WE CONTINUED TO INVEST FOR THE FUTURE OF OUR BUSINESSES

Michael McLintock
Chairman

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

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

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

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

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

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

Corporate responsibility

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

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

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

www.abf.co.uk/responsibility

Remuneration

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

The board

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

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

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

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

Employees

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

Dividends

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

Outlook

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

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

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

Michael McLintock
Chairman

REVIEW OUR CORPORATE RESPONSIBILITY UPDATE ONLINE:

www.abf.co.uk/responsibility