TREND

Sales continue to grow within product categories that are driven by cosmetic trends.

We constantly look to innovate and introduce new products and have expanded our range of colour foundations catering for all skin tones. Other new categories include lip kits, pigment pots, and customisable eyeshadow palettes.





THIS WAS A YEAR OF VERY STRONG CASH GENERATION FOR THE GROUP

JOHN BASON, FINANCE DIRECTOR

Group performance

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

The result of the UK referendum on EU membership saw sterling weaken substantially in June 2016 against all major currencies. With over 60% of the

group's operating profit earned outside the UK, this devaluation resulted in a translation benefit of £85m this financial year, most of which arose in the first three quarters. Sterling weakness against the US dollar had an adverse transactional effect on Primark's largely dollar denominated purchases this year, whilst the euro's strength in the second half had a beneficial effect on British Sugar's margin.

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

Net financing costs remained at a similar level to last year, despite the improvement

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

Acquisitions and disposals

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

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

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

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

Taxation

We recognise the importance of complying fully with all applicable tax laws as well as paying and collecting the right amount of tax in every country in which the group operates. Our board-adopted tax strategy is based on seven tax principles that are embedded in the financial and non-financial processes and controls of the group. Our tax strategy is available on the group's website at www.abf.co.uk/documents/pdfs/policies/abf_tax_strategy.pdf.

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

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

Earnings and dividends

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

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

Balance sheet

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

Working capital at the year end was at a similar level to last year, despite the growth of the group. As a consequence of the very tight management throughout the year, average working capital as a percentage of sales improved substantially from 8.4% last year to 6.5% this year, with lower inventories and higher sales in AB Sugar being a major driver. Net cash at the year end was

£673m compared with net debt at the end of last year of £315m reflecting the strong operating cash flow and proceeds from business disposals.

The group's net assets increased by £1.3bn to £8.4bn. Return on capital employed for the group, which is calculated by expressing adjusted operating profit as a percentage of the average capital employed for the year, was higher again this year at 20.5% compared with 18.1% last year. This reflected a major improvement in AB Sugar and increases in Ingredients and Grocery which more than offset the decline in Primark, which reflected the reduction in its margin.

Cash flow

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

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

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

paid in that financial year. Accordingly, the group's tax cash outflow in 2018 will be higher than 2017.

Financing

The financing of the group is managed by a central treasury department. The group has total committed borrowing facilities amounting to £1.9bn, which comprise: £0.6bn of US private placement notes maturing between 2019 and 2024, with an average fixed rate coupon of 4.7%; £1.2bn provided under a syndicated, revolving credit facility which matures in July 2021; and £0.1bn of local committed facilities in Africa. During the financial year we repaid, from existing cash resources, £15m of private placement notes. At the year end, £558m was drawn down under these committed facilities. The group also had access to £621m of uncommitted credit lines under which £214m was drawn at the year end. Cash and cash equivalents totalled £1.6bn at the year end.

Pensions

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

The most recent triennial valuation of the UK scheme was undertaken as at 5 April 2017, which was agreed by the scheme trustees after the group's year end, and revealed a surplus of £176m on a funding basis. As a result there is no requirement to agree a recovery plan with the trustees.

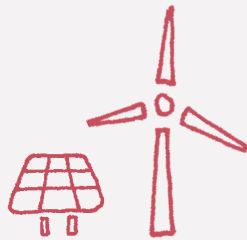
The charge for the year for the group's defined contribution schemes, which was equal to the contributions made, amounted to £79m (2016 – £74m). This compared with the cash contribution to the defined benefit schemes of £36m (2016 – £38m).

John Bason
Finance Director

MEASURING OUR IMPACT

2017...

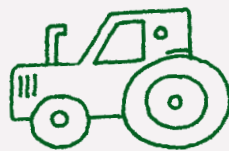
We have provided
716,416 hours
 of training courses
 or **personal
 development
 workshops**



49% of
 the energy
 we used came
 from **RENEWABLE
 fuel sources**



71% of our
waste
 was **RECYCLED**



Our programmes to
 improve **PRODUCTIVITY** have
 boosted the livelihoods of
14,797 farmers globally

Since our business was founded in 1935, it has been important to us to operate ethically. This is part of the essence of Associated British Foods.

Today, our approach to corporate responsibility is framed by five strategic pillars which ensure we consider all our stakeholders as we make decisions about how to run our business:

-  **OUR ENVIRONMENT**
-  **OUR PEOPLE**
-  **OUR SUPPLY CHAIN**
-  **OUR NEIGHBOURS**
-  **OUR CUSTOMERS**

In 2016, we published a full Corporate Responsibility Report, and this year we have produced a supplemental document which contains new case studies and updated content.



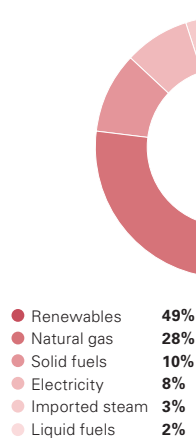
Corporate responsibility is a central part of how we think about and run our business and is incorporated into our day-to-day decision-making processes. We have followed the guidance of the Financial Reporting Council and sought to make our approach to reporting reflect that level of integration.

In this document, you will find case studies in each of the divisional updates that illustrate our efforts to develop and take care of our people and those living in our wider community – information that we previously only included in our Corporate Responsibility Report. We also use certain non-financial metrics, many of which are specific to the individual businesses, as the board is as concerned about the safety and wellbeing of our employees as it is about revenue and profit.

In the pages that follow, we share additional data on our environmental and health and safety performance over the last year. We also provide detailed information about the gender breakdown of our business, the gender pay gap, and our efforts to reduce the risk of any human rights abuse in our supply chain. Our Corporate Responsibility Update 2017 contains further information on each of these topics as well as data on, and case studies about, our five business segments.

Read our Corporate Responsibility Update 2017 at www.abf.co.uk/responsibility.

Types of energy used in 2017



We engaged Ernst & Young to provide limited assurance over the reliability of 14 KPIs for the year ended 31 July 2017. These are marked with the symbol Δ in the following pages.

Our greenhouse gas emissions

| | 2017 emissions (tCO ₂ e) | 2016 emissions (tCO ₂ e) |
|--|--------------------------------------|-------------------------------------|
| Combustion of fuel and operation of facilities | 7,683,000 Δ | 7,645,000 |
| Purchased electricity and steam | 1,026,000 Δ | 1,054,000 |
| Total gross emissions | 8,709,000 Δ | 8,699,000 |
| Generation and use of renewable energy | 3,717,000 Δ | 3,807,000 |
| Total net emissions | 4,992,000 Δ | 4,892,000 |
| Emission intensity (gross) | 567 tonnes per £1m of revenue | 649 tonnes per £1m of revenue |

Gross emissions by business division

| | | |
|-------|------------------------|---------------|
| Sugar | 6,520,000 Δ 75% | 6,468,000 74% |
| Other | 2,189,000 Δ 25% | 2,231,000 26% |

Total gross emissions includes emissions from the use of energy within our factories and stores, our manufacturing processes, the operation of owned and third-party vehicles and from directly controlled agricultural activities. See 'Our CR Reporting Guidance 2017' at www.abf.co.uk/responsibility for our GHG methodology and more detail about how we quantify our emissions including emission scopes.

Environment

Energy use

In 2017, our absolute use of energy was 23,300 GWh Δ , up from 22,800 GWh in 2016. Of this total energy used, 49% came from renewable sources. Our sugar businesses consumed 83% of the group's energy this year and the 2% increase in energy use is partly the consequence of favourable weather conditions which extended our sugar campaigns.

A number of our sites are 'energy positive' meaning they generate their own energy and, when they create surplus, they export this to national grids or other organisations.

In 2017, we exported 850 GWh of electricity which is an 11% increase on last year.

Greenhouse gas emissions

Our total gross greenhouse gas emissions amounted to 8.7 million tonnes of carbon dioxide equivalent (CO₂e) Δ , which is consistent with last year despite our increased production output.

The energy we use in our factories, offices, warehouses, distribution centres and stores created 79% of these gross emissions. The transportation of our goods and people by owned or third-party vehicles generated 10% and process emissions from production such as bread baking or fermentation, were responsible for 9%. Emissions from agriculture account for the remaining 2%.

Our net emissions, which include only those from conventional fossil fuels, amounted to 5 million tonnes of CO₂e Δ which is consistent with last year.

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

George Weston
Chief Executive

Water usage

In 2017, we abstracted 811 million m³ Δ of water for our use, 2% more than 2016. This increase is attributed to the inclusion of cooling water in the calculation as well as production increases and higher water levels in some of the southern African sites, permitting more water to be used for irrigating our crops.

The majority of the water we use is to irrigate our extensive sugar cane fields. Over recent years and as part of its long-term water strategy, Illovo Sugar in Africa has been investing in meters to improve its monitoring and measurement of water used for irrigation. Illovo accounts for 95% of the group’s total water usage this year.

Waste management

We generated just under 1.2 million tonnes of waste Δ this year which is a 16% increase on 2016. 71% of this was recycled and therefore diverted from landfill. We have also increased the amount of recycled waste by 6% and non-hazardous waste increased by 55% this year.

Environmental compliance

In 2017, we received 80 environmental complaints about our operations, 18 more than last year. We also received ten environmental fines Δ totalling £187,000 Δ; the same number of fines as last year. The fines were mainly related to the treatment of waste water and the complaints were largely due to noise and odour from our factories. The sites continue to liaise and engage with relevant stakeholders to address the issues promptly and maintain good relations with their neighbours.

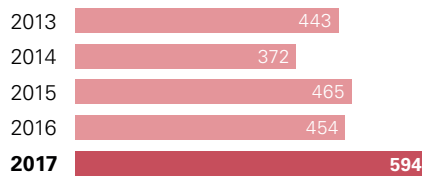
Keeping our people safe

Our health and safety performance

During 2017, we recorded 768 Lost Time Injuries to employees Δ which is a 20% increase over last year. When increases in headcount are taken into account, this equates to a Lost Time Injury rate of 0.76%. The number of Reportable Injuries to employees also increased this year from 454 to 594 which equates to 0.59% of our employees sustaining a Reportable Injury. We are pleased to report no work-related fatalities this year.

At an aggregated group level our annual trend in injuries has increased. In most cases we have delivered a good level of safety performance this year with reporting thresholds being lower in some of our more recent countries of operation. Our businesses have targeted action plans to reduce injuries and we continue to review performance regularly throughout the year to identify trends which need specific attention.

Employee Reportable Injuries



Health and safety fines

During 2017, we received six fines Δ totalling £74,000 Δ for breaches of safety regulations. This is an increase of four over last year which is unsatisfactory. The businesses involved are required to report to the Group Safety and Environment Manager on their remedial actions and are now either compliant or are on track to remedy the issues.

Promoting gender diversity

Gender diversity

We remain committed to attracting and retaining the best talent and are proud of the fact that the proportion of men

and women in our business is almost equal. The split varies by business but, last year, the percentage of women in the workforce was 48%.

Gender Pay Gap reporting

The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 were introduced in Great Britain in April 2017 and we have collected data, as defined by those regulations, for all of our relevant employees. This provides a high level indication of men and women’s relative earning power due to seniority. It is not the same as equal pay for work of equal value. For each of our UK legal entities that is required to report, data will be published online and submitted to the Government’s Gender Pay Reporting website in accordance with the legislation in due course. We have chosen to report data here that relates to our total employee population in Great Britain as at 5 April 2017 in order to demonstrate our commitment to the gender diversity agenda. It is important to note that our group operates in 50 countries with over 50% of our workforce employed outside Great Britain who are therefore not included within this analysis.

The data is reported with reference to quartiles, with each quartile representing 25% of the total reported population when ranked in order of pay, from highest to lowest.

Gender Pay Gap reporting

At the mean, women’s hourly pay rate is

36.4%

lower than that of men

At the median, women’s hourly pay rate is

32.4%

lower than that of men

At the mean, women’s bonus pay rate is

49.2%

lower than that of men

At the median, women’s bonus pay rate is

74.1%

higher than that of men

19.9%

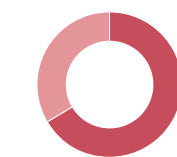
of men received a bonus

6%

of women received a bonus

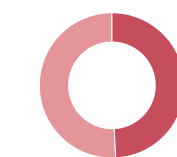
Proportion of men and women in each pay quartile

Upper pay quartile



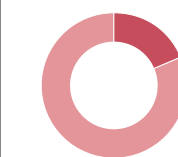
● Male **66.6%**
● Female **33.4%**

Upper middle pay quartile



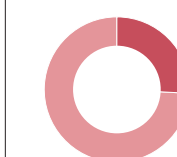
● Male **49.3%**
● Female **50.7%**

Lower middle pay quartile



● Male **18.8%**
● Female **81.2%**

Lower pay quartile



● Male **26.0%**
● Female **74.0%**

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

Gender metrics

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

| | Total employees* | Men in workforce | Women in workforce | Percentage of women in workforce | Number of senior management roles** | Number of men in senior management roles | Number of women in senior management roles | Percentage of senior management who are women |
|--------------|------------------|------------------|--------------------|----------------------------------|-------------------------------------|--|--|---|
| Sugar | 32,784 | 28,170 | 4,614 | 14% | 199 | 154 | 45 | 23% |
| Grocery | 16,980 | 11,378 | 5,602 | 33% | 850 | 543 | 307 | 36% |
| Ingredients | 6,724 | 5,048 | 1,676 | 25% | 544 | 397 | 147 | 27% |
| Agriculture | 2,377 | 1,757 | 620 | 26% | 330 | 213 | 117 | 35% |
| Retail | 73,350 | 22,782 | 50,568 | 69% | 246 | 140 | 106 | 43% |
| Central | 375 | 221 | 154 | 41% | 66 | 45 | 21 | 32% |
| Total | 132,590 | 69,356 | 63,234 | 48% | 2,235 | 1,492 | 743 | 33% |

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

Gender balance at the top of the group changes slowly because we have a stable senior team, who are mostly men, with long tenure. Our data includes a large number of retail staff, on relatively lower pay. A higher proportion of these retail staff are women. We remain committed to gender diversity and our focus on numerous initiatives in this area has had a positive impact, particularly amongst middle management. This is also reflected in our reporting for the Hampton Alexander report 2017, which saw a rise in the proportion of women in our global executive pipeline to 23% (from 21% in 2016). It should be noted that Hampton Alexander specifically reports on the gender balance of the population that report to the executive committee. This population differs from that shown in the table above.

As more of our current senior leaders are male, more men than women receive a bonus. The presence of these senior men in the bonus pool has a distorting effect on the mean bonus gap. Encouragingly, the median bonus demonstrates a gap in favour of women. This difference also reflects the varying composition of bonuses across our different businesses.

We focus on attracting and retaining the best talent, both men and women, to run and work in our businesses and the continued promotion of gender diversity, through a variety of initiatives (see page 24 of our 2016 Corporate Responsibility Report for further information), is an important element in ensuring a strong pipeline of talent.

Human rights

Being a responsible company means respecting the human rights of all the people with whom we interact. Whether they are direct employees, temporary workers or those in our supply chain, we know we can play a role in enhancing their lives. Our full human rights principles are set out on pages 94 and 95.

We recognise that the UN Guiding Principles on Business and Human Rights (UNGPs) require businesses to address actual and potential adverse human rights impacts, prioritising those that are most severe or where a delayed response would make them irremediable. Forced and trafficked labour is recognised as having a severe impact on human rights and this has been reflected in the increase in, and revision of, regulations that attempt to address the issue, including: the California Transparency in Supply Chains Act, EU regulations on reporting, the UK Modern Slavery Act 2015, and the International Labour Organization (ILO) Protocol on Forced Labour.

Our approach to human rights and the steps we take to try and ensure that modern slavery, in any of its forms, is not present within our operations or our supply chains are set out in our full 2017 Modern Slavery and Human Trafficking Statement at www.abf.co.uk/modern_slavery_statement_2017. Many of our businesses have compiled their own statement. All published statements can be found at www.abf.co.uk/responsibility/cr_downloads.

Our comprehensive groupwide Supplier Code of Conduct sets out the values and standards we expect of our suppliers, representatives and the other people with whom we deal. It is based on the ILO Fundamental Conventions and the Ethical Trade Initiative (ETI) Base Code. We engaged with NGOs in the creation of this code and periodically update it to ensure its relevance. Last year, we updated it to include a statement of our intolerance of forced or bonded labour. Our suppliers are expected to sign and abide by this code.

We know that addressing modern slavery and our human rights impacts is a journey of continuous improvement. This year, we have focused our energy on training to empower our people with knowledge. Many of our businesses have also invested in developing robust risk assessment processes to ensure we are focusing on areas where we are likely to have the greatest impact. Our businesses are also working together to generate methods of monitoring and evaluating the process and impact of our work.

We have recently participated in two benchmarking initiatives: The Corporate Human Rights Benchmark and Know the Chain. In these assessments, our commitment and performance on human rights was ranked in the mid-range in relation to peer companies. We respect the work that these organisations are doing and are pleased to be recognised for operating in a responsible way. We will continue to drive forward the agenda of respecting human rights within our business and play our role in tackling modern slavery.

EFFECTIVE RISK MANAGEMENT IS CENTRAL TO THE BOARD'S ROLE IN PROVIDING STRATEGIC OVERSIGHT

Our approach to risk management

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

The diversified nature of our operations, geographical reach, assets and currencies are important factors in mitigating the risk of a material threat to the group's balance sheet and results. Effective risk management is nevertheless central to the board's role in providing strategic oversight and stewardship of the group. The board is accountable for ensuring that risk is successfully managed and undertakes a robust annual assessment of the principal risks, including those that would threaten the business model, future performance, solvency or liquidity, together with the internal control procedures and resources devoted to them.

The board also monitors the group's exposure to risks as part of the performance reviews conducted at each board meeting. Financial risks are specifically reviewed by the Audit committee which also reviews the effectiveness of the group's risk mitigation processes.

Our decentralised business model empowers the management of our businesses to identify, evaluate and manage the risks they face, on a timely basis, to ensure compliance with relevant legislation, our business principles and group policies. The risk assessments consider materiality, risk controls and the likely impact against a range of criteria such as business objectives, health

and safety, financial performance, the environment and community, regulation and reputation. The collated risks from each business are shared with the respective divisional chief executives who present their divisional risks to the group executive.

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

Group functional heads including Legal, Treasury, Tax, IT, Pensions, HR and Insurance also provide input to this process, sharing with the Director of Financial Control their view of key risks and what activities are in place or planned to mitigate them. A summary of these risk assessments is then shared and discussed with the Group Finance Director and Chief Executive at least annually.

The Director of Financial Control holds meetings with each of the non-executive directors seeking their feedback on the reviews performed and discussing the key risks and mitigating activities. Once all non-executive directors have been consulted, a board report is prepared summarising the full process and providing an assessment of the status of risk management across the group. The key risks, mitigating controls and relevant policies are summarised.

This report also details when formal updates relating to the key risks will be provided to the board throughout the year.

Key areas of focus this year

Effective risk management processes and internal controls

We aim to maintain a practical approach to effective risk management which allows our businesses the scope to address their current and potential risks. We continued to seek improvements in our risk management processes to ensure the quality and integrity of information and the ability to respond swiftly to direct risks.

During the year, the board conducted reviews on the effectiveness of the group's risk management processes and internal controls in accordance with the UK Corporate Governance Code. Our approach to risk management and systems of internal control is in line with the recommendations in the Financial Reporting Council's (FRC) revised guidance 'Risk management, internal control and related financial and business reporting' (the Risk Guidance). The board is satisfied that internal controls were properly reviewed and key risks are being appropriately identified and managed.

Brexit

Last year, we identified the UK's decision to leave the European Union as having had some immediate impact on our results as a consequence of the effect on currency markets. As the UK government continues its negotiations, uncertainty remains as to the extent to which our operations and financial performance will be affected in the longer term. At a group and business level, we have continued to prepare for changes in legislation, trade agreements and working practices in order to take advantage of the changing commercial landscape and to mitigate risk. We have contributed to government-led consultations on the potential changes and their likely impact on businesses and markets to help inform the exit strategy.



Our principal risks and uncertainties

The directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. Outlined below are the group's principal risks and uncertainties and the key mitigating activities in place to address them. These are the principal risks of the group as a whole and are not in any order of priority. Associated British Foods is exposed to a variety of other risks but we report those we believe are likely to have the greatest current or near-term impact on our strategic and operational plans and reputation.




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

The 'Changes since 2016' highlight the significant variations in the profile of our principal risks or describe our experience and activity over the last year.




EXTERNAL RISKS

| Risk trend | Mitigation | Changes since 2016 |
|--|--|--|
| <p>MOVEMENT IN EXCHANGE RATES AND INFLATION</p> <p>Context and potential impact Associated British Foods is a multinational group with operations and transactions in many currencies.</p> <p>Changes in exchange rates give rise to transactional exposures within the businesses and to translation exposures when the assets, liabilities and results of overseas entities are translated into sterling upon consolidation.</p> <p> Risk trend Unchanged</p> | <p>Businesses impacted by exchange rate volatility, specifically those manufacturing or purchasing in one currency and selling in another, constantly review their currency-related exposures.</p> <p>Board-approved policies require businesses to hedge all transactional currency exposures and long-term supply or purchase contracts which give rise to currency exposures, using foreign exchange forward contracts.</p> <p>Cash balances and borrowings are largely maintained in the functional currency of the local operations.</p> <p>Cross-currency swaps are used to align borrowings with the underlying currencies of the group's net assets (refer to note 24 to the financial statements for more information).</p> | <p>Sterling has weakened against most of our major trading currencies this year.</p> <p>The net impact on adjusted operating profit for 2016/17 from the translation of overseas results into sterling was a gain of £85m.</p> <p>Although Primark covers its currency exposure on purchases of merchandise denominated in foreign currencies when orders are placed, this hedging activity typically covers a period of only six months. Sterling weakness against the US dollar, since its decline following the UK referendum in June 2016, had an adverse transactional effect on Primark's largely dollar-denominated purchases this year. However, the euro's strength in the second half had a beneficial effect on British Sugar's margin.</p> |
| <p>FLUCTUATIONS IN COMMODITY AND ENERGY PRICES</p> <p>Context and potential impact Changes in commodity and energy prices can have a material impact on the group's operating results, asset values and cash flows.</p> <p> Risk trend Unchanged</p> | <p>We constantly monitor the markets in which we operate and manage certain of these exposures with exchange traded contracts and hedging instruments.</p> <p>The commercial implications of commodity price movements are continuously assessed and, where appropriate, are reflected in the pricing of our products.</p> | <p>EU and world sugar prices were higher than last year which had a positive effect on Sugar profitability.</p> <p>Lower ethanol prices and higher wheat costs adversely affected margins at Vivergo Fuels.</p> <p>Higher agricultural commodity prices adversely affected margins in our China and UK compound feed businesses although firmer grain pricing benefited Frontier Agriculture.</p> |

EXTERNAL RISKS CONTINUED

| Risk trend | Mitigation | Changes since 2016 |
|--|---|---|
| <p>OPERATING IN GLOBAL MARKETS</p> <p>Context and potential impact Operating in 50 countries with a supply chain covering even more, we are exposed to: global market forces; fluctuations in national economies; societal and political changes; a range of consumer concerns; and evolving legislation.</p> <p>Failure to recognise and respond to any of these factors could directly impact the profitability of our operations.</p> <p>Entering new markets is a risk to any business.</p> <p> Risk trend Unchanged</p> | <p>Our approach to risk management incorporates potential short-term market volatility and evaluates longer-term socio-economic and political scenarios.</p> <p>The group's financial control framework and board-adopted tax and treasury policies require all businesses to comply fully with relevant local laws.</p> <p>Provision is made for known issues based on management's interpretation of country-specific tax law, EU cases and investigations on tax rulings, and their likely outcome.</p> <p>We engage with governments, local regulators and community organisations to contribute to, and anticipate important changes in, public policy.</p> <p>We conduct rigorous due diligence when entering, or commencing business activities in, new markets.</p> | <p>In preparing for the abolition of EU sugar quotas from October 2017, AB Sugar continued to reduce its cost base with the benefit of its performance improvement programme.</p> <p>We acquired two small businesses in the sports nutrition market this year but neither is of sufficient scale to represent a material risk to the group's profitability in the event of failure. Other acquisitions were in market sectors or countries very familiar to the group. In all cases thorough due diligence was undertaken.</p> |
| <p>HEALTH AND NUTRITION</p> <p>Context and potential impact Failure to respond appropriately to health and nutrition concerns in the formulation of our products could result in adverse consumer reaction.</p> <p>Failure to keep pace with changing consumer tastes, choices and shopping behaviours could impact business performance.</p> <p>We must also act responsibly across the spectrum of food poverty and malnutrition to obesity.</p> <p> Risk trend Unchanged</p> | <p>Consumer preferences and market trends are monitored continuously.</p> <p>Recipes are regularly reviewed and reformulated to improve the nutritional value of our grocery products, all of which are labelled with nutritional information.</p> <p>We develop partnerships with other organisations to help educate consumers about making healthy choices.</p> | <p>Our businesses continued to review their products and to partner with others to enable a swift and innovative response to changing consumer needs.</p> <p>Our Sugar and Grocery businesses have supported healthy eating campaigns during the year to help consumers make informed choices about their food.</p> |
| <p>SOCIO-POLITICAL UNCERTAINTY</p> <p>Context and potential impact Geopolitical uncertainty, the threat of terrorism and social unrest could all have a direct impact on our operations, our suppliers and our people. Such events may also impact consumer confidence.</p> <p> Risk trend Increased</p> | <p>By their nature these events mean they are largely unpredictable. Nonetheless our businesses have prepared detailed contingency plans which include site-level emergency responses and improved security for employees.</p> | <p>We reviewed and upgraded contingency plans across our businesses.</p> |

OPERATIONAL RISKS

| Risk trend | Mitigation | Changes since 2016 |
|---|--|---|
| <p>WORKPLACE HEALTH AND SAFETY</p> <p>Context and potential impact Many of our operations, by their nature, have the potential for injuries and fatal accidents to employees, contractors and visitors.</p> <p> Risk trend Unchanged</p> | <p>Safety continues to be the number one priority for our businesses with active endorsement and accountability from the chief executives of each business.</p> <p>Our Health and Safety policy and practices are firmly embedded in each business, supporting a strong ethos of workplace safety.</p> <p>Independent audits are conducted to verify implementation and support continuous improvement.</p> <p>Best practice safety and occupational health training and guidance are shared across the businesses, co-ordinated from the corporate centre, to supplement the delivery of their own programmes.</p> | <p>During the year there has been a 15% increase in our employee lost time injury rate to 0.76%. Our businesses conduct thorough root cause analysis to learn from accidents and implement safety changes.</p> |
| <p>PRODUCT SAFETY AND QUALITY</p> <p>Context and potential impact As a leading food manufacturer and retailer, it is fundamental that we manage the safety and integrity of our products throughout the supply chain.</p> <p> Risk trend Unchanged</p> | <p>Across the group, product safety is put before economic considerations.</p> <p>Our businesses employ quality control specialists and operate strict policies within an organisational culture of hygiene and product safety to ensure that consistently high standards are maintained in our operations and in the sourcing and handling of raw materials and garments.</p> <p>We monitor the regulatory environment and emerging scientific research while reviewing our food safety systems for efficacy and legal compliance.</p> <p>A programme of independent food quality and safety audits is undertaken across all our manufacturing sites and a due diligence programme is in place to ensure the safety of our retail products.</p> | <p>No significant changes this year.</p> |
| <p>OUR USE OF NATURAL RESOURCES AND MANAGING OUR ENVIRONMENTAL IMPACT</p> <p>Context and potential impact Our businesses rely on a stable supply of natural resources some of which are vulnerable to external factors such as natural disasters and climate change.</p> <p>Our operations give rise to a range of emissions including dust, waste water and waste which, if not controlled, could lead to a risk to the environment and our local communities. Many of our sites are surrounded by other businesses or residential areas.</p> <p> Risk trend Unchanged</p> | <p>We aim to go beyond environmental compliance.</p> <p>Our businesses employ environmental specialists who use the best available technologies and techniques to reduce our use of consumables, adapt operations to climate change and reduce our environmental footprint.</p> <p>We monitor developments and engage with governmental bodies on climate change; we limit reliance on certain resources such as fossil fuels and respond to changes such as carbon pricing and energy supply.</p> <p>Our businesses are mindful of being good neighbours through local community engagement and the monitoring and management of noise pollution and odours.</p> | <p>The environmental performance of the group, with updates by division, is reported in the 2017 Corporate Responsibility Update at www.abf.co.uk/responsibility.</p> <p>We annually report our approach to climate change, water and deforestation risk via CDP at www.cdp.org.</p> <p>Some of our businesses have started to develop a structured approach to 'being a good neighbour' in order to evaluate their positive effect on the community and to mitigate any potential adverse impact.</p> |

OPERATIONAL RISKS CONTINUED

| Risk trend | Mitigation | Changes since 2016 |
|---|---|--|
| <p>OUR SUPPLY CHAIN AND ETHICAL BUSINESS PRACTICES</p> <p>Context and potential impact Our suppliers are essential to the successful operation of the group.</p> <p>We therefore work with them to ensure reliability and to help them meet our standards of product quality and safety, financial stability, ethics, technical competence and people safety.</p> <p>Potential supply chain and ethical business practice risks include:</p> <ul style="list-style-type: none"> • reputational damage through supply chain weaknesses e.g. poor conditions for workers; • unacceptable and unethical behaviour, including bribery, corruption and slavery risk; • impact on reliability of supply and business continuity due to unforeseen incidents e.g. natural disasters; and • long-term sustainability of key suppliers. <p> Risk trend Unchanged</p> | <p>Our Supplier Code of Conduct is designed to ensure suppliers, representatives and all with whom we deal, adhere to our values and standards.</p> <p>The full Code is available at: www.abf.co.uk/supplier_code_of_conduct.</p> <p>Adherence to the Code is verified through our supplier audit system with our procurement and operational teams establishing strong working relationships with suppliers to help them meet our standards.</p> <p>All businesses are required to comply with the group's Business Principles including its Anti-Bribery and Corruption Policy.</p> | <p>Our businesses have continued to engage with key suppliers on a range of shared issues such as maximising environmental and cost efficiencies, maintaining safe workplaces, supporting steady employment and increasing transparency across the wider supply chain.</p> <p>All our businesses have undertaken risk assessments to identify supply chains at high risk from modern slavery. Over the year, we have focused on embedding our work in this area through training and sharing learning across the businesses.</p> <p>Our Modern Slavery and Human Trafficking Statement 2017 and the steps we take to try to ensure that any forms of modern slavery are not present within our own operations or our supply chain are reported in detail in the 2017 Corporate Responsibility Update www.abf.co.uk/responsibility.</p> |
| <p>BREACHES OF IT AND INFORMATION SECURITY</p> <p>Context and potential impact Our delivery of efficient and effective operations is enhanced by the use of relevant technologies and the sharing of information. We are therefore subject to potential internal and external cyber threats such as computer viruses and the loss or theft of data.</p> <p>We are increasingly interacting with customers, consumers and suppliers through technology and therefore greater emphasis is placed on secure and reliable IT systems, enabling careful management of information.</p> <p>There is also the potential for disruption to operations from unforeseen IT and system malfunctions or external attack.</p> <p> Risk trend Increased</p> | <p>We seek to understand the changing cyber risks faced by our businesses and take appropriate action.</p> <p>We have established processes, group IT security policies and technologies in place, all of which are subject to regular internal audit.</p> <p>Access to sensitive data is restricted and closely monitored.</p> <p>Robust disaster recovery plans are in place for business-critical applications.</p> <p>Technical security controls are in place over key IT platforms with the Head of IT Security tasked with identifying and responding to potential security risks.</p> | <p>We instigated regular security scanning of all websites in 2016 and developed incident management plans for potential IT attacks; both approaches yielded positive outcomes in 2017.</p> <p>We enhanced the security assessments and due diligence required for new IT projects.</p> |

VIABILITY STATEMENT

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

The directors considered the group's profitability, cash flows and key financial ratios over this period and the potential impact that the Principal Risks and Uncertainties set out on pages 54 to 58 could have on the solvency or liquidity of the group. Sensitivity analysis was applied to these metrics and the projected cash flows were stress tested against a range of scenarios.

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

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

At 16 September 2017, £1.2bn of committed borrowing facilities available to the group were undrawn and the directors are of the opinion that substantial further funding could be secured at relatively short notice should the need arise. The revolving credit facility is not due for renewal until July 2021 and over £300m of the private placement funding matures beyond the period under consideration.

The group has a sound track record of delivering strong cash flows, with well in excess of £1bn of operating cash being generated in each of the last seven years. This has been more than sufficient to fund expansionary capital investment and, specifically, has enabled the development of Primark in continental Europe and the US. The group's cash flows have supported 7% compound annual growth in the dividend over the last ten years.

Even in a worst case scenario, with risks modelled to materialise simultaneously and for a sustained period, the likelihood of the group having insufficient resources to meet its financial obligations is remote. Based on this assessment, the directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 12 September 2020.

On behalf of the board

Charles Sinclair
Chairman

George Weston
Chief Executive

John Bason
Finance Director

EFFECTIVE LEADERSHIP AND STRONG GOVERNANCE



Charles Sinclair
Chairman (age 69)

N R

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

Other appointments:

He is Warden of Winchester College.



George Weston
Chief Executive (age 53)

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 60)

John was appointed as Finance Director in May 1999. He has extensive international business experience and an in-depth knowledge of the industry. He was previously the finance director of Bunzl plc and is a member of the Institute of Chartered Accountants in England and Wales.

Other appointments:

He is a non-executive director of Compass Group PLC and chairman of the charity FareShare.



Timothy Clarke
Independent non-executive director (age 60)

N R

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



Emma Adamo
Non-executive director (age 54)

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.



Wolfhart Hauser
Independent non-executive director (age 67)

N A R

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

Other appointments:

He is chairman of FirstGroup plc and senior independent director of RELX Group plc and its listed parent companies RELX PLC and RELX NV.



Javier Ferrán N R
Independent non-executive director (age 61)

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



Ruth Cairnie N A R
Independent non-executive director (age 63)

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

Other appointments:

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



Richard Reid A R
Independent non-executive director (age 61)

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

Other appointments:

He is chairman of National Heart and Lung Institute Foundation and senior advisor to Bank of China UK.



Michael McLintock A R
Independent non-executive director (age 56)

Michael was appointed a director in November 2017. He has in-depth knowledge of the financial sector and proven experience of growing businesses. Michael retired as chief executive of M&G in 2016 having joined the company in 1992 and been appointed chief executive in 1997. In 1999 he oversaw the sale of M&G to Prudential plc where he served as an executive director from 2000 until 2016. Previously he held roles in investment management at Morgan Grenfell and in corporate finance at Barings.

Other appointments:

He is a trustee of the Grosvenor Estate, a non-executive director of Grosvenor Group Limited, a member of the MCC's Finance Committee, a special advisor to Neptune Investment Management and member of The Takeover Appeal Board.

Board committees key

- N Nomination committee
- A Audit committee
- R Remuneration committee

DEAR FELLOW SHAREHOLDERS

I am pleased to present the Associated British Foods corporate governance report for 2017. We have structured our report once again to reflect the themes of the Code. In the following pages, we set out details of our approach to corporate governance and the activities of the board and its committees during the year.

The role of the board is to lead the Company and to oversee its governance. The directors also recognise the board's pivotal role in shaping the group's culture and values. Associated British Foods is an organisation built upon solid ethical foundations with a strong, constant culture, known internally as the essence of Associated British Foods. The members of the board, together with senior management, continue to work closely with the businesses to promote the ethical culture and standards across the group through a robust governance framework. This is seen as an important factor in protecting and delivering sustainable long-term value for shareholders.

As Chairman, my focus has been on managing the board to ensure that it operates effectively, has the right balance of independence, experience, diversity and skill and demonstrates a healthy culture of scrutiny and challenge. This year, succession planning has continued to be a priority for the board and Nomination committee. We are continuing to phase the refreshing of the board. As discussed in my Chairman's statement on page 4, we are delighted to welcome Michael McLintock as an independent non-executive director with effect from 1 November 2017. As I also mentioned, Tim Clarke will retire from the board on 30 November 2017 and will be succeeded in the role of Senior Independent Director by Javier Ferrán. We recognise that Javier has been a member of the board for longer than the nine years advocated by the UK Corporate Governance Code. However, the continuity offered by Javier, combined with his extensive experience of consumer brands and international retailing, make his continuing contribution to the mix of skills and knowledge on the board highly valuable. We are therefore delighted that Javier has agreed to serve a further term as a non-executive director and, on page 65, we explain our reasoning in determining his continued independence.

Last year, the Remuneration committee undertook a complete review of the group's incentive arrangements. We consulted extensively with our largest shareholders and their representative bodies and this resulted in our revised remuneration policy receiving a 97% vote of approval at the AGM held in December 2016. Details of the new policy are set out in the Remuneration committee report which starts on page 75.

I am pleased that we have continued to make good progress with a number of actions identified from previous board evaluation exercises. During 2017, with external support, we undertook our annual effectiveness evaluation of the board, its principal committees and individual directors. The results confirmed that Associated British Foods has a very effective board. Information on our performance evaluation review this year is provided on pages 65 and 66.

As always, we welcome any feedback on this report through the website www.abf.co.uk or in person at the AGM in December.

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 April 2016 (the 'Code') which sets out standards of good practice in relation to board leadership and effectiveness,

remuneration, accountability and relations with shareholders. The Code is published by the UK Financial Reporting Council ('FRC') and a copy of the Code is available from the FRC website (www.frc.org.uk).

An updated version of the UK Corporate Governance Code was published in April 2016 and first applies to companies with

financial years commencing on or after 17 June 2016 ('the 2016 Code'). The Company has already taken account of the small number of changes required and now reports formally in accordance with the 2016 Code in this annual report.

The board considers that the Company has, throughout the year ended 16 September 2017, applied the main principles and complied with the provisions set out in the Code, with the following exception:

Code provision

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

Status

Charles Sinclair is both Chairman of the Company and chairman of the Remuneration committee.

Explanation

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

There are a number of matters which are specifically reserved for the board's approval. These are set out in a clearly defined schedule and include: matters relating to the group's strategic plan; approving the annual business strategy and objectives; the nature and extent of principal risks to be taken to achieve the strategic objectives; changes relating to structure and capital; approval of trading statements, interim results, final results and annual report and accounts; declaring interim dividends and recommending final dividends; the group's policies and systems of internal control and risk

management; approving capital projects, acquisitions and disposals valued at over £30m; provision of adequate succession planning; approving major group policies and matters relating to the compliance with the terms of the Relationship Agreement between the Company and its controlling shareholders dated 14 November 2014. The schedule of matters reserved is available to view on the corporate governance section of the Company's website (www.abf.co.uk).

Certain specific responsibilities are delegated to the board committees, 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.

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

Chairman and Chief Executive

The roles of the Chairman and the Chief Executive are separately held and the division of their responsibilities is clearly established, set out in writing, and agreed by the board to ensure that no one has unfettered powers of decision. The Chairman, 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 a set of authorities delegated by the board and for the implementation of board strategy and policy.

Senior Independent Director

Tim Clarke is currently the Company's recognised Senior Independent Director. Tim will be retiring from the board on 30 November 2017. He will be succeeded in the role of Senior Independent Director by Javier Ferrán. The purpose of this role is to act as a sounding board for the Chairman and to serve as an intermediary for other directors where necessary. He is also available to shareholders should a need arise to convey concerns to the board which they have been unable to convey through the Chairman or through the

executive directors. During the year, led by the Senior Independent Director, the non-executive directors have met without the presence of the Chairman (including to appraise the Chairman's 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, bringing valuable external perspective to the board's deliberations through their experience and insight from other sectors enabling them to contribute significantly to board decision-making. The formal letters of appointment of non-executive directors are available for inspection at the Company's registered office.

Election and re-election of directors

In accordance with the Code's recommendations, all directors currently in office, with the exception of Tim Clarke who retires with effect from 30 November 2017, will be proposed for election or re-election, as appropriate, at the 2017 AGM to be held in December.

Board meetings

The board held eight meetings during the year. Periodically, board meetings are held away from the corporate centre in London. During the year under review, the November meeting was held at the Allied Bakeries premises in Walthamstow, where the board met local management and were given a tour of the factory. In May, the board meeting was held at Primark's regional office at Créteil, Paris and included a visit to the local Primark store. The board also held its July meeting away from the corporate centre and made a visit to Primark's distribution centre at Islip.

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

The attendance of the directors at board and committee meetings during the year to 16 September 2017 is shown in the table below. Where a director was unable to participate in a meeting either in person or remotely, the Chairman solicited their views on key items of business in advance of the relevant meeting and shared these with the meeting so that they were able to contribute to the debate.

Board committees

The board has established three principal board committees, to which it has delegated certain of its responsibilities. These are the Audit, Nomination and Remuneration committees. The membership, responsibilities and activities of these committees are described later in this corporate governance report and, in the case of the Remuneration committee, in the Remuneration report which starts on page 75. Membership of these committees is reviewed annually. Minutes of committee meetings are made available to all directors on a timely basis.

The chairmen of the Audit, Nomination and Remuneration committees were present at the 2016 AGM and intend to be present at this year's AGM to answer questions on the work of their respective committees.

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

| | Board | Audit committee | Nomination committee | Remuneration committee |
|----------------------------|-------|-----------------|----------------------|------------------------|
| Charles Sinclair | 8/8 | – | 3/3 | 4/4 |
| George Weston ¹ | 7/8 | – | – | – |
| John Bason | 8/8 | – | – | – |
| Emma Adamo | 8/8 | – | – | – |
| Ruth Cairnie | 8/8 | 4/4 | 3/3 | 4/4 |
| Tim Clarke | 8/8 | – | 3/3 | 4/4 |
| Javier Ferrán | 8/8 | – | 3/3 | 4/4 |
| Wolfhart Hauser | 8/8 | 4/4 | 3/3 | 4/4 |
| Richard Reid | 8/8 | 4/4 | – | 4/4 |

¹ George Weston was unable to attend one board meeting as a result of being unwell on the day of the meeting. However, he reviewed the relevant information and papers, and provided comments to the Chairman.

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.

The work of the board during the year

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

Strategy

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

Acquisitions/disposals

- approving entry into an agreement to acquire Acetum S.p.A.; and
- receiving regular updates on acquisitions/disposals.

Performance monitoring

- receiving regular reports to the board from the Chief Executive;
- receiving, on a rolling basis, senior management presentations from each of the group business areas;
- approving the group budget for the 2017/18 financial year;
- receiving regular feedback on directors' meetings held with institutional investors; and
- receiving reports from the board committee chairmen.

Governance and risk

- approving the Company's full year and interim results;
- recommending the 2016 final dividend and approving the 2017 interim dividend;
- annual review of the material financial and non-financial risks facing the group's businesses;
- receiving the food safety update from the Director of Financial Control;
- half yearly review of progress in implementing actions arising from the 2016 board evaluation;
- participating in the 2017 annual board performance evaluation and considering the report received on the review;
- receiving regular updates on corporate governance and regulatory matters; and
- undertaking appropriate preparations for the holding of the annual general meeting including considering and approving an 'outlook' statement and subsequently, discussing issues arising from the annual general meeting.

Corporate responsibility

- approving the Corporate Responsibility Update 2017;
- receiving regular management reports and an annual presentation on health, safety and environmental issues; and
- receiving updates on Primark ethical sourcing.

People

- appointment of Michael McLintock as an independent non-executive director and to the Audit and Remuneration committees;
- receiving updates on and considering senior succession planning and people activities with presentation from the Group HR Director; and
- confirming directors' independence.

Effectiveness**Board composition**

At the date of this report, the board comprises the following 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
Wolfhart Hauser
Michael McLintock (appointed
1 November 2017)
Richard Reid

Tim Clarke will retire as a director on 30 November 2017.

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

Richard Reid was appointed as an independent non-executive director in April 2016. The board considered Richard's independence by reference to the relevant provisions of the Code and concluded that he is independent notwithstanding his past relationship with KPMG, which was formerly the group's auditor. KPMG LLP ceased to be the Company's auditor in November 2015, following a competitive tender for the external audit. Richard was formerly a partner at KPMG, retiring from that role in September 2015. He had no personal engagement with any business within the Associated British Foods group during the four years prior to his appointment by the Company. Previously, before the four-year period, Richard was client liaison partner on behalf of KPMG for Associated British Foods, but at no time did he have responsibility for signing an audit report on the Company.

His prior knowledge of the diversity and complexity of the group is of significant value to the board. Although the audit relationship between the Company and KPMG and the employment relationship between Richard Reid and KPMG ended within the last three years, the board concluded and is satisfied that, on the basis of the facts outlined above, the former KPMG relationship does not in any way compromise Richard's independence.

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. Accordingly, the board has considered the independence of Javier Ferrán who, as at 1 November 2017, had served 11 years as a director of the Company. Javier's service and consequent knowledge and experience of the group, together with the invaluable retail experience he brings to the role, are highly regarded by the board. Notwithstanding his length of service and, having given due deliberation to the matter, the board is satisfied that Javier continues to demonstrate the qualities of independence and objectivity in carrying out his role as a non-executive director. The board considers that he continues to be independent in character and judgement and that there are no relationships or circumstances which are likely to affect, or could appear to affect, his judgement. Javier is offering himself for re-election at the annual general meeting and the board will continue to keep his independence under review.

As at the date of this report, the board comprises the Chairman, Chief Executive, Finance Director and seven non-executive directors. Biographical and related information about the directors is set out on pages 60 and 61.

Appointments to the board

There is a formal and transparent procedure for the appointment of new directors to the board. Details are available in the Nomination committee report on page 69 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 AGM. Other significant commitments of the Chairman and non-executive directors are disclosed on appointment and require approval thereafter.

Board development

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

Board induction

The Company provides all non-executive directors with a tailored and thorough programme of induction, which is facilitated by the Chairman and the Company Secretary and which takes account of prior experience and business perspectives and the committees on which he or she serves. Michael McLintock, who joined the board on 1 November 2017, will undertake an induction over the coming months. The aim of the programme will be to familiarise him with the way the group operates through its five strategic business segments, with its governance policies and procedures, with the legal and regulatory duties as a director of a listed company and with the group's approach to corporate responsibility. Michael will be encouraged, as all new directors are, to accelerate his knowledge of the group by visiting a variety of its businesses and operations.

Following his appointment in April 2016, Richard Reid's induction programme continued during the year under review with meetings with members of operational and group management which included the Group Pensions Director, Head of HR at AB Sugar, Managing Director of British Sugar, the Head of Executive Development at the corporate centre and Primark's Director of Ethical Trade. Richard also attended the British Sugar glasshouse opening at Wisington in April 2017.

Training and development

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

Information flow

The Company Secretary manages the provision of information to the board at appropriate times in consultation with the Chairman and Chief Executive. In addition to formal meetings, the Chairman and Chief Executive maintain regular contact with all directors. The Chairman holds informal meetings with non-executive directors, without any of the executives being present, to discuss issues affecting the group, when appropriate. Regular management updates are sent to directors to keep the non-executive directors informed of events throughout the group between board meetings and to ensure that they are 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 the individual directors is conducted annually with the aim of improving the effectiveness of the board and its members and the performance of the group.

Progress from 2016 evaluation

During the year, the Chairman oversaw the implementation and progression of various recommendations arising from the 2016 and earlier evaluations, which included the actions set out in the table on page 66.

Progress on 2016 objectives**Board support and meetings**

The use of electronic board papers was trialled and adopted for use at board and committee meetings.

More time was allocated for reflective discussion and debate following divisional presentations.

Non-executive directors

The non-executive directors took up a number of opportunities to engage with the businesses, attending various key group events with staff to enable them to build a deeper understanding of the group's businesses and people.

In recognition of the fact that more involvement by the non-executive directors, with their collective broad business experience, could be of benefit to individual businesses, details of their respective areas of expertise and experience were collated and made available to the businesses to call upon where helpful.

Risk management

Following a request by the non-executive directors for greater visibility of emerging strategic risk, divisional presentations now include more detail in this regard.

Succession and talent

Greater emphasis and discussion time was given to the future shape of the board with input sought from all board members.

Audit committee

A few practical changes were implemented, following the appointment of a new chairman of the Audit committee in 2016, such as the introduction of a rolling calendar of agenda items, which have enhanced the running of the meetings and functioning of the committee.

2017 evaluation

Following the internal review carried out in 2016, this year the board commissioned an externally-facilitated performance evaluation. The review was carried out during the final quarter of the financial year with the assistance of Lintstock Limited ('Lintstock'), a London-based corporate advisory firm which has no other connection to Associated British Foods.

The 2017 review involved each board member and the Company Secretary responding to a web-based questionnaire designed by Lintstock together with the Chairman. The topics covered included the following:

- **The board** – composition, expertise, dynamics, management of meetings, support, focus, strategic and operational oversight, risk management and internal control, succession planning and human resource management, and priorities for change;
- **Audit, Nomination and Remuneration committees** – time management, composition, processes and support, leadership, work and effectiveness of each of the committees during the year and opportunities to improve performance of the respective committee in the year ahead; and
- **Individual directors** – assessment of individual contributions and opportunities for personal development, including a review of the Chairman's performance.

Lintstock prepared a written report based on the completed questionnaires which was discussed with the Chairman, with the review of the Chairman's own performance being sent to the Senior Independent Director. The report was subsequently sent to board members and was discussed at the September board meeting.

A list of recommended actions arising from this year's evaluation is being implemented under the direction of the Chairman and includes those identified in the table below.

Priorities for change identified from the 2017 evaluation**Board succession**

A continued focus on succession planning for board members was identified as a priority, with emphasis on the need for open discussion on the subject.

Retail business

Particular attention to be given to the retail business, including maintaining regular board time for discussing key projects, challenges and opportunities facing Primark.

Risk

Continuing to develop and enhance the understanding at board level of the group's approach to risk management and the ongoing risk factors affecting group businesses.

Based on the outcome of the 2017 review, it was concluded that the board and its committees were continuing to function very effectively with a good balance of support, challenge and mutual trust between the executives and the non-executives. The directors were each considered to be making a valuable contribution and demonstrating proper commitment, including of time, to their respective roles.

Conflicts of interest procedure

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

- considers each conflict situation separately on its particular facts;
- considers the conflict situation in conjunction with the rest of the conflicted director's duties under the 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.

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, performance, business model and strategy. In relation to this requirement, reference is made to the statement of directors' responsibilities for preparing the financial statements set out on page 98 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 12 and 13. These sections provide an explanation of the basis on which the group generates value and preserves it over the long term and its strategy for delivering its objectives.

Going concern and viability

After making enquiries the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these annual financial statements. Accordingly, and consistent with the guidance contained in the document titled 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the FRC in 2014, they continue to adopt the going concern basis in preparing the annual financial statements.

The Code requires the directors to assess and report on the prospects of the group over a longer period. This longer term viability statement is set out on page 59.

Risk management and internal control

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

The directors confirm that there is a process for identifying, evaluating and managing the risks faced by the group and the operational effectiveness of the related controls, which has been in place for the year under review and up to the date of approval of the annual report and accounts. They also confirm that they have regularly monitored the effectiveness of the risk management and internal control systems (which cover all material controls including financial, operational and compliance controls) utilising the review process set out below.

Standards

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

of each business is required to confirm twice yearly that it has complied with these policies and procedures.

High level controls

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

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

Financial reporting

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

Internal audit

The group's businesses employ internal auditors (both employees and resources provided by major accounting firms other than the firm involved in the audit of the group) with skills and experience relevant to the operation of each business. All of the internal audit activities are co-ordinated centrally by the group's 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 quarterly, without the presence of executive management, and has direct access to the Chairman of the board.

Assessment of principal risks

The directors confirm that, during the year, the board has carried out a robust assessment of the principal risks facing the group, including those that could threaten its business model, future performance, solvency or liquidity. A description of the principal risks and how they are being managed and mitigated is set out in the Strategic report on pages 54 to 58.

Annual review of the effectiveness of the systems

During the year, the board reviewed the effectiveness of the group's systems of risk management and internal control processes embracing all material systems, including financial, operational and compliance controls, to ensure that they remain robust. The review covered the financial year to 16 September 2017 and the period to the date of approval of this annual report and accounts. The review included:

- the annual risk management review, a comprehensive process identifying the key external and operational risks facing the group and the controls and activities in place to mitigate them, the findings of which are discussed with each member of the board individually (refer to the risk management section on page 54 of the Strategic report for details of the process undertaken);
- the report presented to the board during the year by the group's Director of Financial Control on food safety and product recall procedures; and

- the annual assessment of internal control, which, following consideration by the Audit committee, provided assurance to the board around the control environment and processes in place around the group, specifically those relating to internal financial control.

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

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

Remuneration

A separate Remuneration report is set out on pages 75 to 93 which provides details of our remuneration policy and how it has been implemented, together with the activities of the Remuneration committee.

Articles of association and share capital

Information in relation to share capital, the appointment and powers of directors, the issue and buy back of shares and significant interests in share capital is set out in the Directors' report on pages 94 to 97.

Relations with shareholders

Shareholder engagement

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

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

On the day of the announcement of the final and interim results, the Company's largest shareholders, together with financial analysts, are invited to a presentation with a question and answer session by the Chief Executive and Finance Director, with webcast presentations of the results available for all shareholders through the Company's website. Following the results, the executive team hold one-to-one and group meetings with institutional shareholders and potential investors.

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

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 Senior Independent Director attended sufficient meetings with major shareholders to listen to their views in order to develop a balanced understanding of their concerns.

The Company reports formally to shareholders in a number of ways. Significant matters relating to trading or development of the business, and routine reporting obligations, are disseminated by way of Stock Exchange announcements and by press releases. Interim results are announced in April each year and full year results in November, followed by the publication of the formal annual report and accounts.

In line with best practice, the Company's default means of communication is online although shareholders can opt to receive documents in paper form at any time. The Company's website www.abf.co.uk provides current and historical financial information, including trading statements, news releases, financial results presentations, and a wealth of other information regarding Associated British Foods.

Annual general meeting

The 2017 AGM will be held on Friday, 8 December 2017 at 11.00 am at the Congress Centre in London. The board considers that the AGM provides a valuable opportunity to communicate with private shareholders in particular about the general development of the business, enabling them to ask questions of the Chairman and, through him, the chairmen of the key committees and other directors. All members of the board are available to talk to shareholders after the meeting.

A trading update is provided at the meeting and each year the Company shows a short film at the meeting highlighting a particular area of the group's business. At this year's AGM, the film will focus on the Ovaltine brand around the world.

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)
Ruth Cairnie
Tim Clarke
Javier Ferrán
Wolfhart Hauser

Primary responsibilities

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

- leading the process for board appointments and making recommendations to the board;
- regularly reviewing the board structure, size and composition (including skills, knowledge, independence, experience and diversity), recommending any necessary changes;
- considering plans for orderly succession for appointments to the board and to senior management to maintain an appropriate balance of skills and experience within the Company and to ensure progressive refreshment of the board;
- keeping under review the leadership needs of the group, both executive and non-executive, to ensure the continued ability of the group organisation to compete efficiently in the marketplace; and
- being responsible for identifying and nominating, for the approval of the board, candidates to fill board vacancies as and when they arise.

Governance

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

Only members of the committee have the right to attend committee meetings. Other individuals such as the Chief Executive, members of

senior management, head of human resources and external advisors may be invited to attend meetings as and when 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 terms of reference of the Nomination committee are available on the Investors section of the Company's website (www.abf.co.uk).

Board appointments process

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

Meetings

The committee met three times during the year under review.

Diversity policy

As a board, we recognise that diversity is essential for introducing different perspectives into board debate and decision-making. We recognise moreover that a genuinely diverse board comprises individuals with a range of personal attributes, perspectives, skills, experience and backgrounds, who also represent differences in nationality, race and gender. The board has decided not to set any measurable objectives in relation to its diversity policy. However, candidates for future board appointments are considered from the widest possible pool. Gender remains an important aspect of the overall diversity, and it is our policy to ask any executive search agencies engaged to ensure that half of the candidates they put forward for consideration are women.

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

- a groupwide gender diversity task force includes representation from across the businesses and has, as one of its principal objectives, the aim of ensuring that there are no barriers preventing talented people from succeeding;
- senior and high-potential women are invited to join the Women's Business Forum, which meets several times a year providing a chance for networking, learning and support for personal career development;
- the ABF Two-way Mentoring Programme aims to grow the talent pipeline by matching high potential women, nominated by their business units, with senior leaders around the group who support their career development and broaden their business experience. In return the senior leaders have the opportunity to learn about another business or function, understand the perspectives of women working within them and develop their own listening and coaching skills; and
- training in 'unconscious bias', which aims to build awareness and challenge commonly-held myths around diversity, has been included in the group's leadership development programme for a number of years and has now been extended to a wider group of managers.

Committee activities during the year

Appointment of new independent non-executive director

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

The services of external executive search consulting firm Spencer Stuart were engaged to help identify potential candidates. Spencer Stuart is independent, with no other connection

to 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 recommendations of the Nomination committee, the board approved the appointment of Michael McLintock with effect from 1 November 2017.

Re-election of non-executive directors

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

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

Performance evaluation

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

AUDIT COMMITTEE REPORT

Members

During the year and at the date of this report:

Richard Reid (chairman)
Ruth Cairnie
Wolfhart Hauser
Michael McLintock
(from 1 November 2017)

Primary responsibilities

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

Financial reporting

- monitoring the integrity of the group's financial statements and any formal announcements relating to the Company's performance, reviewing significant financial reporting judgements contained in them before their submission to the board;
- informing the board of the outcome of the group's external audit and explaining how it contributed to the integrity of financial reporting;
- reviewing and challenging, where necessary, the consistency of, and changes to, accounting and treasury policies; whether the group has followed appropriate accounting policies and made appropriate estimates and judgements; the clarity and completeness of disclosure; significant adjustments resulting from the audit; the going concern assumption, the viability statement, and compliance with auditing standards;

Narrative reporting

- at the board's request, reviewing the content of the annual report and accounts and advising the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- where requested by the board, assisting in relation to the board's assessment of the principal risks facing the Company and the prospects of the Company for the purposes of disclosures required in the annual report and accounts;

Internal financial controls

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

Whistleblowing and fraud

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

Internal audit

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

External audit

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

Governance

The Audit committee comprises a minimum of three members, all of whom are independent non-executive directors of the Company. Two members constitute a quorum. 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. No members of the committee have served a term of more than six years.

The committee structure requires the inclusion of at least one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies) with recent and relevant financial experience and competence in accounting or auditing (or both).

The committee chairman fulfilled this requirement during the year. All committee members are expected to be financially literate and to have an understanding of the following areas:

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

The committee as a whole has competence relevant to the sectors in which the group operates.

The committee invites the Group Finance Director, Group Financial Controller, Director of Financial Control and senior representatives of the external auditor to attend its meetings in full, although it reserves the right to request any of these individuals to withdraw. Other senior managers are invited to

present such reports as are required for the committee to discharge its duties.

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

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

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

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

The committee's effectiveness was reviewed during the final quarter of the year as part of the board's performance evaluation process. A description of how the evaluation was conducted is set out on page 66 of the corporate governance report.

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

Meetings

The Audit committee met four times during the year. The committee's agenda is linked to events in the group's financial calendar.

Activities during the year

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

Monitoring the integrity of reported financial information

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

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

- the description of performance to ensure it was fair, balanced and understandable;

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

In view of the increased risk to the control environment associated with Primark's change of general ledger system, the committee reviewed the project plan and governance process pre-implementation; received regular updates from management and the project team before and after implementation; and reviewed the performance of the finance function post-implementation, including an evaluation of the robustness of the financial statement close process, with management, internal and external auditors.

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

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

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

Areas of significant accounting judgement and estimation material to the group financial statements**Impairment of goodwill, intangible and tangible assets**

Assessment for impairment involves comparing the book value of an asset with its recoverable amount (being the higher of value in use and fair value less costs to sell). Value in use is determined with reference to projected future cash flows discounted at an appropriate rate. Both the cash flows and the discount rate involve a significant degree of estimation uncertainty.

Audit committee assurance

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

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

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

Tax provisions

The level of current and deferred tax recognised in the financial statements is dependent on judgements as to the outcome of decisions by tax authorities in various jurisdictions around the world and the ability of the group to use tax losses within the time limits imposed by the various tax authorities. See also reference to taxation on page 48.

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

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

The external auditor described 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 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.

Other accounting areas requiring management judgement or estimation**Post-retirement benefits**

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

Audit committee assurance

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

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

Misstatements

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

Internal financial control and risk management

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

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

Internal audit

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

To fulfil its duties, the committee also considered:

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

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

The committee is required to approve the use of the external auditor to provide: accounting advice and training; corporate responsibility and other assurance services; financial due diligence in respect of acquisitions and disposals; and will consider other services when it is in the best interests of the Company to do so, provided they can be undertaken without jeopardising auditor independence. With effect from 18 September 2016, tax services including tax compliance, tax planning and related implementation advice may not be undertaken by the external auditor. The aggregate expenditure with the group auditor is reviewed by the Audit committee. No individually significant non-audit assignments that would require disclosure were undertaken in the financial year.

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

The Audit committee has formally reviewed the independence of its auditor. Ernst & Young LLP has provided a letter confirming that it believes it remained independent throughout the year, within the meaning of the regulations on this matter and in accordance with its professional standards.

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

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

The total fees paid to Ernst & Young LLP for the year ended 16 September 2017 were £6.8m of which £0.5m related to non-audit work. Further details are provided in note 2 to the financial statements.

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

Auditor effectiveness

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

- the external auditor's fulfilment of the agreed audit plan and variations from it;

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

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

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

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

Auditor appointment

The Audit committee reviews annually the appointment of the auditor, taking into account the auditor's effectiveness and independence, and makes a recommendation to the board accordingly. Any decision to open the external audit to tender is taken on the recommendation of the Audit committee. There are no contractual obligations that restrict the Company's current choice of external auditor.

In accordance with the requirements of the UK Corporate Governance Code and other changes to the EU and UK regulatory framework, the Audit committee undertook a comprehensive competitive tender for the external audit during 2015 and the appointment of Ernst & Young LLP to replace the Company's previous auditors was approved by shareholders at the 2015 AGM and it was reappointed as auditor at the AGM in December 2016. Andrew Walton, the audit partner, has held his role since Ernst & Young LLP's appointment in 2015. The Audit Committee is satisfied with the auditor's effectiveness and independence and has recommended to the board that Ernst & Young LLP be reappointed as the Company's external auditor for 2017/2018. The Company has no current retendering plans.

Compliance with the CMA Order

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

REMUNERATION REPORT

Annual statement by the Remuneration committee chairman

I am pleased to present the Directors' Remuneration report for the year ended 16 September 2017 on behalf of the board.

This Remuneration report is split into two sections:

- our directors' remuneration policy (as approved in December 2016); and
- the annual implementation report on remuneration.

Remuneration policy and shareholder engagement

In 2016 we revised our remuneration policy to better align with our business strategy. As a result of volatility in world and European sugar prices, we introduced an additional earnings per share measure into the long term incentive plan (LTIP). We also adopted a return on average capital employed modifier on the LTIP which adjusts the calculated LTIP outcome downwards if ROCE targets are not delivered. We increased shareholding requirements for our executive directors and introduced a deferred award of shares connected with the short term incentive plan (STIP). We consulted extensively with our largest shareholders and their representative bodies on our remuneration structure and, at last year's AGM, we received a 98.35% vote in favour of our remuneration report and a 97.19% vote in favour of our remuneration policy. I would like to thank our investors for their constructive input and voting support.

We believe that the changes we made to the policy are working well. Ongoing volatility in sugar prices reinforces the rationale for the approach that we have taken on the LTIP and we are not proposing to make any further changes to our remuneration policy for either 2017/18 or 2018/19.

2014/15 STIP performance range

In setting our incentive targets we have regard to the performance potential of the different parts of the business and of the whole. The on-target performance level for STIP is set at the start of each financial

year and is at, or close to, the budgeted level of performance. The committee then sets a range around the target to both incentivise delivery of a stretching performance and allow for limited under performance due to events beyond management control. The range itself varies each year, taking into account the risks and opportunities facing the business.

Recognising that investors are keen to understand the degree of stretch in our incentive performance ranges, but mindful of the competitive sensitivity of such disclosure, we decided in 2016 to disclose the performance ranges that applied to our STIP on a retrospective basis.

Targets relating to the 2014/15 award are detailed in this year's implementation report on page 88.

In 2014/15 Grocery, Agriculture, Ingredients and Retail all increased their profits. Sugar profit was substantially lower than in the previous year as a result of much weaker euro-denominated EU sugar prices but the business made great progress in reducing operating costs. The financial element of the STIP paid out at 38% of maximum and the individual performance element was just ahead of 'on target' for both the Chief Executive and the Finance Director.

2016/17 performance and incentive outcomes

This year our performance has been strong, with good operating profit growth being delivered by the Retail, Sugar and Ingredients businesses and the Grocery and Agriculture businesses performed well in challenging conditions. Primark, in particular, delivered stronger profit growth than expected when STIP targets were set. Working capital was also well managed throughout the year. This is reflected in the 2016/17 STIP outcome, where both financial performance measures were achieved at maximum as defined under the plan.

Our LTIP target range for allocations made in 2014 and vesting this year was set before a further decline in EU sugar prices resulted in a substantial fall in

profit from our sugar business in 2015. This led to a fall in the group's adjusted earnings per share that year making achievement of the three-year growth target by 2017 considerably more challenging. Some recovery in sugar prices in 2017, a focus on continuous improvement and excellent underlying trading performances across the group have driven growth in adjusted eps over the three-year performance period which has resulted in 51.02% of allocated shares vesting to the executive directors. We are pleased that our performance this year has resulted in this level of vesting after the low and zero vesting outcomes of the last two years.

2017/18 STIP and 2017-20 LTIP performance ranges

The performance range for 2017/18 incentives has been set against a background of much lower EU sugar prices, an expectation of further growth for Primark and no material benefit from currency translation. Sterling weakness against the US dollar will continue to have an adverse transactional effect on Primark's margin in the first half although a strengthening of the euro against the US dollar will benefit margin in the second half if current exchange rates prevail. The STIP performance range will be disclosed in the Directors' Remuneration Report for 2020.

When setting the LTIP targets, the committee conducts an analysis of the challenges and growth opportunities across the group over the performance period. We believe the target eps ranges detailed on page 92 are stretching and that achieving the on-target level of performance will represent a good performance for our shareholders by the executive directors.

Charles Sinclair
Remuneration committee chairman

This report

This report sets out:

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

The committee chairman's letter, this introduction and the annual implementation report on directors' remuneration (set out on pages 86 to 93) will be subject to an advisory vote at the 2017 AGM. The vote will have advisory status in respect of overall remuneration packages and will not be specific to individual levels of remuneration.

Compliance

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

Role of the Remuneration committee

The committee is responsible to the board for determining:

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

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

Members of the Remuneration committee

During the financial year and as at 7 November 2017, the committee comprised the Chairman, who was independent on appointment, and the following members, all of whom are independent non-executive directors:

| | Role on committee | Independence | Year of appointment | Meetings attended |
|--------------------------------|--------------------------|-----------------------------|----------------------------|--------------------------|
| Charles Sinclair | Chairman | Chairman ¹ | 2008 | 4 |
| Tim Clarke ² | Member | Senior Independent Director | 2004 | 4 |
| Javier Ferrán | Member | Independent Director | 2006 | 4 |
| Ruth Cairnie | Member | Independent Director | 2014 | 4 |
| Wolfhart Hauser | Member | Independent Director | 2015 | 4 |
| Richard Reid | Member | Independent Director | 2016 | 4 |
| Michael McLintock ³ | Member | Independent Director | 2017 | 0 |

¹ The Chairman was appointed Chairman of the Remuneration committee as he had the greatest prior experience of executive reward of any of the non-executive directors. The Chairman ensures that all board members are kept informed of the remuneration setting process.

² Tim Clarke retires from the Board on 30 November 2017.

³ Michael McLintock joined the Remuneration committee on 1 November 2017.

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

Remuneration committee advisors and fees

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

WTW is a member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting. The only other advice that WTW provides to the Company is in survey provision, job evaluation and remuneration benchmarking. The fees paid to WTW for committee assistance over the past financial year totalled £50,848.

Remuneration principles

Our remuneration approach takes into account our portfolio model, our market positioning for executive remuneration and our remuneration principles.

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

Alignment to strategy

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

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

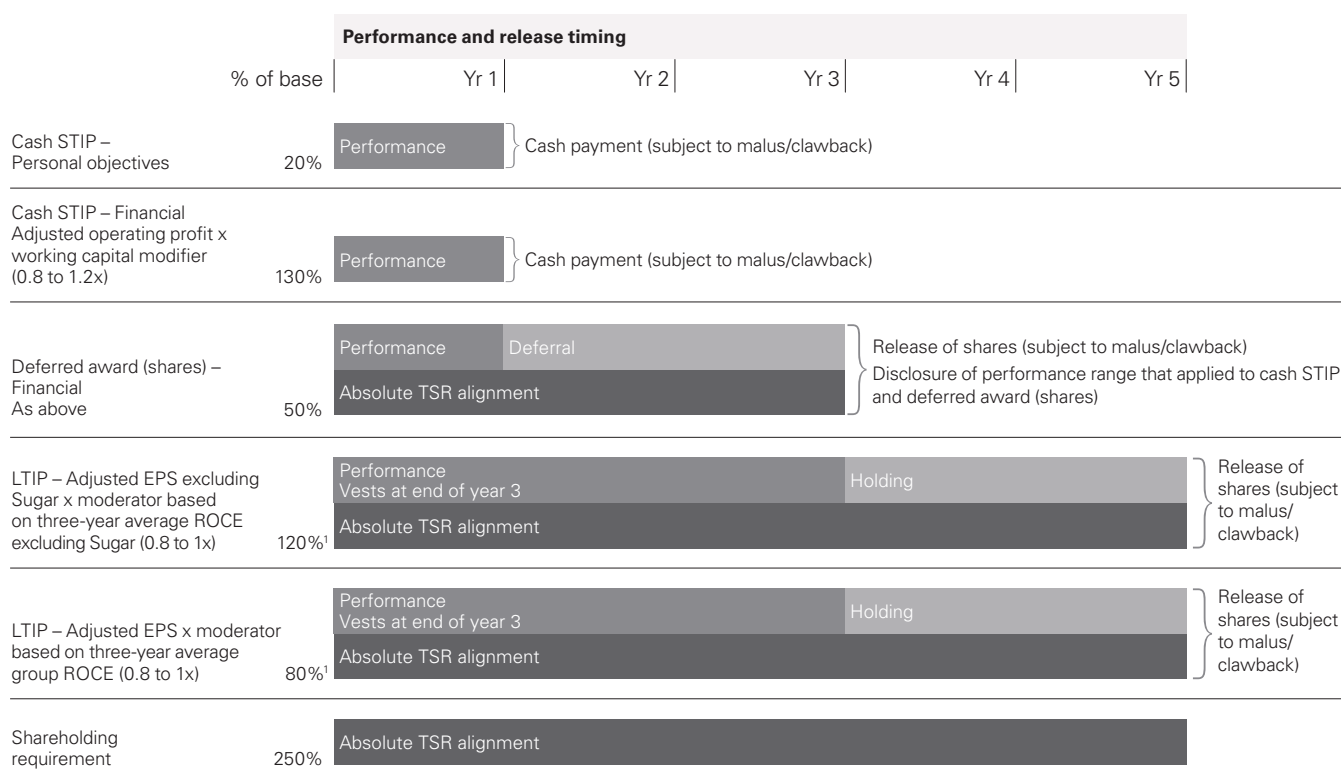
Remuneration structures at a glance

The table below outlines the remuneration structure that will apply in 2017/18. Further details are set out in the directors' remuneration policy and annual implementation report.

| Remuneration element | Detail |
|---------------------------------|--|
| Base salary | <p>2018 salaries as follows:</p> <ul style="list-style-type: none"> • Chief Executive £1,090,000 (1.68% increase effective from 1 December 2017); and • Finance Director £720,000 (1.98% increase effective from 1 December 2017). |
| Pension | <p>Existing executive directors have benefits under the Company's defined benefit scheme and/or Employer Financed Retirement Benefit Scheme (EFRBS), which deliver a retirement benefit target of around two-thirds of final remuneration at normal retirement age.</p> <p>Future executive directors who are not already entitled to our defined benefit pension at the time of appointment would benefit from a defined contribution arrangement with a Company contribution (or cash equivalent) of 25% of salary.</p> |
| Cash STIP | <p>Maximum cash STIP 150% of salary:</p> <ul style="list-style-type: none"> • 20% of salary based on personal performance linked to strategic goals; and • 130% of salary based on financial performance (currently adjusted operating profit with a working capital multiplier). |
| Deferred award (shares) | <p>Maximum deferred award 50% of salary:</p> <ul style="list-style-type: none"> • based on the same financial targets as the cash STIP financial element; • shares vest three years after grant; • a dividend equivalent payment is made, pro rata to the number of shares vesting, at the release date; and • following release, and the payment of any taxes due, at least 50% of net shares must be held until the shareholding requirement is met. <p>Awards are settled using shares purchased in the market.</p> |
| LTIP | <p>Maximum LTIP award 200% of salary:</p> <ul style="list-style-type: none"> • awards made annually; • target vesting is half of maximum and threshold vesting is 10% of maximum; • a portion (40% for the 2017 allocation) of the shares vest based on performance against a group adjusted eps range with a three-year average group ROCE moderator; • a portion (60% for the 2017 allocation) of the shares vest based on performance against an adjusted eps range with a three-year average ROCE moderator. For both measures the Sugar profit will be removed and, for the eps measure, interest and tax attributable to Sugar will be removed on a pre-defined basis; • a dividend equivalent payment is made, pro rata to the number of shares vesting, at the release date; • the committee will retain discretion to ensure that outcomes under the plan are consistent with overall performance and to ensure that the element with Sugar performance removed does not lead to unintended consequences; • the LTIP performance range for 2017–20 is shown on page 92; and • following release, and the payment of any taxes due, at least 50% of net shares must be held until the shareholding requirement is met. <p>Awards are settled using shares purchased in the market.</p> |
| Shareholding requirement | <p>Shareholding target of 250% of salary for the Chief Executive and Finance Director to be met using beneficially-owned shares. Conditional share awards, including deferred awards, do not count towards this limit as shown on page 89. Shares that have vested and are subject to a holding period do count towards this limit.</p> |

Illustration of incentive model

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



¹ Weighting shown applies for 2017–20 but may change each year.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

This report sets out our remuneration policy, which applied from the close of the AGM on 9 December 2016. The committee does not expect to revise the remuneration policy until 2019. For unvested share awards only, the provisions of the remuneration policy presented in the 2013 and 2014 Remuneration reports will continue to apply until such time as all long-term incentive awards granted under those policies have vested or lapsed.

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

DEFERRED AWARDS (SHARES)

Element and purpose

To encourage and reward the attainment of challenging financial targets.

To facilitate the operation of malus and clawback.

To align the interests of executives and shareholders.

To promote executive retention.

Operation and link to business strategy

Performance measures and target-setting

Annual allocations of conditional shares vest based on performance in year one and a further service period of two years. The performance measures and targets are the same as for the financial element of the cash STIP.

Vesting period

Shares vest following the announcement of results three years after the start of the relevant STIP performance period.

Calculation of outcomes, discretion, clawback and malus

As for the financial element of the cash STIP.

Dividend equivalents

A cash or shares dividend equivalent payment will be made, pro rata to the number of shares vesting, at the release date.

Maximum opportunity

Shares worth 50% of base salary at allocation.

In exceptional circumstances, such as the appointment of a new Chief Executive, this could be increased to 100% of base salary to correct any shortfall against market. Any increase would take into account adjustments in other elements of the package to ensure that the total was not excessive.

At maximum, 100% of the allocated shares vest; at target 50% vest; at threshold 10% vest; and below threshold awards lapse.

LONG TERM INCENTIVE PLAN (LTIP)

Element and purpose

To reward long-term business growth.

To align the interests of executives and shareholders.

To promote executive retention.

Operation and link to business strategy

Performance measures and target-setting

| % of award | Measure |
|--------------------|--|
| to be set annually | Growth in adjusted eps. The calculated outcome may then be moderated downwards to reflect ROCE performance. |
| | Growth in adjusted eps with the operating profit, tax and interest of Sugar removed. The calculated outcome may then be moderated downwards to reflect ROCE performance with the profit and average capital employed of Sugar removed. |

These measures reflect our strategy and take into account feedback from investors. They are well understood both by participants and shareholders and reduce the impact of sugar price volatility on long-term growth-based incentive outcomes.

Targets are set for each allocation, taking into account the shape of the portfolio, market expectations and internal forecasts for the next few years, and the scale of investments made.

Vesting period

Annual allocations of conditional shares will be free of restrictions after a five-year period, comprising a three-year performance period and a two-year holding period for the net of tax award.

Discretion, clawback and malus

Please refer to the notes that follow this table.

Dividend equivalents

A cash or shares dividend equivalent payment will be made, pro rata to the number of shares vesting, at the release date.

Maximum opportunity

200% of base salary at allocation.

In exceptional circumstances, such as the appointment of a new Chief Executive, this could be increased to 300% of base salary to correct any shortfall against market. Any increase would take into account adjustments in other elements of the package to ensure that the total was not excessive.

At maximum, 100% of the allocated shares vest; at target 50% vest; at threshold 10% vest; and below threshold awards lapse.

SHAREHOLDING REQUIREMENT

Element and purpose

To demonstrate commitment to the success of the Company and to align executives' interests with those of shareholders we require executives to build up a significant level of shareholding.

Operation and link to business strategy

This is not part of our formal remuneration policy. Details of our current requirement are provided in our annual implementation report on page 89.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS CONTINUED

NON-EXECUTIVE DIRECTORS' FEES

Element and purpose

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

Operation and link to business strategy

Non-executives

The Chairman and executive directors review non-executive directors' fees every other year in the light of fees payable in comparable companies and by reference to the time commitment, responsibility and technical skills required to make a valuable contribution to an effective board. Fees are paid in cash on a quarterly basis and are not varied for the number of days worked. Non-executive directors receive no other benefits and take no part in any discussion concerning their own fees.

The Senior Independent Director and committee chairmen are each paid an additional fee to reflect their extra responsibilities and greater time commitment. As the chair of the Remuneration committee and the Nomination committee is currently the Company Chairman, no fee is paid for these roles at present.

Chairman

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

Shareholding

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

Expenses

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

Notes to the remuneration policy table

Malus and clawback

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

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

Discretion

The committee will apply discretion, where necessary and by exception, to ensure that there are no unintended consequences from the operation of the remuneration policy. The committee applies a robust set of principles to ensure that incentive outcomes are consistent with business performance and aligned with shareholder interests. Any material exercises of discretion by the committee in relation to the STIP and LTIP will be in line with scheme rules, or other applicable contractual documentation, and will be fully disclosed and explained in the relevant year's annual implementation report.

Executive directors serving as non-executive directors

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

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

The group is geographically dispersed and therefore subject to very different pay markets. As a result, it is difficult to make sensible comparisons with all employees across the group and the salaries of executive directors are therefore reviewed in line with the group's UK employees. In December 2016, when the on-target salary increase for employees in the UK was between 1.25% and 3%, the Chief Executive received a salary increase of 2%.

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

The executive directors have a greater proportion of their total reward package at risk than other employees. This means that in years of very good performance, the Chief Executive's package increases proportionately more than that of other employees and conversely in years of lower performance it may be proportionately less.

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

The Company did not consult with employees when drafting this remuneration policy. Employees are able to feed back their opinions through employee opinion surveys or directly to the Company's management.

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. The feedback received and our response is detailed in the letter from the Chairman at the start of this report.

The committee chairman is available to discuss with shareholders any remuneration matters that will help shape our policy and practice.

Approach to recruitment remuneration

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

Service contracts and policy on payment for loss of office

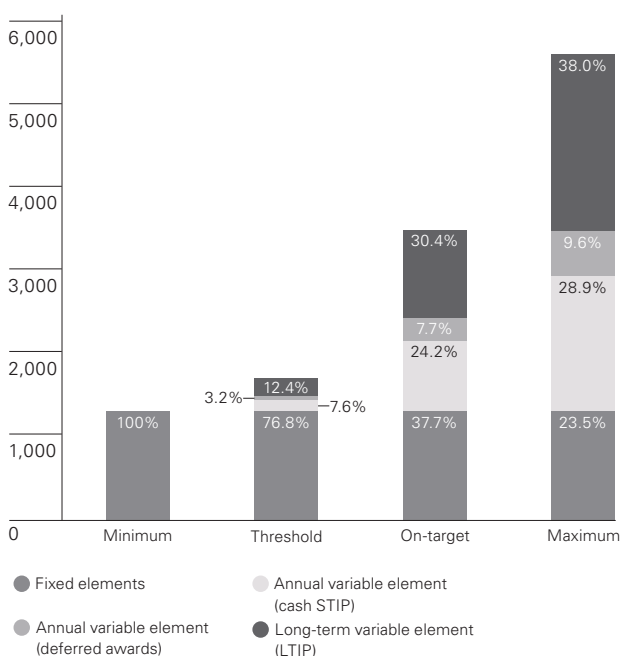
| Provision | Policy and operation |
|---|---|
| Notice period | <p>12 months' notice by either the director or the Company.</p> <p>Contracts are available for inspection at the Company's offices. Contracts and service agreements are not reissued when base salaries or fees are changed. Pension arrangements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

| Provision | Policy and operation |
|---|---|
| Non-executive directors – contractual termination payments | <p>Appointment is for three years unless terminated by either party on six months' notice. Continuation of the appointment is contingent on satisfactory performance and re-election at annual general meetings. Non-executive directors are typically expected to serve two three-year terms, although the board may invite them to serve for an additional period.</p> <p>Our Articles of Association require that all directors retire from office if they have not retired at either of the preceding two annual general meetings. In any event, at this year's annual general meeting, all directors are standing for election or re-election in compliance with the UK Corporate Governance Code.</p> <p>Where an individual retires at the annual general meeting and does not stand for re-election, they are not paid in lieu of notice.</p> |

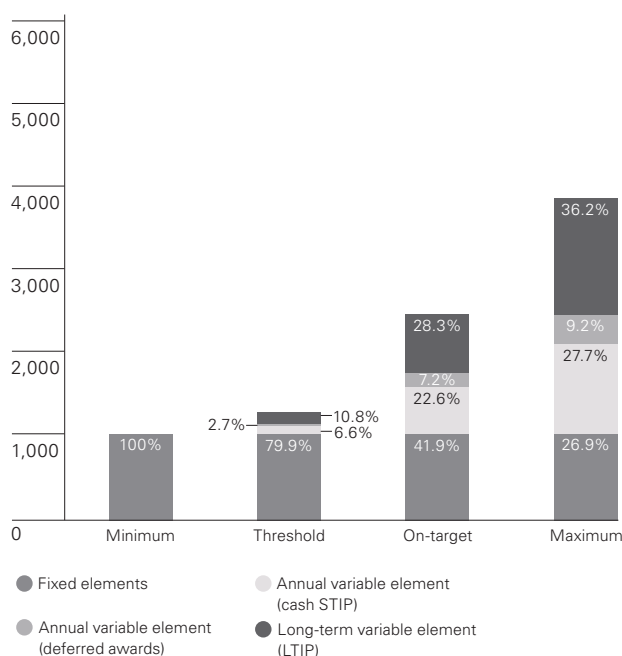
* Good leavers are those leaving by reason of ill health/injury/disability/death, redundancy, retirement or because their employing company is being transferred outside the group or for any other reason determined by the committee.

Executive directors' reward potential

George Weston (£000)



John Bason (£000)



Notes 2017/18 Policy

¹ Fixed elements for George Weston comprise salary (net of pension-related salary sacrifice) of £1,062,760, benefits of £16,032 and pension of £247,352 and applies to minimum, threshold, on-target and maximum performance.

² Fixed elements for John Bason comprise salary (net of pension-related salary sacrifice) of £693,593, benefits of £17,943 and pension of £336,575 and applies to minimum, threshold, on-target and maximum performance.

³ Cash STIP is calculated on base salary at the end of the financial year and both the deferred awards and LTIP share values are calculated on base salary at the date of allocation and exclude share price movement and dividend equivalents.

⁴ Minimum:
No cash STIP, deferred awards or LTIP vesting for not achieving threshold performance.

⁵ Threshold:
Cash STIP of 12% of base salary (12% of base salary for threshold financial performance and 0% for not achieving threshold personal performance).
Deferred awards vesting at 10% of maximum (i.e. 5% of grant date base salary). LTIP vesting at 10% of maximum (i.e. 20% of grant date base salary) following achievement of threshold performance targets.

⁶ On-target:
Cash STIP of 78.33% of base salary (65% for target financial performance and 13.33% for target personal performance). Deferred awards vesting at 50% of maximum (i.e. 25% of grant date base salary). LTIP vesting at 50% of maximum (i.e. 100% of grant date base salary).

⁷ Maximum:
Cash STIP of 150% of base salary (130% for maximum financial performance and 20% for achieving maximum personal performance). Deferred awards vesting at 100% of maximum (i.e. 50% of grant date base salary). LTIP vesting at 100% of maximum (i.e. 200% of grant date base salary).

Annual implementation report on directors' remuneration

This report sets out the elements of remuneration paid to directors in respect of the financial year 2016/17. The notes to the single figure table provide further detail on the elements that make up the total single figure of remuneration in respect of each of the executive directors.

This report is subject to an advisory vote at the 2017 AGM.

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

| | Salary or fees | | Taxable benefits | | Pensions | | STIP ⁶ | | LTIP ⁷ | | Single total figure | |
|--------------------------------|-------------------|---------------------|------------------|------|----------|------|-------------------|-------|-------------------|------|---------------------|-------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| | 2017 ² | 2016 ^{1,2} | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Executive directors | | | | | | | | | | | | |
| George Weston | 1,042 | 1,038 | 16 ³ | 16 | 609 | 711 | 2,179 | 1,368 | 1,009 | – | 4,855 | 3,133 |
| John Bason | 678 | 676 | 18 ⁴ | 21 | 506 | 576 | 1,435 | 945 | 665 | – | 3,302 | 2,218 |
| Non-executive directors | | | | | | | | | | | | |
| Charles Sinclair | 405 | 395 | 1 ⁵ | 1 | | | | | | | 406 | 396 |
| Tim Clarke | 95 | 94 | – | – | | | | | | | 95 | 94 |
| Lord Jay ⁸ | – | 16 | – | – | | | | | | | – | 16 |
| Javier Ferrán | 74 | 74 | – | – | | | | | | | 74 | 74 |
| Peter Smith ⁹ | – | 54 | – | – | | | | | | | – | 54 |
| Emma Adamo | 74 | 74 | – | – | | | | | | | 74 | 74 |
| Ruth Cairnie | 74 | 74 | – | – | | | | | | | 74 | 74 |
| Wolfhart Hauser | 74 | 74 | – | – | | | | | | | 74 | 74 |
| Richard Reid ¹⁰ | 94 | 40 | – | – | | | | | | | 94 | 40 |

¹ For all directors, the salary or fee shown reflects the fact that in the 2016 financial year there was a 53rd week. These numbers are disclosed on an accruals basis, consistent with the calculation of financial results. The actual cash amounts paid were in line with the annual amounts stated in the policy and implementation reports.

² For executive directors, the salary in the year is not the same as a weighted average of the headline salaries, since salary actually paid is reduced for pension-related salary sacrifices. The benefit of these salary sacrifices is captured in the increase in pension entitlements for which a remuneration value is shown in the pensions column.

³ The value of George Weston's benefits comprised £14,161 taken in cash and £1,871 taxed as benefits-in-kind.

⁴ The value of John Bason's benefits comprised £14,161 taken in cash and £3,782 taxed as benefits-in-kind.

⁵ The value of Charles Sinclair's benefits is taxed as a benefit-in-kind.

⁶ Comprises the annual bonus, which is paid in December in respect of the preceding financial year, and the value of deferred share awards calculated based on the average mid-market closing price over the last quarter of the 2016/17 financial year of 3060.82p. These shares are now subject to a two-year deferral period. For George Weston this comprises a cash element of £1,553,650 and a deferred award value of £624,989. For John Bason this comprises a cash element of £1,023,700 and a deferred award value of £411,619.

⁷ No shares vested under the LTIP for 2013–16. 51.02% of the shares under the LTIP for 2014–17 will vest in November 2017. George Weston will receive 32,969 shares and John Bason will receive 21,716 shares. As required by UK regulations, vesting under the LTIP for 2014–17 has been estimated using the average mid-market closing price over the last quarter of the 2016/17 financial year of 3060.82p. Vesting will be on 24 November 2017 and a figure recalculated for the actual share price on that date will be presented in the 2018 report.

⁸ Lord Jay retired from the board on 30 November 2015.

⁹ Peter Smith retired from the board on 13 April 2016.

¹⁰ Richard Reid joined the board on 14 April 2016.

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

Single total figure – base salary

Executive directors' salaries were reviewed on 1 December 2016 in accordance with normal policy and were increased in line with average increases for the Company's UK-based employees.

| | Dec 2015 | Increase in Dec 2016 | Dec 2016 |
|---------------|------------|----------------------|------------|
| George Weston | £1,051,000 | 2.0% | £1,072,000 |
| John Bason | £692,200 | 2.0% | £706,000 |

Single total figure – taxable benefits

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

Pensions

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

George Weston

George Weston has an overall benefit promise of 1/45th of final pensionable pay for each year of pensionable service up to 5 April 2016 and 1/50th of final pensionable pay for each year of pensionable service thereafter, subject to a maximum of 2/3rds of final remuneration. He opted out of the Associated British Foods Pension Scheme on 5 April 2006 and has a deferred benefit in the Scheme; the balance of the promise is provided under an EFRBS. His pension benefits are payable from age 65. There is no additional benefit entitlement for members if they take early retirement. His accrued pension at 16 September 2017 was £584,186.

John Bason

John Bason has an overall benefit promise at normal retirement date of 2/3rds of final pensionable pay, less an allowance for retained benefits from his previous employment. He opted out of the Associated British Foods Pension Scheme on 5 April 2006 and has a deferred benefit in the Scheme; the balance of the promise is provided under an EFRBS. His pension benefits are payable from age 62. There is no additional benefit entitlement for members if they take early retirement. His accrued pension at 16 September 2017 was £369,275.

Short Term Incentive Plan – 2016/17

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

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

Our financial performance has been strong this year, with good operating profit growth in the Retail, Sugar and Ingredients businesses. Primark, in particular, delivered stronger profit growth than expected when STIP targets were set. Working capital was also well managed throughout the year. This is reflected in the 2016/17 STIP outcome shown above.

Following a review of personal performance against specific objectives for the 2016/17 financial year, the committee determined that George Weston will receive 14.93% of salary in relation to performance that was good against set objectives, with our businesses performing well and a strong business response to the risks and opportunities that Brexit presents. John Bason will receive 15% of base salary for the individual element of the annual bonus, reflecting strong progress against objectives and in shaping the finance function for the future. Personal objectives set for each of the executive directors were closely aligned to the overall strategy of the group but additional details will not be disclosed because of commercial sensitivity.

Retrospective disclosure of STIP performance range

We will disclose the target ranges that applied to 2016/17 STIP awards once the deferred awards are released in November 2019, two years from the end of the annual performance period. We expect the directors to make the right decisions for the long-term performance of the business, even if this reduces their incentive pay-out under the STIP. This timing is deemed appropriate as when we do disclose the performance target ranges that applied, we wish to be able to add any commentary that will help investors to understand the performance outcomes. In most cases, this is not appropriate immediately following the end of the performance year as the information remains commercially sensitive at this time. For these reasons, we believe that this delayed disclosure is appropriate and in shareholders' interests.

STIP performance range 2014/15

The table below details the financial performance ranges that applied in 2014/15 and the calculated outcome, which was equivalent to 38.03% of maximum on the financial element. Personal performance outcomes were disclosed in 2014/15 and were just ahead of target.

| | Threshold | Target | Maximum | 2014/15 Outcome | STIP as % of salary (maximum 130% of base salary) |
|-------------------------------------|-----------|----------|----------|-----------------|---|
| A = Operating Profit | 1,053.50 | 1,108.50 | 1,163.50 | 1,092.00 | 50.00% |
| B = Working Capital as a % of sales | 16.16% | 15.10% | 14.04% | 15.16% | x0.9887 |
| A x B | | | | | 49.44% |

When this range was set, performance in the prior year had benefited from high European sugar prices. The committee spent considerable time determining what the appropriate approach to STIP target-setting was in an environment where budgeted performance was expected to decline slightly compared with the prior year outturn. Previously the committee had held a view that incentives should not be paid for performance that lagged the prior year. They concluded that, whilst this was a good approach, it should not hold in exceptional circumstances where external circumstances, such as sugar pricing, impacted on budget expectations. The threshold was set at a level that the committee felt was right for the business and fair to investors.

Long Term Incentive Plan – 2014–17

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 2014–17 cycle, after adjustment for a change in the way that sugar cane roots are accounted for, the adjusted EPS performance range was 120.11p for threshold vesting, 130.67p for target vesting and 141.94p for maximum vesting.

The board encourages management to take action, at the most appropriate time, for the long-term benefit of the business and the Remuneration committee reviews any impact this may have on incentive outcomes. This includes the restructuring and reorganisation of our businesses to ensure the optimisation of performance for the long term.

This year our executives have taken right and prudent action in restructuring some of the businesses but the cost of this restructuring, which has been charged in arriving at adjusted earnings per share, was greater than usual.

The Remuneration committee has examined the relevant costs in detail and decided that, in line with the discretion afforded to them under our remuneration policy, the measure used for LTIP purposes this year should not be reduced by the cost of this restructuring, over and above the typical annual level of such costs. The committee last exercised its discretion on the LTIP in 2013 when incentive outcomes were reduced.

Scheme interests (audited information)**LTIP allocations in 2016**

Under the remuneration policy that was approved in 2016, conditional share awards were granted under the LTIP on 12 December 2016. In addition, further awards were made during the year, following approval by the committee, to new starters or newly-promoted individuals who were eligible to participate. The share price used to determine the number of shares in an allocation was the average of the closing share prices on the five trading days immediately preceding the award date. All awards are settled using shares bought in the market.

The table below details the conditional share interests awarded to the executive directors during the year in respect of the 2016-19 LTIP. The awards made were in line with the existing remuneration policy and are subject to performance conditions over the vesting period.

| Executive directors | Award date | Vesting date | Maximum award | | | Shares vesting | | | |
|---------------------|------------|--------------|---------------|--------------------------|-----------------------|----------------|-------------------------|----------------------------|---------------------------------|
| | | | % of salary | Face value at grant £000 | Market price at grant | Maximum | Target (50% of maximum) | Threshold (10% of maximum) | Below threshold (0% of maximum) |
| George Weston | 12/12/16 | 25/11/19 | 200% | 2,144 | 2625.0p | 81,676 | 40,838 | 8,168 | – |
| John Bason | 12/12/16 | 25/11/19 | 200% | 1,412 | 2625.0p | 53,790 | 26,895 | 5,379 | – |

In setting this target, the committee took into account:

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

As outlined in the remuneration policy, there will be a further two-year holding period in place for the net of tax shares after vesting.

Deferred award allocations in 2016

On 12 December 2016, the executive directors were allocated conditional deferred share awards. These were subject to the same financial performance measures as the 2016/17 STIP with vesting in November 2019, subject to continued service. As the STIP financial performance target was met in full, all of the shares will now be subject to the service period, ending in November 2019.

| Executive directors | Award date | Vesting date | % of salary | Face value at grant £000 | Market price at grant | Shares allocated | Shares lapsing based on 2016/17 performance | Shares now subject to service condition |
|---------------------|------------|--------------|-------------|-----------------------------|-----------------------|------------------|---|---|
| George Weston | 12/12/16 | 25/11/19 | 50% | 536 | 2625.0p | 20,419 | – | 20,419 |
| John Bason | 12/12/16 | 25/11/19 | 50% | 353 | 2625.0p | 13,448 | – | 13,448 |

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

| Executive directors | Scheme name | Date of award and vesting | Market price at grant | Maximum (shares) | Face value at grant £000 | End of performance period |
|---------------------|--------------------------|---------------------------|-----------------------|------------------|-----------------------------|---------------------------|
| George Weston | Long Term Incentive Plan | 24/11/14 – 24/11/17 | 3101.2p | 64,620 | 2,004 | 16/09/17 |
| | Long Term Incentive Plan | 23/11/15 – 23/11/18 | 3462.0p | 59,388 | 2,056 | 15/09/18 |
| John Bason | Long Term Incentive Plan | 24/11/14 – 24/11/17 | 3101.2p | 42,564 | 1,320 | 16/09/17 |
| | Long Term Incentive Plan | 23/11/15 – 23/11/18 | 3462.0p | 39,110 | 1,354 | 15/09/18 |

Executive directors' shareholding requirements (audited information)

The executive directors are required to build up a beneficially-owned shareholding of 250% of salary. This requirement has been met. The interests below remained the same at 7 November 2017.

| Executive directors | Holding requirement | Beneficial 16 September 2017 | Beneficial as % of salary ¹ | Conditional ² 16 September 2017 | Total 16 September 2017 | Total 17 September 2016 |
|--|---------------------|------------------------------|--|--|-------------------------|-------------------------|
| George Weston³ | | | | | | |
| Wittington Investments Limited, ordinary shares of 50p | n/a | 2,660 | n/a | n/a | 2,660 | 2,613 |
| Associated British Foods plc, ordinary shares of 515/22p | 250% of salary | 3,561,936 | 10,493% | 226,103 | 3,788,039 | 3,770,125 |
| John Bason | | | | | | |
| Associated British Foods plc, ordinary shares of 515/22p | 250% of salary | 132,250 | 592% | 148,912 | 281,162 | 267,578 |

¹ Calculated using share price as at 16 September 2017 of 3158p and base salary as at 16 September 2017.

² These are LTIP and Deferred Awards.

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 16 September 2017.

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

Non-executive directors are encouraged to hold shares to a value equal to their annual fees. The following shareholdings are ordinary shares of Associated British Foods plc unless stated otherwise. The interests below remained the same at 7 November 2017.

| | Total 16 September 2017 | Total 17 September 2016 | 2017 total holding as a % of annual fee ² |
|--|----------------------------|----------------------------|---|
| Charles Sinclair | 18,000 | 12,760 | 139% |
| Tim Clarke | 4,000 | 4,000 | 133% |
| Javier Ferrán | 2,400 | 2,400 | 102% |
| Emma Adamo ¹ | | | |
| Wittington Investments Limited, ordinary shares of 50p | 1,322 | 1,322 | n/a |
| Associated British Foods plc, ordinary shares of 5 ¹⁵ / ₂₂ p | 504,465 | 504,465 | 21,528% |
| Ruth Cairnie | 3,000 | 1,507 | 128% |
| Wolfhart Hauser | 3,918 | 3,918 | 167% |
| Richard Reid | 3,347 | 3,347 | 111% |
| Michael McLintock ³ | Nil | n/a | 0% |

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 16 September 2017.

² Calculated using share price as at 16 September 2017 of 3158p and fee rate as at 16 September 2017.

³ Michael McLintock was appointed a non-executive director on 1 November 2017.

Payments to past directors (audited information)

No payments were made to past directors in the year.

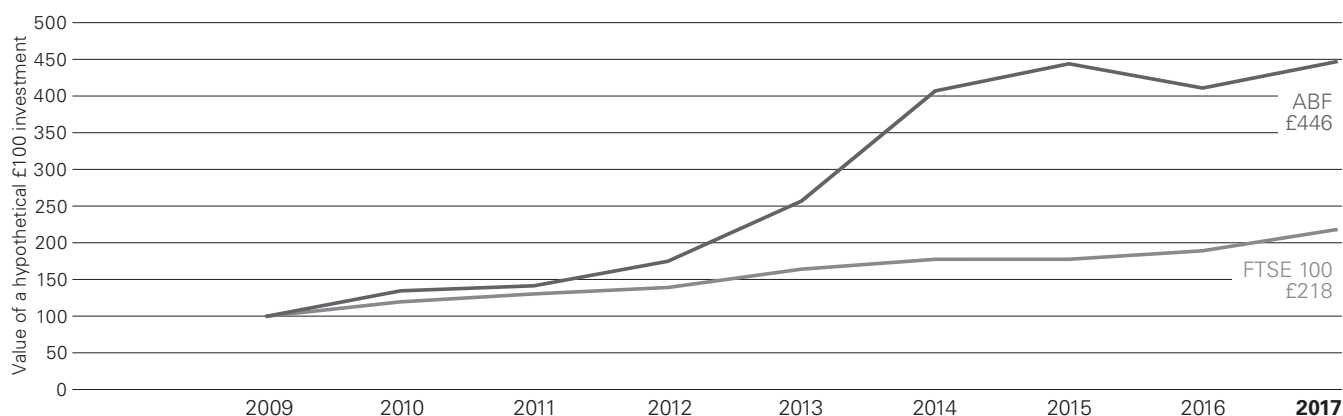
Payments for loss of office (audited information)

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

TSR performance and Chief Executive's pay

The performance graph below illustrates the performance of the Company over the eight years from September 2009 to September 2017, 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 summary of the total remuneration of the Chief Executive over the same period. For the purpose of calculating the value of the remuneration of the Chief Executive, data has been collated on a basis consistent with the 'single figure' methodology as defined in the applicable UK directors' reporting regulations.



Source: DataStream Return Index

| | | | | | | | | |
|---|--------|--------|--------|--------|---------|--------|--------|--------------------------|
| Single total figure remuneration variable element (£000) | 3,886 | 3,182 | 3,859 | 5,832 | 7,470 | 3,056 | 3,133 | 4,855 |
| Annual variable element (£000) | 1,266 | 438 | 864 | 1,219 | 894 | 686 | 1,368 | 2,179¹ |
| Potential maximum annual variable element (£000) | 1,310 | 1,373 | 1,425 | 1,466 | 1,503 | 1,542 | 1,577 | 2,144 |
| Annual variable element (% of maximum) | 96.68% | 31.91% | 60.63% | 83.15% | 59.49% | 44.46% | 86.75% | 101.63% |
| Long-term variable element – shares vesting as % of maximum | 99.12% | 83.80% | 97.42% | 85.00% | 100.00% | 18.54% | 0% | 51.02% |

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

At close of business on 15 September 2017, the last trading day before the end of the financial year, the market value of the Company's ordinary shares was 3158p. During the previous 12 months, the market value ranged from 2361p to 3322p.

Percentage change in remuneration of the Chief Executive

Between 2016 and 2017, the increase in the Chief Executive's salary was 2% and the average increase in salaries for our UK employees was 2%–3%.

The total reward for the Chief Executive has increased since last year because the performance of the group has been particularly strong this year, resulting in a maximum payment on the financial element of the STIP.

The overall increase in expenditure on reward for all employees was 15%. This number is based on aggregate data presented in the table below, which include increases in headcount, as it is neither practical nor worthwhile, in a decentralised group of our size, to separate the increase in expenditure on incentives and taxable benefits.

Executive directors serving as non-executive directors

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 fee of £111,000 in the 2016/17 financial year. He also served as a trustee of Voluntary Service Overseas until 6 July 2017 and as 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 with significant distributions to shareholders and others is shown below.

| Expenditure | 2017 £m | 2016 £m | Change % |
|----------------------------------|------------------------|------------|-------------|
| Pay spend for the group | 2,546 | 2,208 | 15% |
| Dividends relating to the period | 324 | 290 | 12% |
| Taxes paid | 264¹ | 211 | 25% |

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

Implementation of policy 2017/18

Base salary

Executive directors' salaries are subject to review on 1 December 2017 and will be increased as shown in the table below.

| | Dec 2016 | Increase in Dec 2017 | Increase in Dec 2017 | Dec 2017 |
|---------------|------------|----------------------|----------------------|-------------------|
| George Weston | £1,072,000 | 1.68% | £18,000 | £1,090,000 |
| John Bason | £706,000 | 1.98% | £14,000 | £720,000 |

Benefits and pensions

No change to current operation.

Cash STIP 2017/18

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

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

The targets used for our 2017/18 STIP are commercially sensitive and will be disclosed in the 2020 annual report. Achievement against financial targets will be disclosed retrospectively in our 2018 Remuneration report as we have done in this report for 2016/17.

Deferred awards (shares) – 2017/18 awards (vesting in 2020)

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

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

LTIP – 2017/18 awards (vesting in 2020)

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

| | | Primary measure | | | Modifier | |
|---|--------------|-----------------|--------|---------|-----------|---------|
| | | Threshold | Target | Maximum | Threshold | Maximum |
| Shares vesting as % of award | | 10% | 50% | 100% | | |
| Adjustment to % of shares vesting | | | | | 80% | 100% |
| Adjusted eps range in 2019/20 (p) | 40% of award | 147 | 160 | 174 | | |
| Three-year average ROCE range (%) | | | | | 12.0% | 15.0% |
| Adjusted eps range without Sugar in 2019/20 (p) | 60% of award | 128 | 139 | 151 | | |
| Three-year average ROCE range without Sugar (%) | | | | | 13.5% | 16.5% |

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

Service contracts

| | Date of appointment | Date of current contract/ letter of appointment | Notice from Company | Notice from individual | Unexpired period of service contract |
|--------------------------------|---------------------|---|---------------------|------------------------|--------------------------------------|
| Executive directors | | | | | |
| George Weston | 19/04/99 | 01/06/05 | 12 months | 12 months | Rolling contract |
| John Bason | 04/05/99 | 16/03/99 | 12 months | 12 months | Rolling contract |
| Non-executive directors | | | | | |
| 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 |
| Javier Ferrán | 01/11/06 | 01/11/06 | 6 months | 6 months | Rolling contract |
| Emma Adamo | 09/12/11 | 09/12/11 | 6 months | 6 months | Rolling contract |
| Ruth Cairnie | 01/05/14 | 01/05/14 | 6 months | 6 months | Rolling contract |
| Wolfhart Hauser | 14/01/15 | 14/01/15 | 6 months | 6 months | Rolling contract |
| Richard Reid | 14/04/16 | 13/04/16 | 6 months | 6 months | Rolling contract |
| Michael McLintock | 01/11/17 | 06/09/17 | 6 months | 6 months | Rolling contract |

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

Non-executive directors' fees for 2016/17

| | Dec 2016 | Increase in Dec 2017 | Dec 2017 |
|-----------------------------|----------|----------------------|-----------------|
| Chairman | £410,000 | n/a | £410,000 |
| Senior Independent Director | £95,000 | n/a | £95,000 |
| Chairman of Audit committee | £95,000 | n/a | £95,000 |
| Director | £74,000 | n/a | £74,000 |

Non-executive directors' fees were reviewed in December 2016. The next review of fees will be in 2018.

Statement on shareholder voting

At the last AGM in December 2016 the voting results on resolution two, to receive and approve the Remuneration report for the year ended 17 September 2016, were as follows:

- i. the percentage 'for' was 98.35% and the percentage 'against' was 1.65%.

The voting results on resolution three, to approve the Remuneration policy, were as follows:

- i. the percentage 'for' was 97.19% and the percentage 'against' was 2.81%.

The voting results on resolution nineteen, to approve the rules of the Long Term Incentive Plan, were as follows:

- i. the percentage 'for' was 97.12% and the percentage 'against' was 2.88%.

By order of the board

Paul Lister

Company Secretary

7 November 2017

Introduction

The directors of Associated British Foods plc (the 'Company') present their report for the 52 weeks ended 16 September 2017, in accordance with section 415 of the Companies Act 2006. The UKLA's Disclosure Guidance and Transparency Rules and Listing Rules also require the Company to make certain disclosures, some of which have been included in other appropriate sections of the annual report and accounts.

The information set out on page 98 and the following cross-referenced material, is incorporated into this Directors' report:

- likely future developments in the group's business (pages 14 to 47);
- greenhouse gas emissions (page 51); and
- the board of directors and the Corporate governance report (pages 60 to 74).

Results and dividends

The consolidated income statement is on page 107. Profit for the financial year attributable to equity shareholders amounted to £1,198m.

The directors recommend a final dividend of 29.65p per ordinary share to be paid, subject to shareholder approval, on 12 January 2018. Together with the interim dividend of 11.35p per share paid on 7 July 2017, this amounts to 41.0p for the year. Dividends are detailed on page 122.

Directors

The names of the persons who were directors of the Company during the financial year and as at 7 November 2017 appear on pages 60 and 61. Subsequent to the year end, Michael McLintock was appointed as a director on 1 November 2017 and Tim Clarke will retire as a director on 30 November 2017.

Appointment of directors

The Company's articles of association (the 'Articles') give directors the power to appoint and replace directors. Under the terms of reference of the Nomination committee, any appointment must be recommended by the Nomination committee for approval by the board of directors. A person who is not recommended by the directors may only be appointed as a director where

details of that director have been provided at least seven and not more than 35 days prior to the relevant meeting by at least two members of the Company. The Articles require directors to retire and submit themselves for election at the first AGM following appointment and all directors who held office at the time of the two preceding AGMs and, in any event, not less than one-third of the relevant directors (excluding those directors who retire other than by rotation), to submit themselves for re-election. The Articles notwithstanding, all directors, other than Tim Clarke, 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 are set out in the Remuneration report on page 92.

Power of directors

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

Directors' indemnities

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

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

Directors' share interests

Details regarding the share interests of the directors (and their persons closely associated) in the share capital of the Company, including any interests under the long term incentive plan and any deferred awards, are set out in the Remuneration report on pages 88 and 89.

Employees

During the year under review, the group employed an average of 132,590 people worldwide (2016 – 129,916) of whom 46,299 were employed in the UK. The group's business priority is to safeguard the wellbeing, development and safety of its employees and those who work with it. It also wants employees to have opportunities to grow and progress as part of an enjoyable career. While the group's approach to human resource management is decentralised, with flexibility given to each of the businesses, as a group it abides by the following principles:

- 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 that of other employees;
- health and safety – health and safety are considered to be equal in importance as any other function of the group and its business objectives, and the group is committed to providing a safe and healthy workplace to protect all employees, visitors and the public from foreseeable work hazards. The health and safety policy is available on the Company's website at www.abf.co.uk;
- harassment – sexual, mental or physical harassment in the workplace will not be tolerated. It is expected that incidents of harassment are reported to the appropriate human resources director;

- human rights – the group provides opportunities that promote human rights and dignity every day through the employment created, both directly and indirectly in its global supply chains and through the positive contribution its products make to people's lives. Ongoing engagement and collaboration with a broad range of interested and concerned stakeholder groups is valued and Associated British Foods is active in its collaborative approach, seeking to remain sensitive to the risks of adverse human rights impacts resulting from its products, services and operations. While respecting all human rights throughout the business, six priority areas of focus to mitigate risk have been highlighted, namely: workplace safety; gender and diversity; slavery and human trafficking; supply chain; use of commodities; and access to water. It is, however, acknowledged that these may change over time due to the constantly evolving nature of the businesses and environments in which they operate. Further details on the group's approach to human rights can be found in the 2017 Corporate Responsibility Update and our Modern Slavery Act statement which is available on the Company's website at www.abf.co.uk/responsibility;
- 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, business forums, executive leadership programmes and management presentations. At the group

corporate centre during the year, a series of focus groups, confidential interviews and telephone discussions were held to explore ways to maximise the benefits of a diverse, inclusive centre. Key themes, findings and actions were subsequently shared with all departments, levels and centre locations.

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 procedures set 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.

Disclosures required under Listing Rule 9.8.4R

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

| Information required | Location in annual report |
|---|------------------------------|
| (12) Shareholder waiver of dividends | Note 22 on page 137 |
| (13) Shareholder waiver of future dividends | Note 22 on page 137 |
| (14) Board statement on relationship agreement with controlling shareholder | Directors' report on page 95 |

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

Relationship agreement with controlling shareholders

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

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

Wittington Investments Limited ('Wittington') and, through their control of Wittington, the trustees of the Garfield Weston Foundation (the 'Foundation') are controlling shareholders of the Company. Certain other individuals, including certain members of the Weston family who hold shares in the Company (and including two of the Company's directors, George Weston and Emma Adamo) are, under the Listing Rules, treated as acting in concert with Wittington and the trustees of the Foundation and are therefore also treated as controlling shareholders of the Company. Wittington, the trustees of the Foundation and these individuals together comprise the controlling shareholders of the Company and, at 16 September 2017, had a combined interest in approximately 59.15% of the Company's voting rights.

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

- the Company has complied with the independence provisions included in the Relationship Agreement;

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

Major interests in shares

As at 16 September 2017, the Company had received formal notification, under the Disclosure Guidance 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. | 78,284,198 | 9.88 | 15 May 2017 |

No changes in the holdings of 3% or more of the voting rights in the Company's ordinary shares have been notified to the Company between 16 September 2017 and 1 November 2017.

Details of the Company's controlling shareholders for the purpose of the Listing Rules who, as at 16 September 2017, had a combined interest in approximately 59.15% of the voting rights in the Company's ordinary shares are set out above.

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 135. The Company has one class of share capital: ordinary shares of 5¹⁵/_{22p}. The rights and obligations attaching to these shares are governed by English law and the Company's Articles.

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

There are no restrictions on the holding or transfer of the ordinary shares other than the standard restrictions for an English incorporated company set out in article 32 of the Company's Articles.

Authority to issue shares

At the last AGM, held on 9 December 2016, 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 8 December 2017. No such shares have been issued. The directors propose to renew this authority at the 2017 AGM for the forthcoming year.

A further special resolution passed at the 2016 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 2017 AGM and the directors will seek to renew this authority for the forthcoming year.

Authority to purchase own shares

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

Amendment to Company's articles of association

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

Significant agreements – change of control

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

- the group has a number of borrowing facilities provided by various banking groups. These facility agreements generally include change of control provisions which, in the event of a change in ownership of the Company, could result in their renegotiation or withdrawal. The most significant of these are the £1.2bn syndicated loan facility signed on 15 July 2014 which was undrawn at the year end; and

- in addition to these bank facilities, the Company has in issue £558m of private placement notes to institutional investors. In accordance with the scheduled maturities, £15m private placement notes were repaid in March 2017. 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

During the year, the Company did not make any political donations or incur any political expenditure in the UK or EU.

At the AGM this year, shareholders will be asked to give authority under Part 14 of the Companies Act, for the period of one year, for the Company (and its subsidiaries) to make political donations and incur political expenditure up to a maximum aggregate sum of £100,000. The Company has a longstanding policy not to make political donations or to incur political expenditure (within the ordinary meaning of those words) and the directors have no intention of changing that policy. However, as the definitions used in the Companies Act 2006 are broad, it is possible that normal activities which might not be thought to be political expenditure in the usual sense could be caught. The authority is therefore being sought purely as a precaution.

Financial risk management

Details of the group's use of financial instruments, together with information on our risk objectives and policies, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and our exposure to price, credit, liquidity, cash flow and interest rate risks, can be found in note 24 on pages 138 to 147.

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 16 September 2017 and the date of this report and that require disclosure are described in note 21 on page 136.

Disclosure of information to auditor

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

- so far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all the reasonable steps that 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 auditor is aware of that information.

For these purposes, relevant audit information means information needed by the Company's auditor in connection with the preparation of its report on pages 99 to 106.

Auditor

Resolutions for the re-appointment of Ernst & Young LLP as auditor of the Company and to authorise the Audit committee to determine its remuneration are to be proposed at the forthcoming AGM.

Annual general meeting

The AGM will be held on 8 December 2017 at 11.00 am at Congress Centre, 28 Great Russell Street, London WC1B 3LS. Details of the resolutions to be proposed are set out in a separate Notice of meeting which accompanies this report for shareholders receiving hard copy documents and which is available at www.abf.co.uk for those who elected to receive documents electronically. All resolutions for which notice has been given will be decided on a poll.

On behalf of the board

Paul Lister

Company Secretary

7 November 2017

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

Company No. 293262

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

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards, including FRS 101 *Reduced Disclosure Framework*.

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

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

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

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

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

Responsibility statement of the directors in respect of the annual report

We confirm that to the best of our knowledge:

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

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

On behalf of the board

Charles Sinclair
Chairman

George Weston
Chief Executive

John Bason
Finance Director

7 November 2017

INDEPENDENT AUDITOR'S REPORT

To the members of Associated British Foods plc

Opinion

In our opinion:

- Associated British Foods plc's group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the parent company's affairs as at 16 September 2017 and of the group's profit for the 52 weeks then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Associated British Foods plc which comprise:

| Group | Parent company |
|---|---|
| Consolidated balance sheet as at 16 September 2017 | Balance sheet as at 16 September 2017 |
| Consolidated income statement for the 52 weeks then ended | Statement of changes in equity for the 52 weeks then ended |
| Consolidated statement of comprehensive income for the 52 weeks then ended | Related notes 1 to 10 to the financial statements, including a summary of significant accounting policies |
| Consolidated statement of changes in equity for the 52 weeks then ended | |
| Consolidated cash flow statement for the 52 weeks then ended | |
| Related notes 1 to 28 to the financial statements, including a summary of significant accounting policies | |

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report and accounts, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report and accounts, set out on pages 55 to 58, that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 67 in the annual report and accounts, that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement, set out on page 67 in the financial statements, about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation, set out on page 59 in the annual report and accounts, as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

| Key audit matters | Audit scope | Materiality |
|--|---|---|
| <ul style="list-style-type: none"> Assessment of the carrying value of goodwill, other intangible assets and property, plant and equipment Tax provisions Revenue recognition, including the risk of management override Changes in finance systems and processes, including the capitalisation of system implementation costs (New in 2017) | <ul style="list-style-type: none"> We performed an audit of the complete financial information of 126 components and audit procedures on specific balances for a further 58 components. The components where we performed full or specific scope audit procedures accounted for 92% of profit before taxation adjusted for one-off items ('normalised profit before taxation'), 89% of revenue and 86% of total assets. | <ul style="list-style-type: none"> We used a group materiality of £60 million, which represents 5% of profit before taxation adjusted for one-off items ('normalised profit before taxation'). |

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk | Our response to the risk | Key observations communicated to the Audit committee |
|--|---|---|
| <p>Assessment of the carrying value of goodwill, other intangible assets and property, plant and equipment (£6,884 million, 2016: £6,493 million)</p> <p>The group has a significant value of goodwill, other intangible assets and property, plant and equipment that has arisen from acquisitions and capital investments. The UK Bakeries (£260 million), AB Mauri (£745 million) and Australian meat (£157 million) businesses have all experienced challenging trading environments in recent years.</p> <p>The UK Bakeries and Australian meat businesses operate in environments of significant retailer pressure on price and competitor activity.</p> <p>AB Mauri's profitability has been impacted by competitive pricing pressures in some of its businesses compounded by macro-economic conditions, including high inflation rates and currency devaluations.</p> <p>There is a risk that these cash generating units ('CGUs') may not achieve the anticipated business performance to support their carrying value, leading to an impairment charge that has not been recognised by management.</p> <p>Significant judgement is required in forecasting the future cash flows of each CGU, together with the rate at which they are discounted.</p> <p><i>Refer to the audit committee report (page 72); accounting policies (page 115); accounting estimates and judgements (page 116); and notes 8 and 9 to the consolidated financial statements (pages 124 to 127).</i></p> | <p>We understood the methodology applied by management in performing its impairment test for each of the relevant CGUs and walked through the controls over the process.</p> <p>For all CGUs we calculated the degree to which the key inputs and assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring. We performed our own sensitivities on the group's forecasts and determined whether adequate headroom remained.</p> <p>For CGUs where there were indicators of impairment or low levels of headroom, including the three CGUs described, we performed detailed testing to critically assess and corroborate the key inputs to the valuations, including:</p> <ul style="list-style-type: none"> analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience; for certain CGUs, visiting factories to better understand the operations and to assess the ability to achieve forecast volume growth, operational improvements and production yields; corroborating the discount rate used by obtaining the underlying data used in the calculation and benchmarking it against market data and comparable organisations; and validating the growth rates assumed by comparing them to economic and industry forecasts. <p>We assessed the disclosures in notes 8 and 9 against the requirements of IAS 36 Impairment of Assets, in particular in respect of the requirement to disclose further sensitivities for CGUs where a reasonably possible change in a key assumption would cause an impairment.</p> <p>For the AB Mauri CGU, the audit procedures performed to address this risk were performed by the group audit team. The Australian meat and UK Bakeries operating intangible assets and property, plant and equipment were subject to full scope audit procedures by the respective component teams, and reviewed by the group team.</p> | <p>We agreed with management's conclusion that no impairments were required, based on the results of our work. Of the group's assets, the portion relating to the UK Bakeries business is very sensitive to reasonably possible changes in key assumptions. Management describes these sensitivities appropriately in the property, plant and equipment note to the group financial statements, in accordance with IAS 36. Similar disclosures have also been made for the AB Mauri and Australian meat businesses given their levels of sensitivities.</p> |

| Risk | Our response to the risk | Key observations communicated to the Audit committee |
|---|---|---|
| <p>Tax provisions (included within the income tax liability of £170 million, 2016: £147 million)</p> <p>The global nature of the group's operations results in complexities in the payment of and accounting for tax.</p> <p>Management applies judgement in assessing tax exposures in each jurisdiction, many of which require interpretation of local tax laws.</p> <p>Given this judgement, there is a risk that tax provisions are misstated.</p> <p><i>Refer to the audit committee report (page 72); accounting policies (page 114); accounting estimates and judgements (page 116); and note 5 to the consolidated financial statements (page 122).</i></p> | <p>We understood:</p> <ul style="list-style-type: none"> the group's process for determining the completeness and measurement of provisions for tax; the methodology for the calculation of the tax charge; and management's controls over tax reporting. <p>The group audit team, including tax specialists, evaluated the tax positions taken by management in each significant jurisdiction in the context of local tax law, correspondence with tax authorities and the status of any tax audits. Our work utilised additional support from country tax specialists in Australia, China, Germany, Ireland, Spain and the US.</p> <p>We assessed the group's transfer pricing judgements, considering the way in which we observed the group's businesses operating and the correspondence and agreements reached with tax authorities.</p> | <p>We consider the amounts provided to be within an acceptable range in the context of the group's overall tax exposures and our materiality.</p> |
| <p>Revenue recognition, including the risk of management override (£15,357 million, 2016: £13,399 million)</p> <p>There continues to be pressure on the group to meet expectations and targets. Management reward and incentive schemes based on achieving profit targets may also place pressure to manipulate revenue recognition.</p> <p>The majority of the group's sales arrangements are generally straightforward, being on a point of sale basis and requiring little judgement to be exercised. However, in the Grocery segment, management estimates the level of trade promotions and rebates to be applied to its sales to customers, adding a level of judgement to revenue recognition. Approximately 3% (2016: 4%) of the group's gross revenue is subject to such arrangements.</p> <p>There is a risk that management may override controls to intentionally misstate revenue transactions, either through the judgements made in estimating rebates in the Grocery segment or by recording fictitious revenue transactions across the business.</p> <p><i>Refer to the accounting policies (page 113); and note 1 to the consolidated financial statements (pages 117 to 119).</i></p> | <p>We understood each business's revenue recognition policies and how they are applied, including the relevant controls, and tested controls over revenue recognition where appropriate.</p> <p>We discussed key contractual arrangements with management and obtained relevant documentation, including in respect of rebate and returns arrangements. Where rebate arrangements existed, we obtained third party confirmations or performed appropriate alternative procedures, including review of contracts and recalculation of rebates. We also performed hindsight analysis over changes to prior period rebate estimates to challenge the assumptions made, including assessing the estimates for evidence of management bias.</p> <p>For a number of businesses, including Primark, as part of our overall revenue recognition testing we used data analysis tools on 100% of revenue transactions in the year to test the correlation of revenue to cash receipts to verify the occurrence of revenue. This provided us with a high level of assurance over £10.8 billion (71%) of revenue recognised. For those in-scope businesses where we did not use data analysis tools, we performed appropriate alternative procedures over revenue recognition.</p> <p>We performed cut-off testing for a sample of revenue transactions around the period end date, to check that they were recognised in the appropriate period.</p> <p>Other audit procedures specifically designed to address the risk of management override of controls included journal entry testing, applying particular focus to the timing of revenue transactions.</p> <p>We assessed the disclosures against the requirements of IAS 18 Revenue, in particular in respect of the requirement to disclose rebate and returns arrangements.</p> <p>We performed full and specific scope audit procedures over this risk area in 94 locations, which covered 89% of the group's revenue.</p> | <p>Based on the procedures performed, including those in respect of trade deductions and rebates in the Grocery segment, we did not identify any evidence of material misstatement in the revenue recognised in the year.</p> |

| Risk | Our response to the risk | Key observations communicated to the Audit committee |
|---|--|---|
| <p>Changes in finance systems and processes, including the capitalisation of system implementation costs (New in 2017)</p> <p>We focused on this area as Primark, the group's largest business, implemented a new general ledger system across its business. During any period of significant system change, there is an increased risk to the internal financial control environment. In addition, certain costs will be eligible for capitalisation as an intangible asset.</p> <p>The audit team focused its procedures on the following risks:</p> <ul style="list-style-type: none"> • Data migration and integrity of financial reporting; • Inappropriate capitalisation of costs as an intangible asset; • Inconsistent capitalisation of costs from year to year; and • Potential impairment of the total intangible asset capitalised in respect of the system implementation. <p><i>Refer to the Audit committee report (page 71); accounting policies (page 114); and note 8 to the consolidated financial statements (pages 124 to 125)</i></p> | <p>We performed the following procedures in respect of the implementation:</p> <ul style="list-style-type: none"> • We inspected evidence, including reports to the group's Audit committee, in respect of project governance, particularly in relation to key gateway decisions. • We understood the data cleansing process undertaken by management prior to migration and tested the data migration, including associated reconciliations. • We discussed and assessed the appropriateness of IT access and segregation of duties for all users. • We performed walkthroughs of new processes and understood the key IT dependent manual and IT application controls in the Oracle Financials system. • Whilst our audit strategy did not seek to rely on controls over the processes impacted by the change in finance system, in performing our substantive audit procedures we evaluated the robustness of Primark's financial statement close process and tailored the extent of our procedures accordingly. <p>We performed the following procedures in respect of the capitalisation of system implementation costs:</p> <ul style="list-style-type: none"> • We evaluated whether the costs incurred were either expensed or capitalised in line with the group's accounting policy and IAS 38. We also evaluated whether the policy has been applied consistently with prior years. • We tested a sample of costs, both expensed and capitalised, to third party evidence. • We assessed the useful lives of capitalised costs in the context of the group's accounting policy and industry benchmarks. We also checked that the timing of commencement of amortisation was appropriate. • We evaluated management's assessment as to whether there were any indicators of impairment for the costs capitalised. <p>The audit procedures to address this risk were performed principally by the full scope component team in Ireland with oversight from the group audit team.</p> | <p>Based on the procedures performed, we were satisfied that financial balances are appropriately stated following the new finance system implementation.</p> <p>In performing these procedures, we identified a number of control observations which are being addressed by management.</p> <p>We are also satisfied that the costs capitalised in respect of the system implementation are appropriate.</p> |

The key audit matters as set out in the table above are consistent with those reported in 2016, with the exception of the inclusion of 'Changes in finance systems and processes, including the capitalisation of system implementation costs' to reflect the Primark finance system implementation in the year.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the level of revenue and normalised profit before taxation, risk profile (including country risk, controls and internal audit findings and the extent of changes in management, systems and processes and the business environment) and other known factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the group financial statements and to achieve adequate quantitative coverage of significant accounts in the financial statements, of the 605 reporting components of the group, we selected 184 components, which represent the principal business units within the group.

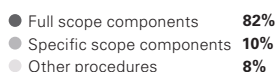
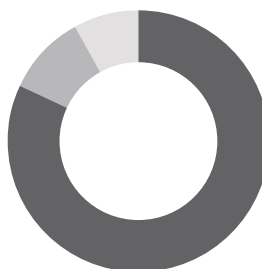
Of the 184 components selected, we performed an audit of the complete financial information of 126 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 58 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed full and specific scope procedures accounted for 92% of the group's normalised profit before taxation (2016: 93%), 89% of the group's revenue (2016: 91%) and 86% of the group's total assets (2016: 92%). For the current period, the full scope components contributed 82% of the group's normalised profit before taxation (2016: 87%), 80% of the group's revenue (2016: 81%) and 75% of the group's total assets (2016: 76%). The specific scope components contributed 11% of the group's normalised profit before taxation (2016: 6%), 9% of the group's revenue (2016: 10%) and 11% of the group's total assets (2016: 16%). The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group.

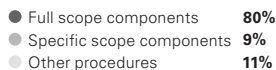
Of the remaining 421 components (2016: 411) that together represent 7% of the group's normalised profit before taxation (2016: 7%), none are individually greater than 1% of the group's normalised profit before taxation. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the group financial statements.

The charts illustrate the coverage obtained from the work performed by our audit teams.

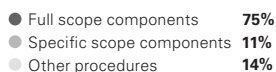
Normalised profit before tax



Revenue



Total assets



Involvement with component teams

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the components, by us as the group audit team, or by component auditors from other EY global network firms or by other auditors operating under our instruction. Of the 126 full scope components, audit procedures were performed on 77 of these directly by the group audit team and 49 by component audit teams. For the 58 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the group as a whole.

During the period the Senior Statutory Auditor or other members of the group audit team visited 31 full and specific scope components in the UK, Ireland, Australia, the US, China, Germany, India, Mexico, South Africa and Spain.

These visits involved meeting with our component team to discuss and direct its audit approach, reviewing and understanding the significant audit findings in response to the risk areas including asset impairment, tax provisions and revenue recognition, holding meetings with local management, undertaking factory tours and obtaining updates on local regulatory matters including tax, pensions and legal. For our visits to our Primark component team in Ireland we also discussed, directed and inspected key audit evidence in respect of the finance system implementation. The group audit team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality – “The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.”

We determined materiality for the group to be £60 million, which is 5% of profit before taxation, adjusted for the £293 million of profits less losses on sale and closure of businesses ('normalised profit before taxation'). We believe that normalised profit before taxation provides us with the most relevant performance measure to the stakeholders of the group, as the profits less losses on sale and closure of businesses are non-recurring and not related to the ongoing trading of the group. In 2016, we used a materiality level of £50 million, based on 5% of profit before taxation.

During the course of our audit, we reassessed initial materiality and the actual normalised profit before taxation was 6% higher than the group's initial estimates. However, due to the status of our procedures we did not change our materiality assessment to reflect this.

Performance materiality – “The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.”

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £45 million. This is an increase from 50% (£25 million) in 2016 to reflect the fact that 2016 was our first period as auditor of Associated British Foods plc.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current period, the range of performance materiality allocated to components was £1 million to £20 million (2016: £1 million to £11 million).

Reporting threshold – “An amount below which identified misstatements are considered as being clearly trivial.”

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1 million (2016: £1 million), which is set at 2% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report and accounts set out on pages 1 to 98, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable**, set out on page 98 – the statement given by the directors that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit Committee reporting**, set out on pages 70 to 74 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code**, set out on page 62 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, set out on page 98, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety, employee matters, food standards and food safety.
- We understood how the group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programs and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, group management, internal audit, divisional management and all full and specific scope management; and focused testing, as referred to in the key audit matters section above.

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

Following the recommendation of the Audit committee, we were appointed as auditor by the shareholders and signed an engagement letter on 20 April 2017. We were appointed by the Company at the AGM on 9 December 2016 to audit the financial statements for the 52 weeks ending 16 September 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is two years, covering the 53 weeks ending 17 September 2016 and the 52 weeks ending 16 September 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the Company and we remain independent of the group and the Company in conducting the audit.

The audit opinion is consistent with the additional report to the Audit committee.

Andrew Walton (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

7 November 2017

CONSOLIDATED INCOME STATEMENT
for the 52 weeks ended 16 September 2017

| Continuing operations | Note | 2017 £m | 2016 £m |
|--|------|-----------------|------------|
| Revenue | 1 | 15,357 | 13,399 |
| Operating costs | 2 | (14,090) | (12,364) |
| | | 1,267 | 1,035 |
| Share of profit after tax from joint ventures and associates | 10 | 63 | 57 |
| Profits less losses on disposal of non-current assets | | 6 | 11 |
| Operating profit | | 1,336 | 1,103 |
| Adjusted operating profit | 1 | 1,363 | 1,118 |
| Profits less losses on disposal of non-current assets | | 6 | 11 |
| Amortisation of non-operating intangibles | 8 | (28) | (21) |
| Transaction costs | 2 | (5) | (5) |
| Profits less losses on sale and closure of businesses | 21 | 293 | (14) |
| Profit before interest | | 1,629 | 1,089 |
| Finance income | 4 | 9 | 6 |
| Finance expense | 4 | (59) | (56) |
| Other financial (expense)/income | 4 | (3) | 3 |
| Profit before taxation | | 1,576 | 1,042 |
| Adjusted profit before taxation | | 1,310 | 1,071 |
| Profits less losses on disposal of non-current assets | | 6 | 11 |
| Amortisation of non-operating intangibles | 8 | (28) | (21) |
| Transaction costs | 2 | (5) | (5) |
| Profits less losses on sale and closure of businesses | 21 | 293 | (14) |
| Taxation – UK | | (62) | (73) |
| – Overseas | | (303) | (148) |
| | 5 | (365) | (221) |
| Profit for the period | | 1,211 | 821 |
| Attributable to | | | |
| Equity shareholders | | 1,198 | 818 |
| Non-controlling interests | | 13 | 3 |
| Profit for the period | | 1,211 | 821 |
| Basic and diluted earnings per ordinary share (pence) | 7 | 151.6 | 103.4 |
| Dividends per share paid and proposed for the period (pence) | 6 | 41.00 | 36.75 |

108 **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
for the 52 weeks ended 16 September 2017

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

CONSOLIDATED BALANCE SHEET

at 16 September 2017

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| | Note | 2017 £m | 2016 £m |
|---|------|----------------|----------------|
| Non-current assets | | | |
| Intangible assets | 8 | 1,414 | 1,348 |
| Property, plant and equipment | 9 | 5,470 | 5,145 |
| Investments in joint ventures | 10 | 210 | 221 |
| Investments in associates | 10 | 44 | 39 |
| Employee benefits assets | 11 | 285 | 6 |
| Deferred tax assets | 12 | 143 | 139 |
| Other receivables | 13 | 54 | 41 |
| Total non-current assets | | 7,620 | 6,939 |
| Current assets | | | |
| Assets classified as held for sale | | – | 312 |
| Inventories | 14 | 2,101 | 2,033 |
| Biological assets | 15 | 90 | 86 |
| Trade and other receivables | 13 | 1,342 | 1,337 |
| Derivative assets | 24 | 79 | 105 |
| Income tax | | 28 | 9 |
| Cash and cash equivalents | 16 | 1,550 | 555 |
| Total current assets | | 5,190 | 4,437 |
| Total assets | | 12,810 | 11,376 |
| Current liabilities | | | |
| Liabilities classified as held for sale | | – | (75) |
| Loans and overdrafts | 17 | (265) | (245) |
| Trade and other payables | 18 | (2,500) | (2,366) |
| Derivative liabilities | 24 | (113) | (73) |
| Income tax | | (170) | (147) |
| Provisions | 19 | (105) | (54) |
| Total current liabilities | | (3,153) | (2,960) |
| Non-current liabilities | | | |
| Loans | 17 | (612) | (640) |
| Other payables | 18 | (216) | (185) |
| Provisions | 19 | (27) | (34) |
| Deferred tax liabilities | 12 | (231) | (139) |
| Employee benefits liabilities | 11 | (159) | (296) |
| Total non-current liabilities | | (1,245) | (1,294) |
| Total liabilities | | (4,398) | (4,254) |
| Net assets | | 8,412 | 7,122 |
| Equity | | | |
| Issued capital | 20 | 45 | 45 |
| Other reserves | 20 | 175 | 175 |
| Translation reserve | 20 | 456 | 433 |
| Hedging reserve | 20 | (31) | (22) |
| Retained earnings | | 7,694 | 6,423 |
| Total equity attributable to equity shareholders | | 8,339 | 7,054 |
| Non-controlling interests | | 73 | 68 |
| Total equity | | 8,412 | 7,122 |

The financial statements on pages 107 to 157 were approved by the board of directors on 7 November 2017 and were signed on its behalf by:

Charles Sinclair
Chairman

John Bason
Director

CONSOLIDATED CASH FLOW STATEMENT

for the 52 weeks ended 16 September 2017

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 52 weeks ended 16 September 2017

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| | Note | Attributable to equity shareholders | | | | | Total £m | Non- controlling interests £m | Total equity £m |
|--|------|-------------------------------------|-------------------------|------------------------------|--------------------------|----------------------------|--------------|--|-----------------------|
| | | Issued capital £m | Other reserves £m | Translation reserve £m | Hedging reserve £m | Retained earnings £m | | | |
| Balance as at 12 September 2015 | | 45 | 175 | (120) | (11) | 6,232 | 6,321 | 190 | 6,511 |
| Total comprehensive income | | | | | | | | | |
| Profit for the period recognised in the income statement | | – | – | – | – | 818 | 818 | 3 | 821 |
| Remeasurements of defined benefit schemes | | – | – | – | – | (258) | (258) | – | (258) |
| Deferred tax associated with defined benefit schemes | | – | – | – | – | 50 | 50 | – | 50 |
| Current tax associated with defined benefit schemes | | – | – | – | – | 1 | 1 | – | 1 |
| Items that will not be reclassified to profit or loss | | – | – | – | – | (207) | (207) | – | (207) |
| Effect of movements in foreign exchange | | – | – | 603 | 2 | – | 605 | 5 | 610 |
| Net loss on hedge of net investment in foreign subsidiaries | | – | – | (75) | – | – | (75) | – | (75) |
| Deferred tax associated with movements in foreign exchange | | – | – | 8 | – | – | 8 | – | 8 |
| Current tax associated with movements in foreign exchange | | – | – | 1 | – | – | 1 | – | 1 |
| Movement in cash flow hedging position | | – | – | – | (17) | – | (17) | 4 | (13) |
| Deferred tax associated with movement in cash flow hedging position | | – | – | – | 4 | – | 4 | – | 4 |
| Share of other comprehensive income of joint ventures and associates | | – | – | 16 | – | – | 16 | – | 16 |
| Items that are or may be subsequently reclassified to profit or loss | | – | – | 553 | (11) | – | 542 | 9 | 551 |
| Other comprehensive income | | – | – | 553 | (11) | (207) | 335 | 9 | 344 |
| Total comprehensive income | | – | – | 553 | (11) | 611 | 1,153 | 12 | 1,165 |
| Transactions with owners | | | | | | | | | |
| Dividends paid to equity shareholders | 6 | – | – | – | – | (279) | (279) | – | (279) |
| Net movement in own shares held | | – | – | – | – | (12) | (12) | – | (12) |
| Deferred tax associated with share-based payments | | – | – | – | – | (2) | (2) | – | (2) |
| Current tax associated with share-based payments | | – | – | – | – | 1 | 1 | – | 1 |
| Dividends paid to non-controlling interests | | – | – | – | – | – | – | (10) | (10) |
| Acquisition and disposal of non-controlling interests | | – | – | – | – | (128) | (128) | (124) | (252) |
| Total transactions with owners | | – | – | – | – | (420) | (420) | (134) | (554) |
| Balance as at 17 September 2016 | | 45 | 175 | 433 | (22) | 6,423 | 7,054 | 68 | 7,122 |
| Total comprehensive income | | | | | | | | | |
| Profit for the period recognised in the income statement | | – | – | – | – | 1,198 | 1,198 | 13 | 1,211 |
| Remeasurements of defined benefit schemes | | – | – | – | – | 438 | 438 | – | 438 |
| Deferred tax associated with defined benefit schemes | | – | – | – | – | (77) | (77) | – | (77) |
| Items that will not be reclassified to profit or loss | | – | – | – | – | 361 | 361 | – | 361 |
| Effect of movements in foreign exchange | | – | – | 63 | – | – | 63 | (2) | 61 |
| Net loss on hedge of net investment in foreign subsidiaries | | – | – | (9) | – | – | (9) | – | (9) |
| Deferred tax associated with movements in foreign exchange | | – | – | (2) | – | – | (2) | – | (2) |
| Current tax associated with movements in foreign exchange | | – | – | (1) | – | – | (1) | – | (1) |
| Reclassification adjustment for movements in foreign exchange on subsidiaries disposed | | – | – | (28) | – | – | (28) | – | (28) |
| Movement in cash flow hedging position | | – | – | – | (9) | – | (9) | 1 | (8) |
| Items that are or may be subsequently reclassified to profit or loss | | – | – | 23 | (9) | – | 14 | (1) | 13 |
| Other comprehensive income | | – | – | 23 | (9) | 361 | 375 | (1) | 374 |
| Total comprehensive income | | – | – | 23 | (9) | 1,559 | 1,573 | 12 | 1,585 |
| Transactions with owners | | | | | | | | | |
| Dividends paid to equity shareholders | 6 | – | – | – | – | (299) | (299) | – | (299) |
| Net movement in own shares held | | – | – | – | – | 11 | 11 | – | 11 |
| Deferred tax associated with share-based payments | | – | – | – | – | 1 | 1 | – | 1 |
| Current tax associated with share-based payments | | – | – | – | – | (1) | (1) | – | (1) |
| Dividends paid to non-controlling interests | | – | – | – | – | – | – | (4) | (4) |
| Acquisition and disposal of non-controlling interests | | – | – | – | – | – | – | (3) | (3) |
| Total transactions with owners | | – | – | – | – | (288) | (288) | (7) | (295) |
| Balance as at 16 September 2017 | | 45 | 175 | 456 | (31) | 7,694 | 8,339 | 73 | 8,412 |

Financial statements

Associated British Foods plc ('the Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the 52 weeks ended 16 September 2017 comprise those of the Company and its subsidiaries (together referred to as 'the group') and the group's interest in joint ventures and associates.

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

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

The Company has elected to prepare its parent company financial statements under Financial Reporting Standard 101 *Reduced Disclosure Framework*. These are presented on pages 158 to 164.

Basis of preparation

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

The preparation of financial statements under Adopted IFRS requires management to make judgements, estimates and assumptions about the reported amounts of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on experience. Actual results may differ from these estimates. Judgements made by management in the application of Adopted IFRS that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment next year, are discussed in Accounting estimates and judgements detailed on page 116.

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 16 September 2017 (2016 – 53 weeks ended 17 September 2016). To avoid delay in the preparation of the consolidated financial statements, the results of certain subsidiaries, joint ventures and associates are included up to 31 August each year. Adjustments are made as appropriate for significant transactions or events occurring between 16 September and these other balance sheet dates.

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 6 to 47. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 48 and 49. In addition, the Principal risks and uncertainties on pages 54 to 58 and note 24 on pages 138 to 147 provide details of the group's policy on managing its financial and commodity risks.

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

Basis of consolidation

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

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to direct the activities of an entity so as to significantly affect the returns of that entity.

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

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

Associates are those entities in which the group has significant influence, being the power to participate in the financial and operating policy decisions of the entity, but which does not amount to control or joint control.

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

Control, joint control and significant influence are generally assessed by reference to equity shareholdings and voting rights.

Business combinations

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired, reflecting conditions at the date of acquisition. Adjustments to fair values include those made to bring accounting policies into line with those of the group. Provisional fair values are finalised within 12 months of the business combination date and, where significant, are adjusted by restatement of the comparative period in which the acquisition occurred. Non-controlling interests are measured at the proportionate share of the net identifiable assets acquired.

Existing equity interests in the acquiree are remeasured to fair value as at the date of the business combination, with any resulting gain or loss taken to the income statement.

Goodwill arising on a business combination is the excess of the remeasured carrying amount of any existing equity interest plus the fair value of consideration payable for the additional stake over the fair value of the share of net identifiable assets and liabilities acquired (including separately identified intangible assets), net of non-controlling interests. Total consideration does not include transaction costs, which are expensed as incurred. Contingent consideration is measured at fair value at the date of the business combination, classified as a liability or equity (usually as a liability), and subsequently accounted for in line with that classification. Changes in contingent consideration classified as a liability resulting other than from the finalisation of provisional fair values are accounted for in the income statement.

Revenue

Revenue represents the value of sales made to customers after deduction of discounts, sales taxes and a provision for returns. Discounts include sales rebates, price discounts, customer incentives, certain promotional activities and similar items. Revenue does not include sales between group companies. Revenue is recognised when the risks and rewards of the underlying products have been substantially transferred to the customer and when it can be measured reliably.

In the food businesses, revenue from the sale of goods is generally recognised on dispatch or delivery to customers, dependent on shipping terms. Discounts and returns are provided for as a reduction to revenue when sales are recorded, based on management's best estimate of the amount required to meet claims by customers, taking into account contractual and legal obligations, historical trends and past experience.

In the retail business, revenue from the sale of goods is recognised when the customer purchases goods in store. Returns are provided for as a reduction to revenue when sales are recorded, based on management's best estimate of the amount required to meet claims by customers, taking into account historical trends and past experience.

Borrowing costs

Borrowing costs are accounted for using the effective interest method. The group capitalises borrowing costs directly attributable to the acquisition, construction or production of qualifying items of property, plant and equipment as part of their cost. Interest capitalised is taxed under current or deferred tax as appropriate.

Exceptional items

Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure on the face of the income statement.

Adjusted profit and earnings measures

Adjusted operating profit is stated before amortisation of non-operating intangibles, transaction costs and profits less losses on disposal of non-current assets.

Adjusted profit before tax is stated before amortisation of non-operating intangibles, transaction costs, profits less losses on disposal of non-current assets and profits less losses on sale and closure of businesses. Both measures are shown on the face of the income statement.

Adjusted earnings and adjusted earnings per share are shown in the notes and are stated before amortisation of non-operating intangibles, transaction costs, profits less losses on disposal of non-current assets and profits less losses on sale and closure of businesses together with the related tax effect.

Items as defined above which arise in the group's joint ventures and associates are also treated as adjusting items for the purposes of adjusted operating profit and adjusted profit before tax. These items are identified in the relevant notes.

Constant currency

Constant currency is derived by translating the prior year results at current year weighted average exchange rates.

Foreign currencies

In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rate prevailing at the balance sheet date. Any resulting differences are taken to the income statement.

On consolidation, assets and liabilities of foreign operations that are denominated in foreign currencies are translated into sterling at the rate of exchange at the balance sheet date. Income and expense items are translated into sterling at average rates of exchange.

Differences arising from the retranslation of opening net assets of group companies, together with differences arising from the restatement of the net results of group companies from average rates to rates at the balance sheet date, are taken to the translation reserve in equity.

Pensions and other post-employment benefits

The group's pension arrangements comprise defined benefit plans, defined contribution plans and other unfunded post-employment liabilities. For defined benefit plans, the amount charged in the income statement is the cost of benefits accruing to employees over the year, plus any benefit improvements granted to members by the group during the year. It also includes net interest expense or income calculated by applying the liability discount rate to the net pension asset or liability. For each plan, the difference between market value of assets and present value of liabilities is disclosed as an asset or liability in the balance sheet.

Any related deferred tax (to the extent recoverable) is disclosed separately in the balance sheet. Remeasurements are recognised immediately in other comprehensive income. Surpluses are recognised only to the extent that they are recoverable. Movements in irrecoverable surpluses are recognised immediately as remeasurements in other comprehensive income.

Contributions payable by the group in respect of defined contribution plans are charged to operating profit as incurred. Other unfunded post-employment liabilities are accounted for in the same way as defined benefit pension plans.

Share-based payments

The fair value of share awards at grant date is recognised as an employee expense with a corresponding increase in equity, spread over the period during which the employees become unconditionally entitled to the shares. The amount recognised is adjusted to reflect expected and actual levels of vesting except where the failure to vest is as a result of not meeting a market condition.

Income tax

Income tax on profit or loss for the period comprises current and deferred tax.

Income tax is recognised in the income statement except to the extent that it relates to items taken directly to equity.

Current tax is the tax expected to be payable on taxable income for the year, using tax rates enacted or substantively enacted during the period, together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill; initial recognition of assets or liabilities affecting neither accounting nor taxable profit other than those acquired in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Financial assets and liabilities

Financial assets and financial liabilities, except for other non-current investments and derivatives, are measured initially at fair value, plus directly attributable transaction costs, and thereafter at amortised cost. Other non-current investments (classified under non-current other receivables) comprise available-for-sale investments measured at market prices where available. Where quoted market prices in an active market are not available, and where fair value cannot be reliably measured, unquoted equity instruments are measured at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise bank and cash balances, call deposits and short-term investments with original maturities of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Derivatives

Derivatives are used to manage the group's economic exposure to financial and commodity risks. The principal instruments used are foreign exchange and commodity contracts, futures, swaps or options (the 'hedging instrument'). The group does not use derivatives for speculative purposes.

Derivatives are recognised in the balance sheet, at fair value, based on market prices or rates, or calculated using either discounted cash flow or option pricing models.

Changes in the value of derivatives are recognised in the income statement unless they qualify for hedge accounting, when recognition of any change in fair value depends on the nature of the item being hedged.

The purpose of hedge accounting is to mitigate the impact on the group's income statement of changes in foreign exchange or interest rates and commodity prices, by matching the impact of the hedged risk and the hedging instrument in the income statement.

Changes in the value of derivatives used as hedges of future cash flows are recognised through other comprehensive income in the hedging reserve, with any ineffective portion recognised immediately in the income statement.

When the future cash flow results in the recognition of a non-financial asset or liability, the gains and losses previously recognised in the hedging reserve are included in the initial measurement of that asset or liability. Otherwise, gains and losses previously recognised in the hedging reserve are recognised in the income statement at the same time as the hedged transaction.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in the hedging reserve is retained in the hedging reserve until the forecast transaction occurs. Gains or losses on hedging instruments relating to an underlying exposure that no longer exists are taken to the income statement.

Hedges of the group's net investment in foreign operations principally comprise borrowings in the currency of the investment's net assets.

The group economically hedges foreign currency exposure on recognised monetary assets and liabilities but does not normally seek hedge accounting. Any derivatives that the group holds to hedge this exposure are classified as 'held for trading' within derivative assets and liabilities. Changes in the fair value of such derivatives and the foreign exchange gains and losses arising on the related monetary items are recognised within operating profit.

Intangible assets other than goodwill

Non-operating intangible assets are intangible assets that arise on business combinations and typically include technology, brands, customer relationships and grower agreements. Operating intangible assets are acquired in the ordinary course of business and typically include computer software, land use rights and emissions trading licences.

Intangible assets other than goodwill are stated at cost less accumulated amortisation and impairment charges.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives are generally deemed to be no longer than:

Technology and brands – up to 15 years
Customer relationships – up to 5 years
Grower agreements – up to 10 years

Goodwill

Goodwill is defined under 'Business combinations' on page 112. Certain commercial assets associated with the acquisition of a business are not capable of being recognised in the acquisition balance sheet. In such circumstances, goodwill is recognised, which may include, but is not necessarily limited to, workforce assets and the benefits of expected future synergies.

Goodwill is not amortised but is subject to an annual impairment review.

Research and development

Research expenditure is expensed as incurred. Development expenditure is capitalised if the product or process is technically and commercially feasible but is otherwise expensed as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment charges.

Impairment

The carrying amounts of the group's intangible assets and property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, and intangibles without a finite life, the recoverable amount is estimated at least annually.

An impairment charge is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.

Impairment charges recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to that CGU and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less costs to sell and their value in use. In assessing value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the CGU to which the asset belongs.

Reversals of impairment

An impairment charge in respect of goodwill is not subsequently reversed. For other assets, an impairment charge is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the new carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment charge had been recognised.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment charges.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment sufficient to reduce them to estimated residual value. Land is not depreciated. Estimated useful lives are generally deemed to be no longer than:

| | |
|--|----------------|
| Freehold buildings | up to 66 years |
| Plant and equipment, fixtures and fittings – sugar factories, yeast plants, mills and bakeries | up to 20 years |
| – other operations | up to 12 years |
| Vehicles | up to 10 years |
| Sugar cane roots | up to 10 years |

Leases

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or a series of payments, the right to use a specific asset for an agreed period of time.

Where the group is a lessee and has substantially all the risks and rewards of ownership of an asset, the arrangement is considered a finance lease. Finance leases are recognised as assets of the group within property, plant and equipment at the inception of the lease at the lower of fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Payments made under finance leases are apportioned between capital repayments and interest expense charged to the income statement. Other leases where the group is a lessee are treated as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease, as is the benefit of lease incentives.

Where the group is a lessor under an operating lease, the asset is capitalised within property, plant and equipment and depreciated over its useful economic life. Payments received under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Current biological assets

Current biological assets are measured at fair value less costs to sell.

The basis of valuation for growing cane is estimated sucrose content valued at estimated sucrose price for the following season, less estimated costs for harvesting and transport.

When harvested, growing cane is transferred to inventory at fair value less costs to sell.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses and an appropriate proportion of production and other overheads, calculated on a first-in first-out basis.

Inventories for the retail businesses are valued at the lower of cost and net realisable value using the retail method, calculated on the basis of selling price less appropriate trading margin. All retail inventories are finished goods.

New accounting policies

The following new accounting standards were adopted in the year, none of which resulted in a significant impact to the current or prior years:

- *Annual Improvements to IFRSs 2012–2014*
- Amendments to IFRS 10, IFRS 12 and IAS 28: *Investment Entities – Applying the Consolidation Exception*
- Amendments to IFRS 11: *Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to IAS 1: *Disclosure Initiative*
- Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*

SIGNIFICANT ACCOUNTING POLICIES

for the 52 weeks ended 16 September 2017

The group is assessing the impact of the following standards, interpretations and amendments that are not yet effective. Where already endorsed by the EU, these changes will be adopted on the effective dates noted. Where not yet endorsed by the EU, the adoption date is less certain. The standards effective in 2018 are not expected to have any material effect on the group.

- Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions* effective 2019 financial year (not yet endorsed by the EU)
- Amendments to IFRS 4: *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* effective 2019 financial year (not yet endorsed by the EU)
- *Annual Improvements to IFRSs 2014–2016* effective 2018 and 2019 financial years
- IFRS 9 *Financial Instruments: Classification and Measurement* effective 2019 financial year
- IFRS 15 *Revenue from Contracts with Customers* effective 2019 financial year
- IFRS 16 *Leases* effective 2020 financial year (not yet endorsed by the EU)
- IFRS 17 *Insurance Contracts* effective 2022 financial year (not yet endorsed by the EU)
- Amendments to IAS 7: *Disclosure Initiative* effective 2018 financial year (not yet endorsed by the EU)
- Amendments to IAS 12: *Recognition of Deferred Tax Assets for Unrealised Losses* effective 2018 financial year (not yet endorsed by the EU)
- IFRIC 22: *Foreign Currency Transactions and Advance Consideration* effective 2019 financial year (not yet endorsed by the EU)
- IFRIC 23: *Uncertainty over Income Tax Treatments* effective 2020 financial year (not yet endorsed by the EU)

The three new standards with the most significant potential effect on the group's financial statements are: IFRS 9, IFRS 15 and IFRS 16.

Impact assessments and implementation planning is already underway for these standards.

Further details of the group's transitional approach to their implementation and their expected impact will be provided in the 2018 consolidated financial statements.

The impact of the other standards is currently under review, but is expected to be much less significant.

ACCOUNTING ESTIMATES AND JUDGEMENTS

for the 52 weeks ended 16 September 2017

In applying the accounting policies detailed on pages 112 to 116, management has made estimates in a number of areas and the actual outcome may differ from those calculated. Key sources of estimation uncertainty at the balance sheet date, with the potential for material adjustment to the carrying value of assets and liabilities within the next financial year, are set out below.

Forecasts and discount rates

The carrying values of a number of items on the balance sheet are dependent on estimates of future cash flows arising from the group's operations which, in some circumstances, are discounted to arrive at a net present value.

Assessment for impairment involves comparing the book value of an asset with its recoverable amount (being the higher of value in use and fair value less costs to sell). Value in use is determined with reference to projected future cash flows discounted at an appropriate rate. Both the cash flows and the discount rate involve a significant degree of estimation uncertainty.

The realisation of deferred tax assets is dependent on the generation of sufficient future taxable profits. The group recognises deferred tax assets to the extent that it is considered probable that sufficient taxable profits will be available in the future. Deferred tax assets are reduced to the extent that it is no longer considered probable that the related tax benefit will be realised.

Post-retirement benefits

The group's defined benefit pension schemes and similar arrangements are assessed annually in accordance with IAS 19. The accounting valuation, which has been assessed using assumptions determined with independent actuarial advice, resulted in a net asset of £126m being recognised as at 16 September 2017. The size of this net asset is sensitive to the market value of the assets held by the schemes, to the discount rate used in assessing liabilities, to the actuarial assumptions (which include price inflation, rates of pension and salary increases, mortality and other demographic assumptions) and to the level of contributions. Further details are included in note 11.

Biological assets

In valuing growing cane, estimating sucrose content requires management to assess expected cane and sucrose yields for the following season considering weather conditions and harvesting programmes. Estimating sucrose price requires management to assess into which markets the forthcoming crop will be sold and assess domestic and export prices as well as related foreign currency exchange rates. The carrying value of growing cane is disclosed in note 15.

Taxation

The group makes provision for open tax issues including, in a number of jurisdictions, routine tax audits which are by nature complex and can take a number of years to resolve. Provisions are based on management's interpretation of tax law in each country and ongoing monitoring of the outcome of EU cases and investigations on tax rulings, and reflect the best estimate of the liability. The group believes it has made adequate provision for such matters.

1. Operating segments

The group has five operating segments, as described below. These are the group’s operating divisions, based on the management and internal reporting structure, which combine businesses with common characteristics, primarily in respect of the type of products offered by each business, but also the production processes involved and the manner of the distribution and sale of goods. The board is the chief operating decision-maker.

Inter-segment pricing is determined on an arm’s length basis. Segment result is adjusted operating profit, as shown on the face of the consolidated income statement. Segment assets comprise all non-current assets except employee benefits assets, income tax assets and deferred tax assets, and all current assets except cash and cash equivalents. Segment liabilities comprise trade and other payables, derivative liabilities and provisions.

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

The group is comprised of the following operating segments:

Grocery

The manufacture of grocery products, including hot beverages, sugar & sweeteners, vegetable oils, bread & baked goods, cereals, ethnic foods, and meat products, which are sold to retail, wholesale and foodservice businesses.

Sugar

The growing and processing of sugar beet and sugar cane for sale to industrial users and to Silver Spoon, which is included in the grocery segment.

Agriculture

The manufacture of animal feeds and the provision of other products and services for the agriculture sector.

Ingredients

The manufacture of bakers’ yeast, bakery ingredients, enzymes, lipids, yeast extracts and cereal specialities.

Retail

Buying and merchandising value clothing and accessories through the Primark and Penneys retail chains.

Geographical information

In addition to the required disclosure for operating segments, disclosure is also given of certain geographical information about the group’s operations, based on the geographical groupings: United Kingdom; Europe & Africa; The Americas; and Asia Pacific.

Revenues are shown by reference to the geographical location of customers. Profits are shown by reference to the geographical location of the businesses. Segment assets are based on the geographical location of the assets.

| | Revenue | | Adjusted operating profit | |
|---------------------------------|---------------|------------|---------------------------|------------|
| | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
| Operating segments | | | | |
| Grocery | 3,381 | 3,097 | 303 | 294 |
| Sugar | 2,174 | 1,636 | 223 | 35 |
| Agriculture | 1,203 | 1,084 | 50 | 58 |
| Ingredients | 1,493 | 1,294 | 125 | 93 |
| Retail | 7,053 | 5,949 | 735 | 689 |
| Central | – | – | (75) | (60) |
| | 15,304 | 13,060 | 1,361 | 1,109 |
| Businesses disposed: | | | | |
| Grocery | 53 | 177 | 5 | 10 |
| Sugar | – | 162 | (3) | (1) |
| | 15,357 | 13,399 | 1,363 | 1,118 |
| Geographical information | | | | |
| United Kingdom | 5,702 | 5,375 | 504 | 484 |
| Europe & Africa | 5,865 | 4,564 | 555 | 364 |
| The Americas | 1,538 | 1,226 | 189 | 158 |
| Asia Pacific | 2,199 | 1,895 | 113 | 103 |
| | 15,304 | 13,060 | 1,361 | 1,109 |
| Businesses disposed: | | | | |
| The Americas | 53 | 177 | 5 | 10 |
| Asia Pacific | – | 162 | (3) | (1) |
| | 15,357 | 13,399 | 1,363 | 1,118 |

1. Operating segments continued

For the 52 weeks ended 16 September 2017

| | Grocery £m | Sugar £m | Agriculture £m | Ingredients £m | Retail £m | Central £m | Total £m |
|--|---------------|-------------|-------------------|-------------------|--------------|---------------|-------------|
| Revenue from continuing businesses | 3,384 | 2,282 | 1,207 | 1,674 | 7,053 | (296) | 15,304 |
| Internal revenue | (3) | (108) | (4) | (181) | – | 296 | – |
| External revenue from continuing businesses | 3,381 | 2,174 | 1,203 | 1,493 | 7,053 | – | 15,304 |
| Businesses disposed | 53 | – | – | – | – | – | 53 |
| Revenue from external customers | 3,434 | 2,174 | 1,203 | 1,493 | 7,053 | – | 15,357 |
| Adjusted operating profit before joint ventures and associates | 264 | 220 | 37 | 112 | 735 | (75) | 1,293 |
| Share of profit after tax from joint ventures and associates | 39 | 3 | 13 | 13 | – | – | 68 |
| Businesses disposed | 5 | (3) | – | – | – | – | 2 |
| Adjusted operating profit | 308 | 220 | 50 | 125 | 735 | (75) | 1,363 |
| Profits less losses on disposal of non-current assets | 17 | – | – | – | (6) | (5) | 6 |
| Amortisation of non-operating intangibles | (25) | (1) | (1) | (1) | – | – | (28) |
| Transaction costs | (4) | – | – | (1) | – | – | (5) |
| Profits less losses on sale and closure of businesses | 110 | 183 | – | – | – | – | 293 |
| Profit before interest | 406 | 402 | 49 | 123 | 729 | (80) | 1,629 |
| Finance income | | | | | | 9 | 9 |
| Finance expense | | | | | | (59) | (59) |
| Other financial expense | | | | | | (3) | (3) |
| Taxation | | | | | | (365) | (365) |
| Profit for the period | 406 | 402 | 49 | 123 | 729 | (498) | 1,211 |
| Segment assets (excluding joint ventures and associates) | 2,349 | 2,079 | 371 | 1,416 | 4,245 | 90 | 10,550 |
| Investments in joint ventures and associates | 36 | 23 | 131 | 64 | – | – | 254 |
| Segment assets | 2,385 | 2,102 | 502 | 1,480 | 4,245 | 90 | 10,804 |
| Cash and cash equivalents | | | | | | 1,550 | 1,550 |
| Income tax | | | | | | 28 | 28 |
| Deferred tax assets | | | | | | 143 | 143 |
| Employee benefits assets | | | | | | 285 | 285 |
| Segment liabilities | (515) | (480) | (112) | (273) | (1,382) | (199) | (2,961) |
| Loans and overdrafts | | | | | | (877) | (877) |
| Income tax | | | | | | (170) | (170) |
| Deferred tax liabilities | | | | | | (231) | (231) |
| Employee benefits liabilities | | | | | | (159) | (159) |
| Net assets | 1,870 | 1,622 | 390 | 1,207 | 2,863 | 460 | 8,412 |
| Non-current asset additions | 140 | 100 | 27 | 78 | 519 | 3 | 867 |
| Depreciation | (116) | (84) | (11) | (52) | (248) | (3) | (514) |
| Amortisation | (43) | (4) | (2) | (4) | (3) | (1) | (57) |
| Impairment of property, plant & equipment on disposal of business | (2) | – | – | – | – | – | (2) |

| Geographical information | United Kingdom £m | Europe & Africa £m | The Americas £m | Asia Pacific £m | Total £m |
|--|-------------------------|--------------------------|-----------------------|-----------------------|-------------|
| Revenue from external customers | 5,702 | 5,865 | 1,591 | 2,199 | 15,357 |
| Segment assets | 4,199 | 4,123 | 1,077 | 1,405 | 10,804 |
| Non-current asset additions | 290 | 407 | 89 | 81 | 867 |
| Depreciation | (189) | (190) | (54) | (81) | (514) |
| Amortisation | (33) | (8) | (5) | (11) | (57) |
| Impairment of property, plant & equipment on disposal of business | – | – | (2) | – | (2) |

1. Operating segments continued

For the 53 weeks ended 17 September 2016

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

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

Segment disclosures given above are stated before reclassification of assets and liabilities classified as held for sale.

2. Operating costs

| | Note | 2017 £m | 2016 £m |
|---|------|---------------|------------|
| Operating costs | | | |
| Cost of sales (including amortisation of intangibles) | | 11,751 | 10,258 |
| Distribution costs | | 1,385 | 1,265 |
| Administration expenses | | 954 | 841 |
| | | 14,090 | 12,364 |

Operating costs are stated after charging/(crediting):

| | | | |
|--|---|--------------|-------|
| Employee benefits expense | 3 | 2,546 | 2,208 |
| Amortisation of non-operating intangibles | 8 | 25 | 21 |
| Amortisation of operating intangibles | 8 | 32 | 26 |
| Profits less losses on disposal of non-current assets | | (6) | (11) |
| Depreciation of property, plant and equipment | 9 | 514 | 439 |
| Transaction costs | | 3 | 5 |
| Operating lease payments under property leases | | 261 | 222 |
| Operating lease payments for hire of plant and equipment | | 14 | 14 |
| Other operating income | | (19) | (19) |
| Research and development expenditure | | 37 | 36 |
| Fair value gains on financial assets and liabilities held for trading | | (10) | (12) |
| Fair value losses on financial assets and liabilities held for trading | | 18 | 16 |
| Foreign exchange gains on operating activities | | (62) | (55) |
| Foreign exchange losses on operating activities | | 70 | 58 |

Transaction costs of £5m and amortisation of non-operating intangibles of £28m (2016 – £5m and £21m) shown as adjusting items in the income statement, include £2m and £3m respectively (2016 – £nil and £nil respectively) incurred by joint ventures, in addition to the amounts shown above.

| Auditor's remuneration | 2017 £m | 2016 £m |
|---|------------|------------|
| Fees payable to the Company's auditor and its associates in respect of the audit | | |
| Group audit of these financial statements | 0.7 | 0.7 |
| Audit of the Company's subsidiaries' financial statements | 5.6 | 4.8 |
| Total audit remuneration | 6.3 | 5.5 |

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 | – | 0.5 |
| Tax advisory services | – | 0.3 |
| All other services | 0.2 | 0.1 |
| Total non-audit related remuneration | 0.5 | 1.2 |

3. Employees

| | 2017 | 2016 |
|------------------------------------|----------------|---------|
| Average number of employees | | |
| United Kingdom | 46,299 | 43,954 |
| Europe & Africa | 67,081 | 64,308 |
| The Americas | 5,694 | 5,284 |
| Asia Pacific | 13,516 | 16,370 |
| | 132,590 | 129,916 |

| | Note | £m | £m |
|---|------|--------------|-------|
| Employee benefits expense | | | |
| Wages and salaries | | 2,137 | 1,866 |
| Social security contributions | | 261 | 216 |
| Contributions to defined contribution schemes | 11 | 79 | 74 |
| Charge for defined benefit schemes | 11 | 48 | 45 |
| Equity-settled share-based payment schemes | 22 | 21 | 7 |
| | | 2,546 | 2,208 |

Details of directors' remuneration, share incentives and pension entitlements are shown in the Remuneration report on pages 75 to 93.

4. Interest and other financial income and expense

| | Note | 2017 £m | 2016 £m |
|--|------|--------------|------------|
| Finance income | | | |
| Cash and cash equivalents | | 9 | 6 |
| | | 9 | 6 |
| Finance expense | | | |
| Bank loans and overdrafts | | (29) | (26) |
| All other borrowings | | (27) | (28) |
| Finance leases | | (1) | (1) |
| Other payables | | (2) | (1) |
| | | (59) | (56) |
| Other financial (expense)/income | | | |
| Interest income on employee benefit scheme assets | 11 | 98 | 135 |
| Interest charge on employee benefit scheme liabilities | 11 | (103) | (134) |
| Interest charge on irrecoverable surplus | 11 | (1) | (1) |
| Net financial expense from employee benefit schemes | | (6) | - |
| Net foreign exchange gains on financing activities | | 3 | 3 |
| Total other financial (expense)/income | | (3) | 3 |

5. Income tax expense

| | 2017 £m | 2016 £m |
|--|--------------|------------|
| Current tax expense | | |
| UK – corporation tax at 19.54% (2016 – 20.00%) | 82 | 85 |
| Overseas – corporation tax | 297 | 142 |
| UK – (over)/under provided in prior periods | (12) | 6 |
| Overseas – over provided in prior periods | (9) | (17) |
| | 358 | 216 |
| Deferred tax expense | | |
| UK deferred tax | (10) | (14) |
| Overseas deferred tax | 17 | 28 |
| UK – under/(over) provided in prior periods | 2 | (4) |
| Overseas – over provided in prior periods | (2) | (5) |
| | 7 | 5 |
| Total income tax expense in income statement | 365 | 221 |
| Reconciliation of effective tax rate | | |
| Profit before taxation | 1,576 | 1,042 |
| Less share of profit after tax from joint ventures and associates | (63) | (57) |
| Profit before taxation excluding share of profit after tax from joint ventures and associates | 1,513 | 985 |
| Nominal tax charge at UK corporation tax rate of 19.54% (2016 – 20.00%) | 296 | 197 |
| Effect of higher and lower tax rates on overseas earnings | 39 | 5 |
| Effect of changes in tax rates on income statement | – | (6) |
| Expenses not deductible for tax purposes | 24 | 38 |
| Disposal of assets covered by tax exemptions or unrecognised capital losses | 9 | (1) |
| Deferred tax not recognised | 18 | 8 |
| Adjustments in respect of prior periods | (21) | (20) |
| | 365 | 221 |
| Income tax recognised directly in equity | | |
| Deferred tax associated with defined benefit schemes | 77 | (50) |
| Current tax associated with defined benefit schemes | – | (1) |
| Deferred tax associated with share-based payments | (1) | 2 |
| Current tax associated with share-based payments | 1 | (1) |
| Deferred tax associated with movement in cash flow hedging position | – | (4) |
| Deferred tax associated with movements in foreign exchange | 2 | (8) |
| Current tax associated with movements in foreign exchange | 1 | (1) |
| | 80 | (63) |

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

Deferred taxation balances are analysed in note 12.

6. Dividends

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

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

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

7. Earnings per share

The calculation of basic earnings per share at 16 September 2017 was based on the net profit attributable to equity shareholders of £1,198m (2016 – £818m), and a weighted average number of shares outstanding during the year of 790 million (2016 – 791 million). The calculation of the weighted average number of shares excludes the shares held by the Employee Share Ownership Plan Trust on which the dividends are being waived.

Adjusted earnings per ordinary share, which exclude the impact of profits less losses on disposal of non-current assets and the sale and closure of businesses, transaction costs, amortisation of non-operating intangibles and any associated tax credits, is shown to provide clarity on the underlying performance of the group.

Transaction costs of £5m and amortisation of non-operating intangibles of £28m (2016 – £5m and £21m) shown as adjusting items below include £2m and £3m respectively (2016 – £nil and £nil respectively) incurred by joint ventures.

The diluted earnings per share calculation takes into account the dilutive effect of share incentives. The diluted, weighted average number of shares is 790 million (2016 – 791 million). There is no difference between basic and diluted earnings.

| | 2017 £m | 2016 £m |
|---|--------------|------------|
| Adjusted profit for the period | 1,004 | 840 |
| Disposal of non-current assets | 6 | 11 |
| Sale and closure of businesses | 293 | (14) |
| Transaction costs | (5) | (5) |
| Tax effect on above adjustments | (87) | 1 |
| Amortisation of non-operating intangibles | (28) | (21) |
| Tax credit on non-operating intangibles amortisation and goodwill | 15 | 5 |
| Non-controlling interests' share of the above adjustments | – | 1 |
| Profit for the period attributable to equity shareholders | 1,198 | 818 |

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

8. Intangible assets

| | Non-operating | | | | | | Operating | Total £m |
|--|----------------|------------------|--------------|---------------------------------|----------------------------|-------------|-------------|--------------|
| | Goodwill £m | Technology £m | Brands £m | Customer relationships £m | Grower agreements £m | Other £m | Other £m | |
| Cost | | | | | | | | |
| At 12 September 2015 | 1,146 | 180 | 402 | 95 | 105 | 5 | 249 | 2,182 |
| Acquisitions – externally purchased | – | – | – | – | – | – | 38 | 38 |
| Acquired through business combinations | 3 | – | 2 | – | – | – | – | 5 |
| Other disposals | – | – | – | – | – | – | (7) | (7) |
| Transfer to assets classified as held for sale | (119) | – | (52) | – | – | – | (13) | (184) |
| Effect of movements in foreign exchange | 107 | 28 | 32 | 14 | 13 | 1 | 36 | 231 |
| At 17 September 2016 | 1,137 | 208 | 384 | 109 | 118 | 6 | 303 | 2,265 |
| Acquisitions – externally purchased | – | – | – | – | – | – | 50 | 50 |
| Acquired through business combinations | 19 | – | 4 | 46 | – | – | – | 69 |
| Disposal of businesses | (5) | – | – | – | – | – | – | (5) |
| Other disposals | – | – | – | – | – | – | (12) | (12) |
| Effect of movements in foreign exchange | 9 | 1 | – | 1 | 6 | – | 3 | 20 |
| At 16 September 2017 | 1,160 | 209 | 388 | 156 | 124 | 6 | 344 | 2,387 |
| Amortisation and impairment | | | | | | | | |
| At 12 September 2015 | 33 | 180 | 280 | 85 | 105 | 5 | 127 | 815 |
| Amortisation for the year | – | – | 18 | 3 | – | – | 26 | 47 |
| Transfer to assets classified as held for sale | (1) | – | (52) | – | – | – | (4) | (57) |
| Effect of movements in foreign exchange | 3 | 28 | 32 | 13 | 13 | 1 | 22 | 112 |
| At 17 September 2016 | 35 | 208 | 278 | 101 | 118 | 6 | 171 | 917 |
| Amortisation for the year | – | – | 19 | 6 | – | – | 32 | 57 |
| Disposal of businesses | (5) | – | – | – | – | – | – | (5) |
| Other disposals | – | – | – | – | – | – | (5) | (5) |
| Effect of movements in foreign exchange | (1) | 1 | – | 3 | 6 | – | – | 9 |
| At 16 September 2017 | 29 | 209 | 297 | 110 | 124 | 6 | 198 | 973 |
| Net book value | | | | | | | | |
| At 12 September 2015 | 1,113 | – | 122 | 10 | – | – | 122 | 1,367 |
| At 17 September 2016 | 1,102 | – | 106 | 8 | – | – | 132 | 1,348 |
| At 16 September 2017 | 1,131 | – | 91 | 46 | – | – | 146 | 1,414 |

Amortisation of non-operating intangibles of £28m (2016 – £21m) shown as an adjusting item in the income statement includes £3m (2016 – £nil) incurred by joint ventures in addition to the amounts shown above.

Impairment

As at 16 September 2017, the consolidated balance sheet included goodwill of £1,131m (2016 – £1,220m of which £118m was classified as held for sale). 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 | 2017 £m | 2016 £m |
|--------------------------------------|---------------------------|---------------|--------------|------------|
| ACH | Grocery | 12.9% | 170 | 292 |
| AB Mauri | Ingredients | 13.5% | 330 | 308 |
| Twinings Ovaltine | Grocery | 11.5% | 119 | 119 |
| Capullo | Grocery | 14.9% | 49 | 46 |
| Illovo | Sugar | 20.1% | 120 | 114 |
| AB World Foods | Grocery | 11.6% | 78 | 78 |
| Other (not individually significant) | Various | Various | 265 | 263 |
| | | | 1,131 | 1,220 |

8. Intangible assets continued

A CGU, or group of CGUs, to which goodwill has been allocated must be assessed for impairment annually, or more frequently if events or circumstances indicate that the carrying amount may not be recoverable.

The carrying value of goodwill is assessed by reference to its value in use to perpetuity reflecting the projected cash flows of each of the CGUs or group of CGUs. These projections are based on the most recent budget, which has been approved by the board and reflects management's expectations of sales growth, operating costs and margin, based on past experience and external sources of information. Long-term growth rates for periods not covered by the annual budget reflect the products, industries and countries in which the relevant CGU, or group of CGUs, operate.

For some recently acquired intangible assets, management expects to achieve growth over the next three to five years in excess of the long-term growth rates for the applicable country or region. In these circumstances, budgeted cash flows are extended, generally to between three and five years, using specific growth assumptions and taking into account the specific business risks.

The key assumptions in the most recent annual budget on which the cash flow projections are based relate to discount rates, growth rates and expected changes in volumes, selling prices and direct costs.

The cash flow projections have been discounted using the group's pre-tax weighted average cost of capital adjusted for country, industry and market risk. The rates used were between 10.2% and 20.1% (2016 – between 8.6% and 18.3%).

The growth rates to perpetuity beyond the initial budgeted cash flows, applied in the value in use calculations for goodwill allocated to each of the CGUs or groups of CGUs that are significant to the total carrying amount of goodwill, were in a range between 0% and 4%, consistent with the inflation factors included in the discount rates applied (2016 – between 0% and 4%).

Changes in volumes, selling prices and direct costs are based on past results and expectations of future changes in the market.

Sensitivity to changes in key assumptions

Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. Each of the group's CGUs had significant headroom under the annual impairment review.

Notwithstanding a further substantial improvement in profit in the current year, AB Mauri continued to experience competitive pricing pressure in a number of markets around the world as well as challenging macroeconomic conditions in some markets, including high inflation rates and currency devaluations. Accordingly, management has again undertaken an impairment review. Detailed forecasts for a period of ten years to reflect the time required for completion of the business plan were prepared and management concluded that the assets were not impaired. Key drivers of the forecast improvement in performance include achievement of price increases in high inflation environments, improved reach and competitiveness in the global dry yeast market, implementation of a number of margin improvement initiatives, particularly in cost reduction, and continuing growth in the global bakery ingredients business. Headroom was \$340m on a CGU carrying value of \$954m (2016 – headroom of \$551m on a CGU carrying value of \$911m). The geographic diversity and varying local economic environments of AB Mauri's operations mean that the critical assumptions underlying the detailed forecasts used in the impairment model are wide-ranging. It is therefore impractical to provide meaningful sensitivities to these assumptions other than the discount rate. The discount rate used was 13.5% (2016 – 12.1%) and would have to increase to more than 19% (2016 – 17.0%) before value in use fell below the CGU carrying value. Estimates of long-term growth rates beyond the forecast periods were 2%–3% (2016 – 2%–3%) per annum dependent on location.

For all goodwill other than AB Mauri, 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.

9. Property, plant and equipment

| | Land and buildings £m | Plant and machinery £m | Fixtures and fittings £m | Assets under construction £m | Sugar cane roots £m | Total £m |
|--|--------------------------|---------------------------|-----------------------------|---------------------------------|------------------------|--------------|
| Cost | | | | | | |
| At 12 September 2015 | 2,255 | 3,184 | 2,049 | 125 | 52 | 7,665 |
| Acquisitions – externally purchased | 37 | 103 | 419 | 218 | 8 | 785 |
| Interest capitalised | – | – | – | 5 | – | 5 |
| Acquired through business combinations | 1 | – | – | – | – | 1 |
| Other disposals | (9) | (25) | (7) | – | (3) | (44) |
| Transfers from assets under construction | 30 | 123 | 3 | (156) | – | – |
| Transfer to assets classified as held for sale | (94) | (177) | (1) | (3) | – | (275) |
| Effect of movements in foreign exchange | 190 | 330 | 202 | 15 | 3 | 740 |
| At 17 September 2016 | 2,410 | 3,538 | 2,665 | 204 | 60 | 8,877 |
| Acquisitions – externally purchased | 119 | 81 | 392 | 213 | 12 | 817 |
| Acquired through business combinations | 6 | 3 | – | – | – | 9 |
| Other disposals | (43) | (36) | (118) | – | (8) | (205) |
| Transfers from assets under construction | 23 | 153 | 25 | (201) | – | – |
| Effect of movements in foreign exchange | 25 | 27 | 36 | 2 | – | 90 |
| At 16 September 2017 | 2,540 | 3,766 | 3,000 | 218 | 64 | 9,588 |
| Depreciation and impairment | | | | | | |
| At 12 September 2015 | 496 | 1,804 | 825 | – | 22 | 3,147 |
| Depreciation for the year | 46 | 194 | 194 | – | 5 | 439 |
| Other disposals | (2) | (3) | (7) | – | (3) | (15) |
| Transfer to assets classified as held for sale | (41) | (130) | (1) | – | – | (172) |
| Effect of movements in foreign exchange | 59 | 203 | 69 | – | 2 | 333 |
| At 17 September 2016 | 558 | 2,068 | 1,080 | – | 26 | 3,732 |
| Depreciation for the year | 51 | 217 | 239 | – | 7 | 514 |
| Impairment on disposal of business | 2 | – | – | – | – | 2 |
| Other disposals | (15) | (40) | (100) | – | (8) | (163) |
| Effect of movements in foreign exchange | 5 | 15 | 13 | – | – | 33 |
| At 16 September 2017 | 601 | 2,260 | 1,232 | – | 25 | 4,118 |
| Net book value | | | | | | |
| At 12 September 2015 | 1,759 | 1,380 | 1,224 | 125 | 30 | 4,518 |
| At 17 September 2016 | 1,852 | 1,470 | 1,585 | 204 | 34 | 5,145 |
| At 16 September 2017 | 1,939 | 1,506 | 1,768 | 218 | 39 | 5,470 |

| | 2017 £m | 2016 £m |
|---|--------------|--------------|
| Net book value of finance lease assets | 12 | 12 |
| Land and buildings at net book value comprise: | | |
| – freehold | 1,542 | 1,453 |
| – long leasehold | 318 | 326 |
| – short leasehold | 79 | 73 |
| | 1,939 | 1,852 |
| Capital expenditure commitments – contracted but not provided for | 583 | 498 |

At 17 September 2016 Land and buildings at net book value classified as held for sale comprised £23m of freehold and £30m of short leasehold.

9. Property, plant and equipment continued

Impairment

The methodology used to assess property, plant and equipment for impairment is the same as that described for impairment assessments of goodwill. See note 8 for further details.

An impairment of A\$150m (£98m) was recorded in 2012 in the Australian meat business. Further progress was made in the current year with further reduction in manufacturing costs, efficiency improvement and a general focus on cost reduction across the business. Following a detailed assessment, management has concluded that the carrying value of the assets in the meat business is not further impaired. Headroom was A\$38m on a CGU carrying value of A\$270m (2016 – headroom of A\$78m on a CGU carrying value of A\$273m). The discount rate used was 10.5% (2016 – 9.7%). Estimates of long-term growth rates beyond the forecast periods were 2.0% (2016 – 2.0%) per annum. A sensitivity of plus or minus 1% applied to the discount rate impacts headroom by plus or minus A\$38m.

Low bread prices and strong continuing competition in the UK bakery sector led to a loss at Allied Bakeries and resulted in the need for an assessment of impairment. Headroom was £87m on a CGU carrying value of £260m (2016 – headroom of £43m on a CGU carrying value of £281m). The discount rate used was 10.2% (2016 – 10.4%). Estimates of long-term growth rates beyond the forecast periods were 0.4%. A sensitivity of plus or minus 1% applied to bread prices impacts headroom by plus or minus £27m. A sensitivity of plus or minus 1% applied to bread volumes impacts headroom by plus or minus £13m.

10. Investments in joint ventures and associates

| | Joint ventures £m | Associates £m |
|---|----------------------|------------------|
| At 12 September 2015 | 180 | 32 |
| Profit for the period | 51 | 6 |
| Dividends received | (22) | (3) |
| Effect of movements in foreign exchange | 12 | 4 |
| At 17 September 2016 | 221 | 39 |
| Profit for the period | 53 | 10 |
| Dividends received | (64) | (5) |
| At 16 September 2017 | 210 | 44 |

Details of joint ventures and associates are listed in note 28.

Included in the consolidated financial statements are the following items that represent the group's share of the assets, liabilities and profit of joint ventures and associates:

| | Joint ventures | | Associates | |
|-------------------------|----------------|------------|------------|------------|
| | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
| Non-current assets | 146 | 95 | 22 | 19 |
| Current assets | 364 | 316 | 187 | 195 |
| Current liabilities | (237) | (188) | (161) | (171) |
| Non-current liabilities | (81) | (21) | (5) | (5) |
| Goodwill | 18 | 19 | 1 | 1 |
| Net assets | 210 | 221 | 44 | 39 |
| Revenue | 1,450 | 1,268 | 629 | 576 |
| Profit for the period | 53 | 51 | 10 | 6 |

11. Employee entitlements

The group operates a number of defined benefit and defined contribution retirement benefit schemes in the UK and overseas. The defined benefit schemes expose the group to a variety of actuarial risks including demographic assumptions such as mortality and financial assumptions such as discount rate, inflation risk and market (investment) risk. The group is not exposed to any unusual, entity-specific or scheme-specific risks. All schemes comply with local legislative requirements.

UK defined benefit scheme

The group's principal UK defined benefit scheme is the Associated British Foods Pension Scheme (the 'Scheme'), which is a funded final salary scheme that is closed to new members. Defined contribution arrangements are in place for other employees. The UK defined benefit schemes represent 91% (2016 – 91%) of the group's defined benefit scheme assets and 89% (2016 – 88%) of defined benefit scheme liabilities. The Scheme is governed by a trustee board which is independent of the group and which agrees a schedule of contributions with the Company each time a formal funding valuation is performed.

The previous triennial funding valuation of the Scheme was carried out as at 5 April 2014, using the current unit method, and revealed a surplus of £79m. The market value of Scheme assets was £3,085m, representing 103% 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 2017, was agreed by the trustees after the group's year end and revealed a surplus of £176m.

The Scheme's assets are managed using a risk-controlled investment strategy, which includes a liability-driven investment policy that seeks to match, where appropriate, the profile of the liabilities. This includes the use of derivative instruments to hedge inflation, interest and foreign exchange risks. The Scheme utilises both market and solvency triggers to develop the level of hedges in place. To date, the Scheme is fully hedged for 56% of inflation sensitivity and 35% of interest rate risk. It is intended to hedge 80% of total exposure.

The Scheme is forbidden by the trust deed from holding direct investments in the equity of the Company, although it is possible that the Scheme may hold indirect interests through investments in some equity funds.

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 £35m in the UK and £44m overseas, totalling £79m (2016 – UK £36m, overseas £38m, total £74m).

Actuarial assumptions

The principal actuarial assumptions for the group's defined benefit schemes at the year end were:

| | 2017 UK % | 2017 Overseas % | 2016 UK % | 2016 Overseas % |
|---|-----------------|-----------------------|-----------------|-----------------------|
| Discount rate | 2.7 | 0.7–16.5 | 2.5 | 0.2–16.2 |
| Inflation | 2.3–3.3 | 0–9.5 | 2.1–3.1 | 0–9.2 |
| Rate of increase in salaries | 3.3–4.3 | 0–12.0 | 3.1–4.2 | 0–12.0 |
| Rate of increase for pensions in payment | 2.1–3.1 | 0–5.7 | 2.2–2.9 | 0–6.5 |
| Rate of increase for pensions in deferment (where provided) | 2.3 | 0–2.0 | 2.1 | 0–2.0 |

The UK inflation assumption includes assumptions on both the Retail Price Index and Consumer Price Index measures of inflation on the basis that the gap between the two measures is expected to remain stable in the long term.

11. Employee entitlements continued

The mortality assumptions used to value the UK defined benefit schemes in both years are derived from the S2 mortality tables with improvements in line with the 2015 projection model (2016 – 2015 projection model) prepared by the Continuous Mortality Investigation of the UK actuarial profession, with no rating for males and a +0.7-year rating down for females, both with a long-term trend of 1.25% (2016 – 1.25%). These mortality assumptions take account of experience to date, and assumptions for further improvements in life expectancy of scheme members. Examples of the resulting life expectancies in the UK defined benefit schemes are as follows:

| Life expectancy from age 65 (in years) | 2017 | | 2016 | |
|--|-------------|-------------|------|--------|
| | Male | Female | Male | Female |
| Member aged 65 in 2017 (2016) | 22.3 | 24.9 | 22.2 | 24.8 |
| Member aged 65 in 2037 (2036) | 24.0 | 26.8 | 23.9 | 26.7 |

An allowance has been made for cash commutation in line with emerging scheme experience. Other demographic assumptions for the UK defined benefit schemes are set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic funding valuation of the schemes.

For the overseas schemes, regionally appropriate assumptions for mortality, financial and demographic factors have been used.

A sensitivity analysis on the principal assumptions used to measure UK defined benefit scheme liabilities at 16 September 2017 is:

| | Change in assumption | Impact on scheme liabilities |
|-----------------------------------|---------------------------|------------------------------|
| Discount rate | decrease/increase by 0.5% | increase/decrease by 9.0% |
| Inflation | increase/decrease by 0.5% | increase/decrease by 7.7% |
| Rate of real increase in salaries | increase/decrease by 0.5% | increase/decrease by 1.5% |
| Rate of mortality | reduce by one year | increase by 3.6% |

A sensitivity to the rate of increase in pensions in payment and pensions in deferment is represented by the inflation sensitivity, as all pensions increases and deferred revaluations are linked to inflation.

The sensitivity analysis above has been determined based on reasonably possible changes in the respective assumptions occurring at the end of the period and may not be representative of the actual change. It is based on a change in the specific assumption while holding all other assumptions constant. When calculating the sensitivities, the same method used to calculate scheme liabilities recognised in the balance sheet has been applied. The method and assumptions used in preparing the sensitivity analysis have not changed since the prior year.

Balance sheet

| | 2017 | | | 2016 | | |
|--|----------------|----------------|----------------|----------|----------------|-------------|
| | UK £m | Overseas £m | Total £m | UK £m | Overseas £m | Total £m |
| Equities | 1,225 | 166 | 1,391 | 1,278 | 162 | 1,440 |
| Government bonds | 988 | 46 | 1,034 | 974 | 41 | 1,015 |
| Corporate and other bonds | 562 | 64 | 626 | 558 | 73 | 631 |
| Property | 323 | 19 | 342 | 295 | 16 | 311 |
| Cash and other assets | 597 | 56 | 653 | 534 | 61 | 595 |
| Scheme assets | 3,695 | 351 | 4,046 | 3,639 | 353 | 3,992 |
| Scheme liabilities | (3,462) | (448) | (3,910) | (3,777) | (507) | (4,284) |
| Aggregate net surplus/(deficit) | 233 | (97) | 136 | (138) | (154) | (292) |
| Irrecoverable surplus* | – | (10) | (10) | – | (11) | (11) |
| Net pension asset/(liability) | 233 | (107) | 126 | (138) | (165) | (303) |
| Analysed as | | | | | | |
| Schemes in surplus | 277 | 8 | 285 | – | 6 | 6 |
| Schemes in deficit | (44) | (115) | (159) | (138) | (171) | (309) |
| | 233 | (107) | 126 | (138) | (165) | (303) |
| Unfunded liability included in the present value of scheme liabilities above | (44) | (56) | (100) | (42) | (58) | (100) |

* The surpluses in the plans are only recoverable to the extent that the group can benefit from either refunds formally agreed or from future contribution reductions.

11. Employee entitlements continued

Included within the group's 2016 overseas net pension liabilities analysed above was a deficit of £13m (£25m of assets and £38m of liabilities) which was classified as held for sale.

Corporate and other bonds relating to UK schemes of £562m (2016 – £558m) include £55m (2016 – £52m) of assets whose valuation is not derived from quoted market prices. The valuation for all other equity assets, government bonds, corporate and other bonds is derived from quoted market prices. The carrying value of UK property assets is based on a 31 March market valuation, adjusted for purchases, disposals and price indexation between the valuation and the balance sheet dates. Cash and other assets contains £312m (2016 – £296m) of assets whose valuation is not derived from quoted market prices.

For financial reporting in the group's financial statements, liabilities are assessed by actuaries using the projected unit method. The accounting value is different from the result obtained using the funding basis, mainly due to different assumptions used to project scheme liabilities.

The defined benefit scheme liabilities comprise 26% (2016 – 30%) in respect of active participants, 22% (2016 – 24%) for deferred participants and 52% (2016 – 46%) for pensioners.

The weighted average duration of the defined benefit scheme liabilities at the end of the year is 18 years for both UK and overseas schemes (2016 – 20 years for both UK and overseas schemes).

Income statement

The charge to the income statement for employee benefit schemes comprises:

| | 2017 £m | 2016 £m |
|--|--------------|--------------|
| Charged to operating profit: | | |
| Defined benefit schemes | | |
| Current service cost | (48) | (44) |
| Past service cost | – | (1) |
| Defined contribution schemes | (79) | (74) |
| Total operating cost | (127) | (119) |
| Reported in other financial (expense)/income: | | |
| Net interest (expense)/income on the net pension (liability)/asset | (5) | 1 |
| Interest charge on irrecoverable surplus | (1) | (1) |
| Net impact on profit before tax | (133) | (119) |

Cash flow

Group cash flow in respect of employee benefits schemes comprises contributions paid to funded schemes of £35m (2016 – £38m) and benefits paid in respect of unfunded schemes of £1m (2016 – £nil). Contributions to funded defined benefit schemes are subject to periodic review. Contributions to defined contribution schemes amounted to £79m (2016 – £74m).

Total contributions to funded schemes and benefit payments by the group in respect of unfunded schemes in 2018 are currently expected to be approximately £31m in the UK and £11m overseas, totalling £42m (2016 – UK £26m, overseas £8m, totalling £34m).

Other comprehensive income

Remeasurements of the net asset/liability recognised in other comprehensive income are as follows:

| | 2017 £m | 2016 £m |
|--|------------|--------------|
| Return on scheme assets excluding amounts included in net interest in the income statement | 135 | 288 |
| Actuarial gains/(losses) arising from changes in financial assumptions | 55 | (805) |
| Actuarial gains arising from changes in demographic assumptions | 2 | 257 |
| Experience gains on scheme liabilities | 243 | 6 |
| Change in unrecognised surplus | 3 | (4) |
| Remeasurements of the net pension asset/(liability) | 438 | (258) |

The primary reason for the significant experience gains in the year is the latest scheme membership information gathered during the 2017 triennial valuation, which identified that there had been more exits from the scheme than expected over the past three years.

11. Employee entitlements continued

Reconciliation of change in assets and liabilities

| | 2017 assets £m | 2016 assets £m | 2017 liabilities £m | 2016 liabilities £m | 2017 net £m | 2016 net £m |
|--|----------------------|----------------------|---------------------------|---------------------------|-------------------|-------------------|
| At beginning of year | 3,992 | 3,634 | (4,284) | (3,644) | (292) | (10) |
| Current service cost | – | – | (48) | (44) | (48) | (44) |
| Employee contributions | 10 | 10 | (10) | (10) | – | – |
| Employer contributions | 35 | 38 | – | – | 35 | 38 |
| Benefit payments | (204) | (160) | 205 | 160 | 1 | – |
| Past service cost | – | – | – | (1) | – | (1) |
| Interest income/(expense) | 98 | 135 | (103) | (134) | (5) | 1 |
| Return on scheme assets less interest income | 135 | 288 | – | – | 135 | 288 |
| Actuarial gains/(losses) arising from changes in financial assumptions | – | – | 55 | (805) | 55 | (805) |
| Actuarial gains arising from changes in demographic assumptions | – | – | 2 | 257 | 2 | 257 |
| Experience gains on scheme liabilities | – | – | 243 | 6 | 243 | 6 |
| Businesses disposed | (25) | – | 39 | – | 14 | – |
| Effect of movements in foreign exchange | 5 | 47 | (9) | (69) | (4) | (22) |
| At end of year | 4,046 | 3,992 | (3,910) | (4,284) | 136 | (292) |

Reconciliation of change in irrecoverable surplus

| | 2017 £m | 2016 £m |
|---|------------|------------|
| At beginning of year | (11) | (6) |
| Change recognised in other comprehensive income | 3 | (4) |
| Interest charge on irrecoverable surplus | (1) | (1) |
| Effect of movements in foreign exchange | (1) | – |
| At end of year | (10) | (11) |

12. Deferred tax assets and liabilities

| | Property, plant and equipment £m | Intangible assets £m | Employee benefits £m | Financial assets and liabilities £m | Other temporary differences £m | Tax value of carry-forward losses £m | Total £m |
|--|---|----------------------------|----------------------------|--|---|---|-------------|
| At 12 September 2015 | 80 | 95 | (11) | (2) | (16) | (51) | 95 |
| Amount charged/(credited) to the income statement | 8 | 11 | 1 | – | (19) | 11 | 12 |
| Amount charged/(credited) to equity | – | – | (51) | (4) | (8) | – | (63) |
| Acquired through business combinations | (1) | – | – | – | 1 | – | – |
| Effect of changes in tax rates on income statement | (6) | – | – | – | (2) | 1 | (7) |
| Effect of changes in tax rate on equity | – | – | 3 | – | – | – | 3 |
| Transfer to assets/liabilities classified as held for sale | 1 | (41) | 5 | – | – | – | (35) |
| Effect of movements in foreign exchange | 6 | 12 | (5) | – | (10) | (8) | (5) |
| At 17 September 2016 | 88 | 77 | (58) | (6) | (54) | (47) | – |
| Amount charged/(credited) to the income statement | 52 | (1) | (3) | – | (47) | 7 | 8 |
| Amount charged/(credited) to equity | – | – | 73 | – | 2 | – | 75 |
| Acquired through business combinations | 1 | 7 | – | – | – | – | 8 |
| Effect of changes in tax rates on income statement | (3) | – | – | – | (1) | 3 | (1) |
| Effect of changes in tax rate on equity | – | – | 3 | – | – | – | 3 |
| Effect of movements in foreign exchange | (5) | 3 | 1 | (1) | (2) | (1) | (5) |
| At 16 September 2017 | 133 | 86 | 16 | (7) | (102) | (38) | 88 |

12. Deferred tax assets and liabilities continued

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | 2017 £m | 2016 £m |
|--------------------------|--------------|------------|
| Deferred tax assets | (143) | (139) |
| Deferred tax liabilities | 231 | 139 |
| | 88 | – |

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. Other deferred tax assets totalling £97m (2016 – £99m) have not been recognised on the basis that their future economic benefit is uncertain.

In addition, there are temporary differences of £2,995m (2016 – £2,645m) relating to investments in subsidiaries. No deferred tax has been provided in respect of these differences, since the timing of the reversals can be controlled and it is probable that the temporary differences will not reverse in the future.

13. Trade and other receivables

| | 2017 £m | 2016 £m |
|---|--------------|------------|
| Non-current – other receivables | | |
| Loans and receivables | 50 | 37 |
| Other non-current investments | 4 | 4 |
| | 54 | 41 |
| Current – trade and other receivables | | |
| Trade receivables | 1,035 | 1,032 |
| Other receivables | 116 | 115 |
| Accrued income | 14 | 8 |
| | 1,165 | 1,155 |
| Prepayments and other non-financial receivables | 177 | 182 |
| | 1,342 | 1,337 |

At 17 September 2016 in addition to the amounts disclosed above, there were £10m of trade and other receivables classified as assets held for sale.

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 £48m (2016 – £36m) in respect of finance lease receivables, with £45m in non-current loans and receivables and £3m in current other receivables (2016 – £33m in non-current loans and receivables and £3m in current other receivables). Minimum lease payments receivable are £3m within one year, £15m between one and five years and £36m in more than five years (2016 – are £4m within one year, £5m between one and five years and £28m in more than five years).

The finance lease receivables relate to property, plant and equipment leased to a joint venture of the group (see note 27).

14. Inventories

| | 2017 £m | 2016 £m |
|--|--------------|--------------|
| Raw materials and consumables | 352 | 369 |
| Work in progress | 22 | 26 |
| Finished goods and goods held for resale | 1,727 | 1,638 |
| | 2,101 | 2,033 |
| Write-down of inventories | (119) | (113) |

At 17 September 2016 in addition to the amounts disclosed above, there were £36m of inventories classified as assets held for sale.

15. Biological assets

| | Growing cane £m | Other £m | Total £m |
|---|-----------------------|-------------|-------------|
| At 12 September 2015 | 64 | 6 | 70 |
| Transferred to inventory | (75) | (20) | (95) |
| Purchases | – | 2 | 2 |
| Changes in fair value | 88 | 19 | 107 |
| Effect of movements in foreign exchange | 1 | 1 | 2 |
| At 17 September 2016 | 78 | 8 | 86 |
| Transferred to inventory | (104) | (14) | (118) |
| Purchases | – | 2 | 2 |
| Changes in fair value | 101 | 17 | 118 |
| Effect of movements in foreign exchange | 2 | – | 2 |
| At 16 September 2017 | 77 | 13 | 90 |

Growing cane

The fair value of growing cane is determined using inputs that are unobservable, using the best information available in the circumstances for valuing the growing cane, and therefore falls into the level 3 category of fair value measurement. The following assumptions were used in the determination of the estimated sucrose tonnage at 16 September 2017:

| | South Africa | Malawi | Zambia | Swaziland | Tanzania | Mozambique |
|---------------------------------------|--------------|--------|--------|-----------|----------|------------|
| Expected area to harvest (hectares) | 6,475 | 19,802 | 15,999 | 8,588 | 9,678 | 6,091 |
| Estimated yield (tonnes cane/hectare) | 68.8 | 91.0 | 118.6 | 96.7 | 70.3 | 81.0 |
| Average maturity of growing cane | 46.4% | 68.2% | 65.7% | 67.7% | 46.2% | 71.6% |

The following assumptions were used in the determination of the estimated sucrose tonnage at 17 September 2016:

| | South Africa | Malawi | Zambia | Swaziland | Tanzania | Mozambique |
|---------------------------------------|--------------|--------|--------|-----------|----------|------------|
| Expected area to harvest (hectares) | 5,205 | 19,701 | 16,351 | 8,536 | 9,676 | 6,018 |
| Estimated yield (tonnes cane/hectare) | 67.2 | 92.9 | 109.2 | 85.1 | 77.5 | 80.0 |
| Average maturity of growing cane | 46.4% | 68.2% | 65.7% | 67.7% | 46.2% | 71.6% |

A 1% change in the unobservable inputs could increase or decrease the fair value of growing cane as follows:

| | 2017 | | 2016 | |
|---------------------------|-----------|-----------|-----------|-----------|
| | +1% £m | -1% £m | +1% £m | -1% £m |
| Estimated sucrose content | 1.1 | (1.1) | 1.0 | (1.0) |
| Estimated sucrose price | 1.5 | (1.5) | 1.3 | (1.3) |

16. Cash and cash equivalents

| | Note | 2017 £m | 2016 £m |
|--|------|------------|------------|
| Cash | | | |
| Cash at bank and in hand | | 797 | 376 |
| Cash equivalents | | 753 | 205 |
| Cash and cash equivalents | 24 | 1,550 | 581 |
| Reconciliation to the cash flow statement | | | |
| Bank overdrafts | 17 | (164) | (119) |
| Cash and cash equivalents in the cash flow statement | | 1,386 | 462 |
| Cash and cash equivalents on the face of the balance sheet | | 1,550 | 555 |
| Cash and cash equivalents classified as held for sale | | – | 26 |
| | | 1,550 | 581 |

Cash at bank and in hand generally earns interest at rates based on the daily bank deposit rate.

Cash equivalents generally comprise deposits placed on money markets for periods of up to three months which earn interest at a short-term deposit rate; and funds invested with fund managers that have a maturity of less than or equal to three months and are at fixed rates.

The carrying amount of cash and cash equivalents approximates fair value.

17. Loans and overdrafts

| | Note | 2017 £m | 2016 £m |
|-------------------------------------|------|------------|------------|
| Current loans and overdrafts | | | |
| Secured loans | | 18 | 45 |
| Unsecured loans and overdrafts | | 246 | 210 |
| Finance leases | 25 | 1 | 1 |
| | | 265 | 256 |

Non-current loans

| | | | |
|-----------------|----|-----|-----|
| Secured loans | | 22 | 36 |
| Unsecured loans | | 577 | 591 |
| Finance leases | 25 | 13 | 13 |
| | | 612 | 640 |
| | 24 | 877 | 896 |

| | Note | 2017 £m | 2016 £m |
|---|------|------------|------------|
| Secured loans | | | |
| – USD floating rate | | – | 26 |
| – Other floating rate | | 33 | 51 |
| – Other fixed rate | | 7 | 4 |
| Unsecured loans and overdrafts | | | |
| – Bank overdrafts | 16 | 164 | 119 |
| – GBP floating rate | | – | 4 |
| – GBP fixed rate | | 164 | 177 |
| – USD floating rate | | 37 | – |
| – USD fixed rate | | 413 | 428 |
| – EUR floating rate | | 35 | 55 |
| – RMB floating rate | | – | 11 |
| – Other floating rate | | 9 | 5 |
| – Other fixed rate | | 1 | 2 |
| Finance leases (fixed rate) | | 14 | 14 |
| | | 877 | 896 |
| Loans and overdrafts on the face of the balance sheet | | 877 | 885 |
| Loans and overdrafts classified as held for sale | | – | 11 |
| | | 877 | 896 |

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

| | 2017 £m | 2016 £m |
|--|--------------|------------|
| Current – trade and other payables | | |
| Trade payables | 1,236 | 1,136 |
| Accruals | 982 | 964 |
| | 2,218 | 2,100 |
| Deferred income and other non-financial payables | 282 | 266 |
| | 2,500 | 2,366 |
| Non-current – other payables | | |
| Accruals | 216 | 185 |

The comparative figure for certain accruals whose value will be released to the income statement after more than one year has been re-presented as non-current.

In addition to the amounts disclosed above, at 17 September 2016 there were £10m of trade and other payables classified as liabilities held for sale.

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 17 September 2016 | 60 | 7 | 21 | 88 |
| Created | 46 | – | 47 | 93 |
| Utilised | (35) | (1) | (8) | (44) |
| Released | (3) | – | (1) | (4) |
| Effect of movements in foreign exchange | – | – | (1) | (1) |
| At 16 September 2017 | 68 | 6 | 58 | 132 |
| Current | 53 | 2 | 50 | 105 |
| Non-current | 15 | 4 | 8 | 27 |
| | 68 | 6 | 58 | 132 |

Financial liabilities within provisions comprised deferred consideration in both years (see note 24).

Restructuring

Restructuring provisions relate to the cash costs, including redundancy, associated with the group's announced reorganisation plans.

Deferred consideration

Deferred consideration comprises estimates of amounts due to the previous owners of businesses acquired by the group which are often linked to performance or other conditions.

Other

Other provisions mainly comprise litigation claims and warranty claims arising from the sale and closure of businesses. The extent and timing of the utilisation of these provisions is more uncertain given the nature of the claims and the period of the warranties.

20. Share capital and reserves

Share capital

At 17 September 2016 and 16 September 2017, the Company's issued and fully paid share capital comprised 791,674,183 ordinary shares of 5¹⁵/₂₂p, each carrying one vote per share. Total nominal value was £45m.

Other reserves

£173m of other reserves arose from the cancellation of share premium account by the Company in 1993. The remaining £2m arose in 2010 as a transfer to capital redemption reserve following redemption of 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.

21. Acquisitions and disposals

Acquisitions

2017

During the year the group acquired two small Grocery businesses in the UK and an Ingredients business in the US. Total consideration was £85m, comprising cash of £83m and deferred consideration of £2m. Net assets acquired comprised intangible assets of £69m, cash of £5m and other operating assets and liabilities of £11m. The cash outflow of £79m on the purchase of subsidiaries, joint ventures and associates in the cash flow statement comprises cash consideration of £83m less cash acquired with the businesses of £5m and £1m of deferred consideration in respect of prior year acquisitions.

After the year end, on 12 October 2017 the group completed the acquisition of 100% of Acetum S.p.A., the leading Italian producer of Balsamic Vinegar of Modena for €317m including debt assumed. In the year ended 31 December 2016, the business generated net sales of €102m and profit after tax of €3m. Given the timing of the acquisition after the group's financial year end and its proximity to the date of approval of the group's financial statements, completion of the initial accounting for the acquisition has not yet been undertaken. Consequently, the disclosures relating to goodwill, acquired intangibles, and the fair values of other assets and liabilities acquired have not been made. These disclosures will be provided in the condensed consolidated interim financial statements for the 24 weeks ending 3 March 2018.

2016

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

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

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

Disposals

2017

The group disposed of its US herbs and spices business, reported within the Grocery segment. Cash proceeds amounted to £294m, net assets disposed were £26m and the associated goodwill was £124m. Provisions for transaction and associated restructuring costs were £33m, with a loss of £1m on recycling foreign exchange differences. The pre-tax gain on disposal was £110m. The group also disposed of its south China cane sugar operations for cash proceeds of £194m. The purchaser also assumed £103m of debt resulting in total proceeds of £297m. Net assets disposed were £120m. Provisions for transaction and associated restructuring costs were £24m, offset by a gain of £29m on recycling of foreign exchange differences and £1m of non-controlling interests. The pre-tax gain on disposal was £183m.

The cash inflow of £452m on the sale of subsidiaries, joint ventures and associates in the cash flow statement comprises cash proceeds of £488m less cash disposed with the businesses of £26m and £10m of transaction costs.

2016

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

22. Share-based payments

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

Associated British Foods Executive Share Incentive Plan 2003 ('the Share Incentive Plan')

The Share Incentive Plan was approved and adopted by the Company at the annual general meeting held on 5 December 2003. It takes the form of conditional allocations of shares which are released if, and to the extent that, performance targets are satisfied, typically over a three-year performance period. The Share Incentive Plan expired in December 2013, with the last grant of allocations made in November 2013. Conditional shares allocated under the Share Incentive Plan will vest under the terms of that 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 are released if, and to the extent that, performance targets are satisfied, typically over a three-year performance period.

Associated British Foods 2016 Long Term Incentive Plan ('the 2016 LTIP')

The 2016 LTIP was approved and adopted by the Company at the annual general meeting held on 9 December 2016. It takes the form of conditional allocations of shares which are released if, and to the extent that, performance targets are satisfied, typically over a three-year performance period.

Further information regarding the operation of the above plans can be found in the Remuneration report on pages 75 to 93.

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 |
|------|--|------------------|-----------|-----------------|--|
| 2017 | 2,680,947 | 1,661,230 | (331,341) | (916,112) | 3,094,724 |
| 2016 | 3,330,356 | 849,566 | (626,879) | (872,096) | 2,680,947 |

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 16 September 2017 the Trust held 1,531,998 (2016 – 1,513,339) ordinary shares of the Company. The market value of these shares at the year end was £48m (2016 – £41m). The Trust has waived its right to dividends. Movements in the year were releases of 331,341 shares and purchases of 350,000 shares (2016 – releases of 626,879 shares and purchases of 650,000 shares).

Fair values

The weighted average fair value of conditional grants made was determined by taking the market price of the shares at the time of grant and discounting for the fact that dividends are not paid during the vesting period. The weighted average fair value of the conditional shares allocated during the year was 2,449 pence (2016 – 3,185 pence) and the weighted average share price was 2,633 pence (2016 – 3,425 pence). The dividend yield used was 2.5%.

23. Analysis of net cash/(debt)

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

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 £164m 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.

At 17 September 2016, £26m of cash at bank and in hand and £11m of short-term loans included in the above analysis were included within assets and liabilities classified as held for sale.

24. Financial instruments

At 17 September 2016 financial instruments included £26m of cash, £10m of trade and other receivables, £10m of trade and other payables and £11m of loans and overdrafts which were classified as held for sale. All disclosures in this note are given gross, before the held for sale reclassification was made.

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

| | 2017 £m | 2016 £m |
|---|----------------|----------------|
| Financial assets | | |
| Cash and cash equivalents | 1,550 | 581 |
| Loans and receivables | | |
| Trade and other receivables | 1,165 | 1,165 |
| Other non-current receivables | 54 | 41 |
| At fair value through profit or loss | | |
| Derivative assets not designated in a cash flow hedging relationship: | | |
| – currency derivatives | 2 | 14 |
| – commodity derivatives | 2 | – |
| Designated net investment hedging relationships | | |
| Derivative assets designated as net investment hedging instruments: | | |
| – currency derivatives | – | 1 |
| Designated cash flow hedging relationships | | |
| Derivative assets designated and effective as cash flow hedging instruments: | | |
| – currency derivatives | 68 | 86 |
| – commodity derivatives | 7 | 4 |
| Total financial assets | 2,848 | 1,892 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | | |
| Trade and other payables | (2,434) | (2,295) |
| Secured loans | (40) | (81) |
| Unsecured loans and overdrafts (fair value 2017 – £867m; 2016 – £851m) | (823) | (801) |
| Finance leases (fair value 2017 – £19m; 2016 – £19m) | (14) | (14) |
| Deferred consideration | (6) | (7) |
| At fair value through profit or loss | | |
| Derivative liabilities not designated in a cash flow hedging relationship: | | |
| – currency derivatives | (32) | (8) |
| – commodity derivatives | (2) | (1) |
| Designated net investment hedging relationships | | |
| Derivative liabilities designated as net investment hedging instruments: | | |
| – currency derivatives | (27) | (16) |
| Designated cash flow hedging relationships | | |
| Derivative liabilities designated and effective as cash flow hedging instruments: | | |
| – currency derivatives | (48) | (36) |
| – commodity derivatives | (4) | (12) |
| Total financial liabilities | (3,430) | (3,271) |
| Net financial liabilities | (582) | (1,379) |

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, trade receivables, other receivables and accrued income, trade payables, other payables and accruals | Fair values have been stated at book values due to short maturities or otherwise immediate or short-term access and realisability. |
| Other non-current investments (recorded within other non-current receivables) | These comprise minority shareholdings in privately-owned, unquoted companies where there is no active market available to value them. Where the fair value of the equity instruments cannot be reliably measured, they are recorded at cost. |
| Other non-current receivables, loans and overdrafts and finance leases | Fair values for these level 2 financial instruments have been estimated by discounting expected future cash flows (see below). |
| Derivatives | <p>Fair values are typically determined either by reference to third-party valuations (usually from a bank), or by reference to readily observable market prices.</p> <p>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.</p> |
| Deferred consideration | Deferred consideration is measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, discounted to present value where material. Fair value is therefore equivalent to book value. |

Valuation of financial instruments carried at fair value

Financial instruments carried at fair value in the balance sheet comprise other non-current investments and derivatives. The group classifies these financial instruments using a fair value hierarchy that reflects the relative significance of both objective evidence and subjective judgements on the inputs used in making the fair value measurements:

- Level 1: financial instruments are valued using observable inputs that reflect unadjusted quoted market prices in an active market for identical instruments. An example of an item in this category is a widely traded equity instrument with a normal quoted market price.
- Level 2: financial instruments are valued using techniques based on observable inputs, either directly (i.e. market prices and rates) or indirectly (i.e. derived from market prices and rates). An example of an item in this category is a currency derivative, where forward exchange rates and yield curve data, which are observable in the market, are used to derive fair value.
- Level 3: financial instruments are valued using techniques involving significant unobservable inputs.

b) Derivatives

All derivatives are classified as current on the face of the balance sheet. The table below analyses the carrying amount of derivatives and their contractual/notional amounts, together with an analysis of derivatives by the level in the fair value hierarchy into which their fair value measurement method is categorised.

| | 2017 | | | | 2016 | | | |
|-----------------------|---|---------------|---------------|--------------|---|---------------|---------------|-------------|
| | 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 | 817 | – | 70 | 70 | 1,330 | – | 101 | 101 |
| Commodity derivatives | 104 | – | 9 | 9 | 39 | 1 | 3 | 4 |
| | 921 | – | 79 | 79 | 1,369 | 1 | 104 | 105 |
| Financial liabilities | | | | | | | | |
| Currency derivatives | 1,819 | – | (107) | (107) | 1,353 | – | (60) | (60) |
| Commodity derivatives | 100 | (1) | (5) | (6) | 112 | – | (13) | (13) |
| | 1,919 | (1) | (112) | (113) | 1,465 | – | (73) | (73) |

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.

| | 2017 | | | 2016 | | |
|--|----------------------------|-----------------------------|-------------|----------------------------|-----------------------------|-------------|
| | Currency derivatives £m | Commodity derivatives £m | Total £m | Currency derivatives £m | Commodity derivatives £m | Total £m |
| Opening balance | 16 | 6 | 22 | 6 | 6 | 12 |
| Losses/(gains) recognised in the hedging reserve | 75 | 3 | 78 | (82) | 12 | (70) |
| Amount removed from the hedging reserve and included in the income statement: | | | | | | |
| – revenue | (20) | (7) | (27) | (21) | 1 | (20) |
| – cost of sales | (2) | 2 | – | – | (9) | (9) |
| – other financial income/expense | (11) | – | (11) | 46 | – | 46 |
| Amount removed from the hedging reserve and included in equity: | | | | | | |
| – retained earnings | – | – | – | 15 | – | 15 |
| Amount removed from the hedging reserve and included in a non-financial asset: | | | | | | |
| – inventory | (24) | (8) | (32) | 56 | (5) | 51 |
| Deferred tax | (2) | 2 | – | (4) | – | (4) |
| Effect of movements in foreign exchange | – | – | – | – | 1 | 1 |
| Closing balance | 32 | (2) | 30 | 16 | 6 | 22 |
| Cash flows are expected to occur: | | | | | | |
| – within six months | 24 | – | 24 | 5 | 6 | 11 |
| – between six months and one year | 3 | (2) | 1 | 8 | – | 8 |
| – between one and two years | 1 | – | 1 | – | – | – |
| – between two and five years | 3 | – | 3 | 1 | – | 1 |
| – after five years | 1 | – | 1 | 2 | – | 2 |
| | 32 | (2) | 30 | 16 | 6 | 22 |

Of the closing balance of £30m, £31m is attributable to equity shareholders and £(1)m to non-controlling interests (2016 – £22m wholly attributable to equity shareholders). Of the net movement in the year of £8m, £9m is attributable to equity shareholders and £(1)m to non-controlling interests (2016 – £11m attributable to equity shareholders and £(1)m to non-controlling interests).

d) Financial risk identification and management

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

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

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

The group sources and sells products and manufactures goods in many locations around the world. These operations expose the group to potentially significant price volatility in the financial and commodity markets. Trading and risk management teams have been established in the group's major businesses to manage this exposure by entering into a range of products, including physical and financial forward contracts, futures and, where appropriate, options. These teams work closely with group Treasury and report regularly to executive management.

Treasury operations and commodity procurement are conducted within a clearly defined framework of board-approved policies and guidelines to manage the group's financial and commodity risks. Treasury works closely with the group's procurement teams to manage commodity risks. Treasury policy seeks to ensure that adequate financial resources are available to the group at all times, for the management and development of the group's businesses, whilst effectively managing its market risk and credit risk. The group's risk management policy explicitly forbids the use of financial or commodity derivatives (outside its risk management framework of mitigating financial and commodity risks) for speculative purposes.

24. Financial instruments continued

e) Foreign currency translation

The group presents its financial statements in sterling. As a result of its worldwide operations, the group is exposed to foreign currency translation risk where overseas operations have a functional currency other than sterling. Changes in foreign currency exchange rates impact the translation into sterling of both the income statement and net assets of these foreign operations.

Where appropriate, the group finances its operations by borrowing locally in the functional currency of its operations. This reduces net asset values reported in functional currencies other than sterling, thereby reducing the economic exposure to fluctuations in foreign currency exchange rates on translation.

The group also finances its operations by obtaining funding at group level through external borrowings and, where they are not in sterling, these borrowings may be designated as net investment hedges. This enables gains and losses arising on retranslation of these foreign currency borrowings to be charged to other comprehensive income, providing a partial offset in equity against the gains and losses arising on translation of the net assets of foreign operations.

The group does not actively hedge the translation impact of foreign exchange rate movements on the income statement (other than via the partial economic hedge arising from the servicing costs on non-sterling borrowings).

The group designates certain of its intercompany loan arrangements as quasi-equity for the purposes of IAS 21. The effect of the designation is that any foreign exchange volatility arising within the borrowing entity and/or the lending entity is accounted for directly within other comprehensive income.

At year end, the group had \$160m of borrowings (2016 – \$160m) that were designated as hedges of its net investment in foreign operations in US dollars.

A net foreign exchange gain of £3m (2016 – 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. 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 £12m has been debited to the translation reserve, all of which was attributable to equity shareholders (2016 – £46m debited to the translation reserve).

f) Market risk

Market risk is the risk of movements in the fair value of future cash flows of a financial instrument or forecast transaction as underlying market prices change. The group is exposed to changes in the market price of commodities, interest rates and foreign exchange rates. These risks are known as 'transaction' (or recognised) exposures and 'economic' (or forecast) exposures.

(i) Commodity price risk

Commodity price risk arises from the procurement of raw materials and the consequent exposure to changes in market prices.

The group purchases a wide range of commodities in the ordinary course of business. Exposure to changes in the market price of certain of these commodities including wheat, edible oils, soya beans, meat, sugar raws, cocoa, rice, tea and energy is managed through the use of forward physical contracts and hedging instruments, including futures and options contracts, primarily to convert floating or indexed prices to fixed prices. The use of such contracts to hedge commodity exposures is governed by the group's risk management policies and is continually monitored by group Treasury. Commodity derivatives also provide a way to meet customers' pricing requirements whilst achieving a price structure consistent with the group's overall pricing strategy.

Some of the group's commodity forward contracts are classified as 'own use' contracts, since they are both entered into, and continue to be held, for the purposes of the group's ordinary operations, and the group takes physical delivery of the commodity concerned. 'Own use' contracts do not require accounting entries until the commodity purchase actually crystallises. Where possible commodity derivatives are accounted for as cash flow hedges, but there are some commodity derivatives for which the strict requirements of hedge accounting cannot be satisfied. Such commodity derivatives are used only where the business believes they provide an economic hedge of an underlying exposure. These instruments are classified as held for trading and are marked to market through the income statement.

The majority of the group's forward physical contracts and commodity derivatives have original maturities of less than one year.

The group does not have significant sensitivities in respect of the accounting for its on-balance sheet commodity contracts.

24. Financial instruments continued

(ii) Interest rate risk

Interest rate risk comprises two primary elements:

- interest price risk results from financial instruments bearing fixed interest rates. Changes in floating interest rates therefore affect the fair value of these fixed rate financial instruments; and
- interest cash flow risk results from financial instruments bearing floating rates. Changes in floating interest rates affect cash flows on interest receivable or payable.

The group's policy is to maintain floating rate debt for a significant proportion of its bank finance, although it periodically assesses its position with respect to interest price and cash flow risk.

At 16 September 2017, £599m (68%) (2016 – £625m and 70%) of total debt was subject to fixed rates of interest, the majority of which is the US private placement loans of £558m (2016 – £588m).

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 141.

Transaction risk

Currency transaction exposure occurs where a business makes sales and purchases in a currency other than its functional currency. It also arises where monetary assets and liabilities of a business are not denominated in its functional currency, and where dividends or surplus funds are remitted from overseas. The group's policy is to match transaction exposures wherever possible, and to hedge actual exposures and firm commitments as soon as they occur by using forward foreign currency contracts. All foreign currency instruments contracted with non-group entities to manage transaction exposures are undertaken by group Treasury or, where foreign currency controls restrict group Treasury acting on behalf of subsidiaries, under its guidance. Identification of transaction exposures is the responsibility of each business.

The group uses derivatives (principally forward foreign currency contracts and time options) to hedge its exposure to movements in exchange rates on its foreign currency trade receivables and payables. The group does not seek formal fair value hedge accounting for such transaction hedges. Instead, such derivatives are classified as held for trading and marked to market through the income statement. This offsets the income statement impact of the retranslation of the foreign currency trade receivables and payables.

Economic (forecast) risk

The group also uses forward foreign currency contracts to hedge its exposure to movements in exchange rates on its highly probable forecast foreign currency sales and purchases on a rolling 12-month basis. The group does not formally define the proportion of highly probable forecast sales and purchases to hedge, but agrees an appropriate percentage on an individual basis with each business by reference to the group's risk management policies and prevailing market conditions. The group documents currency derivatives used to hedge its forecast transactions as cash flow hedges. To the extent that cash flow hedges are effective, gains and losses are deferred in equity until the forecast transaction occurs, at which point the gains and losses are recycled either to the income statement or to the non-financial asset acquired.

The majority of the group's currency derivatives have original maturities of less than one year.

The group's most significant currency transaction exposures are:

- sugar prices in British Sugar to movements in the sterling/euro exchange rate;
- sugar prices in Illovo to movements in the South African rand/US dollar/euro exchange rates; and
- sourcing for Primark – costs are denominated in a number of currencies, predominantly sterling, euros and US dollars.

Elsewhere, a number of businesses make sales and purchase a variety of raw materials in foreign currencies (primarily US dollars and euros), giving rise to transaction exposures. In all other material respects, businesses tend to operate in their functional currencies.

24. Financial instruments continued

The analysis of the group's foreign currency exposure to financial assets and liabilities by currency of denomination is as follows:

| | 2017 | | | | |
|--------------------------------|----------------|-----------------|--------------|-------------|--------------|
| | Sterling £m | US dollar £m | Euro £m | Other £m | Total £m |
| Financial assets | | | | | |
| Cash and cash equivalents | – | 253 | 235 | 40 | 528 |
| Trade and other receivables | 1 | 24 | 85 | 13 | 123 |
| | 1 | 277 | 320 | 53 | 651 |
| Financial liabilities | | | | | |
| Trade and other payables | (22) | (396) | (41) | (10) | (469) |
| Unsecured loans and overdrafts | – | (413) | (2) | – | (415) |
| Finance leases | – | – | – | (1) | (1) |
| Deferred consideration | – | (1) | – | – | (1) |
| | (22) | (810) | (43) | (11) | (886) |
| Currency derivatives | | | | | |
| Gross amounts receivable | 73 | 1,694 | 85 | 168 | 2,020 |
| Gross amounts payable | (3) | (105) | (501) | (61) | (670) |
| | 70 | 1,589 | (416) | 107 | 1,350 |
| | 49 | 1,056 | (139) | 149 | 1,115 |

| | 2016 | | | | |
|--------------------------------|----------------|-----------------|--------------|-------------|--------------|
| | Sterling £m | US dollar £m | Euro £m | Other £m | Total £m |
| Financial assets | | | | | |
| Cash and cash equivalents | 1 | 23 | 11 | 11 | 46 |
| Trade and other receivables | – | 32 | 66 | 13 | 111 |
| | 1 | 55 | 77 | 24 | 157 |
| Financial liabilities | | | | | |
| Trade and other payables | (18) | (346) | (38) | (9) | (411) |
| Unsecured loans and overdrafts | – | (428) | (1) | – | (429) |
| Finance leases | – | – | – | (1) | (1) |
| Deferred consideration | – | (2) | – | (1) | (3) |
| | (18) | (776) | (39) | (11) | (844) |
| Currency derivatives | | | | | |
| Gross amounts receivable | 75 | 1,521 | 197 | 168 | 1,961 |
| Gross amounts payable | (4) | (49) | (598) | (73) | (724) |
| | 71 | 1,472 | (401) | 95 | 1,237 |
| | 54 | 751 | (363) | 108 | 550 |

The following major exchange rates applied during the year:

| | Average rate | | Closing rate | |
|-------------------|--------------|-------|--------------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| US dollar | 1.27 | 1.43 | 1.36 | 1.31 |
| Euro | 1.15 | 1.29 | 1.14 | 1.17 |
| Rand | 16.96 | 21.17 | 17.87 | 18.74 |
| Renminbi | 8.63 | 9.35 | 8.90 | 8.74 |
| Australian dollar | 1.67 | 1.96 | 1.70 | 1.75 |

24. Financial instruments continued

Sensitivity analysis

The following sensitivity analysis illustrates the impact that a 10% strengthening of the group's operating currencies against local functional currencies would have had on profit and equity. The analysis covers currency translation exposures at year end on businesses' financial assets and liabilities that are not denominated in the functional currencies of those businesses. A similar but opposite impact would be felt on both profit and equity if the group's main operating currencies weakened against local functional currencies by a similar amount.

The exposure to foreign exchange gains and losses on translating the financial statements of subsidiaries into sterling is not included in this sensitivity analysis, as there is no impact on the income statement, and the gains and losses are recorded directly in the translation reserve in equity (see below for a separate sensitivity). This sensitivity is presented before taxation and non-controlling interests.

| | 2017 impact on profit for the year £m | 2017 impact on total equity £m | 2016 impact on profit for the year £m | 2016 impact on total equity £m |
|---|---|---|---|---|
| 10% strengthening against other currencies of | | | | |
| Sterling | – | 6 | – | 6 |
| US dollar | 5 | 118 | 11 | 87 |
| Euro | 6 | (19) | 6 | (42) |
| Other | 10 | 16 | 8 | 9 |

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.

| | 2017 impact on profit for the year £m | 2016 impact on profit for the year £m |
|---------------------------------------|---|---|
| 10% strengthening of sterling against | | |
| US dollar | (24) | (13) |
| Euro | (35) | (24) |
| Rand | (2) | (1) |
| Renminbi | (20) | (1) |
| Australian dollar | (4) | (2) |

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 16 September 2017. The group considers its maximum exposure to credit risk to be:

| | Note | 2017 £m | 2016 £m |
|--|------|--------------|--------------|
| Cash and cash equivalents | | 1,550 | 581 |
| Loans and receivables | 24a | 1,219 | 1,206 |
| Derivative assets at fair value through profit and loss | | 4 | 14 |
| Derivative assets in designated net investment hedging relationships | | – | 1 |
| Derivative assets in designated cash flow hedging relationships | | 75 | 90 |
| | | 2,848 | 1,892 |

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

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

24. Financial instruments continued

Trade and other receivables

Concentrations of credit risk are limited as a result of the group's large and diverse customer base. The group has an established credit policy applied by each business under which the credit status of each new customer is reviewed before credit is advanced. This includes external credit evaluations where possible and in some cases bank references. Credit limits are established for all significant or high-risk customers, which represent the maximum amount permitted to be outstanding without requiring additional approval from the appropriate level of management. Outstanding debts are continually monitored by each business. Credit limits are reviewed on a regular basis, and at least annually. Customers that fail to meet the group's benchmark creditworthiness may only transact with the group on a prepayment basis. Aggregate exposures are monitored at group level.

Many of the group's customers have been transacting with the group for many years and the incidence of bad debts has been low. Where appropriate, goods are sold subject to retention of title so that, in the event of non-payment, the group may have a secured claim. The group does not typically require collateral in respect of trade and other receivables.

The group provides for impairment of financial assets including trade and other receivables based on known events, and makes a collective provision for losses yet to be identified, based on historical data. The majority of the provision comprises specific amounts.

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

| | 2017 £m | 2016 £m |
|-----------------|--------------|--------------|
| UK | 418 | 395 |
| Europe & Africa | 287 | 289 |
| The Americas | 163 | 177 |
| Asia Pacific | 297 | 304 |
| | 1,165 | 1,165 |

Trade receivables can be analysed as follows:

| | 2017 £m | 2016 £m |
|---------------------------------------|--------------|--------------|
| Not overdue | 893 | 885 |
| Up to one month past due | 107 | 109 |
| Between one and two months past due | 20 | 23 |
| Between two and three months past due | 8 | 7 |
| More than three months past due | 32 | 33 |
| Provision for doubtful debts | (25) | (25) |
| | 1,035 | 1,032 |

Based on past experience, the group believes that no impairment allowance is necessary in respect of trade receivables that are not past due.

Trade receivables are stated net of the following provision for irrecoverable amounts:

| | 2017 £m | 2016 £m |
|---|------------|------------|
| Opening balance | 25 | 22 |
| Amounts provided for during the year | 5 | 4 |
| Amounts released during the year | (2) | (2) |
| Amounts utilised during the year | (3) | (3) |
| Effect of movements in foreign exchange | – | 4 |
| Closing balance | 25 | 25 |

No trade receivables were written off directly to the income statement in either year.

The directors consider that the carrying amount of trade and other receivables approximates fair value.

Cash and cash equivalents

Banking relationships are generally limited to those banks that are members of the core relationship group. These banks are selected for their credit status, global reach and their ability to meet the businesses' day-to-day banking requirements. The credit ratings of these institutions are monitored on a continuing basis. In locations where the core relationship banking group cannot be used, operating procedures including choice of bank, opening of bank accounts and repatriation of funds must be agreed with group Treasury. The group has not recorded impairments against cash or cash equivalents, nor have any recoverability issues been identified with such balances. Such items are typically recoverable on demand or in line with normal banking arrangements.

24. Financial instruments continued

Other financial assets

Other non-current investments are typically equity investments with no fixed maturity or recoverability date. No impairment issues have been identified with respect to other non-current investments.

Since derivative assets are recorded at fair value, either through profit and loss for those not in a designated cash flow hedging relationship, or otherwise through the hedging or net investment hedging reserve, no impairment issues have been identified.

h) Liquidity risk

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

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

Details of the group's borrowing facilities are given in section i) on page 147.

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

| | | 2017 | | | | | | | |
|---|------|------------------------------|--|--|--|----------------------------|----------------------------|--------------------------|--|
| | Note | Due within 6 months £m | Due between 6 months and 1 year £m | Due between 1 and 2 years £m | Due between 2 and 5 years £m | Due after 5 years £m | Contracted amount £m | Carrying amount £m | |
| Non-derivative financial liabilities | | | | | | | | | |
| Trade and other payables | 18 | (2,198) | (20) | (15) | (52) | (149) | (2,434) | (2,434) | |
| Secured loans | 17 | (13) | (5) | (11) | (11) | – | (40) | (40) | |
| Unsecured loans and overdrafts | 17 | (173) | (60) | (254) | (289) | (97) | (873) | (823) | |
| Finance leases | 25 | (1) | (1) | (2) | (2) | (36) | (42) | (14) | |
| Deferred consideration | 19 | – | (2) | (1) | (3) | – | (6) | (6) | |
| Derivative financial liabilities | | | | | | | | | |
| – Currency derivatives (net payments) | | (69) | (8) | – | – | – | (77) | (107) | |
| – Commodity derivatives (net payments) | | (2) | (3) | (1) | – | – | (6) | (6) | |
| Total financial liabilities | | (2,456) | (99) | (284) | (357) | (282) | (3,478) | (3,430) | |

| | | 2016 | | | | | | | |
|---|------|------------------------------|--|--|--|----------------------------|----------------------------|--------------------------|--|
| | Note | Due within 6 months £m | Due between 6 months and 1 year £m | Due between 1 and 2 years £m | Due between 2 and 5 years £m | Due after 5 years £m | Contracted amount £m | Carrying amount £m | |
| Non-derivative financial liabilities | | | | | | | | | |
| Trade and other payables | 18 | (2,093) | (17) | (16) | (54) | (115) | (2,295) | (2,295) | |
| Secured loans | 17 | (12) | (33) | (16) | (20) | – | (81) | (81) | |
| Unsecured loans and overdrafts | 17 | (177) | (61) | (66) | (274) | (343) | (921) | (801) | |
| Finance leases | 25 | (1) | (1) | (1) | (3) | (37) | (43) | (14) | |
| Deferred consideration | 19 | (1) | (2) | (2) | (2) | – | (7) | (7) | |
| Derivative financial liabilities | | | | | | | | | |
| – Currency derivatives (net payments) | | (28) | (15) | (2) | – | – | (45) | (60) | |
| – Commodity derivatives (net payments) | | (13) | – | – | – | – | (13) | (13) | |
| Total financial liabilities | | (2,325) | (129) | (103) | (353) | (495) | (3,405) | (3,271) | |

The above tables do not include forecast data for liabilities which may be incurred in the future but which were not contracted at 16 September 2017.

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.

24. Financial instruments continued

i) Borrowing facilities

The group has substantial borrowing facilities available to it. The undrawn committed facilities available at 16 September 2017, in respect of which all conditions precedent have been met, amounted to £1,232m (2016 – £1,311m):

| | 2017 | | | 2016 | | |
|----------------------------|----------------|-------------|---------------|----------------|-------------|---------------|
| | Facility £m | Drawn £m | Undrawn £m | Facility £m | Drawn £m | Undrawn £m |
| £1.2bn syndicated facility | 1,200 | – | 1,200 | 1,200 | – | 1,200 |
| US private placement | 558 | 558 | – | 588 | 588 | – |
| Illovo | 117 | 85 | 32 | 143 | 83 | 60 |
| Azucarera | – | – | – | 105 | 54 | 51 |
| Other | 17 | 17 | – | 15 | 15 | – |
| | 1,892 | 660 | 1,232 | 2,051 | 740 | 1,311 |

Uncommitted facilities available at 16 September 2017 were:

| | 2017 | | | 2016 | | |
|--------------------|----------------|-------------|---------------|----------------|-------------|---------------|
| | Facility £m | Drawn £m | Undrawn £m | Facility £m | Drawn £m | Undrawn £m |
| Money market lines | 100 | – | 100 | 100 | – | 100 |
| Illovo | 177 | 74 | 103 | 138 | 69 | 69 |
| Azucarera | 93 | 33 | 60 | – | – | – |
| China banking | 37 | – | 37 | 424 | 12 | 412 |
| Other | 208 | 97 | 111 | 184 | 61 | 123 |
| | 615 | 204 | 411 | 846 | 142 | 704 |

In addition to the above facilities there are also £520m (2016 – £296m) of undrawn and available credit lines for the purposes of issuing letters of credit and guarantees in the normal course of business.

The group also has £14m (2016 – £14m) of finance lease liabilities which are not included in the tables above, but which are included in the group's loans and overdrafts in note 17.

The group has a £1.2bn syndicated facility which matures in July 2021. In addition to the bank debt, the Company has £558m of private placement notes in issue to institutional investors in the US and Europe. At 16 September 2017, these had an average remaining duration of 3.5 years and an average fixed coupon of 4.6%. The other significant core committed debt facilities comprise local committed facilities in Illovo.

Uncommitted bank borrowing facilities are normally reaffirmed by the banks annually, although they can theoretically be withdrawn at any time.

Refer to note 9 for details of the group's capital commitments and to note 26 for a summary of the group's guarantees. An assessment of the group's current liquidity position is given in the Financial review on page 49.

j) Capital management

The capital structure of the group is presented in the balance sheet. The statement of changes in equity provides details on equity and note 17 provides details of loans and overdrafts. Short and medium-term funding requirements are provided by a variety of loan and overdraft facilities, both committed and uncommitted, with a range of counterparties and maturities. Longer term funding is sourced from a combination of these facilities, the private placement notes and committed syndicated loan facilities.

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to enable successful future development of the business. The board monitors return on capital by division and determines the overall level of dividends payable to shareholders.

From time to time the trustee of the Employee Share Ownership Plan Trust purchases the Company's shares in the market to satisfy awards under the group's incentive plans. Once purchased, shares are not sold back into the market. The group does not have a defined share buy-back plan.

There were no changes to the group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally-imposed capital requirements.

25. Lease commitments

Operating leases

The group acts as a lessee, lessor and sub-lessor for land and buildings, and plant and machinery, under operating leases.

Rental receipts of £8m (2016 – £9m) 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 £48m (2016 – £53m).

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

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

| | 2017 land and buildings £m | 2017 plant and equipment £m | 2017 total £m | 2016 land and buildings £m | 2016 plant and equipment £m | 2016 total £m |
|----------------------------|-------------------------------------|--------------------------------------|---------------------|-------------------------------------|--------------------------------------|---------------------|
| Within one year | 283 | 12 | 295 | 255 | 12 | 267 |
| Between one and five years | 1,173 | 16 | 1,189 | 1,051 | 17 | 1,068 |
| After five years | 2,959 | – | 2,959 | 2,905 | – | 2,905 |
| | 4,415 | 28 | 4,443 | 4,211 | 29 | 4,240 |

Finance leases

Finance lease liabilities are payable as follows:

| | 2017 minimum lease payments £m | 2017 interest £m | 2017 principal £m | 2016 minimum lease payments £m | 2016 interest £m | 2016 principal £m |
|----------------------------|--|------------------------|-------------------------|--|------------------------|-------------------------|
| Within one year | 2 | 1 | 1 | 2 | 1 | 1 |
| Between one and five years | 4 | 3 | 1 | 4 | 3 | 1 |
| After five years | 36 | 24 | 12 | 37 | 25 | 12 |
| | 42 | 28 | 14 | 43 | 29 | 14 |

26. Contingencies

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

Where group companies enter into financial guarantee contracts to guarantee the indebtedness of other group companies, the group considers these to be insurance arrangements and has elected to account for them as such in accordance with IFRS 4. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the relevant group company issuing the guarantee will be required to make a payment under the guarantee.

As at 16 September 2017, group companies have provided guarantees in the ordinary course of business amounting to £1,866m (2016 – £1,912m).

27. Related parties

The group has a controlling shareholder relationship with its parent company, Wittington Investments Limited, with the trustees of the Garfield Weston Foundation and with certain other individuals who hold shares in the Company. Further details of the controlling shareholder relationship are included in note 28. The group has a related party relationship with its associates and joint ventures (see note 28) and with its directors. In the course of normal operations, related party transactions entered into by the group have been contracted on an arm's length basis.

Material transactions and year end balances with related parties were as follows:

| | Sub note | 2017 £000 | 2016 £000 |
|---|-------------|----------------|--------------|
| Charges to Wittington Investments Limited in respect of services provided by the Company and its subsidiary undertakings | | 992 | 1,226 |
| Dividends paid by Associated British Foods and received in a beneficial capacity by: | | | |
| (i) trustees of the Garfield Weston Foundation and their close family | 1 | 10,675 | 10,012 |
| (ii) directors of Wittington Investments Limited who are not trustees of the Foundation and their close family | | 2,799 | 2,613 |
| (iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited | 2 | 62 | 54 |
| (iv) members of the Weston family employed within the Associated British Foods group | 3 | 2 | 2 |
| Sales to fellow subsidiary undertakings on normal trading terms | 4 | 46 | 48 |
| Sales to companies with common key management personnel on normal trading terms | 5 | 14,790 | 16,642 |
| Commissions paid to companies with common key management personnel on normal trading terms | 5 | 1,391 | 1,490 |
| Amounts due from companies with common key management personnel | 5 | 1,938 | 1,748 |
| Sales to joint ventures on normal trading terms | | 16,615 | 13,460 |
| Sales to associates on normal trading terms | | 23,112 | 41,494 |
| Purchases from joint ventures on normal trading terms | | 400,242 | 324,959 |
| Purchases from associates on normal trading terms | | 16,128 | 17,424 |
| Amounts due from joint ventures | | 49,649 | 37,531 |
| Amounts due from associates | | 2,451 | 4,244 |
| Amounts due to joint ventures | | 37,154 | 28,374 |
| Amounts due to associates | | 1,100 | 3,342 |

- The Garfield Weston Foundation ('the Foundation') is an English charitable trust, established in 1958 by the late W Garfield Weston. The Foundation has no direct interest in the Company, but as at 16 September 2017 was the beneficial owner of 683,073 shares (2016 – 683,073 shares) in Wittington Investments Limited representing 79.2% (2016 – 79.2%) of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 16 September 2017 trustees of the Foundation comprised two children and two grandchildren of the late W Garfield Weston and five children of the late Garry H Weston.
- Details of the directors are given on pages 60 and 61. Their interests, including family interests, in the Company and its subsidiary undertakings are given on pages 89 and 90. Key management personnel are considered to be the directors, and their remuneration is disclosed within the Remuneration report on page 86.
- Members of the Weston family who are employed by the group and are not directors of the Company or Wittington Investments Limited and are not trustees of the Foundation.
- The fellow subsidiary undertakings are Fortnum and Mason plc and Heal & Son Limited.
- The companies with common key management personnel are the George Weston Limited group, in Canada, and Selfridges & Co. Limited.

Amounts due from joint ventures include £48m (2016 – £36m) of finance lease receivables (see note 13). The remainder of the balance is trading balances. All but £3m (2016 – £3m) of the finance lease receivables are non-current.

for the 52 weeks ended 16 September 2017

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 ('Wittington'), 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 16 September 2017 Wittington, together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares (2016 – 431,515,108) representing in aggregate 54.5% (2016 – 54.5%) of the total issued ordinary share capital of Associated British Foods plc.

Wittington, and, through their control of Wittington, the trustees of the Garfield Weston Foundation ('the Foundation') are controlling shareholders of the Company. Certain other individuals, including certain members of the Weston family who hold shares in the Company (and including two of the Company's directors, George Weston and Emma Adamo) are, under the Listing Rules, treated as acting in concert with Wittington and the trustees of the Foundation and are therefore also treated as controlling shareholders of the Company. Wittington, the trustees of the Foundation and these individuals together comprise the controlling shareholders of the Company and, at 16 September 2017, have a combined interest in approximately 59.15% (2016 – 59.16%) of the Company's voting rights. Information on the relationship agreement between the Company and its controlling shareholders is set out on page 95 of the Directors' report.

Subsidiary undertakings

A list of the group's subsidiaries as at 16 September 2017 is given below. The entire share capital of subsidiaries is held within the group except where the group's ownership percentages are shown. These percentages give the group's ultimate interest and therefore allow for the occasional situation where subsidiaries are owned by partly-owned intermediate subsidiaries. Where subsidiaries have different classes of shares, this is largely for historical reasons and the effective percentage holdings given represent both the group's voting rights and equity holding. Shares in ABF Investments plc are held directly by Associated British Foods plc. All other holdings in subsidiaries are owned by members of the Associated British Foods plc group. All subsidiaries are consolidated in the group's financial statements.

| Subsidiary undertakings | % effective holding if not 100% | Subsidiary undertakings | % effective holding if not 100% |
|--|------------------------------------|---|------------------------------------|
| United Kingdom | | | |
| Weston Centre, 10 Grosvenor Street, London, W1K 4QY | | | |
| A.B. Exploration Limited | | ABF UK Finance Limited | |
| A.B.F. Holdings Limited | | ABF US Holdings Limited | |
| A.B.F. Nominees Limited | | ABN (Overseas) Limited | |
| A.B.F. Properties Limited | | ABNA Feed Company Limited | |
| AB Agri Limited | | ABNA Limited | |
| AB Foods Australia Limited | | Agrilines Limited | |
| AB Ingredients Limited | | Allied Bakeries Limited | |
| AB Mauri (UK) Limited | | Allied Grain (Scotland) Limited | |
| AB Mauri Europe Limited | | Allied Grain (South) Limited | |
| AB Sugar Africa Limited | | Allied Grain (Southern) Limited | |
| AB Sugar China Holdings Limited | | Allied Grain Limited | |
| AB Sugar China Limited | | Allied Mills Limited | |
| AB Sugar China North Limited | | Allied Technical Centre Limited | |
| AB Sugar Limited | | Allinson Limited | |
| AB Technology Limited | | Associated British Foods Pension Trustees Limited | |
| AB World Foods (Holdings) Limited | | Atrium 100 Properties Limited | |
| AB World Foods Limited | | Atrium 100 Stores Holdings Limited | |
| ABF (No. 1) Limited | | Atrium 100 Stores Limited | |
| ABF (No. 2) Limited | | B.E. International Foods Limited | |
| ABF (No. 3) Limited | | Banbury Agriculture Limited | |
| ABF Europe Finance Limited | | British Sugar (Overseas) Limited | |
| ABF European Holdings Limited | | British Sugar plc | |
| ABF Finance Limited | | BSO (China) Limited | |
| ABF Funding | | Cereal Industries Limited | |
| ABF Grain Products Limited | | Cereform Limited | |
| ABF Green Park Limited | | Davjon Food Limited | |
| ABF Grocery Limited | | Dorset Cereals Limited | |
| ABF HK Finance Limited | | Eastbow Securities Limited | |
| ABF Ingredients Limited | | Elsenham Quality Foods Limited | |
| ABF Investments plc | | Fishers Feeds Limited | |
| ABF Japan Limited | | Fishers Seeds & Grain Limited | |
| ABF MXN Finance Limited | | Food Investments Limited | |
| ABF Overseas Limited | | G. Costa (Holdings) Limited | |
| ABF PM Limited | | G. Costa and Company Limited | |
| | | Gb Plange UK Limited | |
| | | Germain's (U.K.) Limited | |
| | | H 5 Limited | |

28. Group entities continued

| Subsidiary undertakings | % effective holding if not 100% | Subsidiary undertakings | % effective holding if not 100% |
|---|------------------------------------|--|------------------------------------|
| Jacksons of Piccadilly Limited | | Korway Holdings Limited | |
| John K. King & Sons Limited | | Patak's Chilled Foods Limited | |
| Kingsgate Food Ingredients Limited | | Patak's Frozen Foods Limited | |
| LeafTC Limited | | Argentina | |
| Mauri Products Limited | | Mariscal Antonio José de Sucre 632 – 2nd Floor, | |
| Mitra Sugar Limited | | Buenos Aires 1428, Argentina | |
| Mountsfield Park Finance Limited | | AB Mauri Hispanoamerica S.A. | |
| Nere Properties Limited | | Surgras S.A. | |
| Nutrition Trading (International) Limited | | Av. Raul Alfonsín, Monte Chingolo, | |
| Nutrition Trading Limited | | Buenos Aires 3145, Argentina | |
| Patak (Spices) Limited | | Compañía Argentina De Levaduras S.A.I.C. | |
| Patak Food Limited | | Australia | |
| Patak's Breads Limited | | Level 1, Building A, 11 Talavera Road, | |
| Patak's Foods 2008 Limited | | North Ryde, NSW 2113, Australia | |
| Premier Nutrition Products Limited | | AB Mauri Camellia Pty Limited | |
| Pride Oils Public Limited Company | | AB Mauri Overseas Holdings Limited | |
| Primark (U.K.) Limited | | AB Mauri Pakistan Pty Limited | |
| Primark Austria Limited | | AB Mauri Properties Pty Limited | |
| Primark Mode Limited | | AB Mauri ROW Holdings Pty Limited | |
| Primark Pension Administration Services Limited | | AB Mauri South America Pty Limited | |
| Primark Stores Limited | | AB Mauri South West Asia Pty Limited | |
| Primary Diets Limited | | AB Mauri Technology & Development Pty Limited | |
| Primary Nutrition Limited | | AB Mauri Technology Pty Limited | |
| Pro-active Nutrition Limited | | AB World Foods Pty Ltd | |
| R. Twining and Company Limited | | ABF Wynyard Park Limited Partnership | |
| Reflex Nutrition Limited | | Anzchem Pty Limited | |
| Roses Nutrition Ltd | | Food Investments Pty. Limited | |
| Seedcote Systems Limited | | George Weston Foods Limited | |
| Serpentine Securities Limited | | Indonesian Yeast Company Pty Limited | |
| Sizzlers Limited | | Mauri Fermentation Argentina Pty Limited | |
| Sizzles Limited | | Mauri Fermentation Brazil Pty Limited | |
| Speedibake Limited | | Mauri Fermentation Chile Pty Limited | |
| Sun Blest Crumpet Co. Limited (The) | | Mauri Fermentation China Pty Limited | |
| Sunblest Bakeries Limited | | Mauri Fermentation India Pty Limited | |
| The Bakery School Limited | | Mauri Fermentation Indonesia Pty Limited | |
| The Billington Food Group Limited | | Mauri Fermentation Malaysia Pty Limited | |
| The Home Grown Sugar Company Limited | | Mauri Fermentation Philippines Pty Limited | |
| The Jordans & Ryvita Company Limited | | Mauri Fermentation Vietnam Pty Limited | |
| The Natural Sweetness Company Limited | | Mauri Yeast Australia Pty Limited | |
| The Roadmap Company Limited | | N&C Enterprises Pty Ltd | |
| The Silver Spoon Company Limited | | NB Love Industries Pty Ltd | |
| The Weston Biscuit Company Limited | | Serrol Ingredients Pty Limited | |
| Tip Top Bakeries Limited | | The Jordans and Ryvita Company Australia Pty Ltd | |
| Trident Feeds Limited | | WA Feeds Pty Ltd | |
| Twining Crosfield & Co. Limited | | 35-37 South Corporate Avenue, Rowville, | |
| Vivergo Fuels Limited | | Victoria 3178, Australia | |
| W. Jordan & Son (Silo) Limited | 94% | AB Food & Beverages Australia Pty. Limited | |
| W. Jordan (Cereals) Limited | | Austria | |
| Wereham Gravel Company Limited (The) | | Schottenring 19, 1010 Wien, Austria | |
| Westmill Foods Limited | | Primark Austria Ltd & Co KG | |
| Weston Foods Limited | | Bangladesh | |
| Weston Research Laboratories Limited | | Level 13 Shanta Western Tower Bir Uttam Mir | |
| Worldwing Investments Limited | | Shawkat Road 186 Tejgaon I/A Dhaka 1208 | |
| 1 College Place North, Belfast, BT1 6BG, | | Twinnings Ovaltine Bangladesh Limited | |
| United Kingdom | | Belgium | |
| James Neill Limited | | Industriepark 2, 9820 Merelbeke, Belgium | |
| Unit 4, 211 Castle Road, Randalstown, | | AB Mauri Belgium NV | |
| Co. Antrim, BT41 2EB | | Boulevard Raymond Poincaré 07/113, | |
| Jordan Bros. (N.I.) Limited | | 4020 Liege, Belgium | |
| Nutrition Services (International) Limited | | Primark SA | |
| Vistavet Limited | | Brazil | |
| 180 Glentanar Road, Glasgow, G22 7UP | | Avenida Tietê, L-233 Barranca do Rio Tietê, | |
| ABN (Scotland) Limited | | City of Pederneiras, State of Sao Paulo, | |
| Miller Samuel LLP, RWF House, | | CEP 17.280-000, Brazil | |
| 5 Renfield Street, Glasgow, G2 5EZ | | AB Brasil Indústria e Comércio de Alimentos Ltda | |
| Korway Foods Limited | | | |

28. Group entities continued

| Subsidiary undertakings | % effective holding if not 100% | Subsidiary undertakings | % effective holding if not 100% |
|---|------------------------------------|---|------------------------------------|
| Alameda Amazonas 938, 3rd Floor, Alphaville – Barueri, Sao Paulo 06454-070, Brazil AB Enzimas Brasil Comercial Ltda Rua Cardeal Arcoverde. 1641 9th Floor, Sao Paulo, Brazil AB Vista Brasil Comércio De Alimentação Animal Ltda | | ABNA Feed (Liaoning) Co., Ltd. 17 Xiangyang Street, Tu Township, Chayouqianqui, Inner Mongolia, China Botian Sugar (Chayou Qianqi) Co., Ltd. No. 1 Botian Road, Economic Development Zone, Zhangjiakou City, Hebei Province, China Botian Sugar Industry (Zhangbei) Co., Ltd. No. 368 Changjiang Road, Nangang District, Haibin, Heilongjiang Province, China Botian Sugar Industry Co., Ltd. 1 Industrial North Street, Zhangjiakou, Zhangbei County, Hebei, China Hebei Mauri Food Co., Ltd. Meishan Industrial Estate, Huangge Town, Nansha District, Guangzhou City, Guangdong Province, China Meishan Mauri Yeast Co., Ltd. (in liquidation) Panyu Mauri Food Co., Ltd. 8 Lancun Road, Economic and Technical Development Zone, Minhang, Shanghai 200245, China Shanghai AB Food & Beverages Co., Ltd Jie Liang Zi, Huo Cheug, Yi Li, Xinjiang, China Xinjiang Mauri Food Co., Ltd. | |
| Canada Blake, Cassels & Graydon LLP, 199 Bay Street, Suite 4000, Toronto, Ontario M5L 1A9, Canada AB Mauri (Canada) Limited | | No. 68-1, Shuanglong Road, Fushan District, Yantai City, Shandong Province, China Yantai Mauri Yeast Co., Ltd. | 90% |
| Chile Miraflores Street No. 222, 28 Floor, Santiago, Chile Calsa Chile Inversiones Limitada | | Colombia Cra 35# 34A-64, Palmira, Valle, Colombia Fleischmann Foods S.A. | |
| China No. 1 Tongcheng Street, Acheng District, Harbin, Heilongjiang Province, China AB (Harbin) Food Ingredients Company Limited Harbin Mauri Yeast Co., Ltd. Zhenlai Economic Development District, Baicheng City, Jilin Province, China AB Agri Animal Nutrition (Jilin) Co., Ltd North Huang He Road, Rudong New Economic Development Zone, Nantong City, Jiangsu Province, China AB Agri Animal Nutrition (Nantong) Co., Ltd AB Agri Animal Nutrition (Rudong) Co., Ltd. Chuangxin Road, Tonggu Industry Zone, Sandu Town, Tongge County, Jiangxi Province, China AB Agri Pumeixin Tech (Jiangxi) Co. Ltd. No. 889 West Yan An Road, Changning District, Shanghai, 200050, China AB Enzymes Trading (Shanghai) Co., Ltd ABNA Management (Shanghai) Co., Ltd. ABNA Trading (Shanghai) Co., Ltd Associated British Foods Holdings (China) Co., Ltd British Sugar Consulting Services (Shanghai) Co Ltd Suite 1908, Fosun International Center, No. 237 Chaoyangbei Road, Beijing, Chaoyang District, China AB Mauri (Beijing) Food Sales and Marketing Company Limited Xinsha Industrial Zone, Machong Town, Dongguan, Guangdong Province, China AB Mauri Food (Dongguan) Co., Ltd. 1151 Siping Road, Yangpu District, Shanghai 200092, China AB Mauri Foods (Shanghai) Company Limited South Ge XinDaDao, West WuZiGou, Wuhan, DongXHu District 430040, China AB Tip Top (Wuhan) Baking Co Ltd Building T3-4, No. 5001, Huadong Road, Pudong New Area, Shanghai 201201, China ABF Twinings Beverages (Shanghai) Limited 868 Yongpu Road, Pujiang Town, Minhang District, Shanghai 201112, China ABNA (Shanghai) Feed Co., Ltd. 14 Juhai Road, Jinghai Development Zone, Tianjin, China ABNA (Tianjin) Feed Co, Ltd Shu Shan Modern Industrial Zone of Shou County, Huainan City, Anhui Province, China ABNA Feed (Anhui) Co., Ltd. 145 Xincheng Road, Tengao Economic Development Zone, Anshan, Liaoning 114225, China | 90% | Czech Republic Nádražní 523, Czech Republic Bodit Tachov s.r.o. | |
| | | Denmark Skjernvej 42, Trøstrup, 6920 Videbæk, Denmark Agro Korn A/S | |
| | | Ecuador Av. Medardo Angel Silva, s/n y Panama Duran, Ecuador AB Calsa S.A. | |
| | | Finland Tykkimäentie 15b (PO Box 26), Rajamäki, FI-05200, Finland AB Enzymes Oy Enzymes Leasing Finland Oy | |
| | | France 40/42, avenue Georges Pompidou, 69003, à Lyon, France AB Mauri France SAS 5 Boulevard de l'Oise, Immeuble Le Rond Point, 95015 Cergy Pontoise, Cédex, France Foods International S.A.S. 52 rue de la Victoire, TMF Pole, 75009, Paris, France Primark France SAS Chemin du Vallon du maire, 13240, Septemes les Vallons, France SPI Pharma SAS | |
| | | Germany Feldbergstrasse 78, 64293, Darmstadt, Germany ABF Enzymes GmbH Wandsbeker Zollstrasse 59, 22041, Hamburg, Germany ABF Deutschland Holdings GmbH Ohly GmbH Ohly Grundbesitz GmbH | |

28. Group entities continued

| Subsidiary undertakings | % effective holding if not 100% | Subsidiary undertakings | % effective holding if not 100% |
|---|------------------------------------|---|------------------------------------|
| Rheinische Presshefe- und Spritwerke GmbH Kennedyplatz 2, 45127, Essen, Germany | | Illovo Sugar (Malawi) plc Malawi Sugar Limited | 76% |
| Primark Mode Ltd. & Co. KG Primark Property GmbH Marie-Kahle-Allee 2, D-53113, Bonn, Germany | | Malaysia No 118, Jalan Pudu, 1st Floor, 55100 Kuala Lumpur, Malaysia | |
| Westmill Foods Europe GmbH | | AB Mauri Malaysia Sdn. Bhd. | 52% |
| Guernsey Maison Trinity, Trinity Square, St. Peter Port, GY1 1AT, Guernsey | | Malta 57 St. Christopher Street, Valletta, VLT1462, Malta | |
| Talisman Guernsey Limited | | Relax Limited | 70% |
| Hong Kong 7/F DCH Building, 20 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong | | Mauritius 10th Floor, Standard Chartered Tower, 19 Cyberville, Ebene, Mauritius | |
| Associated British Foods Asia Pacific Holdings Limited | | Illovo Group Financing Services Limited Illovo Group Holdings Limited Illovo Group Marketing Services Limited | |
| India #218 & #219, Bommasandra – Jigani Link Road, Anekal Taluk, Bangalore, 560105, India | | Kilombero Holdings Limited Sucoma Holdings Limited | 73% |
| AB Mauri India (Private) Limited First Floor, Regent Sunny Side, 80 Ft Road, 8th Block, Koramangala Bengaluru, Karnataka, 560030, India | | Mexico Paseo de la Reforma No 2620, Edificio Reforma Plus, piso 8, 803, 804 y 803, Col. Lomas Atlas, DF 11950, Mexico | |
| SPI Specialties Pharma Private Limited 8, Acharya Jagadish Chandra Bose Road, Kolkata, 700017, India | | AB CALSA S.A. de C.V. AB CALSA SERVICIOS, S. DE R.L. DE C.V. Av. Prolongacion Paseo de la Reforma No. 1015, Torre "A", piso 14 Col., Santa Fe, D.F., 01376, Mexico | |
| Twinings Private Limited | | ACH Foods Mexico, S. de R.L. de C.V. Yucatan No.11 (2-B) Col. , Roma 06700, D.F., Mexico | |
| Indonesia Wisma GKBI Lt.39, Suite 3901, No.28 Jl. Jend, Sudirman, Jakarta , Indonesia | | Servicios Alimentos Capullo, S. de R.L. de C.V. | |
| PT AB Food & Beverages Indonesia | | Mozambique KM75 EN1, Maçiana, Distrito de Manhica, Provincia de Maputo, Mozambique | |
| Ireland 47 Mary Street, Dublin 1, Ireland | | Maragra Açucar, S.A. | 90% |
| Abdale Finance Limited Primark Holdings Primark Pension Trustees Limited Proofex Products Company Unlimited Company Vistavet (Ireland) Limited Yeast Products Company Unlimited Company Arthur Ryan House, 22-24 Parnell Street, Dublin 1, Ireland | | Netherlands Mijlweg 77, 3316 BE, Dordrecht, Netherlands | |
| Primark Limited | | AB Mauri Netherlands B.V. Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam Zuidoost, Netherlands | |
| Italy Via Milano 42, 27045, Casteggio, (Pavia), Italy | | AB Mauri Netherlands European Holdings B.V. Foods International Holding B.V. Primark Fashion B.V. Primark Netherlands B.V. Primark Stil B.V. | |
| AB Mauri Italy S.p.A. ABF Italy Holdings S.r.l. Primark Italy S.r.l. | | 7122 JS Aalten, Dinxperlosestraatweg 122, Netherlands | |
| Japan 2-5-1 Atago, Minato-ku, Tokyo, Japan | | Germaines Seed Technology B.V. Brieltjenspolder 16, 4921 PJ Made, Netherlands | |
| Twinings Japan Co Ltd | 50% | Mauri Technology B.V. Dalsteindreef 141, Diemen, 1112XJ, Netherlands | |
| Jersey CTV House, La Pouquelaye, St Helier, JE2 3TP, Jersey | | Westmill Foods Europe B.V. | |
| Bonuit Investments Limited 44 Esplanade, St Helier, JE4 9WG, Jersey | | New Zealand 73-105 Great South Road, Otahuhu, Auckland, New Zealand | |
| Parkstone (Jersey) Limited (in liquidation) | | Allied Foods (NZ) Ltd Building 3, Level 2, 666 Great South Road, Ellerslie, Auckland 1051, New Zealand | |
| Luxembourg 16, Avenue Pasteur, Luxembourg, L-2310, Luxembourg | | Anzchem NZ Limited Level 1, 95 Manakau Road, Newmarket, Auckland, New Zealand | |
| AB Foods Luxembourg S.à r.l. (in liquidation) 9 Allee Scheffer, Luxembourg, L2520, Luxembourg | | George Weston Foods (NZ) Limited 1 Simsey Place, Hamilton, New Zealand | |
| ABF European Holdings & Co SNC | | New Zealand Food Industries Limited | |
| Malawi Illovo House, Churchill Road, Limbe, Malawi | | | |
| Dwangwa Sugar Corporation Limited | 76% | | |

for the 52 weeks ended 16 September 2017

28. Group entities continued

| Subsidiary undertakings | % effective holding if not 100% | Subsidiary undertakings | % effective holding if not 100% |
|--|------------------------------------|---|------------------------------------|
| Nigeria 23 Oba Akinjobi Street, GRA, Ikeja, Lagos, Nigeria Twinings Ovaltine Nigeria Limited | | Spain Avenida de Manteras 46 bis, Edificio Delta Norte, 28050, Madrid, Spain AB Azucarera Iberia, S.L. Sociedad Unipersonal AB Mauri Food, S.A. AB Mauri Spain, S.L.U. AB Vista Iberia, S.L. ABF Overseas Limited, Sucursal en España Nueva Comercial Azucarera, S.A. (in liquidation) | 88% |
| Pakistan 21KM Ferozepur Road, 2k KM Hadyara Drain, Lahore, Pakistan AB Mauri Pakistan (PRIVATE) Limited | 60% | Levadura 5, Villarrubia 14710, Cordoba, Spain ABF Colón Park, S.L.U. C/ Escultor Coomonte Bl. 2, Entreplanta, Benavente, Zamora, Spain Agroteo S.A. | 67% |
| Peru Av. Argentina No. 1227, Callao, Peru CALSA de Peru S.A.C. | | Calle Comunidad do Murcia, Parcela LIE-1-03, Plataforma Logistica de Fraga, 22520, Huesca, Spain Alternative Swine Nutrition, S.L. Avienda Virgen de Montserrat, 44 Castelloli, 08719, Barcelona, Spain Germaines Seed Technology, S.A. Plaza Pablo Ruiz Picasso S/N, Torre Picasso, Planta 37, Madrid, Spain Illovo Sugar Espana, S.L. Gran Via, 32 5o 28013, Madrid, Spain Primark Tiendas, S.L.U. | |
| Philippines 86 E Rodriguez Jr. Ave., Ugong Norte, QC,1604, Pasig City, Metro Manila, Philippines AB Food & Beverages Philippines, Inc. | 99% | Sri Lanka 124 Templers Road, Mount Lavinia, Sri Lanka AB Mauri Lanka (Private) Limited | |
| Poland Przemysłowa 2, 67-100 Nowa Sól, Lubuskie, Poland AB Foods Polska Spółka z ograniczona odpowiedzialnoscia (AB Foods Polska SP. z o.o.) ul. Rabowicka 29/31, 62-020, Swarzędz – Jasin, Poland R. Twining and Company Sp. z o. o. | | Swaziland Ubombo Sugar Limited, Old Main Road, Big Bend, Swaziland Bar Circle Ranch Limited Illovo Swaziland Limited Moyeni Ranch Limited Ubombo Sugar Limited | 60% 60% 60% 60% |
| Portugal Avenida Salvador Allende, n.º 99, Lisboa Oeiras, Julião da Barra, Paço de Arcos e Caxias, 2770-157, Paco de Arcos, Portugal AB Mauri Portugal, S.A. | 96% | Switzerland Fabrikstrasse 10, CH-3176, Neuenegg, Switzerland Wander AG | |
| Puerto Rico CT Corporation Systems, Inc., 361 San Francisco St., San Juan, Puerto Rico 00901 ACH Food Companies of Puerto Rico, Inc. | | Taiwan 5F, No. 217, Sec 3, Nanking E Rd, Taipei City, 104, Taiwan (R.O.C.) AB Food and Beverages Taiwan, Inc. | |
| Singapore 80 Robinson Road, #02-00, 068898 Singapore AB Mauri Investments (Asia) Pte Ltd 112 Robinson Road, #05-01, 068902 Singapore AB Vista Asia Pte. Limited | | Tanzania C/o Kilombero Sugar Company, Msolwa Mill Office, Kidatu, Kilombero District, Tanzania Illovo Distillers (Tanzania) Limited Illovo Tanzania Limited Kilombero Sugar Company Limited | 80% 55% |
| South Africa 1 Nokwe Avenue, Ridgeside, Umhlanga Rocks, Kwazulu Natal, 4320, South Africa Carabello Trading and Investments 20 Limited CGS Investments (Pty) Limited East African Supply (Pty) Limited Glendale Sugar Limited Illovo Distributors (Pty) Limited Illovo Sugar (South Africa) Proprietary Limited Illovo Sugar Africa Proprietary Limited Illprop (Pty) Limited Lacsa (Pty) Limited Noodsberg Sugar Company Limited Reynolds Brothers Limited S.A. Sugar Distributors (Pty) Limited Smithchem (Pty) Limited Umzimkulu Sugar Company Limited | 70% | Thailand 11th Floor, 2535 Sukhumvit Road, Kwaeng Bangchak, Khet Prakhanong, Bangkok, 10260, Thailand AB Food & Beverages (Thailand) Ltd. ABF Holdings (Thailand) Ltd. 1 Empire Tower, 24th Floor, Unit 2412-2413, South Sathorn Road, Yannawa, Sathorn, Bangkok, 10120, Thailand AB World Foods Asia Ltd 229/110 Moo 1, Teparak Road, T. Bangsaothong, A. Bangsaothong, Samutprakarn, 10540, Thailand Jasol Asia Pacific Limited | |

28. Group entities continued

| Subsidiary undertakings | % effective holding if not 100% | Subsidiary undertakings | % effective holding if not 100% |
|---|------------------------------------|---|------------------------------------|
| Turkey Aksakal Mahallesi, Kavakpinari, Kume Evleri No. 5, Bandirma- Balikesir, 10245, Turkey Mauri Maya Sanayi A.S. | | Uruguay Cno. Carlos Antonio Lopez 7547, Montevideo, Uruguay Greensted, S.A. Levadura Uruguaya S.A. | |
| United Arab Emirates Office 604 ^a , Jafza LOB 15, Jebel Ali Freezone, Dubai, PO BOX 17620, United Arab Emirates AB Mauri Middle East FZE | | Venezuela Av. Rio Caura, Torre Humboldt, Piso 16, Of. 16-12. Urb. Prados del Este, Caracas, Estado Miranda Alimentos Fleischmann, C.A., Oficinas Once 3 (N° 11-3) y Once 4 (N° 11-4), Torre Mayupan, Centro Comercial San Luis, Av.Principal Urbanización San Luis, cruce con Calle Comercio, Caracas, Bolivarian Republic of Venezuela Compañía de Alimentos Latinoamericana de Venezuela (CALSA) S.A. | |
| United States CT Corporation System, 818 West Seventh Street, Suite 930, Los Angeles CA 90017, United States AB Mauri Food Inc. The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States AB Vista, Inc. ABF North America Corp. ABF North America Holdings, Inc. Abitec Corporation ACH Food Companies, Inc. ACH Jupiter LLC B.V. ABF Delaware, Inc. Germaines Seed Technology, Inc. PGP International, Inc. Primark US Corp. SPI Pharma, Inc. SPI Polyols, LLC Twinings North America, Inc. 155 Federal Street, Suite 700, Boston MA 02110, United States Primark GCM LLC | | Vietnam Unit 2, 100 Nguyen Thi Minh Khai Street, Ward 6, District 3, Ho Choi Minh City, Vietnam AB Agri Vietnam Company Limited Km 102, Highway 20, La Nga Commune – Dinh Quan District, Dong Nai Province, Vietnam AB Mauri Vietnam Limited | 66% |
| | | Zambia Nakambala Estates, Plot No. 118a Lubombo Road, Off Great North Road, Zambia Illovo Sugar (Zambia) Limited Nanga Farms PLC Tukunka Agricultural Limited Zambia Sugar plc | 66% 66% 76% 76% |

Lusaka Stock Exchange (LuSE) regulations require all listed companies in Zambia to have a minimum of 25% of their shares held by public investors to constitute a free float. As a result, Illovo Sugar was required to reduce its shareholding in Zambia Sugar plc by 6.6%. Effective 26 September 2014, 5.1% of the shares were sold to local Zambian institutional investors. As agreed with LuSE, the remaining 1.5% will be held in a separate account in the LuSE Central Securities Depository. While Illovo will waive its voting rights on these shares, it will still be entitled to receive dividends thereon.

The results and balance sheet of Primark Mode Ltd. & Co. KG are included in these financial statements and these financial statements will be filed in Germany. As a consequence, Primark Mode Ltd. & Co. KG is exempt from the requirement to file its own financial statements under section 264b HGB.

Associated British Foods plc has irrevocably guaranteed all commitments entered into by each of the Irish incorporated subsidiary undertakings listed below, including amounts shown as liabilities in the statutory financial statements of these companies, in respect of the financial year ended 16 September 2017. As a consequence, these subsidiary undertakings may qualify for the exemption under section 357 of the Companies Act 2014 (Ireland) from the provisions of sections 347 and 348 of that Act.

Abdale Finance Limited
Primark Limited
Primark Holdings
Primark Pension Trustees Limited

for the 52 weeks ended 16 September 2017

28. Group entities continued**Joint ventures**

A list of the group's joint ventures as at 16 September 2017 is given below. All joint ventures are included in the group's financial statements using the equity method of accounting.

| Joint ventures | % holding | Joint ventures | % holding |
|---|-----------|--|-----------|
| United Kingdom | | Finland | |
| Weston Centre, 10 Grosvenor Street, London, W1K 4QY | | Tykkimäentie 15b (PO Box 57), Rajamäki, FIN-05201, Finland | |
| Frontier Agriculture Limited | 50% | Roal Oy | 50% |
| Boothmans (Agriculture) Limited | 50% | France | |
| Forward Agronomy Limited | 50% | 59, Chemin du Moulin, 695701, Carron, Dardilly, France | |
| G F P (Agriculture) Limited | 50% | Synchronis | 50% |
| GH Grain Limited | 50% | Germany | |
| GH2 Limited | 50% | Brede 4, 59368, Werne, Germany | |
| Grain Harvesters Limited | 50% | UNIFERM GmbH & Co. KG | 50% |
| Nomix Enviro Limited | 50% | INA Nahrungsmittel GmbH | 50% |
| North Wold Agronomy Limited | 50% | UNIFERM Verwaltungs GmbH | 50% |
| Phoenix Agronomy Limited | 50% | Poland | |
| Soyl Limited | 50% | ul. Wybieg, nr 5, lok 9, miesjsc, KOD 61-315, Poznan, Poland | |
| The Agronomy Partnership Limited | 50% | Uniferm Polska Sp Z.o.o | 50% |
| Fine Lady Bakeries Ltd, Southam Road, Banbury, Oxfordshire, OX16 2RE | | South Africa | |
| Chiltern Bakeries Limited | 44% | 1 Nokwe Avenue, Ridgeside, Umhlanga Rocks, Kwazulu Natal 4320, South Africa | |
| Vernon House, 40 New North Road, Huddersfield, West Yorkshire, HD1 5LS | | Glendale Distilling Company | 50% |
| Proper Nutty Limited | 40% | Spain | |
| Berth 36, Test Road, Eastern Docks, Southampton, Hampshire, SO14 3GG | | C/ Raimundo Fernández, Villaverde 28, Madrid, Spain | |
| Southampton Grain Terminal Limited | 25% | Compañía de Melazas, S.A. | 50% |
| Kingseat, Newmacher, Aberdeenshire, AB21 0UE, Scotland | | United States | |
| Grampian Crop Services Limited | 50% | C T Corporation System, 2 North Jackson Street, Suite 605, Montgomery AL 36104, United States | |
| Lothian Crop Specialists Limited | 50% | SOC Land Acquisition Company, LLC | 50% |
| Australia | | Supreme Oil Company-South, LLC | 50% |
| Level 1, Building A, 11 Talavera Road, North Ryde NSW 2113, Australia | | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States | |
| Fortnum & Masons Pty Limited | 33% | Stratas Foods LLC | 50% |
| Chile | | Stratas Receivables I LLC | 50% |
| Ave. Balmaceda 3500, Valdivia, Chile | | Supreme Oil Company LLC | 50% |
| Levaduras Collico S.A. | 50% | Supreme Oil Company IC-DISC, Inc. | 50% |
| China | | Supreme Oil Central, Inc. | 50% |
| 1828 Tiejueshan Road, Huangdao District, Qingdao, Shandong Province, China | | | |
| Qingdao Xinghua Cereal Oil and Foodstuff Co., Ltd | 25% | | |

28. Group entities continued

Associates

A list of the group's associates as at 16 September 2017 is given below. All associates are included in the group's financial statements using the equity method of accounting.

| Associates | % holding | Associates | % holding |
|--|-----------|---|-----------|
| United Kingdom | | Italy | |
| 6th Floor 10 Bloomsbury Way, London, England, WC1A 2SL | | Piazza Borromeo 14, 20123 Milano, Italia | |
| Bakers Basco Limited | 20% | Czarnikow Italia Srl | 43% |
| Paternoster House, 65 St. Paul's Churchyard, London, EC4M 8AB | | Kenya | |
| C. Czarnikow Limited | 43% | I & M Bank House, Second Ngong Avenue, P.O. Box 10517, Nairobi 00100, Kenya | |
| Czarnikow Group Limited | 43% | C. Czarnikow Sugar (East Africa) Limited | 43% |
| C. Czarnikow Sugar Futures Limited | 43% | Mauritius | |
| C. Czarnikow Sugar Limited | 43% | No 5 President John Kennedy Street, Port Louis, Mauritius | |
| Sugarworld Limited | 43% | Sukpak Limited | 30% |
| Australia | | Mexico | |
| Lot 12, Flagstaff Road, Murray Bridge SA 5253, Australia | | Vía Láctea #18 Ofna. 1002, Col. Jardines de Satélite, Naucalpan, Edo. de México, Mexico 53120 | |
| Murray Bridge Bacon Pty Ltd | 20% | C. Czarnikow Sugar (Mexico), S.A. de C.V. | 43% |
| Big River Pork Pty Ltd | 20% | Czarnikow Servicios de Personal, S.A. de C.V. | 43% |
| 32 Davis Road, Wetherill Park, Sydney NSW 2164, Australia | | New Zealand | |
| New Food Coatings Pty Ltd | 50% | c/o KPMG, 18 Viaduct Harbour Avenue, Maritime Square, Auckland, New Zealand | |
| New Quality Ingredients PTY Limited | 50% | New Food Coatings (New Zealand) Ltd | 50% |
| Level 1, Building A, 11 Talavera Road, North Ryde, NSW 2113, Australia | | Philippines | |
| Witwood Food Products Pty Limited | 50% | Unit A 103 Excellence Avenue, Carmelray Industrial Park 1, Canlubang, Laguna, Philippines | |
| Brazil | | New Food Coatings (Philippines) Inc. | 50% |
| Rua Fidêncio Ramos, 308, cj64, Torre A, Vila Olímpia, São Paulo, SP, Brasil, Cep 04551-010 | | Singapore | |
| Czarnikow Brasil Ltda | 43% | 3 Phillip Street, #14-01 Commerce Point, Singapore 048693 | |
| China | | C. Czarnikow Sugar Pte. Limited | 43% |
| Room 17A01, 232 Zhong Shan 6th Road, Guangzhou, China, 510180 | | South Africa | |
| C. Czarnikow Sugar (Guangzhou) Company Limited | 43% | 1 Gledhow Mill Road, Gledhow, Kwadukuza, 4450, South Africa | |
| India | | Gledhow Sugar Company (Pty) Limited | 30% |
| House No. 1-8-373/A, Chiran Fort Lane, Begumpet, Hyderabad, 500003, India | | Tanzania | |
| C. Czarnikow Sugar (India) Private Limited | 43% | Amani Place, Ohio Street, PO Box 12729, Dar-es-Salaam, Tanzania | |
| Indonesia | | Czarnikow Tanzania Limited | 43% |
| Komplex Puri Mutiara Blok A21-22, JL. Griya Utama, Sunter Agung, Jakarta, 14350, Indonesia | | Msolwa Mill Office, Kidatau, Tanzania | |
| PT Indo Fermex | 49% | Kilombero Sugar Distributors Limited | 20% |
| P.T. Jaya Fermex | 49% | Thailand | |
| PT Sama Indah | 49% | 909 Moo 15, Teparak Road, Tambol Bangsaothong, King Amphur Bangsaothong, Samutprakarn, Thailand | |
| Israel | | Newly Wed Foods (Trading) Limited | 25% |
| 3 Golda Meir St. Ness Ziona, 74-036, Israel | | Newly Weds Foods (Thailand) Ltd | 50% |
| Czarnikow Israel Sugar Trading Ltd (Sucarim) | 43% | United States | |
| 8th Galgalay haplada, Herzlia, Israel | | 1450 Brickell Avenue, Suite 1580, Miami, FL 33131, USA | |
| Sucris Limited | 21% | C. Czarnikow Sugar Inc. | 43% |
| | | Czarnikow Futures Inc. | 43% |

158 **COMPANY BALANCE SHEET**
at 16 September 2017

| | Note | 2017 £m | 2016 £m |
|---|------|----------------|------------|
| Fixed assets | | | |
| Intangible assets | 1 | 19 | 20 |
| Investments in subsidiaries | 2 | 676 | 667 |
| | | 695 | 687 |
| Current assets | | | |
| Debtors | | | |
| – due within one year | 3 | 4,166 | 4,533 |
| – due after one year | 3 | 187 | 325 |
| Employee benefits assets – due after one year | 4 | 277 | – |
| Deferred tax assets – due after one year | 5 | – | 31 |
| Derivative assets | | 52 | 68 |
| Cash and cash equivalents | | 997 | 273 |
| | | 5,679 | 5,230 |
| Creditors: amounts falling due within one year | | | |
| Bank loans and overdrafts – unsecured | | – | (17) |
| Other creditors | 6 | (2,898) | (2,168) |
| | | (2,898) | (2,185) |
| Net current assets | | | |
| | | 2,781 | 3,045 |
| Total assets less current liabilities | | | |
| | | 3,476 | 3,732 |
| Creditors: amounts falling due after one year | | | |
| Bank loans – unsecured | | (557) | (570) |
| Amounts owed to subsidiaries | 6 | (174) | (309) |
| Employee benefits liabilities | 4 | (44) | (138) |
| Deferred tax liabilities | 5 | (33) | – |
| | | (808) | (1,017) |
| Net assets | | | |
| | | 2,668 | 2,715 |
| Capital and reserves | | | |
| Issued capital | 7 | 45 | 45 |
| Capital redemption reserve | 7 | 2 | 2 |
| Hedging reserve | 7 | (5) | (3) |
| Profit and loss reserve | 7 | 2,626 | 2,671 |
| Equity shareholders' funds | | | |
| | | 2,668 | 2,715 |

The Company's loss for the 52 week period ended 16 September 2017 was £73m (53 week period ended 17 September 2016 – profit of £843m).

The financial statements on pages 158 to 164 were approved by the board of directors on 7 November 2017 and were signed on its behalf by:

Charles Sinclair
Chairman

John Bason
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
for the 52 weeks ended 16 September 2017

| | Share capital £m | Capital redemption reserve £m | Hedging reserve £m | Profit and loss reserve £m | Total £m |
|--|---------------------|----------------------------------|-----------------------|-------------------------------|--------------|
| Balance as at 12 September 2015 | 45 | 2 | (2) | 2,295 | 2,340 |
| Total comprehensive income | | | | | |
| Profit for the period recognised in the income statement | – | – | – | 843 | 843 |
| Remeasurement of defined benefit schemes | – | – | – | (223) | (223) |
| Deferred tax associated with defined benefit schemes | – | – | – | 42 | 42 |
| Movement in cash flow hedging position | – | – | (1) | – | (1) |
| Other comprehensive income | – | – | (1) | (181) | (182) |
| Total comprehensive income | – | – | (1) | 662 | 661 |
| Transactions with owners | | | | | |
| Dividends paid to equity shareholders | – | – | – | (279) | (279) |
| Net movement in own shares held | – | – | – | (12) | (12) |
| Deferred tax associated with share-based payments | – | – | – | (2) | (2) |
| Current tax associated with share-based payments | – | – | – | 7 | 7 |
| Total transactions with owners | – | – | – | (286) | (286) |
| Balance as at 17 September 2016 | 45 | 2 | (3) | 2,671 | 2,715 |
| Total comprehensive income | | | | | |
| Loss for the period recognised in the income statement | – | – | – | (73) | (73) |
| Remeasurement of defined benefit schemes | – | – | – | 384 | 384 |
| Deferred tax associated with defined benefit schemes | – | – | – | (66) | (66) |
| Movement in cash flow hedging position | – | – | (2) | – | (2) |
| Other comprehensive income | – | – | (2) | 318 | 316 |
| Total comprehensive income | – | – | (2) | 245 | 243 |
| Transactions with owners | | | | | |
| Dividends paid to equity shareholders | – | – | – | (299) | (299) |
| Net movement in own shares held | – | – | – | 11 | 11 |
| Deferred tax associated with share-based payments | – | – | – | (2) | (2) |
| Total transactions with owners | – | – | – | (290) | (290) |
| Balance as at 16 September 2017 | 45 | 2 | (5) | 2,626 | 2,668 |

Basis of preparation

The financial statements are presented in sterling, rounded to the nearest million. They are prepared under the historical cost basis, except that derivative financial instruments are stated at their fair value, and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and certain related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

As permitted by section 408(4) of the Companies Act 2006, a separate income statement and statement of comprehensive income for the Company has not been included in these financial statements. The principal accounting policies adopted are described below. They have all been applied consistently to all years presented.

Intangible assets

Intangible assets comprise goodwill arising on business combinations and operating intangibles. Goodwill is defined under 'Business combinations' on page 112 of the consolidated financial statements. The Companies Act 2006 requires goodwill to be amortised on a systematic basis over its useful economic life. Under FRS 101 goodwill is not amortised, but is instead reviewed for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the requirement to amortise goodwill in the Companies Act 2006. Had the Company amortised goodwill, a period of three years would have been chosen as its useful life from the date of transition. The loss for the year would have been £4m higher had goodwill been amortised in the year.

Intangible assets other than goodwill are stated at cost less accumulated amortisation and impairment charges. Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic lives of intangible assets from the date they are available for use. The estimated useful lives are generally deemed to be no longer than five years.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

Financial assets and liabilities

Financial assets and financial liabilities, except for derivatives, are measured initially at fair value, plus directly attributable transaction costs, and thereafter at amortised cost.

Derivatives

Derivatives are used to manage the Company's economic exposure to financial risks. The principal instruments used are foreign exchange contracts and swaps. Derivatives are recognised in the balance sheet at fair value based on market prices or rates, or calculated using either discounted cash flow or option pricing models. Changes in the value of derivatives are recognised in the income statement unless they qualify for hedge accounting when recognition of any change in fair value depends on the nature of the item being hedged.

Pensions and other post-employment benefits

The Company operates one defined contribution and two defined benefit pension schemes. The Company is the principal employer of the Associated British Foods Pension Scheme, which is a funded final salary scheme that is closed to new members, as well as a small unfunded final salary scheme. For the defined benefit 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 Company during the year. It also includes net interest expense or income calculated by applying the liability discount rate to the net pension asset or liability. The difference between market value of assets and present value of liabilities is disclosed as an asset or liability in the balance sheet. Any related deferred tax (to the extent recoverable) is disclosed separately in the balance sheet. Remeasurements are recognised immediately in other comprehensive income. Surpluses are recognised only to the extent that they are recoverable. Contributions payable by the group in respect of defined contribution plans are charged to operating profit as incurred.

Income tax

Income tax on profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items taken directly to equity.

Current tax is the tax expected to be payable on taxable income for the year, using tax rates enacted or substantively enacted during the period, together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, using tax rates enacted or substantively enacted at the balance sheet date, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Share-based payments

The fair value of the share awards at grant date is recognised as an employee expense with a corresponding increase in equity, spread over the period during which the employees become unconditionally entitled to the shares. The amount recognised is adjusted to reflect expected and actual levels of vesting except where the failure to vest is as a result of not meeting a market condition.

Where the Company grants allocations of shares to employees of its subsidiaries, these are accounted for on the same basis as allocations to employees of the Company, except that the fair value is recognised as an increase to investment in subsidiaries with a corresponding increase in equity.

Cash and cash equivalents

Cash and cash equivalents comprise bank and cash balances, call deposits and short-term investments with original maturities of three months or less.

1. Intangible assets

| | Goodwill £m | Operating intangibles £m | Total £m |
|--|----------------|--------------------------------|-------------|
| Cost | | | |
| At 17 September 2016 and 16 September 2017 | 14 | 7 | 21 |
| Amortisation | | | |
| At 17 September 2016 | – | (1) | (1) |
| Amortisation | – | (1) | (1) |
| At 16 September 2017 | – | (2) | (2) |
| Net book value | | | |
| At 17 September 2016 | 14 | 6 | 20 |
| At 16 September 2017 | 14 | 5 | 19 |

2. Investments in subsidiaries

| | £m |
|-----------------------------|------------|
| At 17 September 2016 | 667 |
| Additions | 9 |
| At 16 September 2017 | 676 |

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

| | 2017 £m | 2016 £m |
|--|--------------|--------------|
| Amounts falling due within one year | | |
| Amounts owed by subsidiaries | 4,115 | 4,483 |
| Other debtors | 10 | 18 |
| Corporation tax recoverable | 41 | 32 |
| | 4,166 | 4,533 |
| Amounts falling due after one year | | |
| Amounts owed by subsidiaries | 187 | 325 |

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

4. Employee entitlements

| | 2017 assets £m | 2016 assets £m | 2017 liabilities £m | 2016 liabilities £m | 2017 net £m | 2016 net £m |
|---|----------------------|----------------------|---------------------------|---------------------------|-------------------|-------------------|
| Reconciliation of changes in assets and liabilities | | | | | | |
| At beginning of year | 3,639 | 3,343 | (3,777) | (3,253) | (138) | 90 |
| Current service cost | – | – | (35) | (33) | (35) | (33) |
| Employee contributions | 8 | 9 | (8) | (9) | – | – |
| Employer contributions | 25 | 27 | – | – | 25 | 27 |
| Benefit payments | (183) | (136) | 184 | 136 | 1 | – |
| Past service cost | – | – | – | (1) | – | (1) |
| Interest income/(expense) | 87 | 123 | (91) | (121) | (4) | 2 |
| Return on scheme assets less interest income | 119 | 273 | – | – | 119 | 273 |
| Actuarial losses arising from changes in financial assumptions | – | – | 21 | (758) | 21 | (758) |
| Actuarial gains arising from changes in demographic assumptions | – | – | – | 257 | – | 257 |
| Experience gains on scheme liabilities | – | – | 244 | 5 | 244 | 5 |
| At end of year | 3,695 | 3,639 | (3,462) | (3,777) | 233 | (138) |

The net pension asset of £233m comprises a funded scheme with a surplus of £277m and an unfunded scheme with a deficit of £44m.

Further details of the Associated British Foods Pension Scheme are contained in note 11 of the consolidated financial statements.

5. Deferred tax assets and liabilities

| | Employee benefits £m | Share-based payments £m | Other £m | Total £m |
|---|-------------------------|----------------------------|-------------|-------------|
| At 17 September 2016 | 23 | 3 | 5 | 31 |
| Amount charged/(credited) to the income statement | 3 | 2 | (1) | 4 |
| Amount credited to equity | (66) | (2) | – | (68) |
| At 16 September 2017 | (40) | 3 | 4 | (33) |

6. Other creditors

| | 2017 £m | 2016 £m |
|--|--------------|--------------|
| Amounts falling due within one year | | |
| Other taxation and social security | 1 | 1 |
| Accruals and deferred income | 65 | 65 |
| Amounts owed to subsidiaries | 2,832 | 2,102 |
| | 2,898 | 2,168 |
| Amounts falling due after one year | | |
| Amounts owed to subsidiaries | 174 | 309 |

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

7. Capital and reserves

Share capital

At 17 September 2016 and 16 September 2017, the Company's issued and fully paid share capital comprised 791,674,183 ordinary shares of 5¹⁵/₂₂p, each carrying one vote per share. Total nominal value was £45m.

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.

Share-based payments

Details of the Company's equity-settled share-based payment plans are provided in note 22 to the consolidated financial statements.

Hedging reserve

The hedging reserve comprises all changes in the value of derivatives to the extent that they are effective cash flow hedges, net of amounts recycled from the hedging reserve on occurrence of the hedged transaction or when the hedged transaction is no longer expected to occur.

8. Contingent liabilities

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. The guarantee contract is treated as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company had provided £857m of guarantees in the ordinary course of business as at 16 September 2017 (2016 – £709m).

9. Related parties

The Company has a controlling shareholder relationship with its parent company, Wittington Investments Limited, with the trustees of the Garfield Weston Foundation and with certain other individuals who hold shares in the Company. Further details of the controlling shareholder relationship are included in note 28 to the consolidated financial statements. The Company has a related party relationship with its subsidiaries, associates and joint ventures and directors. In the course of normal operations, related party transactions entered into by the Company have been contracted on an arm's length basis.

Material transactions and year end balances with related parties (excluding wholly-owned subsidiaries) were as follows:

| | Sub note | 2017 £000 | 2016 £000 |
|---|----------|--------------|--------------|
| Charges to Wittington Investments Limited in respect of services provided by the Company | | 992 | 1,226 |
| Dividends paid by the Company and received in a beneficial capacity by: | | | |
| (i) trustees of the Garfield Weston Foundation and their close family | 1 | 10,675 | 10,012 |
| (ii) directors of Wittington Investments Limited who are not trustees of the Foundation and their close family | 1 | 2,799 | 2,613 |
| (iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited | 1 | 62 | 54 |
| (iv) members of the Weston family employed within the Associated British Foods group | 1 | 2 | 2 |
| Charges to non-wholly owned subsidiaries | 2 | 282 | 193 |
| Charges to joint ventures | 2 | – | 3 |
| Interest income earned from non-wholly owned subsidiaries | 2 | 123 | 211 |
| Amounts due from non-wholly owned subsidiaries | 2 | 52,193 | 31,335 |

1. Details of the nature of the relationships with these bodies are set out in note 27 of the consolidated financial statements.
2. Details of the Company's subsidiaries, joint ventures and associates are set out in note 28 of the consolidated financial statements.

10. Other information

Emoluments of directors

The remuneration of the directors of the Company is shown in the Remuneration report for the group on page 86.

Employees

The Company had an average of 169 employees in 2017 (2016 – 155).

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 2017

| | 2013 £m | 2014 £m | 2015 £m | 2016 £m | 2017 £m |
|---|------------|------------|------------|------------|---------------|
| Revenue | 13,315 | 12,943 | 12,800 | 13,399 | 15,357 |
| Adjusted operating profit | 1,180 | 1,163 | 1,082 | 1,118 | 1,363 |
| Exceptional items | – | – | (98) | – | – |
| Transaction costs | – | – | – | (5) | (5) |
| Amortisation of non-operating intangibles | (92) | (72) | (55) | (21) | (28) |
| Profits less losses on disposal of non-current assets | – | (11) | 8 | 11 | 6 |
| Profits less losses on sale and closure of businesses | (128) | (2) | (172) | (14) | 293 |
| Finance income | 13 | 15 | 8 | 6 | 9 |
| Finance expense | (100) | (73) | (61) | (56) | (59) |
| Other financial (expense)/income | (5) | – | (5) | 3 | (3) |
| Profit before taxation | 868 | 1,020 | 707 | 1,042 | 1,576 |
| Taxation | (240) | (237) | (191) | (221) | (365) |
| Profit for the period | 628 | 783 | 516 | 821 | 1,211 |

| | | | | | |
|---|------|-------|-------|-------|--------------|
| Basic and diluted earnings per ordinary share (pence) | 74.0 | 96.5 | 66.8 | 103.4 | 151.6 |
| Adjusted earnings per share (pence) | 98.1 | 104.1 | 101.5 | 106.2 | 127.1 |
| Dividends per share (pence) | 32.0 | 34.0 | 35.0 | 36.75 | 41.0 |

Figures from 2015 onwards reflect the amendments to IAS 41 *Agriculture* and IAS 16 *Property, Plant and Equipment*.

COMPANY DIRECTORY

Associated British Foods plc

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Company registered in England, number 293262

Company Secretary

Paul Lister

Registrar

Equiniti
Aspect House
Spencer Road
Lancing BN99 6DA

Auditor

Ernst & Young LLP Chartered Accountants

Bankers

Barclays Bank PLC
Lloyds Banking Group plc
The Royal Bank of Scotland plc

Brokers

Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ

Barclays Bank PLC
5 North Colonnade
Canary Wharf
London E14 4BB

Timetable

Interim dividend paid
7 July 2017

Final dividend to be paid
12 January 2018

Annual general meeting
8 December 2017

Interim results to be announced
17 April 2018

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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