For release 5 November 2019

# Associated British Foods plc

## Annual Results Announcement

Year ended 14 September 2019

# ASSOCIATED BRITISH FOODS PLC RESULTS FOR 52 WEEKS ENDED 14 SEPTEMBER 2019

A resilient performance

## Financial Headlines

| | | Actual | Constant currency |
|---|---|---|---|
| • Group revenue | £15.8bn | +2% | +2% |
| • Adjusted operating profit | £1,421m | +1% | +1% |
| • Adjusted profit before tax | £1,406m | +2% | |
| • Adjusted earnings per share | 137.5p | +2% | |
| • Dividends per share | 46.35p | +3% | |
| • Gross investment | £837m | | |
| • Net cash | £936m | | |
| • Statutory operating profit | £1,282m | -5% | |
| • Statutory profit before tax | £1,173m | -8% | |
| • Basic earnings per share | 111.1p | -13% | |

Statutory operating profit down 5% to £1,282m mainly as a result of an exceptional charge of £79m included in this year's income statement. This year includes a greater loss on closure of businesses, and so statutory profit before tax was down 8% to £1,173m and basic earnings per share were down 13% to 111.1p.

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

"The group delivered a resilient performance this year, with strong profit growth from Grocery and Primark which more than offset the profit decline in Sugar. We continued to pursue the opportunities to grow our businesses with a gross investment of over £800m. Next year the group is well-positioned for further progress, with the continued expansion of Primark, a material improvement in our Sugar profit and strong profit growth in Grocery."

Adjusted operating profit is stated before the amortisation of non-operating intangibles, profits less losses on disposal of non-current assets, transaction costs, amortisation of acquired inventory fair value adjustments and exceptional items. 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. References to operating profit in the Operating Review are based on this adjusted operating profit measure.

Constant currency figures are derived by translating the 2018 results at 2019 average exchange rates, except for countries where consumer price inflation has escalated to extreme levels, in which case actual rates are used.

References to underlying profit for Twinings Ovaltine and Grocery exclude a £12m charge in 2019 in respect of the closure of the Twinings tea factory in Jinqiao, China.


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**Notes to Editors**
Associated British Foods is a diversified international food, ingredients and retail group with sales of £15.8bn and 138,000 employees in 52 countries. It has significant businesses in Europe, southern Africa, the Americas, Asia and Australia.

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

# ANNUAL RESULTS ANNOUNCEMENT

For the 52 weeks ended 14 September 2019

## CHAIRMAN'S STATEMENT

It is a testament to the breadth of the group that profit growth was achieved in a year where the effects of a radical change in the European sugar market fully impacted our businesses. In a period when our ongoing sugar businesses experienced a significant drop in profits, the resilience of the group was demonstrated by an increase in the profits of our non-sugar activities, mainly driven by strong performances from Grocery and Primark. Revenues were 2% higher than last year at £15.8bn and adjusted operating profit was 1% ahead at £1,421m. There was a minimal effect from currency translation and so revenue and profit increases were broadly the same at constant currency. Net finance expense was much lower than last year following the maturity of a portion of the group's private placement notes and other financial income was higher as a consequence of an increase in the surplus of our defined benefit pension schemes between the 2017 and 2018 year ends. The group's adjusted effective tax rate of 21.5% was in line with last year. Adjusted earnings per share increased by 2% to 137.5p.

This year Primark celebrated the 50th anniversary of the opening of its first store, and I am pleased to report another year of strong progress and notable achievements. The expansion in selling space included Birmingham High Street, a showcase for our entire product range and innovative in-store experiences, and our first move into eastern Europe with the opening of a store in Slovenia. Our stores in the US performed very well and we have announced four further stores to open in the near future. Primark again demonstrated its track record for operational excellence with further improvements in buying and stock management.

Adjusted operating profit at Grocery was well ahead of last year. The margin improvement was broad-based, with excellent performances from our businesses in Australia and the US, Acetum, which was acquired last year, and Twinings Ovaltine on an underlying basis. Profit was down substantially at AB Sugar, mainly due to the effect of a further decline in EU sugar prices last year. This decline resulted from a coincidence of a regional oversupply of sugar and the end of the EU sugar regime. Following the subsequent reduction in EU sugar supply, sugar prices have increased and we look forward to a material increase in our Sugar profit in the coming year.

We continued to invest for the long term, with a gross investment of £837m comprising capital expenditure of £737m and acquisitions of £100m. The capital expenditure for Primark was driven by investment in selling space expansion, supply chain and infrastructure. Investments in our food businesses focused on capacity expansion and projects to drive further operational efficiencies.

In September 2018 we were delighted to acquire Yumi's, an Australian producer of premium chilled dips and snacks, and, on 6 September 2019, Anthony's Goods, a California-based online marketer and blender of speciality baking ingredients. We also signed an agreement to form a yeast and bakery ingredients joint venture in China with Wilmar International. The joint venture will see us build a major new low-cost yeast plant in the north east of China and will combine AB Mauri's existing activities and technical expertise in China with Wilmar's extensive sales and distribution capability.

We delivered a stronger operating cash flow this year and the closing net cash position of £936m, before the adoption of IFRS 16 from the coming year, compared to £614m at last year end. The group has the financial strength to invest in all its businesses and to continue to pursue value accretive acquisition opportunities.

Statutory operating profit for the year was 5% down at £1,282m after taking into account exceptional charges of £79m. Losses on sale and closure of businesses increased to £94m this year and as a result, the statutory profit before tax reduced by 8% to £1,173m and basic earnings per share reduced by 13% to 111.1p.

### Corporate responsibility

At Associated British Foods, our purpose is to provide safe, nutritious, affordable food and clothing that is great value for money. We are committed to being a good neighbour and supporting the communities where we operate.

This year we have, for the first time, set out our four group-wide values: acting with integrity, respecting everyone's dignity, progressing through collaboration and pursuing with rigour. These values provide clarity and guidance across all our businesses for employees, customers, suppliers and shareholders alike.

Our businesses have always aimed to make a lasting positive contribution to society and our 2019 Responsibility Report, *Living our values*, details the actions we are taking to invest in our people, support society, strengthen supply chains and respect our environment. To see how we make a difference, please download *Living our values*, at www.abf.co.uk/responsibility

### Remuneration

This year we have undertaken a review of the group's executive reward arrangements which has included consultation with some of the group's largest shareholders. As a result, a number of changes are proposed to our remuneration policy to further improve alignment with shareholder interests and these are set out in the Remuneration Report.

## The board

In September 2018 we welcomed Graham Allan to the board as a non-executive director. I want to thank Graham for also leading this year's internal evaluation of the board and its committees. Javier Ferrán stood down at our Annual General Meeting in December 2018 and my last statement recorded my thanks to Javier. Ruth Cairnie took on the responsibilities of Senior Independent Director. Richard Reid was appointed as designated non-executive director for engagement with the workforce.

## Employees

These results are a tribute to the ongoing dedication and commitment of our 138,000 employees during the past year. Operating in 52 countries, some of which are challenging markets, they have delivered operational improvements which have underpinned the increased profit and cash generation that we report today. I would like to thank all of our employees for their valuable contribution, determination to succeed and in bringing our values to life every day.

## Dividends

I am pleased to report that a final dividend of 34.3p is proposed to be paid on 10 January 2020, to shareholders on the register on 13 December 2019. Together with the interim dividend of 12.05p paid on 5 July 2019, this will make a total of 46.35p for the year, an increase of 3%.

## IFRS 16 *Leases*

The group will adopt the new accounting standard IFRS 16 *Leases* from the coming financial year. This is a significant accounting change for the group and will bring lease liabilities of £3.6bn on to the balance sheet, predominantly relating to Primark's leasehold stores. Under our chosen transition option, the results for the 2019 financial year will not be restated. However, we have set out the pro forma effects on our financial results this year, and on the key metrics for Primark, in the Financial review.

## Outlook

In the coming year, AB Sugar will benefit materially from the increase seen this year in EU sugar prices and from further cost reduction. We expect another year of strong profit and margin growth in Grocery, with Twinings Ovaltine in particular benefiting from a more efficient tea supply chain.

Primark will continue to expand its selling space next year, with the most stores being added in France and Spain. Looking further ahead, Primark has a strong pipeline of good quality sites. We expect cost reductions in both the cost of goods and overheads during the year, but the weakness of sterling during this financial year will result in a margin decline for Primark in the first half. The sterling exchange rate is currently very volatile but, at current exchange rates, we now expect margin in the second half to be in line with the same period this year and margin for the full year to be only a small reduction on that achieved this year. Margin comparisons are on a lease-adjusted basis.

Our businesses have completed all practical preparations for Brexit and contingency plans are in place should our businesses experience some disruption at the time of exit.

Taking these factors into account, at this early stage, we expect progress, on both a reported and an IFRS 16 adjusted basis, in adjusted earnings per share for the group for the coming year.

**Michael McLintock**
**Chairman**

## CHIEF EXECUTIVE'S STATEMENT

The group made further progress this year. Group revenue increased by 2% to £15.8bn and adjusted operating profit of £1,421m was 1% higher than last year, at constant currency.

Our Grocery businesses enjoyed a successful year, with strong underlying profit growth of 14% after adjusting for the £12m cost for the closure of the Twinings tea factory in China. George Weston Foods in Australia, ACH in the US and Acetum all delivered particularly impressive margin improvements through better procurement and cost reduction. We continued to invest in our manufacturing capability and the new facilities commissioned for Ryvita and for noodle production will increase capacity and product innovation. At Allied Bakeries we are committed to reducing the operating losses this coming year, with a programme of cost reductions. These follow the closure of the Cardiff bakery at the end of the financial year. We continued to develop our presence in the faster growing segments of the grocery market and see much potential from our recent acquisitions of Yumi's in Australia and Anthony's Goods in the US.

Primark marked its 50th anniversary by delivering an 8% increase in profit. 14 new stores were added across the UK and continental Europe in the year, including our largest ever store, in Birmingham. Looking forward, France, Italy, Spain, eastern Europe and the US provide the most significant prospects for further growth. Our buying team delivered a further improvement in margin, driven by exciting on-trend ranges, better buying and reduced markdowns. We continued to put the customer at the heart of our digital campaigns, with our social media channels now boasting 20m followers, up from 13m last year. We successfully collaborated with high profile influencers with whom we launched special collections throughout the year, generating further social media reach. We achieved another year of substantial market share growth in the UK. The group's like-for-like sales decline of 2% was significantly affected by weak trading in Germany where we have been taking action to address performance. A new managing director is in role and is leading a number of initiatives which include targeted local marketing campaigns.

Profit at AB Sugar was well down on the prior year, as expected, due to lower EU sugar prices and a poor crop in China. With our ongoing focus on performance improvement and cost reduction, improving EU sugar prices and the continued strength of Illovo we look forward to an improvement in the profit and return on capital employed for our sugar business in the coming year.

AB Agri experienced a difficult year, with the loss of co-products following the closure of the Vivergo bioethanol plant last year, lower UK feed margins and a smaller sugar beet crop. Our Ingredients business was impacted by the challenging economic environment in Argentina and this year's result includes a hyperinflationary accounting charge for the first time.

### Brexit

The group's business model, wherever possible, aligns food production with the end market for the product while Primark operates largely discrete supply chains for its stores in each of the UK, US and EU27. The group therefore undertakes relatively little cross-border trading between the UK and the rest of the EU and consequently we do not expect Brexit to have a significant effect on the group's results. Nevertheless, we have evaluated the forms that Brexit could take and our businesses have completed all practical preparations and have contingency plans in place should they experience some disruption at the time of exit.

### Arthur Ryan

Arthur Ryan, the founder of Primark, passed away in July this year after a short illness. My grandfather and uncle recruited Arthur to run Penneys in 1969 with only one store in Dublin. He went on to build a phenomenal world-class retailer, making fashion accessible to all, and his legacy looms large as one of the great giants of retailing. We will all miss his larger-than-life presence, his sharp wit and his friendship.

## OPERATING REVIEW

### Grocery

| | 2019 | 2018 | Actual fx | Constant fx |
|---|---|---|---|---|
| **Revenue £m** | **3,521** | 3,420 | +3% | +2% |
| **Adjusted operating profit £m** | **380** | 335 | +13% | +10% |
| **Adjusted operating profit margin** | **10.8%** | 9.8% | | |
| **Return on average capital employed** | **27.4%** | 25.9% | | |

Grocery revenues were 2% ahead of last year at constant currency and growth in adjusted operating profit was excellent at 10%. This year's result included a £12m one-time cost for the closure of the Twinings tea factory in China. Adjusting for this, operating profit was up 14% at constant currency. Margin, at 10.8%, improved significantly again this year with major improvements delivered by George Weston Foods in Australia, ACH in the US, Acetum and Twinings Ovaltine, on an underlying basis.

Twinings delivered good revenue growth and benefited from the success of Cold Infuse teas in their launch markets of the UK and Australia. During the summer, distribution began in the US while the range was extended with new flavours and Kids Cold Infuse. The development of our herbal teas range included new launches in Australia and France and good growth from Superblends in the UK. Ovaltine sales growth was supported by another year of success of new product launches in Switzerland and good growth in Thailand, China and Myanmar. Following the transfer of tea production from Jinqiao, China to our existing site in Swarzedz, Poland during the first half, new supply routings have been established and are functioning well.

At Allied Bakeries revenues progressed this year following price increases agreed with a number of customers. As previously advised, the termination of our largest private label bread contract will lead to a volume loss in our next financial year. As a consequence, the carrying value of the assets in this business was no longer supported by our forecasts of its discounted future cash flows and a non-cash impairment charge of £65m has been recognised as an exceptional item in the income statement. We have taken steps to reduce our capacity and closed our Cardiff bakery at the end of the year. During the coming year we will implement cost reductions in a number of operational areas to further reduce the losses in this business.

Jordans, Dorset Cereals and Ryvita delivered an improved manufacturing capability, with the commissioning of the new Ryvita bakery in Bardney, Lincolnshire, and the transfer of muesli production to a state-of-the-art facility in Poole, Dorset. Margin declined due to higher raw materials costs. Silver Spoon expanded distribution in the UK, winning a sugar contract with a major retailer.

AB World Foods enjoyed a record year with strong growth in both the UK and internationally. Sales at Blue Dragon were driven by an expanded range of meal kits while Patak's grew sales of pappadums and continued to enjoy success with paste pots. Westmill relaunched its Rajah spice range and commissioned a further noodle production line at its factory in Manchester, although rice margins fell in a highly competitive market.

At Acetum, our leading balsamic vinegar producer, margins improved significantly as grape must prices returned to lower levels than the exceptionally high level that followed the poor grape harvest in 2017. During the year investment was made to support the market entry of the Mazzetti brand in the UK.

Operating profit for our grocery businesses in North America was well ahead of last year. ACH performed strongly, with excellent margin improvement driven by lower oil commodity costs, further market share gains in Mazola corn oil and improved trading in syrup and baking products in Mexico. On 6 September 2019 we completed the acquisition of Anthony's Goods, a California-based blender and online marketer of speciality baking ingredients. This acquisition will complement ACH's leading position in cooking and baking brands in North America and will provide a presence in the emerging, fast-growth market of premium organic foods.

George Weston Foods in Australia delivered excellent margin and operating profit growth. Tip Top achieved strong sales in packaged bread and realised improved margins driven by operational efficiencies, while the Don meat business significantly increased operating profit and benefited from favourable commodities management. In September 2018 we acquired Yumi's, a producer and marketer of premium chilled dips and snacks. Sales grew strongly, a new range of lentil and pulses dips were well received, and the business became the market leader in the chilled dips category in Australia during the year.

### Sugar

| Ongoing businesses | 2019 | 2018 | Actual fx | Constant fx |
|---|---|---|---|---|
| **Revenue £m** | **1,608** | 1,730 | -7% | -5% |
| **Adjusted operating profit £m** | **26** | 123 | -79% | -78% |
| **Adjusted operating profit margin** | **1.6%** | 7.1% | | |
| **Return on average capital employed** | **1.6%** | 7.5% | | |

AB Sugar revenues were 5% down on last year at constant currency and adjusted operating profit was well down. The profit decline for the year reflects the first half performance. Profit in the second half was ahead of both expectation and last year. EU sugar prices were much lower this year and impacted our UK and Spanish businesses while a poor crop reduced production and sales volumes in China. Our African sugar business, Illovo, delivered another successful year.

Our sugar businesses are focused on reducing their cost of sugar production. Further significant cost reductions were delivered this year, through ongoing performance improvement programmes which target efficiencies in all areas of the business.

EU stock levels tightened during 2018/19 as a consequence of lower sugar production in the last campaign. Indications are that EU sugar production for 2019/20 will remain at this lower level following a further reduction in the crop area which will largely offset improved beet yields. As a consequence, stocks are forecast to remain low which should provide further support to EU sugar prices which increased this year.

In the UK, sugar production in 2018/19 of 1.15 million tonnes compared to 1.37 million tonnes last year when beet yields achieved record levels. Production in 2019/20 is expected to be marginally higher than this year, with an improvement in beet yield following favourable weather conditions more than offsetting the reduction in crop area. Good early progress has been made in the processing of beet at our four UK factories. The majority of sales for 2019/20 are now contracted and the benefit of higher EU sugar prices will result in a significant improvement in the operating result.

In Spain, production from beet was 260,000 tonnes this year, lower than last year due to adverse weather in the south impacting sugar content of the beet. This shortfall was compensated by increased production from the refining of cane raws at Guadalete which produced 170,000 tonnes. These factors, combined with low EU sugar prices, resulted in our Spanish business making a substantial loss this year. Contracting of beet volumes with growers for the 2019/20 campaign was substantially completed at reduced prices from the previous year and this led to our contracted crop area reducing by one third, mainly in the north. Beet sugar production for 2019/20 is expected to be some 205,000 tonnes, with the benefit of an improvement in beet yield. This will be supplemented with over 200,000 tonnes from raws refining. We expect a significantly improved operating result for Spain in the next financial year driven by higher sales prices, the lower beet costs and cost reductions.

Sugar production at Illovo increased slightly to 1.73 million tonnes this year, driven by further improvements in cane yields. Profit was in line with expectations, with particularly strong performances in Eswatini and Zambia offsetting weaker results in Malawi and South Africa. The 2019/20 season is progressing well, with sugar production in line with expectations, and we expect another strong performance from Illovo next year.

In China, sugar production of 149,000 tonnes was well down on last year as very poor quality beet, following a period of adverse weather, hampered production and sugar extraction at our two factories. As a result of the lower production and low domestic sugar prices the business produced a significant loss. Looking ahead to next year we expect the operating result to improve significantly. The new crop is well established, some recovery in beet quality is expected and grower payments will be increasingly linked to the sugar content of their beet.

At Germains, our seed treatment and enhancement business, UK sales volumes declined mainly as a result of the ban on neonicotinoids as a seed treatment from this year. However, sales to the European and US horticulture markets continued to increase and benefited from new product development. Production capacity was increased at its facility in Gilroy, California.

## Agriculture

| Ongoing businesses | **2019** | 2018 | Actual fx | Constant fx |
|---|---|---|---|---|
| **Revenue £m** | **1,385** | 1,350 | +3% | +2% |
| **Adjusted operating profit £m** | **42** | 59 | -29% | -30% |
| **Adjusted operating profit margin** | **3.0%** | 4.4% | | |
| **Return on average capital employed** | **10.7%** | 15.7% | | |

AB Agri revenues were 2% ahead of last year at constant currency, driven by higher feed sales in the UK and China where higher feed prices reflected increased raw material costs. Adjusted operating profit, however, was down 30% mainly due to the loss of high margin co-products from the Vivergo bioethanol plant, which was closed last autumn, and lower margins on UK animal feed.

Compound feed volumes in the UK increased due to higher demand in the pig and poultry sectors. The margin decline reflected an under-recovery of energy and distribution costs and lower sales of sugar beet feed to the dairy sector, following the reduction in the beet crop size. Overheads will be reduced as a consequence and a restructuring charge has been taken this year. Although our Chinese feed business also increased sales, margin declined.

Speciality Nutrition, our premix and starter feed business, successfully commissioned a new factory at Fradley Park, Staffordshire and acquired a small starter feed business in Poland. Profits were lower than last year which benefited from unusually high vitamin prices. Sales and profit at AB Vista were in line with last year and reflected an increasingly competitive phytase enzyme market. We are encouraged by the launch of Signis, our innovative animal digestion aid.

## Ingredients

| Ongoing businesses | **2019** | 2018 | Actual fx | Constant fx |
|---|---|---|---|---|
| **Revenue £m** | **1,515** | 1,459 | +4% | +4% |
| **Adjusted operating profit £m** | **136** | 143 | -5% | -6% |
| **Adjusted operating profit margin** | **9.0%** | 9.8% | | |
| **Return on average capital employed** | **15.9%** | 18.1% | | |

Ingredients revenues were 4% ahead of last year at constant currency. Adjusted operating profit, however, declined by 6% at constant currency, which was driven by a significant fall in the result for AB Mauri Argentina as a result of a challenging economy, increased competition, and the adoption of hyperinflationary accounting under IAS 29.

AB Mauri sales increased but profits were reduced mainly as a result of the Argentina operations. Trading in North America was strong driven by product innovation in bakery ingredients and the increase in yeast prices to recover higher input costs. Trading was also ahead in Brazil where we continued to benefit from the growth of industrial bakeries. We continued to invest in technology and product innovation and a new bakery toppings facility in Pederneiras, Brazil, a bakery ingredients factory in Dongguan, China and an extended technology centre in St Louis, US were opened during the year.

In August we signed an agreement to form a yeast and bakery ingredients joint venture in China with Wilmar International. This will combine our existing activities in China and technical expertise with their extensive sales and distribution capability. Completion is subject to the receipt of regulatory approvals. The joint venture will build a major yeast plant to be co-located with Wilmar's food processing plant in north east China. During the year we also acquired Italmill, a supplier of specialist bakery ingredients from a well-invested facility in the north of Italy.

At ABF Ingredients, the enzymes business continued to grow its sales to the bakery and other food markets. SPI Pharma delivered sales growth in pharmaceutical excipients and industrial catalysts. Ohly, our yeast extracts and seasoning powders business, made good progress in the food and health markets and improved margins through cost reduction. PGPI, our US protein extrusion business, delivered strong sales growth of plant protein crisps and took further share in the expanding US market for nutrition bars and healthier snacks, cereals and baked items.

## Retail

| | 2019 | 2018 | Actual fx | Constant fx |
|---|---|---|---|---|
| **Revenue £m** | **7,792** | 7,477 | +4% | +4% |
| **Adjusted operating profit £m** | **913** | 843 | +8% | +8% |
| **Adjusted operating profit margin** | **11.7%** | 11.3% | | |
| **Return on average capital employed** | **28.9%** | 28.2% | | |

Sales at Primark were 4.2% ahead of last year at actual exchange rates and 4.1% ahead at constant currency, driven by increased selling space partially offset by a 2.0% decline in like-for-like sales. Operating profit margin increased to 11.7% from 11.3% and, as a consequence, adjusted operating profit was 8% ahead.

Primark performed well in the UK as we continued to deliver a significant gain in market share, with sales growth of 2.5% driven by a strong contribution from new selling space. Like-for-like sales declined by 1.0% but outperformed a weak total clothing, footwear and accessories market which includes online. We have been encouraged by our customers' reaction to our new store in Birmingham High Street which showcases our new food and beverage and beauty services in addition to our full product range.

Sales in the Eurozone were 4.8% ahead of last year at constant currency, with excellent sales growth in Spain and France and strong performances in Italy and Belgium. Over the year selling space increased by 8% and the contributions from our new stores in Bordeaux, Seville and Ljubljana exceeded our expectations. Like-for-like sales fell by 2.9%, driven by a weak performance in Germany where a new managing director is now in role and is leading a number of initiatives which include targeted local marketing campaigns and the reduction of selling space in some stores. Excluding Germany, like-for-like sales in the Eurozone fell by 1.1% but we note an improving trend which delivered positive like-for-like sales in the final quarter. Full year like-for-like sales growth was achieved in Spain, Portugal, France and Italy.

Our US business delivered strong sales growth which, coupled with lower operating costs, resulted in a significantly reduced US operating loss. The sales increase was driven by like-for-like growth and excellent trading at the Brooklyn store, which opened last summer. The selling space reduction in three stores has successfully established a profitable contribution in each store. The positive reception by US consumers to Primark, combined with our profitable store model, gives us confidence for further expansion in the US market. Two further US stores will open in the new financial year, at American Dream, the retail and entertainment complex in New Jersey which will now open in spring 2020, and Sawgrass Mills, Florida in summer 2020. We have now signed the lease for a new store in Fashion District, Philadelphia and, as previously advised, have exchanged contracts on a store in State Street, Chicago.

We were particularly pleased to have reached a milestone 20 million followers across all our social media channels, driven by a combination of exciting product ranges, innovative social media campaigns and customer-focused celebrity collaborations. We believe our engaging content across these social platforms attracts substantial customer numbers to our stores.

During the second half, Primark's buying, merchandising, design, sourcing and quality functions, previously located in Reading and Dublin, were consolidated in Dublin. This will further enable one global product range for our customers, the delivery of efficiencies and support our expansion into international markets.

The first half operating margin of 11.7% was well ahead of the same period last year of 9.8%, driven by a weaker US dollar on contracted purchases, better buying and tight stock management. Margin in the second half exceeded our expectations at 11.7%. This was lower than the second half in the prior year, with the effect of a stronger US dollar on purchases substantially offset by a low level of markdowns and better buying.

The strengthening of the US dollar during this year has increased the cost of goods for the first half of next year which will result in a margin decline in the first half. The sterling exchange rate is currently extremely volatile and affects the cost of goods for the second half next year. We anticipate achieving significant mitigation from reduced materials prices, the favourable effect of exchange rates in sourcing countries, better buying and a programme to reduce operating costs. At current exchange rates, our expectation for the full year margin next year has improved to be only a small reduction on that achieved this year.

Retail selling space increased by a gross 0.9 million sq ft this year, with 14 new store openings. Four stores were added in the UK, three in Germany, two in Spain, two in France and one each in Belgium, the Netherlands and our first store in Slovenia. We relocated to new premises in Birmingham High Street which, at 160,000 sq ft, became our largest store. The smaller of our two stores in Oviedo, Spain, was closed and the size of our store in the King of Prussia mall in Pennsylvania was reduced. This brings the total estate to 373 stores trading from 15.6 million sq ft compared to 14.8 million sq ft a year ago.

| | Year ended 14 September 2019 | | Year ended 15 September 2018 | |
|---|---|---|---|---|
| | **# of stores** | **sq ft 000** | # of stores | sq ft 000 |
| UK | **189** | **7,449** | 185 | 7,125 |
| Spain | **46** | **1,850** | 45 | 1,764 |
| Germany | **30** | **1,830** | 27 | 1,686 |
| Republic of Ireland | **37** | **1,085** | 37 | 1,087 |
| Netherlands | **20** | **971** | 19 | 902 |
| France | **15** | **776** | 13 | 649 |
| US | **9** | **470** | 9 | 507 |
| Portugal | **10** | **348** | 10 | 348 |
| Belgium | **7** | **372** | 6 | 292 |
| Austria | **5** | **242** | 5 | 242 |
| Italy | **4** | **203** | 4 | 203 |
| Slovenia | **1** | **46** | - | - |
| | **373** | **15,642** | 360 | 14,805 |

## New store openings:

**UK**
Hastings
Bluewater
Belfast Donegall Place
Milton Keynes

**Slovenia**
Ljubljana

**Spain**
Torre Sevilla
Almeria

**France**
Toulouse
Bordeaux

**Belgium**
Bruxelles Chaussée D'Ixelles

**Germany**
Berlin Zoom
Wuppertal
Bonn

**The Netherlands**
Utrecht

**Relocations:**
Harrow
Birmingham High Street
Newtownabbey

In the next financial year, we are planning to add a net 1 million sq ft of additional selling space, weighted mainly to the second half. We expect to open 19 new stores together with a number of relocations and extensions, while selling space will be reduced at a small number of German stores. France and Spain will see the most space added, and the major new stores will include Paris Plaisir, Lens and Calais Cité Europe in France, Milan Fiordaliso in Italy, Barcelona Plaza de Cataluña and Seville Lagoh in Spain and Trafford Centre in the UK. Our first store in Poland will open in Warsaw in the spring, taking Primark to its thirteenth country.

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

## Group performance

Group revenue increased by 2% to £15.8bn and adjusted operating profit was 1% higher at £1,421m. In calculating adjusted operating profit, the amortisation charge on non-operating intangibles, profits or losses on disposal of non-current assets, transaction costs, amortisation of acquired inventory fair value adjustments and exceptional items are excluded.

The income statement includes exceptional items of £79m this year. Following the termination of our largest private label bread contract in December 2018, the carrying value of the assets of the Allied Bakeries business was no longer supported by our forecasts of its discounted future cash flows and a non-cash impairment charge of £65m has been recognised. Following a High Court ruling regarding the equalisation of Guaranteed Minimum Pensions in October 2018, a pension service cost of £14m has been taken for members of the company's defined benefit pension scheme for service between 1990 and 1997. On an unadjusted basis, operating profit was 5% lower than last year at £1,282m.

The weakening of sterling this year, particularly against the US dollar, resulted in a translation benefit of £9m. The movement in the US dollar exchange rate has a transactional effect on Primark's largely dollar-denominated purchases but taken for the year as a whole the effect was broadly neutral, with a favourable effect in the first half offsetting a negative effect in the second half.

Next year we expect the weakness of sterling during this financial year to have a negative transactional effect on the Primark margin in the first half but, at current exchange rates, a minimal effect in the second half.

Net finance expense reduced from last year following the maturity of $310m of private placement senior notes in March and lower debt in high interest markets. The increase in other financial income reflected the increase in the surplus of our defined benefit pension schemes between the 2017 and 2018 year ends.

Losses on disposal of businesses were £94m, higher than last year, and mainly comprised an impairment charge to the assets of AB Mauri's businesses in China which are affected by the formation of the proposed joint venture with Wilmar International, described in further detail below. Taking this into account, statutory profit before tax was down 8% to £1,173m. On our adjusted basis, which excludes these items, profit before tax rose by 2% to £1,406m.

## Acquisitions and disposals

In September 2018 we acquired Yumi's, an Australian producer of premium chilled dips and snacks. AB Agri acquired a small manufacturer of piglet starter feed based in Poland. Our Ingredients business disposed of its underutilised torula yeast facility in Hutchinson, Minnesota and acquired Italmill, a supplier of specialist bakery ingredients based in the north of Italy. On 6 September 2019 ACH in the US acquired Anthony's Goods, a California-based blender and online marketer of speciality baking ingredients.

In August we signed an agreement to form a yeast and bakery ingredients joint venture in China with Wilmar International, with completion subject to regulatory approval. The joint venture will see us build a major new low-cost yeast plant in the north east of China and will combine AB Mauri's existing commercial activities and technical expertise in China with Wilmar's extensive sales and distribution capability. As a consequence, a non-cash impairment charge of £88m against AB Mauri's assets in China has been included in losses on closure of businesses in the income statement.

## Taxation

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

This year's tax charge on the adjusted profit before tax was £302m at an effective rate of 21.5% (2018 – 21.3%). We expect next year's adjusted effective tax rate to increase slightly from this level.

The total tax charge for the year of £277m benefited from a credit of £25m (2018 - £35m) for tax relief on the amortisation on non-operating intangible assets, amortisation of acquired inventory fair value adjustments, profits on disposal of non-current assets, losses on disposal of businesses and exceptional items.

## Earnings and dividends

Earnings attributable to equity shareholders in the current year were £878m and the weighted average number of shares in issue during the year, which is used to calculate earnings per share, was 790 million (2018 – 790 million). Given the loss on closure of businesses and exceptional items charged this year, earnings per ordinary share were 13% lower than last year at 111.1p. Adjusted earnings per share, which provides a more consistent measure of trading performance, increased by 2% from 134.9p to 137.5p.

The interim dividend was increased by 3% to 12.05p and a final dividend has been proposed at 34.3p which represents an overall increase of 3% for the year. The proposed final dividend is expected to cost £271m and will be charged next year. Dividend cover, on an adjusted basis, remained at 3.0 times.

## Balance sheet
Non-current assets of £8.2bn were £0.2bn lower than last year driven by a decrease in employee benefits assets as the surplus in the UK defined benefit pension scheme declined. The investment in property, plant and equipment and intangible assets was in line with last year, with capital expenditure and acquisitions made in the year offset by depreciation and impairments.

Average working capital as a percentage of sales increased from 7.2% last year to 7.8% this year, while working capital at the year end was also higher than last year due principally to higher inventories at Primark. Net cash at the year end was £936m compared with net cash at the end of last year of £614m reflecting the strong operating cash flow in the year.

The group's net assets increased by £0.3bn to £9.6bn. Return on capital employed for the group which is calculated by expressing adjusted operating profit as a percentage of the average capital employed for the year, was lower this year at 19.3% compared with 20.1% last year, mainly driven by the reduction in the return on capital at AB Sugar.

## Cash flow
Net cash inflow from operating activities increased slightly to £1,509m. Capital expenditure reduced compared to the prior year with lower spend at Primark this year reflecting the planned later phasing of next year's store openings and the consequent timing of store fit out costs, while lower spend in the food businesses followed the recent completion of some major capital projects. £12m was realised from the sale of property, plant and equipment. The net cash outlay on acquisitions was £100m, including debt assumed, and related principally to the acquisitions of Yumi's and Anthony's Goods.

Tax paid in the year amounted to £269m. 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 2020 will be higher than 2019.

## Financing
The financing of the group is managed by a central treasury department. The group has total committed borrowing facilities amounting to £1.6bn, which comprise: £0.3bn of US private placement notes maturing between 2021 and 2024, with an average fixed rate coupon of 4.4%; £1.2bn provided under a syndicated, revolving credit facility which matures in July 2021; and £0.1bn of local committed facilities in Africa. At the year end, £412m was drawn down under these committed facilities. The group also had access to £564m of uncommitted credit lines under which £162m was drawn at the year end. Cash and cash equivalents totalled £1.5bn at the year end.

## Pensions
The group's defined benefit pension schemes were in surplus by £33m at the year end compared with a surplus last year of £435m. The UK scheme accounts for 91% of the group's gross pension assets. The decline in long-term UK bond yields during the year, which are used to value defined benefit pension obligations for accounting purposes, had a material impact on the discounted value of pension liabilities. The lower pension surplus will result in reduced interest income next year in respect of defined benefit pensions, and is reported in other financial income.

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

The charge for the year for the group's defined contribution schemes, which was equal to the contributions made, amounted to £80m (2018 - £77m). This compared with the cash contribution to the defined benefit schemes of £50m (2018 - £39m).

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

During this financial year we adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* with no material impact arising on adoption. On transition, comparatives were not restated. Under IFRS 15, Grocery revenues would have reduced by £31m last year as certain payments to customers which were previously expensed as incurred would instead have been deducted from revenue. This reduction represents 0.9% of revenue in the Grocery segment and would have had the effect of increasing Grocery operating margin by 8 basis points last year. This had no effect on the timing or amount of operating profit.

### IFRS 16 *Leases*

The group will adopt IFRS 16 *Leases* in the 2020 financial year, which is the most significant accounting change for our group for many years. It affects many aspects of the group's financial statements, including operating profit, earnings per share and net debt, as well as return on capital employed.

The effects of adopting IFRS 16 at our transition date of 15 September 2019 are set out in the Significant accounting policies section. We will recognise lease liabilities at transition of £3.6bn and right-of-use assets of £3.1bn.

The vast majority of the lease liabilities relate to Primark's leasehold store estate. The effect on our food businesses, where many of our properties are owned under freeholds, is much less significant.

We will transition using the 'modified retrospective' approach, under which the comparative period is not restated. We have set out below our estimates of selected 2019 financial information, on a pro forma IFRS 16 basis, in order to illustrate the effects on the income statement and key metrics for Primark.

Effects on the group financial statements and metrics:

- The balance sheet would have shown net debt of £2.7bn.
- Gearing (expressed as debt as a proportion of debt plus equity) would have been 31% at the balance sheet date.
- Adjusted operating profit would have increased by £64m, with rental expense replaced by depreciation of right-of-use assets.
- Interest expense would have increased by £90m of interest charged on lease liabilities.
- Interest cover would have been 14 times.
- Adjusted profit before tax would have reduced by £26m.
- Adjusted earnings per share would have reduced by 2% from 137.5p to 134.8p.

There is no change to overall net cash flows and while this is a significant change in financial reporting, our business model remains unchanged and our balance sheet remains robust.

Effects on Primark metrics:

- Primark's margin would have increased from 11.7% to 12.5% due to higher adjusted operating profit, with store rental expense replaced with a depreciation charge on right-of-use assets.
- Primark's return on capital employed would have decreased from 29% to 15%, as right-of-use assets are now included in capital employed.

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

The annual report and accounts is available at www.abf.co.uk and will be despatched to shareholders on 7 November 2019. The annual general meeting will be held at Congress Centre, 28 Great Russell Street, London, WC1B 3LS at 11am on Friday, 6 December 2019.

## RISK MANAGEMENT

### Our approach to risk management

The delivery of our strategic objectives and the sustainable growth (or long-term shareholder value) of our business, is dependent on effective risk management. We regularly face business uncertainties and it is through a structured approach to risk management that we are able to mitigate and manage these risks and embrace opportunities when they arise. The diversified nature of our operations, geographical reach, assets and currencies are important factors in mitigating the risk of a material threat to the group's sustainable growth and long-term shareholder value. However, as with any business, risks and uncertainties are inherent in our business activities. These risks may have a financial, operational or reputational impact.

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

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

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

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

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

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

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

### Key areas of focus this year

**Effective risk management processes and internal controls**

We continued to seek improvements in our risk management processes to ensure the quality and integrity of information and the ability to respond swiftly to direct risks. During the year, the Audit committee on behalf of the board conducted reviews on the effectiveness of the group's risk management processes and internal controls in accordance with the UK Corporate Governance Code. Our approach to risk management and systems of internal control is in line with the recommendations in the Financial Reporting Council's (FRC) revised guidance 'Risk management, internal control and related financial and business reporting' (the Risk Guidance). The board is satisfied that internal controls were properly reviewed and key risks are being appropriately identified and managed.

**Brexit**

Following the referendum decision in 2016, the group established an EU Exit Steering Committee which consists of a small dedicated team which worked with all the businesses to assess the risks and opportunities arising from the UK's decision to leave the EU. The group's business model, under which Primark operates largely discrete supply chains for its stores in each of the UK, US and EU27 and food production is, wherever possible, aligned with the end market, means that the group undertakes relatively little cross-border trading between the UK and the rest of the EU. We therefore quickly came to the conclusion that the overall impact of Brexit on the group was relatively minor.

We recognise that the current political situation makes the final outcome of the negotiations between the UK and the EU uncertain. While we would prefer a negotiated exit, we are prepared for any of the potential outcomes.

In particular, over the last year the group and the individual businesses have taken reasonable steps to mitigate where possible the impacts of leaving the EU without a transitional agreement. The key risks identified, and the actions taken, are as follows:

- Imports to the UK. The UK government has indicated the tariffs that will be applied to imports in the absence of a transitional agreement and we expect these to have a net positive impact on the group. All necessary registrations have been completed. Where goods are imported into the UK by third parties on behalf of the businesses, assurances have been sought that these will be available when required.
- Disruption to EU-UK logistics. In the absence of a withdrawal agreement, there is a risk of delays and disruption to the flow of goods between the UK and the EU in both directions. The businesses that could potentially be impacted by this have reviewed their exposure and where appropriate have increased inventory levels to partially mitigate the risk. The ability to do this is constrained by warehouse availability and the shelf life of the goods.
- Data. Where necessary, the businesses have agreed Standard Contractual Terms to enable certain personal data to be transferred from the EU to the UK.

- People. The businesses have publicised the UK government's Settled Status Scheme and where appropriate have assisted employees with the application process.

**Our principal risks and uncertainties**

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

Associated British Foods is exposed to a variety of other risks related to a range of issues such as human resources and talent, community relations, the regulatory environment and competition. These are managed as part of the risk process and a number of these are referred to in our 2019 Responsibility Report. Here, we report the principal risks which we believe are likely to have the greatest current or near-term impact on our strategic and operational plans and reputation. They are grouped into external risks, which may occur in the markets or environment in which we operate, and operational risks, which are related to internal activity linked to our own operations and internal controls.

The 'Changes since 2018' describe our experience and activityover the last year.

# PRINCIPAL RISKS AND UNCERTAINTIES

## External risks

| Risk trend | Context and potential impact | Mitigation | Changes since 2018 |
|---|---|---|---|
| △ | **Movement in exchange rates** | | |
| | Associated British Foods is a multinational group with operations and transactions in many currencies.<br><br>Changes in exchange rates give rise to transactional exposures within the businesses and to translation exposures when the assets, liabilities and results of overseas entities are translated into sterling upon consolidation. | Our businesses which are impacted by exchange rate volatility and currency depreciation constantly review their currency-related exposures.<br><br>Board-approved policies require businesses to hedge all transactional currency exposures and long-term supply or purchase contracts which give rise to currency exposures, using foreign exchange forward contracts.<br><br>Cash balances and borrowings are largely maintained in the functional currency of the local operations.<br><br>Cross-currency swaps are used to align borrowings with the underlying currencies of the group's net assets (refer to note 25 to the financial statements for more information). | Sterling weakened against some of our major trading currencies this year, resulting in a gain on translation this year of £9m.<br><br>Primark covers its currency exposure on purchases of merchandise denominated in foreign currencies at the time of placing orders, with an average tenor of Primark's hedging activity of between 3 and 4 months. There was a minimal transactional effect from changes in the US dollar exchange rate on Primark's largely dollar denominated purchases for the year in aggregate.<br><br>In the last quarter of the financial year there has been a greater level of volatility in sterling exchange rates against our major trading currencies. |
| ◁▷ | **Fluctuations in commodity and energy prices** | | |
| | Changes in commodity and energy prices can have a material impact on the group's operating results, asset values and cash flows. | The group purchases a wide range of commodities in the ordinary course of business.<br><br>We constantly monitor the markets in which we operate and manage certain of these exposures with exchange traded contracts and hedging instruments.<br><br>The commercial implications of commodity price movements are continuously assessed and, where appropriate, are reflected in the pricing of our products. | Lower sugar prices had another negative impact on the profitability of our businesses in the UK, Spain and China this year. However, spot EU prices increased during the second half and should have a positive impact on profitability next year.<br><br>The price of UK wheat, a key commodity for our UK bakery business, returned to more normal levels following a significant increase in 2018. |
| △ | **Operating in global markets** | | |
| | Associated British Foods operates in 52 countries with sales and supply chains in many more, so we are exposed to global market forces; fluctuations in national economies; societal unrest and geopolitical uncertainty; a range of consumer trends; evolving legislation and changes made by our competitors.<br><br>Failure to recognise and respond to any of these factors could directly impact the profitability of our operations.<br><br>Entering new markets is a risk to any business. | Our approach to risk management incorporates potential short-term market volatility and evaluates longer-term socio-economic and political scenarios.<br><br>The group's financial control framework and board-adopted tax and treasury policies require all businesses to comply fully with relevant local laws.<br><br>Provision is made for known issues based on management's interpretation of country-specific tax law, EU cases and investigations on tax rulings and their likely outcomes.<br><br>By their nature socio-political events are largely unpredictable. Nonetheless our businesses have detailed contingency plans which include site-level emergency responses and improved security for employees.<br><br>We engage with governments, local regulators and community organisations to contribute to, and anticipate, important changes in public policy.<br><br>Following declines in the world and EU sugar prices in 2018, AB Sugar continues to reduce its cost base through its performance improvement programme.<br><br>We conduct rigorous due diligence when entering, or commencing business activities in, new markets. | In June 2019, Primark opened its first store in Slovenia.<br><br>High inflation in Argentina adversely affected our yeast and bakery ingredients business based there. |

| Risk trend | Context and potential impact | Mitigation | Changes since 2018 |
|---|---|---|---|
| ◁▷ | **Health and nutrition** | | |
| | Failure to adapt to changing consumer health choices or to address nutrition concerns in the formulation of our products could result in a loss of consumer base and impact business performance. | Consumer preferences and market trends are monitored continually.<br>Recipes are regularly reviewed and reformulated to improve the nutritional value of our products.<br>All of our grocery products are labelled with nutritional information.<br>We develop partnerships with other organisations to promote healthy options. | Our businesses continue to review their products and to partner with others to enable a swift and innovative response to changing consumer needs.<br>Our Sugar and Grocery businesses have supported healthy eating campaigns again this year to help consumers make informed choices about their food.<br>We continue to invest in new product design. |

## Operational risks

| Risk trend | Context and potential impact | Mitigation | Changes since 2018 |
|---|---|---|---|
| ◁▷ | **Workplace health and safety** | | |
| | Many of our operations, by their nature, have the potential for loss of life or workplace injuries to employees, contractors and visitors. | Safety continues to be the number one priority for our businesses. The chief executives of each business, who lead by example, are accountable for the safety performance of their business.<br>Our Health and Safety Policy and Practices are firmly embedded in each business, supporting a strong ethos of workplace safety.<br>We have a continuous safety audit programme to verify implementation of safety management and support a culture of continuous improvement.<br>Best practice safety and occupational health guidance is shared across the businesses, co-ordinated from the corporate centre, to supplement the delivery of their own programmes. | During the year there has been a 19% reduction in our employee Lost Time Injury rate to 0.65%. Our businesses conduct thorough root cause analyses to learn from accidents and implement safety changes.<br>The safety performance of the group is reported in the 2019 Responsibility Report at www.abf.co.uk/responsibility. |
| ◁▷ | **Product safety and quality** | | |
| | As a leading food manufacturer and retailer, it is vital that we manage the safety and quality of our products throughout the supply chain. | Product safety is put before economic considerations.<br>We operate strict food safety and traceability policies within an organisational culture of hygiene and product safety to ensure consistently high standards in our operations and in the sourcing and handling of raw materials and garments.<br>Food quality and safety audits are conducted across all our manufacturing sites, by independent third parties and customers, and a due diligence programme is in place to ensure the safety of our retail products.<br>Our sites comply with international food safety and quality management standards and our businesses conduct regular mock product incident exercises. | We did not have any major product recalls.<br>Businesses have continued to define and refine KPIs in this area. |

### Our use of natural resources and managing our environmental impact

Our businesses rely on a secure supply of natural resources, some of which are vulnerable to external factors such as natural disasters and climate change. Our material environmental impacts are energy use and resultant greenhouse gas emissions, water use, waste generation and packaging.

In our assessment of climate-related business risks, we recognise that the cumulative impacts of changes in weather and water availability could affect our operations at a group level. The diversified nature of Associated British Foods means that mitigation or adaptation strategies are considered and implemented by individual businesses and divisions.

Our operations generate a range of emissions such as dust, waste water and waste which, if not controlled, could pose a risk to the environment and local communities.

We continuously seek ways to improve the efficiency of our operations, use technologies and techniques to reduce our use of natural resources and adapt operations to climate change in order to contribute positively to local environments and minimise impact.

Our businesses aim to be a good neighbour within their local communities. One aspect of this is the monitoring and management of noise, particle and odour pollution.

The environmental performance of the group is reported in the 2019 Responsibility Report at www.abf.co.uk/responsibility.

We annually report our approach to climate change, water and deforestation risk via CDP at www.cdp.net. .

Our businesses are continuously seeking ways to reduce their impact on the environment.

We look for ways to progressively reduce our greenhouse gas (GHG) emissions and reduce our contribution to climate change.

AB Sugar, Primark and AB Agri businesses have each set commitments for their own operations and supply chain to improve sustainability performance.

### Our supply chain and ethical business practices

As an international business with suppliers and representatives the world over, people with whom we deal and in particular our suppliers and our representatives must live up to our values and standards and share that responsibility.

We therefore work with them to ensure reliability and to help them meet our standards of product quality and safety, acceptable working conditions, financial stability, ethics and technical competence.

Potential supply chain and ethical business practice risks include:

- supply chain weaknesses such as poor conditions for the workforce;
- 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.

Our Supplier Code of Conduct is designed to ensure suppliers, representatives and all with whom we deal, adhere to our values and standards.

The full Code is available at www.abf.co.uk/supplier_code_of_conduct.

Suppliers are expected to sign and abide by this Code.

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.

All businesses are required to comply with the group's Business Principles including its Anti-Bribery and Corruption Policy.

We have developed a company-wide online training module about modern slavery to help accelerate awareness-raising and give businesses the tools to train people.

In addition to Primark and Twinings, AB Sugar has produced an interactive sourcing map that outlines where AB Sugar grows, sources and exports sugar: www.absugar.com/sourcing-map.

Primark has been working to strengthen its policies relating to human rights and modern slavery and has published a revised supplier code of conduct and made public its human rights policy.

Our Modern Slavery and Human Trafficking Statement 2019 and the steps we take to try to ensure that any forms of modern slavery are not present within our own operations or supply chain are reported in detail in the 2019 Responsibility Report at www.abf.co.uk/responsibility.

### Breaches of IT and information security

To meet customer, consumer and supplier needs, our IT infrastructure needs to be flexible, reliable and secure to allow us to interact through technology.

Our delivery of efficient and effective operations is enhanced by the use of relevant technologies and the sharing of information. We are therefore subject to potential cyber-threats such as computer viruses and the loss or theft of data.

There is the potential for disruption to operations from data centre failures, IT malfunctions or external cyber-attacks.

In parallel to developing our technology systems, we invest in developing the IT capabilities of our people across our businesses.

We monitor and address any cyber-threats and suspicious IT activity.

We have established processes, group IT security policies and technologies, all of which are subject to regular internal audit.

Access to sensitive data is restricted and closely monitored.

Robust disaster recovery plans are in place for business-critical applications.

Technical security controls are in place over key IT platforms with the Chief Information Security Officer (CISO) tasked

There is an ongoing programme of investment in both technology and people to enhance our cyber-security capabilities.

During the year we have reviewed IT disaster recovery plans across the businesses.

We are refreshing IT Security policies and we have made further investment in people, processes and technology to detect, respond and recover from disruptive cyber-threats.

| | | |
|---|---|---|
| | with identifying and responding to potential security risks. | |

CAUTIONARY STATEMENTS

This report contains forward-looking statements. These have been made by the directors in good faith based on the information available to them up to the time of their approval of this report. The directors can give no assurance that these expectations will prove to have been correct. Due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

## DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

We confirm that to the best of our knowledge:

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

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

The contents of this announcement, including the responsibility statement above, have been extracted from the annual report and accounts for the 52 weeks ended 14 September 2019 which may be found at www.abf.co.uk and will be despatched to shareholders on 7 November 2019. Accordingly this responsibility statement makes reference to the financial statements of the Company and the group and to the relevant narrative appearing in that annual report and accounts rather than the contents of this announcement.

On behalf of the board

| | | |
|---|---|---|
| **Michael McLintock** | **George Weston** | **John Bason** |
| **Chairman** | **Chief Executive** | **Finance Director** |

5 November 2019

## CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 14 September 2019

| Continuing operations | Note | 2019 £m | 2018 £m |
|---|---|---|---|
| **Revenue** | 1 | **15,824** | 15,574 |
| Operating costs before exceptional items | | **(14,524)** | (14,290) |
| Exceptional items | 2 | **(79)** | – |
| | | **1,221** | 1,284 |
| Share of profit after tax from joint ventures and associates | | **57** | 54 |
| Profits less losses on disposal of non-current assets | | **4** | 6 |
| **Operating profit** | | **1,282** | 1,344 |

| | | | |
|---|---|---|---|
| Adjusted operating profit | 1 | **1,421** | 1,404 |
| Profits less losses on disposal of non-current assets | | **4** | 6 |
| Amortisation of non-operating intangibles | | **(47)** | (41) |
| Acquired inventory fair value adjustments | | **(15)** | (23) |
| Transaction costs | | **(2)** | (2) |
| Exceptional items | | **(79)** | – |

| | | | |
|---|---|---|---|
| Profits less losses on sale and closure of businesses | 6 | **(94)** | (34) |
| **Profit before interest** | | **1,188** | 1,310 |
| Finance income | | **15** | 15 |
| Finance expense | | **(42)** | (50) |
| Other financial income | | **12** | 4 |
| **Profit before taxation** | | **1,173** | 1,279 |

| | | | |
|---|---|---|---|
| Adjusted profit before taxation | | **1,406** | 1,373 |
| Profits less losses on disposal of non-current assets | | **4** | 6 |
| Amortisation of non-operating intangibles | | **(47)** | (41) |
| Acquired inventory fair value adjustments | | **(15)** | (23) |
| Transaction costs | | **(2)** | (2) |
| Exceptional items | | **(79)** | – |
| Profits less losses on sale and closure of businesses | | **(94)** | (34) |

| | | | |
|---|---|---|---|
| Taxation – UK (excluding tax on exceptional items) | | **(75)** | (105) |
| – UK (on exceptional items) | | **12** | – |
| – Overseas | | **(214)** | (152) |
| | 3 | **(277)** | (257) |
| **Profit for the period** | | **896** | 1,022 |
| **Attributable to** | | | |
| Equity shareholders | | **878** | 1,007 |
| Non-controlling interests | | **18** | 15 |
| **Profit for the period** | | **896** | 1,022 |
| Basic and diluted earnings per ordinary share (pence) | 4 | **111.1** | 127.5 |
| Dividends per share paid and proposed for the period (pence) | 5 | **46.35** | 45.0 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 14 September 2019

| | 2019 £m | 2018 £m |
|---|---|---|
| **Profit for the period recognised in the income statement** | **896** | 1,022 |
| **Other comprehensive income** | | |
| Remeasurements of defined benefit schemes | **(407)** | 310 |
| Deferred tax associated with defined benefit schemes | **68** | (53) |
| Current tax associated with defined benefit schemes | **2** | – |
| Items that will not be reclassified to profit or loss | **(337)** | 257 |
| Effect of movements in foreign exchange | **43** | (85) |
| Net gain/(loss) on hedge of net investment in foreign subsidiaries | **3** | (10) |
| Deferred tax associated with movements in foreign exchange | **–** | 1 |
| Reclassification adjustment for movements in foreign exchange on subsidiaries disposed | **(3)** | – |
| Movement in cash flow hedging position | **(29)** | 55 |
| Deferred tax associated with movement in cash flow hedging position | **7** | (12) |
| Share of other comprehensive income of joint ventures and associates | **4** | – |
| Effect of hyperinflationary economies | **38** | – |
| Deferred tax associated with hyperinflationary economies | **(2)** | – |
| Items that are or may be subsequently reclassified to profit or loss | **61** | (51) |
| **Other comprehensive income for the period** | **(276)** | 206 |
| **Total comprehensive income for the period** | **620** | 1,228 |
| **Attributable to** | | |
| Equity shareholders | **601** | 1,215 |
| Non-controlling interests | **19** | 13 |
| **Total comprehensive income for the period** | **620** | 1,228 |

## CONSOLIDATED BALANCE SHEET

At 14 September 2019

| | 2019 £m | 2018 £m |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | **1,681** | 1,632 |
| Property, plant and equipment | **5,769** | 5,747 |
| Investments in joint ventures | **225** | 219 |
| Investments in associates | **50** | 47 |
| Employee benefits assets | **228** | 579 |
| Deferred tax assets | **160** | 133 |
| Other receivables | **51** | 50 |
| **Total non-current assets** | **8,164** | 8,407 |
| **Current assets** | | |
| Assets classified as held for sale | **43** | – |
| Inventories | **2,386** | 2,187 |
| Biological assets | **84** | 84 |
| Trade and other receivables | **1,436** | 1,436 |
| Derivative assets | **99** | 132 |
| Current asset investments | **29** | 30 |
| Income tax | **24** | 54 |
| Cash and cash equivalents | **1,495** | 1,362 |
| **Total current assets** | **5,596** | 5,285 |
| **Total assets** | **13,760** | 13,692 |
| **Current liabilities** | | |
| Liabilities classified as held for sale | **(6)** | – |
| Loans and overdrafts | **(227)** | (419) |
| Trade and other payables | **(2,556)** | (2,529) |
| Derivative liabilities | **(52)** | (52) |
| Income tax | **(163)** | (160) |
| Provisions | **(64)** | (88) |
| **Total current liabilities** | **(3,068)** | (3,248) |
| **Non-current liabilities** | | |
| Loans | **(361)** | (359) |
| Other payables | **(271)** | (269) |
| Provisions | **(54)** | (52) |
| Deferred tax liabilities | **(261)** | (324) |
| Employee benefits liabilities | **(195)** | (144) |
| **Total non-current liabilities** | **(1,142)** | (1,148) |
| **Total liabilities** | **(4,210)** | (4,396) |
| **Net assets** | **9,550** | 9,296 |
| **Equity** | | |
| Issued capital | **45** | 45 |
| Other reserves | **175** | 175 |
| Translation reserve | **409** | 363 |
| Hedging reserve | **(9)** | 13 |
| Retained earnings | **8,832** | 8,615 |
| **Total equity attributable to equity shareholders** | **9,452** | 9,211 |
| Non-controlling interests | **98** | 85 |
| **Total equity** | **9,550** | 9,296 |

## CONSOLIDATED CASH FLOW STATEMENT

For the 52 weeks ended 14 September 2019

| | 2019<br>£m | 2018<br>£m |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit before taxation | **1,173** | 1,279 |
| Profits less losses on disposal of non-current assets | **(4)** | (6) |
| Profits less losses on sale and closure of businesses | **94** | 34 |
| Transaction costs | **2** | 2 |
| Finance income | **(15)** | (15) |
| Finance expense | **42** | 50 |
| Other financial income | **(12)** | (4) |
| Share of profit after tax from joint ventures and associates | **(57)** | (54) |
| Amortisation | **68** | 65 |
| Depreciation | **544** | 509 |
| Exceptional items | **79** | – |
| Acquired inventory fair value adjustments | **15** | 23 |
| Effect of hyperinflationary economies | **6** | – |
| Net change in the fair value of current biological assets | **–** | 5 |
| Share-based payment expense | **22** | 19 |
| Pension costs less contributions | **(10)** | 4 |
| Increase in inventories | **(202)** | (35) |
| Decrease/(increase) in receivables | **18** | (99) |
| Increase/(decrease) in payables | **44** | (19) |
| Purchases less sales of current biological assets | **(1)** | (1) |
| Decrease in provisions | **(28)** | (30) |
| Cash generated from operations | **1,778** | 1,727 |
| Income taxes paid | **(269)** | (297) |
| **Net cash from operating activities** | **1,509** | 1,430 |
| **Cash flows from investing activities** | | |
| Dividends received from joint ventures and associates | **52** | 42 |
| Purchase of property, plant and equipment | **(680)** | (787) |
| Purchase of intangibles | **(57)** | (81) |
| Sale of property, plant and equipment | **12** | 23 |
| Purchase of subsidiaries, joint ventures and associates | **(84)** | (208) |
| Sale of subsidiaries, joint ventures and associates | **6** | 1 |
| Interest received | **20** | 10 |
| **Net cash from investing activities** | **(731)** | (1,000) |
| **Cash flows from financing activities** | | |
| Dividends paid to non-controlling interests | **(4)** | (4) |
| Dividends paid to equity shareholders | **(358)** | (327) |
| Interest paid | **(43)** | (50) |
| Decrease in short-term loans | **(263)** | (111) |
| Increase in long-term loans | **2** | 19 |
| Decrease/(increase) in current asset investments | **1** | (30) |
| Purchase of shares in subsidiary undertaking from non-controlling interests | **(1)** | (1) |
| Sale of shares in subsidiary undertakings to non-controlling interests | **–** | 1 |
| Movements from changes in own shares held | **(25)** | (30) |
| **Net cash from financing activities** | **(691)** | (533) |
| **Net increase/(decrease) in cash and cash equivalents** | **87** | (103) |
| Cash and cash equivalents at the beginning of the period | **1,271** | 1,386 |
| Effect of movements in foreign exchange | **–** | (12) |
| **Cash and cash equivalents at the end of the period** | **1,358** | 1,271 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 14 September 2019

| | Note | Attributable to equity shareholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Issued capital £m | Other reserves £m | Translation reserve £m | Hedging reserve £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity £m |
| Balance as at 16 September 2017 | | 45 | 175 | 456 | (31) | 7,694 | 8,339 | 73 | 8,412 |
| **Total comprehensive income** | | | | | | | | | |
| Profit for the period recognised in the income statement | | – | – | – | – | 1,007 | 1,007 | 15 | 1,022 |
| Remeasurements of defined benefit schemes | | – | – | – | – | 310 | 310 | – | 310 |
| Deferred tax associated with defined benefit schemes | | – | – | – | – | (53) | (53) | – | (53) |
| Items that will not be reclassified to profit or loss | | – | – | – | – | 257 | 257 | – | 257 |
| Effect of movements in foreign exchange | | – | – | (83) | – | – | (83) | (2) | (85) |
| Net loss on hedge of net investment in foreign subsidiaries | | – | – | (10) | – | – | (10) | – | (10) |
| Deferred tax associated with movements in foreign exchange | | – | – | 1 | – | – | 1 | – | 1 |
| Movement in cash flow hedging position | | – | – | (1) | 56 | – | 55 | – | 55 |
| Deferred tax associated with movement in cash flow hedging position | | – | – | – | (12) | – | (12) | – | (12) |
| Items that are or may be subsequently reclassified to profit or loss | | – | – | (93) | 44 | – | (49) | (2) | (51) |
| Other comprehensive income | | – | – | (93) | 44 | 257 | 208 | (2) | 206 |
| Total comprehensive income | | – | – | (93) | 44 | 1,264 | 1,215 | 13 | 1,228 |
| **Transactions with owners** | | | | | | | | | |
| Dividends paid to equity shareholders | 5 | – | – | – | – | (327) | (327) | – | (327) |
| Net movement in own shares held | | – | – | – | – | (11) | (11) | – | (11) |
| Deferred tax associated with share-based payments | | – | – | – | – | (1) | (1) | – | (1) |
| Dividends paid to non-controlling interests | | – | – | – | – | – | – | (5) | (5) |
| Acquisition and disposal of non-controlling interests | | – | – | – | – | (4) | (4) | 4 | – |
| Total transactions with owners | | – | – | – | – | (343) | (343) | (1) | (344) |
| Balance as at 15 September 2018 | | 45 | 175 | 363 | 13 | 8,615 | 9,211 | 85 | 9,296 |
| **Total comprehensive income** | | | | | | | | | |
| Profit for the period recognised in the income statement | | – | – | – | – | 878 | 878 | 18 | 896 |
| Remeasurements of defined benefit schemes | | – | – | – | – | (407) | (407) | – | (407) |
| Deferred tax associated with defined benefit schemes | | – | – | – | – | 68 | 68 | – | 68 |
| Current tax associated with defined benefit schemes | | – | – | – | – | 2 | 2 | – | 2 |
| Items that will not be reclassified to profit or loss | | – | – | – | – | (337) | (337) | – | (337) |
| Effect of movements in foreign exchange | | – | – | 42 | – | – | 42 | 1 | 43 |
| Net gain on hedge of net investment in foreign subsidiaries | | – | – | 3 | – | – | 3 | – | 3 |
| Movements in foreign exchange on businesses disposed | | – | – | (3) | – | – | (3) | – | (3) |
| Movement in cash flow hedging position | | – | – | – | (29) | – | (29) | – | (29) |
| Deferred tax associated with movement in cash flow hedging position | | – | – | – | 7 | – | 7 | – | 7 |
| Share of other comprehensive income of joint ventures and associates | | – | – | 4 | – | – | 4 | – | 4 |
| Effect of hyperinflationary economies | | – | – | – | – | 38 | 38 | – | 38 |
| Deferred tax associated with hyperinflationary economy | | – | – | – | – | (2) | (2) | – | (2) |
| Items that are or may be subsequently reclassified to profit or loss | | – | – | 46 | (22) | 36 | 60 | 1 | 61 |
| Other comprehensive income | | – | – | 46 | (22) | (301) | (277) | 1 | (276) |
| Total comprehensive income | | – | – | 46 | (22) | 577 | 601 | 19 | 620 |
| **Transactions with owners** | | | | | | | | | |
| Dividends paid to equity shareholders | 5 | – | – | – | – | (358) | (358) | – | (358) |
| Net movement in own shares held | | – | – | – | – | (3) | (3) | – | (3) |
| Dividends paid to non-controlling interests | | – | – | – | – | – | – | (4) | (4) |
| Acquisition and disposal of non-controlling interests | | – | – | – | – | 1 | 1 | (2) | (1) |
| Total transactions with owners | | – | – | – | – | (360) | (360) | (6) | (366) |
| **Balance as at 14 September 2019** | | **45** | **175** | **409** | **(9)** | **8,832** | **9,452** | **98** | **9,550** |

## NOTES TO THE ANNUAL RESULTS ANNOUNCEMENT

## 1. Operating segments

The group has five operating segments, as described below. These are the group's operating divisions, based on the management and internal reporting structure, which combine businesses with common characteristics, primarily in respect of the type of products offered by each business, but also the production processes involved and the manner of the distribution and sale of goods. The board is the chief operating decision-maker.

Inter-segment pricing is determined on an arm's length basis. Segment result is adjusted operating profit, as shown on the face of the consolidated income statement. Segment assets comprise all non-current assets except employee benefits assets and deferred tax assets, and all current assets except cash and cash equivalents, current asset investments and income tax assets. Segment liabilities comprise trade and other payables, derivative liabilities and provisions.

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

The group is comprised of the following operating segments:

| | |
|---|---|
| Grocery | The manufacture of grocery products, including hot beverages, sugar & sweeteners, vegetable oils, balsamic vinegars, bread & baked goods, cereals, ethnic foods, and meat products, which are sold to retail, wholesale and foodservice businesses. |
| Sugar | The growing and processing of sugar beet and sugar cane for sale to industrial users and to Silver Spoon, which is included in the Grocery segment. |
| Agriculture | The manufacture of animal feeds and the provision of other products and services for the agriculture sector. |
| Ingredients | The manufacture of bakers' yeast, bakery ingredients, enzymes, lipids, yeast extracts and cereal specialities. |
| Retail | Buying and merchandising value clothing and accessories through the Primark and Penneys retail chains. |

### Geographical information

In addition to the required disclosure for operating segments, disclosure is also given of certain geographical information about the group's operations, based on the geographical groupings: United Kingdom; Europe & Africa; The Americas; and Asia Pacific.

Revenues are shown by reference to the geographical location of customers. Profits are shown by reference to the geographical location of the businesses. Segment assets are based on the geographical location of the assets.

| | Revenue | | Adjusted operating profit | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| **Operating segments** | | | | |
| Grocery | **3,521** | 3,420 | **380** | 335 |
| Sugar | **1,608** | 1,730 | **26** | 123 |
| Agriculture | **1,385** | 1,350 | **42** | 59 |
| Ingredients | **1,515** | 1,459 | **136** | 143 |
| Retail | **7,792** | 7,477 | **913** | 843 |
| Central | **–** | – | **(76)** | (64) |
| | **15,821** | 15,436 | **1,421** | 1,439 |
| Businesses disposed: | | | | |
| Sugar | **–** | 128 | **–** | (34) |
| Agriculture | **–** | 1 | **–** | (1) |
| Ingredients | **3** | 9 | **–** | – |
| | **15,824** | 15,574 | **1,421** | 1,404 |
| **Geographical information** | | | | |
| United Kingdom | **5,971** | 5,863 | **476** | 557 |
| Europe & Africa | **5,992** | 5,851 | **589** | 528 |
| The Americas | **1,609** | 1,525 | **237** | 206 |
| Asia Pacific | **2,249** | 2,197 | **119** | 148 |
| | **15,821** | 15,436 | **1,421** | 1,439 |
| Businesses disposed: | | | | |
| United Kingdom | **–** | 66 | **–** | (34) |
| Europe & Africa | **–** | 62 | **–** | – |
| The Americas | **3** | 9 | **–** | – |
| Asia Pacific | **–** | 1 | **–** | (1) |
| | **15,824** | 15,574 | **1,421** | 1,404 |

## 1. Operating segments for the 52 weeks ended 14 September 2019

| | Grocery £m | Sugar £m | Agriculture £m | Ingredients £m | Retail £m | Central £m | Total £m |
|---|---|---|---|---|---|---|---|
| Revenue from continuing businesses | 3,525 | 1,667 | 1,388 | 1,690 | 7,792 | (241) | 15,821 |
| Internal revenue | (4) | (59) | (3) | (175) | – | 241 | – |
| External revenue from continuing businesses | 3,521 | 1,608 | 1,385 | 1,515 | 7,792 | – | 15,821 |
| Businesses disposed | – | – | – | 3 | – | – | 3 |
| Revenue from external customers | 3,521 | 1,608 | 1,385 | 1,518 | 7,792 | – | 15,824 |
| Adjusted operating profit before joint ventures and associates | 347 | 26 | 30 | 122 | 913 | (76) | 1,362 |
| Share of profit after tax from joint ventures and associates | 33 | – | 12 | 14 | – | – | 59 |
| Adjusted operating profit | 380 | 26 | 42 | 136 | 913 | (76) | 1,421 |
| Profits less losses on disposal of non-current assets | 3 | – | 1 | – | – | – | 4 |
| Amortisation of non-operating intangibles | (40) | – | (2) | (5) | – | – | (47) |
| Acquired inventory fair value adjustments | (15) | – | – | – | – | – | (15) |
| Transaction costs | (1) | – | – | (1) | – | – | (2) |
| Exceptional items | (65) | – | – | – | – | (14) | (79) |
| Profits less losses on sale and closure of businesses | 4 | – | (3) | (95) | – | – | (94) |
| Profit before interest | 266 | 26 | 38 | 35 | 913 | (90) | 1,188 |
| Finance income | | | | | | 15 | 15 |
| Finance expense | | | | | | (42) | (42) |
| Other financial income | | | | | | 12 | 12 |
| Taxation | | | | | | (277) | (277) |
| **Profit for the period** | 266 | 26 | 38 | 35 | 913 | (382) | 896 |
| Segment assets (excluding joint ventures and associates) | 2,732 | 2,083 | 408 | 1,422 | 4,775 | 129 | 11,549 |
| Investments in joint ventures and associates | 45 | 26 | 135 | 69 | – | – | 275 |
| **Segment assets** | 2,777 | 2,109 | 543 | 1,491 | 4,775 | 129 | 11,824 |
| Cash and cash equivalents | | | | | | 1,495 | 1,495 |
| Current asset investments | | | | | | 29 | 29 |
| Income tax | | | | | | 24 | 24 |
| Deferred tax assets | | | | | | 160 | 160 |
| Employee benefits assets | | | | | | 228 | 228 |
| **Segment liabilities** | (540) | (388) | (137) | (278) | (1,476) | (184) | (3,003) |
| Loans and overdrafts | | | | | | (588) | (588) |
| Income tax | | | | | | (163) | (163) |
| Deferred tax liabilities | | | | | | (261) | (261) |
| Employee benefits liabilities | | | | | | (195) | (195) |
| **Net assets** | 2,237 | 1,721 | 406 | 1,213 | 3,299 | 674 | 9,550 |
| Non-current asset additions | 132 | 98 | 14 | 93 | 382 | 13 | 732 |
| Depreciation | (96) | (79) | (12) | (51) | (303) | (3) | (544) |
| Amortisation | (53) | (2) | (3) | (7) | (2) | (1) | (68) |
| Impairment of goodwill on sale and closure of businesses | – | – | (3) | (56) | – | – | (59) |
| Impairment of property, plant and equipment on sale and closure of businesses | – | – | – | (32) | – | – | (32) |

### 1. Operating segments for the 52 weeks ended 14 September 2019 continued

| Geographical information | United Kingdom £m | Europe & Africa £m | The Americas £m | Asia Pacific £m | Total £m |
|---|---|---|---|---|---|
| Revenue from external customers | 5,971 | 5,992 | 1,612 | 2,249 | 15,824 |
| Segment assets | 4,406 | 4,842 | 1,194 | 1,382 | 11,824 |
| Non-current asset additions | 255 | 345 | 57 | 75 | 732 |
| Depreciation | (191) | (247) | (45) | (61) | (544) |
| Amortisation | (41) | (16) | (4) | (7) | (68) |
| Acquired inventory fair value adjustments | – | (15) | – | – | (15) |
| Impairment of goodwill on sale and closure of businesses | (3) | – | – | (56) | (59) |
| Impairment of property, plant and equipment on sale and closure of businesses | – | – | – | (32) | (32) |
| Transaction costs | – | (1) | (1) | – | (2) |
| Exceptional items | (79) | – | – | – | (79) |

Segment disclosures given above are stated before reclassification of assets and liabilities classified as held for sale.

## 1. Operating segments for the 52 weeks ended 15 September 2018

| | Grocery £m | Sugar £m | Agriculture £m | Ingredients £m | Retail £m | Central £m | Total £m |
|---|---|---|---|---|---|---|---|
| Revenue from continuing businesses | 3,423 | 1,821 | 1,354 | 1,640 | 7,477 | (279) | 15,436 |
| Internal revenue | (3) | (91) | (4) | (181) | – | 279 | – |
| External revenue from continuing businesses | 3,420 | 1,730 | 1,350 | 1,459 | 7,477 | – | 15,436 |
| Businesses disposed | – | 128 | 1 | 9 | – | – | 138 |
| Revenue from external customers | 3,420 | 1,858 | 1,351 | 1,468 | 7,477 | – | 15,574 |
| Adjusted operating profit before joint ventures and associates | 306 | 121 | 47 | 129 | 843 | (64) | 1,382 |
| Share of profit after tax from joint ventures and associates | 29 | 2 | 12 | 14 | – | – | 57 |
| Businesses disposed | – | (34) | (1) | – | – | – | (35) |
| Adjusted operating profit | 335 | 89 | 58 | 143 | 843 | (64) | 1,404 |
| Profits less losses on disposal of non-current assets | 4 | 2 | – | – | – | – | 6 |
| Amortisation of non-operating intangibles | (36) | – | (1) | (4) | – | – | (41) |
| Acquired inventory fair value adjustments | (23) | – | – | – | – | – | (23) |
| Transaction costs | (1) | – | – | (1) | – | – | (2) |
| Profits less losses on sale and closure of businesses | – | (11) | 1 | (2) | – | (22) | (34) |
| Profit before interest | 279 | 80 | 58 | 136 | 843 | (86) | 1,310 |
| Finance income | | | | | | 15 | 15 |
| Finance expense | | | | | | (50) | (50) |
| Other financial income | | | | | | 4 | 4 |
| Taxation | | | | | | (257) | (257) |
| **Profit for the period** | 279 | 80 | 58 | 136 | 843 | (374) | 1,022 |
| Segment assets (excluding joint ventures and associates) | 2,702 | 2,090 | 414 | 1,396 | 4,556 | 110 | 11,268 |
| Investments in joint ventures and associates | 41 | 25 | 134 | 66 | – | – | 266 |
| **Segment assets** | 2,743 | 2,115 | 548 | 1,462 | 4,556 | 110 | 11,534 |
| Cash and cash equivalents | | | | | | 1,362 | 1,362 |
| Current asset investments | | | | | | 30 | 30 |
| Income tax | | | | | | 54 | 54 |
| Deferred tax assets | | | | | | 133 | 133 |
| Employee benefits assets | | | | | | 579 | 579 |
| **Segment liabilities** | (530) | (429) | (140) | (275) | (1,382) | (234) | (2,990) |
| Loans and overdrafts | | | | | | (778) | (778) |
| Income tax | | | | | | (160) | (160) |
| Deferred tax liabilities | | | | | | (324) | (324) |
| Employee benefits liabilities | | | | | | (144) | (144) |
| **Net assets** | 2,213 | 1,686 | 408 | 1,187 | 3,174 | 628 | 9,296 |
| Non-current asset additions | 148 | 141 | 19 | 63 | 533 | 12 | 916 |
| Depreciation | (99) | (81) | (13) | (49) | (264) | (3) | (509) |
| Amortisation | (48) | (4) | (1) | (6) | (5) | (1) | (65) |
| Impairment of property, plant and equipment on sale and closure of businesses | – | (14) | – | – | – | – | (14) |

| **Geographical information** | United Kingdom £m | Europe & Africa £m | The Americas £m | Asia Pacific £m | Total £m |
|---|---|---|---|---|---|
| Revenue from external customers | 5,929 | 5,913 | 1,534 | 2,198 | 15,574 |
| Segment assets | 4,460 | 4,610 | 1,079 | 1,385 | 11,534 |
| Non-current asset additions | 418 | 375 | 57 | 66 | 916 |
| Depreciation | (204) | (202) | (43) | (60) | (509) |
| Amortisation | (36) | (17) | (6) | (6) | (65) |
| Acquired inventory fair value adjustments | – | (23) | – | – | (23) |
| Impairment of property, plant and equipment on sale and closure of businesses | (14) | – | – | – | (14) |
| Transaction costs | (1) | – | – | (1) | (2) |

## 2. Exceptional items

**Guaranteed Minimum Pensions**

The Guaranteed Minimum Pension (GMP) is the minimum pension which a UK occupational pension scheme must provide for those employees who were contracted out of the State Earnings-Related Pensions Scheme between 6 April 1978 and 5 April 1997.

On 26 October 2018, the High Court of Justice of England and Wales ruled that GMPs must be equalised in respect of retirement ages for men and women for all pensionable service after 17 May 1990. This affects the group's UK defined benefit scheme and the ruling set out a number of methodologies that could be used to calculate the impact. The group has adopted method C2 to identify its best estimate of the additional liabilities. These are charged as a past service cost in the income statement with subsequent changes accounted for in other comprehensive income. The past service cost is treated as an exceptional item since the liabilities relate to employee service between 1990 and 1997 and they have no link to current business performance.

The increase in liabilities is estimated at £14m, assessed using market conditions at the date of the ruling as required by IAS 19.

**Impairment**

In the 2018 Annual Report, it was noted that low bread prices and strong continuing competition in the UK bakery market had led to an operating loss at Allied Bakeries and the consequent need for an assessment of impairment. Headroom at that time was £113m on a cash-generating unit (CGU) carrying value of £243m.

In December 2018, subsequent to the publication of the 2018 Annual Report, Allied Bakeries received notice of the termination of its largest private label manufacturing contract. This is expected to result in a significant reduction in bread volumes from late in the 2019 calendar year, with limited opportunity to mitigate this volume loss in the short term.

As set out in previous annual reports, the board has been concerned about the worsening trend in the performance of Allied Bakeries and the difficulty in recovering cost increases in a highly competitive market. In light of the termination of the private label contract mentioned above, management is considering courses of action to return the business to profitability.

Of the methodologies available to calculate the impairment, the group has applied the "fair value less costs of disposal" approach to identify its best estimate of the impairment. The key assumptions used in this assessment are similar to those in previous year end impairment assessments – bread volumes, bread prices and long-term growth in the market, as well as logistical and other savings from restructuring. The discount rate used was 10.9%.

This assessment resulted in a shortfall of £65m compared to the CGU carrying value at the time of the assessment of £243m. A charge for this has been included as an exceptional item in the income statement and has been allocated to the property, plant and equipment of the business. There is no goodwill associated with Allied Bakeries.

### 3. Income tax expense

| | 52 weeks ended 14 September 2019 £m | 52 weeks ended 15 September 2018 £m |
|---|---|---|
| **Current tax expense** | | |
| UK – corporation tax at 19% (2018 – 19%) | **80** | 82 |
| Overseas – corporation tax | **229** | 200 |
| UK – (over)/under provided in prior periods | **(5)** | 8 |
| Overseas – over provided in prior periods | **(1)** | (28) |
| | **303** | 262 |
| **Deferred tax expense** | | |
| UK deferred tax | **(7)** | – |
| Overseas deferred tax | **(11)** | (19) |
| UK – (over)/under provided in prior periods | **(5)** | 15 |
| Overseas – over provided in prior periods | **(3)** | (1) |
| | **(26)** | (5) |
| **Total income tax expense in income statement** | **277** | 257 |

| | | |
|---|---|---|
| **Reconciliation of effective tax rate** | | |
| Profit before taxation | **1,173** | 1,279 |
| Less share of profit after tax from joint ventures and associates | **(57)** | (54) |
| **Profit before taxation excluding share of profit after tax from joint ventures and associates** | **1,116** | 1,225 |
| Nominal tax charge at UK corporation tax rate of 19% (2018 – 19%) | **212** | 233 |
| Effect of higher and lower tax rates on overseas earnings | **14** | 29 |
| Effect of changes in tax rates on income statement | **(1)** | (16) |
| Expenses not deductible for tax purposes | **37** | 33 |
| Disposal of assets covered by tax exemptions or unrecognised capital losses | **17** | (15) |
| Deferred tax not recognised | **12** | (1) |
| Adjustments in respect of prior periods | **(14)** | (6) |
| | **277** | 257 |

| | | |
|---|---|---|
| **Income tax recognised directly in equity** | | |
| Deferred tax associated with defined benefit schemes | **(68)** | 53 |
| Current tax associated with defined benefit schemes | **(2)** | – |
| Deferred tax associated with share-based payments | **–** | 1 |
| Deferred tax associated with movement in cash flow hedging position | **(7)** | 12 |
| Deferred tax associated with movements in foreign exchange | **–** | (1) |
| Deferred tax associated with hyperinflationary economies | **2** | – |
| | **(75)** | 65 |

The UK corporation tax rate of 19% (2018 – 19%) will be reduced to 17% effective from 1 April 2020. The legislation to effect these rate changes had been enacted before the balance sheet date. Accordingly, UK deferred tax has been calculated using these rates as appropriate.

In April 2019 the European Commission published its decision on the Group Financing Exemption in the UK's controlled foreign company legislation. The Commission found that the UK law did not comply with EU State Aid rules in certain circumstances. The group has arrangements that may be impacted by this decision as might other UK-based multinational groups that had financing arrangements in line with the UK's legislation in force at the time. The UK Government has lodged an appeal against this decision. We have calculated our maximum potential liability to be £26m however we do not consider that any provision is required in respect of this amount based on our current assessment of the issue. We will continue to consider the impact of the Commission's decision on the group and the potential requirement to record a provision.

### 4. Earnings per share

The calculation of basic earnings per share at 14 September 2019 was based on the net profit attributable to equity shareholders of £878m (2018 – £1,007m), and a weighted average number of shares outstanding during the year of 790 million (2018 – 790 million). The calculation of the weighted average number of shares excludes the shares held by the Employee Share Ownership Plan Trust on which the dividends are being waived.

### 4. Earnings per share (continued)

Adjusted earnings per ordinary share, which exclude the impact of profits less losses on disposal of non-current assets and the sale and closure of businesses, amortisation of acquired inventory fair value adjustments, transaction costs, amortisation of non-operating intangibles, exceptional items and any associated tax credits, is shown to provide clarity on the underlying performance of the group.

The diluted earnings per share calculation takes into account the dilutive effect of share incentives. The diluted, weighted average number of shares is 790 million (2018 – 790 million). There is no difference between basic and diluted earnings.

| | **52 weeks ended 14 September 2019 pence** | 52 weeks ended 15 September 2018 pence |
|---|---|---|
| **Adjusted earnings per share** | **137.5** | 134.9 |
| Disposal of non-current assets | **0.5** | 0.8 |
| Sale and closure of businesses | **(11.9)** | (4.3) |
| Acquired inventory fair value adjustments | **(1.9)** | (2.9) |
| Transaction costs | **(0.3)** | (0.3) |
| Exceptional items | **(10.0)** | – |
| Tax effect on above adjustments | **1.9** | 0.8 |
| Amortisation of non-operating intangibles | **(6.0)** | (5.2) |
| Tax credit on non-operating intangibles amortisation and goodwill | **1.3** | 3.7 |
| **Earnings per ordinary share** | **111.1** | 127.5 |

### 5. Dividends

| | **2019 pence per share** | 2018 pence per share | **2019 £m** | 2018 £m |
|---|---|---|---|---|
| 2017 final | – | 29.65 | – | 234 |
| 2018 interim | – | 11.70 | – | 93 |
| 2018 final | **33.30** | – | **263** | – |
| 2019 interim | **12.05** | – | **95** | – |
| | **45.35** | 41.35 | **358** | 327 |

The 2019 interim dividend was declared on 24 April 2019 and paid on 5 July 2019. The 2019 final dividend of 34.3p, total value of £271m, will be paid on 10 January 2020 to shareholders on the register on 13 December 2019.

Dividends relating to the period were 46.35p per share totalling £366m (2018 – 45.0p per share totalling £356m).

### 6. Acquisitions and disposals

**Acquisitions**

2019

On 17 September 2018 the group's Grocery business completed the acquisition of 100% of Yumi's Quality Foods, a chilled food manufacturer in Australia, and on 6 September the Grocery business completed the acquisition of Anthony's Goods, a California-based blender and online marketer of speciality baking ingredients. These acquisitions will continue to develop our presence in the faster growing segments of the grocery market. The group also acquired a small manufacturer of piglet starter feed in Poland as part of the Agriculture business and as part of the Ingredients business, acquired Italmill, an Italian bakery ingredients producer.

The acquisitions had the following effect on the group's assets and liabilities:

| | Pre-acquisition carrying values £m | Recognised values on acquisition £m |
|---|---|---|
| **Net assets** | | |
| Intangible assets | – | 56 |
| Property, plant and equipment | 20 | 20 |
| Other receivables (non-current) | 2 | 2 |
| Inventories | 7 | 7 |
| Trade and other receivables | 14 | 14 |
| Cash and cash equivalents | 2 | 2 |
| Trade and other payables | (11) | (11) |
| Loans | (15) | (15) |
| Taxation | (1) | (8) |
| Employee benefit liabilities | (1) | (1) |
| Net identifiable assets and liabilities | 17 | 66 |
| Goodwill | | 30 |
| Total consideration | | 96 |

### 6. Acquisitions and disposals (continued)

| | Recognised values on acquisition £m |
|---|---|
| **Satisfied by** | |
| Cash consideration | 85 |
| Deferred consideration | 11 |
| | 96 |
| **Net cash** | |
| Cash consideration | 85 |
| Cash and cash equivalents acquired | (2) |
| Deferred consideration paid in respect of previous acquisition | 1 |
| | 84 |

Pre-acquisition carrying amounts were the same as recognised values on acquisition apart from £56m of non-operating intangible assets in respect of brands and customer relationships, which were recognised together with related deferred tax of £7m. The cash outflow of £84m on the purchase of subsidiaries, joint ventures and associates in the cash flow statement comprises cash consideration of £85m for these acquisitions less cash acquired with the businesses of £2m and £1m payment of deferred consideration in respect of prior year acquisitions.

The acquisitions have contributed aggregate revenues of £42m and operating profit of £4m to the group's result for the period from the date of acquisition to 14 September 2019.

2018

On 12 October 2017, the group's Grocery business completed the acquisition of 100% of Acetum S.p.A, the leading Italian producer of Balsamic Vinegar of Modena for a net consideration of £284m including debt assumed of £89m and deferred consideration of £2m. The group also acquired a small aerial survey and informatics company as part of the UK Agriculture business, and as part of the UK Ingredients business, acquired Holgran, a supplier of malted grains, and Fleming Howden, an Edinburgh-based blender and distributor of bakery ingredients. These acquisitions contributed revenue of £83m and operating profit of £11m to the group's results for the period from date of acquisition to 15 September 2018.

| | | Recognised values on acquisition | | |
|---|---|---|---|---|
| | Pre-acquisition carrying values £m | Acetum £m | Other £m | Total £m |
| **Net assets** | | | | |
| Intangible assets | – | 95 | 10 | 105 |
| Property, plant and equipment | 41 | 42 | 1 | 43 |
| Inventories | 28 | 95 | 2 | 97 |
| Trade and other receivables | 28 | 23 | 5 | 28 |
| Cash and cash equivalents | 11 | 11 | – | 11 |
| Trade and other payables | (31) | (26) | (5) | (31) |
| Loans | (89) | (89) | – | (89) |
| Taxation | 6 | (40) | (2) | (42) |
| Net identifiable assets and liabilities | (6) | 111 | 11 | 122 |
| Goodwill | | 95 | 5 | 100 |
| Total consideration | | 206 | 16 | 222 |

| | |
|---|---|
| **Satisfied by** | |
| Cash consideration | 218 |
| Deferred consideration | 4 |
| | 222 |
| **Net cash** | |
| Cash consideration | 218 |
| Cash and cash equivalents acquired | (11) |
| Deferred consideration paid | 1 |
| | 208 |

### 6. Acquisitions and disposals (continued)

Pre-acquisition carrying amounts were the same as recognised values on acquisition apart from £105m of non-operating intangible assets in respect of brands and customer relationships, a £69m upward fair value adjustment on inventories and a £2m upward revaluation of land and buildings, which were recognised together with related deferred tax of £48m. The cash outflow of £208m on the purchase of subsidiaries, joint ventures and associates in the cash flow statement comprises cash consideration of £218m for these acquisitions less cash acquired with the businesses of £11m and £1m payment of deferred consideration in respect of prior year acquisitions.

**Disposals**

2019

In the current year the group disposed of its torula facility and associated torula whole cell business in Hutchinson, Minnesota, reported within the US and Ingredients segments. Cash proceeds amounted to £5m, net assets disposed were £5m and the associated goodwill was £8m. Provisions for transaction and associated restructuring costs were £2m, with a gain of £3m on recycling foreign exchange differences. The pre-tax loss on disposal was £7m.

In August we signed an agreement to form a yeast and bakery ingredients joint venture in China with Wilmar International, with completion subject to regulatory approval. The joint venture will see us build a major new low-cost yeast plant in the north east of China and will combine AB Mauri's existing commercial activities and technical expertise in China with Wilmar's extensive sales and distribution capability. As a consequence, a non-cash impairment charge of £88m has been included in the loss on closure of businesses, comprising £56m of goodwill and £32m of property, plant and equipment.

£4m of warranty and restructuring provisions relating to disposals made in previous years are no longer required and were released to sale and closure of business during the year in Grocery (The Americas). In the Agriculture segment, goodwill with a carrying value of £3m was written off on sale and closure of a small business in the UK.

2018

In October 2018 the group shut down operations at Vivergo, AB Sugar's bioethanol plant in Hull. A charge of £51m was included for this in the loss on closure of businesses line in the income statement. The group also completed the buy-out of the remaining 5.5% minority interest in Vivergo. This resulted in the recognition of a gain of £23m (in the Sugar and UK segments) arising from the extinguishment of the associated shareholder loan and interest, which was recognised in sale and closure of businesses in line with the original transaction in 2015.

£18m of warranty and restructuring provisions relating to disposals made in previous years were no longer required and were released to sale and closure of business. These comprised £17m in Sugar (Asia Pacific) and £1m in Ingredients (Europe & Africa).

The group also charged a £24m onerous lease provision to sale and closure of business (in the Central and UK segments) against rental guarantees given on property leases assigned to third parties that the group expects to be required to honour.

### 7. Analysis of net cash

| | At 15 September 2018 £m | Cash flow £m | Acquisitions £m | Non-cash items £m | Exchange adjustments £m | **At 14 September 2019 £m** |
|---|---|---|---|---|---|---|
| Cash at bank and in hand, cash equivalents and overdrafts | 1,271 | 87 | – | – | – | **1,358** |
| Current asset investments | 30 | (1) | – | – | – | **29** |
| Short-term loans | (328) | 263 | (15) | (10) | – | **(90)** |
| Long-term loans | (359) | (2) | – | 10 | (10) | **(361)** |
| | 614 | 347 | (15) | – | (10) | **936** |

### 8. Related party transactions

The group has a controlling shareholder relationship with its parent company, Wittington Investments Limited, with the trustees of the Garfield Weston Foundation and with certain other individuals who hold shares in the Company. The group has a related party relationship with its associates and joint ventures and with its directors. In the course of normal operations, related party transactions entered into by the group have been contracted on an arm's length basis.

### 8. Related party transactions (continued)

Material transactions and year end balances with related parties were as follows:

| | Sub note | 2019 £000 | 2018 £000 |
|---|---|---|---|
| Charges to Wittington Investments Limited in respect of services provided by the Company and its subsidiary undertakings | | **1,143** | 1,045 |
| 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 | **12,083** | 11,685 |
| (ii) directors of Wittington Investments Limited who are not trustees of the Foundation and their close family | | **5,941** | 3,071 |
| (iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited | | **82** | 62 |
| Sales to fellow subsidiary undertakings on normal trading terms | 2 | **75** | 48 |
| Sales to companies with common key management personnel on normal trading terms | 3 | **16,014** | 16,043 |
| Commissions paid to companies with common key management personnel on normal trading terms | 3 | **1,103** | 1,215 |
| Amounts due from companies with common key management personnel | 3 | **1,880** | 1,887 |
| Sales to joint ventures on normal trading terms | | **12,744** | 14,186 |
| Sales to associates on normal trading terms | | **31,174** | 39,822 |
| Purchases from joint ventures on normal trading terms | | **380,176** | 395,279 |
| Purchases from associates on normal trading terms | | **15,739** | 14,577 |
| Amounts due from joint ventures | | **46,102** | 48,775 |
| Amounts due from associates | | **2,620** | 3,771 |
| Amounts due to joint ventures | | **27,962** | 40,715 |
| Amounts due to associates | | **1,282** | 857 |

1. The Garfield Weston Foundation ('the Foundation') is an English charitable trust, established in 1958 by the late W. Garfield Weston. The Foundation has no direct interest in the Company, but as at 14 September 2019 was the beneficial owner of 683,073 shares (2018 – 683,073 shares) in Wittington Investments Limited representing 79.2% (2018 – 79.2%) of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 14 September 2019 trustees of the Foundation comprised four grandchildren of the late W. Garfield Weston and five children of the late Garry H. Weston.
2. The fellow subsidiary undertakings are Fortnum and Mason plc and Heal & Son Limited.
3. 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 £44m (2018 – £47m) of finance lease receivables. The remainder of the balance is trading balances. All but £5m (2018 – £5m) of the finance lease receivables are non-current.

### 9. Other information

The financial information set out above does not constitute the Company's statutory accounts for the 52 weeks ended 14 September 2019, or the 52 weeks ended 15 September 2018. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts. Their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006 in respect of the accounts.

### 10. Basis of preparation

Associated British Foods plc ('the Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the 52 weeks ended 14 September 2019 (2018 – 52 weeks ended 15 September 2018) comprise those of the Company and its subsidiaries (together referred to as 'the group') and the group's interests in joint ventures and associates.

The consolidated financial statements were authorised for issue by the directors on 5 November 2019.

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'). Under adopted IFRS, management is required to make judgements, estimates and assumptions about the reported amounts of assets and liabilities, income and expense and the disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on experience. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised from the period in which the estimates are revised.

The consolidated financial statements are presented in sterling, rounded to the nearest million. They are prepared on the historical cost basis except that 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 consolidated financial statements of the group are prepared to the Saturday nearest to 15 September. Accordingly, these financial statements have been prepared for the 52 weeks ended 14 September 2019. 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 2019. Adjustments are made as appropriate for signicant transactions or events occurring between 14 September and these other balance sheet dates.

## 11. New accounting policies

The following accounting standards and amendments were adopted during the year and had no significant impact on the group other than IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*:

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with* IFRS 4 *Insurance Contracts*
- *Annual Improvements to IFRS 2014 – 2016*

### IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. It includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The standard introduces changes to three key areas:

- new requirements for the classification and measurement of financial instruments;
- a new impairment model based on expected credit losses for recognising provisions (compared to IAS 39, which used an incurred loss model); and
- simplified hedge accounting through closer alignment with an entity's risk management methodology.

Financial assets are classified using a principles-based approach in three measurement categories: amortised cost, fair value through other comprehensive income or fair value through profit or loss. Classification is performed on initial recognition of the asset based on the characteristics of the asset and the local business model. The vast majority of the group's financial assets were previously recorded at amortised cost and this continues to be the case.

For financial liabilities, there are no significant classification and measurement changes compared to IAS 39.

The new principles for hedge accounting provide a more flexible framework which is better aligned with the economic decision-making of the group. This will result in the group being able to achieve hedge accounting in the future on a wider range of transactions than was possible under IAS 39. The IAS 39 effectiveness test has been replaced with the 'economic relationship' principle. Retrospective assessment of hedge effectiveness is no longer necessary. IFRS 9 also requires additional disclosures concerning risk management and the effects of hedge accounting.

The group previously completed a groupwide impact assessment across these three key areas, supported by external resource, involving each of the group's businesses. As a result of this assessment, the group concluded that the adoption of IFRS 9 would not have a significant impact on either the group's results or financial position.

IFRS 9 applies retrospectively, but with substantial transition provisions, including not being required to restate comparative information. The group adopted IFRS 9 on 16 September 2018 and has applied it for the first time in the 2019 financial year, without restating comparative information. No cumulative adjustment to recognise the impact of applying IFRS 9 as at 16 September 2018 was required.

### IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a principles-based approach to recognising revenue only when performance obligations are satisfied and control of the related goods or services is transferred. It addresses items such as the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 replaces IAS 18 *Revenue* and other related requirements.

IFRS 15 applies a five-step approach to the timing of revenue recognition and applies to all contracts with customers except those in the scope of other standards.

Step 1 Identify the contract(s) with a customer

Step 2 Identify the performance obligations in the contract

Step 3 Determine the transaction price

Step 4 Allocate the transaction price to the performance obligations in the contract

Step 5 Recognise revenue when (or as) the entity satisfies a performance obligation

The group previously completed a groupwide impact assessment, utilising external resource to support local management where necessary. The assessment included areas that required additional specific consideration, including rights of return and principal vs agent considerations. The group's revenue recognition processes are generally straightforward, with recognition of revenue at the point of sale and little significant judgement required in determining the timing of transfer of control.

The impact assessment concluded that IFRS 15 would result in no change to the timing of revenue or the timing or amount of profit recognised. The only impact on the amount of revenue recognised was £31m of operating expenses in the prior year which under IFRS 15 are now deducted from revenue.

**11. New accounting policies (continued)**

The group adopted IFRS 15 on 16 September 2018 and has applied it for the first time in the 2019 financial year. IFRS 15 was adopted retrospectively without the requirement to restate comparative information. IFRS 15 had no impact on the group's reported profits. No cumulative adjustment to recognise the impact of applying IFRS 15 as at 16 September 2018 was required.

The group is assessing the impact of the following standards, interpretations and amendments that are not yet effective. Where already endorsed by the EU, these changes will be adopted on the effective dates noted. Where not yet endorsed by the EU, the adoption date is less certain:

- IFRS 16 *Leases* effective 2020 financial year
- IFRS 17 *Insurance Contracts* effective 2022 financial year (not yet endorsed by the EU)
- IFRIC 23 *Uncertainty over Income Tax Treatments* effective 2020 financial year
- Amendments to IFRS 3 *Definition of a Business* effective 2021 financial year (not yet endorsed by the EU)
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* effective 2020 financial year
- Amendments to IAS 1 and IAS 8 *Definition of Material* effective 2021 financial year (not yet endorsed by the EU)
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* effective 2020 financial year
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* effective 2020 financial year
- Amendments to *References to the Conceptual Framework in IFRS Standards* effective 2021 financial year (not yet endorsed by the EU)
- *Annual Improvements to IFRS Standards 2015 – 2017* effective 2020 financial year

The new standard with the most significant effect on the group's financial statements is IFRS 16, further details of which are set out below. The impact of the other standards effective in 2020 and beyond have not yet been fully assessed.

**IFRS 16 *Leases***

IFRS 16 introduces a new model for the identification of leases and accounting for lessors and lessees. It replaces IAS 17 *Leases* and other related requirements. The group adopted IFRS 16 on 15 September 2019 and will apply it for the first time in the 2020 financial year.

IFRS 16 distinguishes leases from service contracts on the basis of control of an identified asset. For lessees, it removes the previous accounting distinction between (off-balance sheet) operating leases and (on-balance sheet) finance leases and introduces a single model recognising a lease liability and corresponding right-of-use asset for all leases except for short-term leases and leases of low-value assets.

For lessors, IFRS 16 substantially retains existing accounting requirements and continues to require classification of leases either as operating or finance in nature.

The group engaged external experts to support its implementation project and established a steering committee to oversee its governance, which reported to the Audit committee. During the current period, the group largely completed its implementation project.

IFRS 16 permits a choice of transitional approaches: a fully retrospective approach with an adjustment made to the opening retained earnings of the comparative period; or a modified retrospective approach where the cumulative effect of initial application is recognised at the date of initial application without restating prior periods.

The age, size and complexity of the group's lease portfolio means that it would either be impossible or extremely costly and difficult to collate sufficient information to apply the fully retrospective approach. The group has therefore determined to adopt the modified retrospective approach.

The first results published under IFRS 16 will be the 2020 interim results.

**Impact on the group's results and financial position**

The impact of IFRS 16 on the group's results and financial position is significant.

Lease liabilities are measured initially at the present value of lease payments yet to be paid, subsequently adjusted for interest and lease payments as well as a number of other changes to lease provisions. Lease liabilities are included in net debt.

Right-of-use assets are measured initially at cost (including the value of the lease liability) and subsequently at cost less accumulated depreciation and any impairment losses, adjusted for any remeasurement of the lease liability. Right-of-use assets are reported as non-current assets.

There is no change to overall cash flows. Operating lease payments were previously presented as operating cash flows and finance lease payments were allocated between payments of principal and interest within financing cash flows. Under IFRS 16, lease payments are split between payments of principal and interest, presented as financing cash flows.

## 11. New accounting policies (continued)

Operating lease expenses previously charged to operating profit will be replaced by depreciation of right-of-use assets (within operating profit) and interest cost (within finance expense). Although the aggregate income statement impact of each lease over its life will not change, the generally straight-line profile of operating lease expense will be more front-loaded under IFRS 16 because of the interest charge on the lease liability.

The changes set out below to the group's assets and liabilities will be recorded from the transition date of 15 September 2019 in the 2020 financial year. The change will be charged against opening equity, firstly in the 2020 interim report and subsequently in the 2020 annual report.

| | Transition adjustment £bn |
|---|---|
| Non-current assets (recognition of right-of-use assets, partially offset by reclassifications from property, plant and equipment) | 3.1 |
| Net current assets (primarily removal of lease incentives from accruals | 0.2 |
| Net debt | (3.6) |
| Deferred tax | 0.1 |
| Impact on net assets | (0.2) |

IFRS 16 affects a number of other financial statement captions and ratios, including the following:

| Item | Comment |
|---|---|
| **Earnings** | Based on our impact assessment, the group expects a marginal impact on earnings. There will be a consequent marginal impact on dividend cover. |
| **Operating profit/ operating margin** | Operating profit and operating margin are expected to increase significantly as operating lease expenses are replaced by the depreciation of right-of-use assets. |
| **Finance expense** | Finance expense is expected to increase significantly as a result of the interest cost on lease liabilities. Interest cover will therefore reduce. |
| **Taxation** | Taxation will change in line with the changes in profit before tax. |
| **Net debt** | Net debt will increase very significantly as lease liabilities are recorded within current and non-current liabilities. Gearing ratios will therefore increase. The reconciliation of net debt will include more non-cash items as new leases are entered into. |
| **Return on capital employed** | The return on capital employed will reduce as a result of the changes to operating profit and non-current assets. |
| **Cash flow statement** | There is no overall impact on cash flow, but classifications of cash flows will change, as set out above. |

The group will reassess its incentive arrangements to align targets with the new accounting requirements.

IFRS 16 has the most significant impact on the Retail segment given the number of significant store leases to which Primark is a party.

### Hyperinflation

The Argentinian economy was designated hyperinflationary from 1 July 2018. The group concluded this had an insignificant impact for the 2018 financial year but has applied IAS 29 *Financial Reporting in Hyperinflationary Economies* to its Argentinian operations from the beginning of the 2019 financial year. IAS 29 requires that hyperinflationary adjustments are reflected from the start of the reporting period in which it is applied. For the group's Argentinian operations this is 1 September 2018. In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, the comparative figures for 2018 have not been modified. The adjustments required by IAS 29 are set out below.

- Adjustment of historical cost non-monetary assets and liabilities from their date of initial recognition to the balance sheet date to reflect the changes in purchasing power of the currency caused by inflation, according to the official indices published by the Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE).
- Adjustment of the components of the income statement and cash flow statement for the inflation index since their generation, with a balancing entry in the income statement and a reconciling item in the cash flow statement, respectively.
- Adjustment of the income statement to reflect the impact of inflation on holding monetary assets and liabilities in local currency.
- The financial statements of the group's Argentinian operations have been translated into sterling at the closing exchange rate at 14 September 2019 (ARS69.99:£1).
- The cumulative impact corresponding to previous years has been reflected in other comprehensive income in the period.
- The FACPCE index was 155.1034 at 31 August 2018 and 239.6077 at 31 August 2019. The inflation index for the year is therefore 1.5448.

The Venezuelan economy has been designated hyperinflationary for a number of years, but the impact on the group's results remains immaterial.