



**Associated  
British Foods**  
plc

**Annual Report  
and Accounts 2016**

## FINANCIAL HEADLINES

### Group revenue

£13.4bn

Actual: +5% Constant currency: +4%

### Adjusted profit before tax\*\*

£1,071m

Up 5%

### Dividends per share

36.75p

Up 5%

### Operating profit

£1,103m

Up 18%

### Adjusted operating profit\*

£1,118m

Actual: +3% Constant currency: +3%

### Adjusted earnings per share\*\*

106.2p

Up 5%

### Gross investment

£1bn

### Profit before tax

£1,042m

Up 47%

### Net debt

£315m

### Basic earnings per share

103.4p

Up 55%

Associated British Foods is a diversified international food, ingredients and retail group with sales of £13.4bn, 130,000 employees and operations in 50 countries across Europe, southern Africa, the Americas, Asia and Australia.

## REVIEW OF THE YEAR ONLINE:

[www.abf.co.uk/ar2016](http://www.abf.co.uk/ar2016)



## STRATEGIC REPORT

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

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

# 2016

## OUR YEAR IN REVIEW

A year of progress for all of our businesses with a substantial expansion in Primark's selling space, increased margins in all of our food businesses and fundamental structural changes at AB Sugar.

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Front cover image: Sugar cane  
Above: Dorset Cereals

## OUR BUSINESSES AT A GLANCE

### Revenue

£3,274m 2015: £3,177m

### Adjusted operating profit

£304m 2015: £285m

### Adjusted operating profit margin

9.3% 2015: 9.0%

### Return on average capital employed

24.2% 2015: 22.5%

### Revenue

£1,798m 2015: £1,818m

### Adjusted operating profit

£34m 2015: £33m

### Adjusted operating profit margin

1.9% 2015: 1.8%

### Return on average capital employed

2.1% 2015: 1.9%

## A DIVERSIFIED BUSINESS

The group operates through five strategic business segments



Image: Central Madrid –  
Celebrating 10 years in Spain  
Operating review, Retail 36

## GROCERY



Operating review, Grocery 12

### International

Twinnings and Ovaltine are our global hot beverage brands.

### Europe

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

### The Americas

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

### Australia

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

## SUGAR



Operating review, Sugar 20

### Europe

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

### China

We operate two beet sugar factories in the north east of the country, with annual sugar production capacity of over 160,000 tonnes.

### Southern Africa

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

**Revenue****£1,084m** 2015: £1,211m**Adjusted operating profit****£58m** 2015: £60m**Adjusted operating profit margin****5.4%** 2015: 5.0%**Return on average capital employed****17.7%** 2015: 19.2%**Revenue****£1,294m** 2015: £1,247m**Adjusted operating profit****£93m** 2015: £76m**Adjusted operating profit margin****7.2%** 2015: 6.1%**Return on average capital employed****13.1%** 2015: 11.1%**Revenue****£5,949m** 2015: £5,347m**Adjusted operating profit****£689m** 2015: £673m**Adjusted operating profit margin****11.6%** 2015: 12.6%**Return on average capital employed****30.2%** 2015: 31.1%**AGRICULTURE**

Operating review, Agriculture 26

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

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

The business employs more than 2,300 people in the UK and China and market products in more than 65 countries worldwide.

**INGREDIENTS**

Operating review, Ingredients 32

**Yeast and bakery ingredients**

AB Mauri operates globally in yeast and bakery ingredients production with 49 plants in 26 countries supplying plant and artisanal bakers and the foodservice and wholesale channels. It is a technology leader in bread improvers, dough conditioners and bakery mixes.

**Speciality ingredients**

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

**RETAIL**

Operating review, Retail 36

**Primark**

Primark is a major retail group employing 68,000 people. It operates stores in the UK, Republic of Ireland, Spain, Portugal, Germany, the Netherlands, Belgium, Austria, France, Italy and the US.

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

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

## CHAIRMAN'S STATEMENT



CHARLES SINCLAIR, CHAIRMAN

**This has been a year of progress for the group with revenues 5% higher than last year, adjusted operating profit ahead by 3% and earnings per share up by 5% to 106.2p. Gross investment was significant this year at just over £1bn which included capital expenditure increases both for Primark and the food businesses and the £247m consideration to acquire the minority shareholdings in Illovo Sugar Limited. This was funded by another strong cash flow and was the fifth consecutive year of operating cash generated in excess of £1bn. Although net debt at the year end was higher than last year, this was after the buyout of the Illovo minorities and a £53m increase attributable to the effect of translating foreign currency denominated net debt at weaker sterling exchange rates.**

One of our group's great virtues is the way that it embraces change so positively and this year has provided plenty of opportunity for our businesses to demonstrate this. Whether responding to challenging financial markets; integrating acquired businesses; disposing of businesses; dealing with the effects of unusual weather on our supply chains or retail demand; advancing technology or changing legislation, our people have responded with enthusiasm.

The sugar industry has seen much change, not least in Europe as it has prepared for regime reform in 2017. However, 2016 will be seen as something of a turning point for AB Sugar. The profit decline of recent years has been arrested as EU and world sugar prices turned upwards and our performance improvement programme, which had already yielded substantial benefits, delivered further cost reduction and efficiency gains which have underpinned our credentials as

a low-cost producer. Moving to full ownership of Illovo, at a time when increasing populations and rising incomes are driving growth in the African sugar market, is expected to accelerate its performance improvement and commercial development. We have also announced the sale of our south China cane sugar operations with completion expected later in this calendar year. We first entered the Chinese sugar market in 1995 and since then have substantially improved agricultural productivity, factory extraction and sugar yields. However, further improvements are likely to be driven by industry consolidation and we believe that other parties are better placed to take the business forward. Our beet sugar business in north east China is at an earlier stage in its development and we believe we are well positioned to take advantage of the opportunities this presents.

Cost reduction was a driver of the continued recovery of the yeast and bakery ingredients business which was the major contributor to the 22% growth in adjusted operating profit from Ingredients this year. Grocery and Agriculture both achieved further margin improvement despite the challenges for revenue growth presented by commodity price deflation. Since the year end we have announced the sale of ACH's herbs and spices business in North America with completion expected shortly. Whilst this has been a good investment over the years, it is a complex operation which occupies a niche position in its market and we believe its further development will best be achieved through consolidation with another party.

Primark's development continued apace with a further 1.2 million sq ft of selling space opened during the year. Ten years ago Primark opened its first store in Spain – the first time that it had ventured outside the UK and Ireland. Since then it has expanded into a further eight countries and has achieved a fivefold increase in retail selling space. This pace of development is set to continue with an extensive schedule of new store openings planned for 2016/17. That new store openings are still greeted with enthusiasm by our customers says much for the capability of our buyers and merchandisers who ensure that Primark remains at the

forefront of fashion, but is also the result of our store designers making Primark an attractive and fun place to shop.

### Corporate responsibility

Having provided an update on corporate responsibility in each of the last two years we have, today, published a full report for this year. The priorities of our businesses remain largely unchanged with a continued challenge to reduce the environmental footprint of our operations and improve the safety of our sites. We remain committed to being a good neighbour and supporting the communities where we operate. For the first time, we have sought to quantify our social impact in order to show the benefits of our collective endeavour on the lives of our people, suppliers, neighbours and customers. A copy of the report is available for download at [www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility).



The fifth consecutive year of operating cash generated in excess of £1bn."



[www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility)

### Remuneration

As noted in the Remuneration report last year, we have undertaken a complete review of the group's incentive arrangements during the course of this year and a number of changes are proposed to improve alignment with shareholder interests.

### The board

Tim Clarke and Javier Ferrán have each completed more than nine years' service as directors of the Company and, in accordance with the UK Corporate Governance Code, the rest of the board must now confirm their independence annually. This having been done, we are delighted that both Tim and Javier have agreed to continue as members of the board and Tim will continue as the Senior Independent Director.

Peter Smith retired as a non-executive director of the Company in April having served nine years as a member of the board. I would like to thank Peter for the significant contribution he made during his tenure as a director and chairman of the Audit committee.

In April we welcomed Richard Reid to the board as a non-executive director and chairman of the Audit committee. Richard was formerly a partner at KPMG LLP, having joined the firm in 1980. From 2008 he served as London Chairman until he retired from the firm in September 2015.

### Employees

Whenever I visit our operations around the world I am regularly reminded of the enthusiasm with which our employees undertake their responsibilities, their commitment to improving performance and their willingness to embrace change. I would like to thank them for their achievements this year which contributed greatly to the group's continuing success.

### Dividends

I am pleased to report that a final dividend of 26.45p is proposed, to be paid on 13 January 2017 to shareholders on the register on 16 December 2016. Together with the interim dividend of 10.3p paid on 1 July 2016, this will make a total of 36.75p for the year, an increase of 5%.

### Outlook

We expect the expansion of Primark's selling space to continue in all of its major markets. AB Sugar will benefit substantially from this year's increase in sugar prices and from reductions in its cost base. Grocery, Ingredients and Agriculture are expected to make further progress.

Assuming a continuation of current exchange rates, and following the significant devaluation of sterling, we expect group earnings to benefit from the translation of overseas profits. However, as Primark buys much of its merchandise in US dollars and sells in the UK in sterling, there will be an adverse effect, in the year, on its UK margins.

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

**Charles Sinclair**  
Chairman

## CHIEF EXECUTIVE'S STATEMENT



GEORGE WESTON, CHIEF EXECUTIVE

**I am pleased to report that group revenue increased by 5% to £13.4bn and adjusted operating profit of £1,118m was 3% higher than last year.**

AB Sugar made a number of fundamental structural changes this year which will lead to a higher and more sustainable profit. Specifically, all of its operations delivered substantial cost reductions through performance improvement and capital investment; the sale of its cane sugar operations in south China will improve margins; and the move to full ownership will accelerate Illovo's commercial development and profit growth. There has also been an emphasis this year on working closely with growers, key members of our supply chain, to maximise efficiency and underpin our growth aspirations.

As a responsible business, AB Sugar contributes actively to the debate concerning the role that sugar can play as part of a healthy balanced diet with its Making Sense of Sugar campaign. We believe it is important to recognise that there is no single response to tackling obesity. We are committed to playing our part in finding solutions that heighten people's awareness of the calories they are consuming, whether in sugars or other food ingredients, through a combination of educational and regulatory measures.

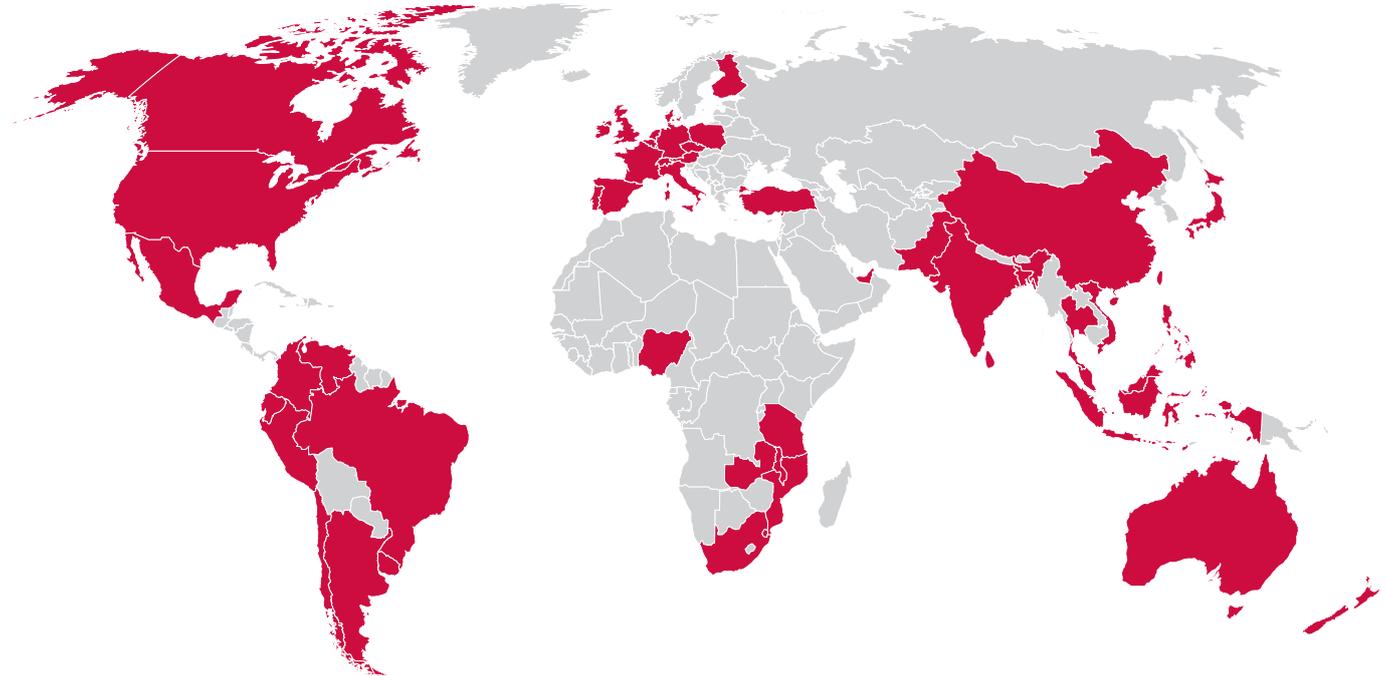
Ingredients achieved a strong profit and margin increase driven by a further recovery in AB Mauri, our yeast and bakery ingredients business. AB Agri delivered a resilient performance with its strategy of expanding the value adding elements of its business, particularly internationally. Grocery achieved revenue growth against a background of food commodity price deflation and margin increased again with an improvement in George Weston Foods in Australia, particularly at the Don KRC meat business which generated a profit.

The strong expansion of Primark's selling space continued this year and a further 1.3 million sq ft is scheduled for next year. We were encouraged by the trading at our first store in Italy and by our five stores in the US. We now have a better understanding of what appeals to our American customers and are gaining valuable insights into store location. This was



This has been a year of progress for all of our businesses."

## OUR BROAD GEOGRAPHICAL FOOTPRINT



Please note, the above map correctly reflects the group's countries of operation and has been amended from that shown in the printed version of the Annual Report that was distributed to shareholders, which included a printing error.

a challenging year for clothing retailers with market value declines seen in most countries in Europe. It is therefore a testament to the strength of Primark's customer offering that it increased its share in all of its major markets. The devaluation of the euro against the US dollar in 2015 put pressure on margins in this financial year and sterling's recent devaluation against the US dollar will have an impact in the coming year. Primark's commitment to maintaining its leadership position in the value sector of the clothing market has been our priority and I am pleased with the efforts of our buyers to significantly limit the profit impact of euro weakness in the financial year.

#### Implications of the EU referendum

ABF is an international business with diverse interests across 50 countries and has a business model that, wherever possible, aligns food production with the end markets for its products. Primark operates discrete supply chains for its stores in each of the UK, US and eurozone and as a group we undertake relatively little cross-border trading between the UK and the rest of the EU.



With the diversity of our operations, our broad geographical footprint and a strong balance sheet, we are well placed to take advantage of the opportunity presented by the weakness of sterling."

The referendum on the UK's continued membership of the EU has created some short-term uncertainties including a decline in the value of sterling. However, changes in legislation and trade agreements, particularly in the areas of trade tariffs and UK agricultural policy have the potential to benefit the group, and the current level of sterling offers UK food producers significant opportunities to replace imported food and build export markets. We are therefore engaging with a number of UK Government departments to ensure that the full range of opportunities and risks, as they affect ABF, are recognised.

**George Weston**  
Chief Executive

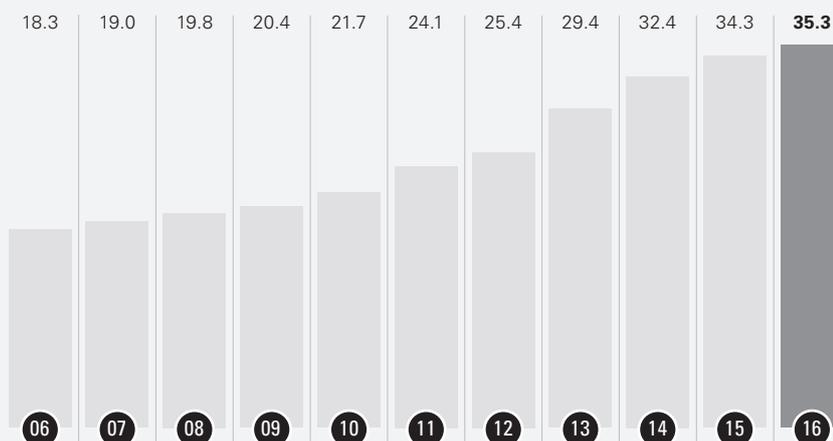
# ASSOCIATED BRITISH FOODS IS A DIVERSIFIED GROUP OF FOOD, INGREDIENTS AND RETAIL BUSINESSES

**We sell into more than 100 countries worldwide with operations in 50 countries across Europe, southern Africa, the Americas, Asia and Australia.**

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

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

**History of dividends paid** (pence per share)

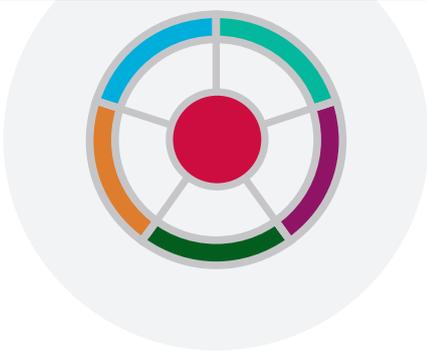


**Our businesses are organised so that they are close to the markets and customers that they serve.**

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

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

## BUSINESS STRUCTURE



The group is managed as five business segments that bring together common industry expertise, operational capability and market intelligence. Operational decisions are made locally because, in our experience, they are most successful when made by the people who have the best understanding of their markets and who have to implement them. The corporate centre aims to provide a framework in which our business leaders have the freedom and decision-making authority to pursue opportunities with

entrepreneurial flair. The centre is small and uses short lines of communication to ensure prompt, incisive and unambiguous decision-making. It seeks to ensure that business activities are appropriately monitored and supported.



### Operating review 12

## STRATEGY



The group balance sheet is managed to ensure long-term financial stability, regardless of the state of capital markets, and capital funding is made available to all of our businesses where returns meet or exceed clearly defined criteria. The centre provides selected services where the scale of its operations enables a more cost-effective or efficient delivery, where expertise that might not be available at a business level can be retained by the group, or where the provision of such services would otherwise distract business executives. Such services include investor relations, pensions, insurance, legal support, tax and treasury management, where

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



### Business strategies 10

## ORGANIC GROWTH



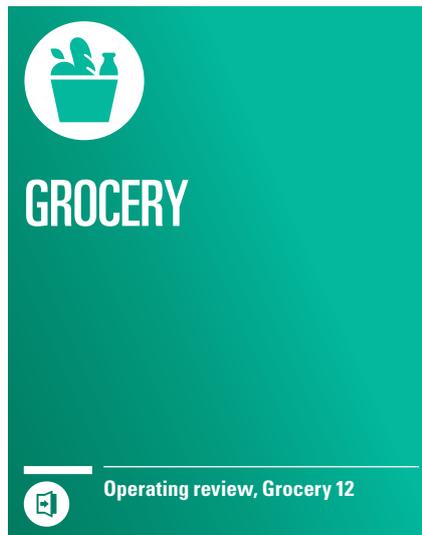
We are committed to innovation, the continuous pursuit of improvement and the maintenance of our efficient manufacturing capability.

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

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

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

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



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

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



## SUGAR



Operating review, Sugar 20

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

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

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



## AGRICULTURE



Operating review, Agriculture 26

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

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



## INGREDIENTS



Operating review, Ingredients 32

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

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



## RETAIL



Operating review, Retail 36

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

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

# GROCERY

with cashews  
& roasted nuts,  
now available  
in Australia



dorset  
cereals<sup>®</sup>

really  
nutty  
muesli

honest, tasty and real 560g e



### About Grocery

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

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

Jordans, Dorset and Ryvita operate in the better-for-you cereal and savoury biscuits categories with increasing international presence. Jordans has a heritage of using traditional methods in the production of its wholegrain cereals and cereal bars. Dorset's

award-winning muesli and granolas are renowned for the quality of their natural ingredients. Ryvita has a strong reputation in healthy snacking and is the UK category leader in crispbreads. Allied Bakeries produces a range of bakery products under the Kingsmill, Sunblest, Allinson and Burgen brands, with flour and semolina produced by sister company, Allied Mills. Speedibake specialises in own-label baked goods for retail and foodservice customers. Silver Spoon and Billington's are our two retail sugar brands in the UK, complemented by a range of dessert toppings and syrups under the Askeys and Crusha brands.

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

## INTERNATIONALISATION OF OUR GREAT BRITISH BRANDS

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### DELIVERING THE PERFECT BAKE

Speedibake designs and creates the customer's ultimate muffin.

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## RESPONDING TO CONSUMER DEMAND

Gluten-free bread that people want to eat.



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## UNLOCKING THE MAGICAL WORLD OF TEA



16

# GLOBAL FLAVOURS

## GROCERY

# EVERYDAY FOOD PRODUCTS ENJOYED BY PEOPLE ALL OVER THE WORLD

## Revenue

# £3,274m

2015: £3,177m

Actual fx: +3%  
Constant fx: +2%

## Adjusted operating profit

# £304m

2015: £285m

Actual fx: +7%  
Constant fx: +4%

## Adjusted operating profit margin

# 9.3%

2015: 9.0%

## Return on average capital employed

# 24.2%

2015: 22.5%

**Adjusted operating profit increased by 7% with a further improvement in margin. Revenues were also ahead, including the benefit of a 53rd week but were again held back by commodity price deflation.**

Twinings Ovaltine had another good year led by Twinings in Australia and the US and a return to growth for Ovaltine in Thailand. Continued support for the brand through television, digital and print advertising drove a further increase in Twinings' UK value market share following the brand's relaunch last year. Twinings is the clear market leader in Australia, where the breakfast range was relaunched during the year, and the successful 'Tealand' television advertising campaign, which has driven further growth in Italy, has recently been rolled out in France and Japan. Sales of Ovaltine in Thailand increased and, with less sold on promotion, there was also some margin improvement. Brand extensions drove growth in Switzerland and some of these lines

now have wider geographic distribution achieving particular success in Germany.

Revenues at Allied Bakeries were ahead this year driven by a substantial increase in Kingsmill volumes. A further strengthening of relationships with major customers saw the business win The Grocer magazine's 'supplier of the year' award for the second year running. Our premium brands, Allinson and Burgen, also performed well with notable success for Allinson Seeded and Seeded Wholemeal variants. The continued growth of Kingsmill Sandwich Thins led to investment in a second production line which came on stream in the Stockport bakery in April, providing a platform for further innovation.

Silver Spoon gained new contracts and benefited from a relaunch this summer, but low retail sugar prices maintained pressure on margins. Wider distribution and a targeted home-baking marketing campaign drove an increase in Billington's revenues, and Allinson

maintained its position as the UK's leading bread flour brand. The full integration of Dorset Cereals with Jordans and Ryvita has now delivered the expected savings in operations, logistics and procurement. International expansion drove excellent growth for Jordans and Dorset, which also increased their UK market share. The Jordans Farm partnership, launched late last year in conjunction with LEAF (Linking Environment and Farming) and the Wildlife Trust to improve sustainability and biodiversity on the farms of our oat suppliers, has received widespread recognition within the industry. Ryvita lost crispbread sales in a very competitive UK market although its relaunch this year and a new portion pack format has slowed the rate of decline.

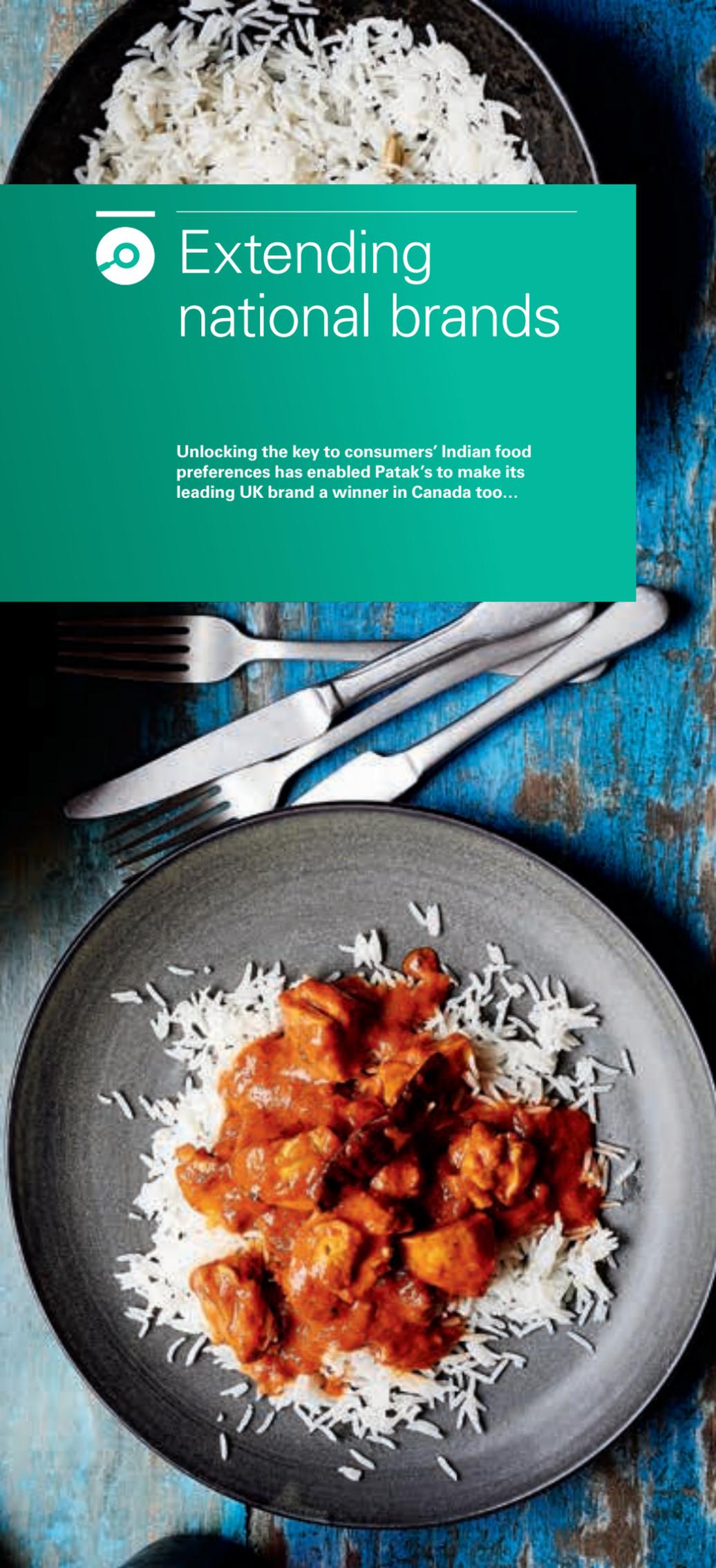
Revenues at AB World Foods were level with last year. Patak's and Blue Dragon achieved growth in their important markets of Canada and the UK where both brands strengthened their market leading positions, but Patak's faced a more challenging competitive environment in Australia. Westmill had a good year across most segments with a particularly strong performance in noodles where Lucky Boat achieved good growth. Spices and microwaveable rice both delivered volume and value growth but the proliferation of low cost basmati rice brands put pressure on sales and margin of our products.

Operating profit for our grocery businesses in North America was ahead of last year. Stratas Foods, our commodity oils joint venture, performed strongly. At ACH, Mazola oil revenues were marginally below last year despite distribution gains, as pricing remained under pressure from competing vegetable oils which had a raw material cost advantage throughout the year. Mexico's results were disappointing as unfavourable exchange rate movements and competitor pricing pressure reduced volumes and margin. Since the year end we have reached agreement to sell ACH's North American herbs and spices business including the Tone's, Spice Islands and Durkee brands, the licence for Weber seasonings, and a manufacturing facility in Ankeny, Iowa. The transaction has now received clearance from the anti-trust authorities and completion, with a cash consideration of \$365m, is expected in mid-November.



# Extending national brands

Unlocking the key to consumers' Indian food preferences has enabled Patak's to make its leading UK brand a winner in Canada too...



# Innovation and insight deliver success for Patak's

VIKRAM VERGHESE, MARKETING MANAGER,  
THE AMERICAS, PATAK'S



"Mining consumer insights has been key to Patak's growth in Canada. When our research showed that butter chicken was the nation's 'entry flavour' into Indian foods, we focused on getting our Butter Chicken sauce right, quickly becoming market leader. We then launched Spicy Butter Chicken, after sensory tests revealed a changing national palate; introduced a smaller two-portion size, when census data showed 60% of Canadians lived in one or two person households; and created a successful light variant, to satisfy demand for lower fat foods.

Butter Chicken's halo effect on our other popular flavours has helped our entire sauces and pastes range grow at twice the market rate."



To read more about the internationalisation of our products go to page 18



As a consequence of the sale, ACH has announced the rationalisation of its remaining overheads with the result that we expect a minimal effect on its adjusted operating profit in the new financial year.

Adjusted operating profit and margin both increased at George Weston Foods in Australia. The Don KRC meat business generated a profit with a return to more normal bought-in raw material prices, good volume growth and production efficiencies. Continuous improvement at the Castlemaine factory remains a management priority with further opportunities identified. Last autumn's Tip Top relaunch was well received by customers and the trade, and bread and breakfast bakery both performed well. The brand is committed to innovative new product development with Café Brioche style fruit bread launched in Australia during the year and Tip Top Extra Protein distributed across Australia and New Zealand.

## CASE STUDY

## RESPONDING TO CONSUMER DEMAND

**In 2012, supermarket sales of gluten-free bread in Australia were valued at \$32m, and Tip Top had no presence. By 2016, the market has more than doubled to \$71m, with Tip Top approaching market leadership under the Burgen brand and a new range recently launched. This outstanding growth and future opportunity highlights Tip Top's commitment to insight-led innovation and driving operational advantage.**

In the past, gluten-free bread was typically chosen by those with coeliac disease (some 1.5% of the population). By 2010, a 'Health & Wellness' trend was evolving with concerned consumers avoiding ingredients thought to be unhealthy. With gluten widely believed to be responsible for 'that bloated feeling', gluten-free products were set for a period of strong growth.

With no gluten-free manufacturing capability in Australia, Tip Top tested the market by sourcing product from New Zealand. Through strong collaboration between the operations teams, a manufacturing solution and frozen supply chain was quickly established. Sensory testing proved the New Zealand product to be more popular than the Australian market leader in both taste and texture.

With its health and premium quality credentials, Burgen was selected as the brand to launch our new offering and, in April 2013, it became the first 'mainstream' bakery brand to introduce a gluten-free bakery product in Australia. Within six months it had achieved a 35% value share in Australia's largest grocery retailer, delivering incremental volume for Tip Top and the bakery category as a whole. With this early success, a dedicated gluten-free production line was built in Ermington, a suburb of Sydney.

A new product has now been developed for the Abbott's Village Bakery range with a unique formulation and baking process that deliver a gluten-free loaf so close to regular bread that consumers "can't believe it's gluten free".

In 2009

696

new gluten-free products were launched in Australia

In 2012

1,199

gluten-free products were launched, 16% being bread and bread-based

Source: Mintel



# UNLOCKING THE MAGICAL WORLD OF TEA



## CASE STUDY

### A fantastical story which draws on 'Alice's Adventures in Wonderland'

A young woman in black walks alone, along a dark and foggy London street. Spotting a white rabbit in a red silk collar she follows it, intrigued, as it hops towards a plain grey door.

The door opens inwards. A smiling man in a frock coat and striped trousers, with extravagant lace collars and ruff and a silver-topped cane, raises his top hat and welcomes her – to an extraordinary tea party.

Incredible sights greet her at every turn: elegant couples sip tea at candlelit tables suspended from an enormous tree; time goes backwards as a man on stilts, a ball-gowned woman on a swing and another, reclining on a white grand piano, whirl around her. And then a handsome conjuror tosses a deck of Twinings' sachets into the air that change into butterflies, then into a peerless cup of tea...

### Enchanting consumers

This fantastical story – which draws on 'Alice's Adventures in Wonderland' – is captured in our Twinings 'Tealand' commercial. The advertisement, which reflects our strategy of showing how the premium brand can unlock a magical world of sensory experience, was first aired in 2014 in Italy and parts of Japan – with



exceptional impact. We have since rolled it out in France, India, Norway, Switzerland and Sweden. Despite the cultural differences, consumers across these varied markets – chosen for their potential for growth – have been enchanted.

In the coffee-dominated Italian market, for example, the campaign helped grow our sales as well as the wider tea market. Last year alone, our sales there grew at twice the rate of our nearest competitor. And after the film was aired in Tokyo – attracting more YouTube ‘interactions’ than any other consumer goods advert during the month measured – our market share again grew significantly and brand awareness rose from 12% to 19%.

#### Reflecting local tastes

The advertising campaign has reached consumers via multiple channels, including terrestrial, digital and cable/satellite TV, cinema and social media. Although the core film remains the same in each market, elements were adapted to reflect local tastes, varying the products pictured, the soundtrack and the straplines. We have supported the film with search engine advertising and in-store promotions and have woven its look and feel into national websites.



To view the Tealand commercial go to [youtube.com](https://www.youtube.com) and search Twinings Tealand





CASE STUDY

# INTERNATIONALISATION OF OUR GREAT BRITISH BRANDS

A number of our well known UK brands have wide international appeal and have built up substantial export portfolios, mainly through third-party distributors. To open up new markets and accelerate the rate of growth we have sought to capitalise on the local knowledge, experience and office support infrastructure of the group's existing operations in a number of these markets.

### Jordans and Dorset Cereals

We already sell almost as much Jordans cereal internationally as we do in the UK, with distribution in over 60 countries. In the largest of these export markets, Australia, France and Canada, we have now established overseas sales and marketing offices.

Assisted by George Weston Foods in Australia, we launched Jordans into the Australian market in 2013, where it is now eaten in over 10% of households and, shortly after its acquisition in 2015, the Dorset Cereals brand was launched in Australia where it can now be bought in over 1,700 supermarket stores. Dorset Cereals are now sold in over 45 countries.

Jordans has been sold in France since 1992 and has been distributed by the local Twinings Ovaltine operation since we acquired the brand in 2009. It is now the country's second largest cereal brand, with 12% of the adult cereals market.

### Mexico

Blue Dragon's sales grew by 43% in 2015/16

Distributed in Canada since 1989, Jordans established its own commercial team in Cambridge, Ontario, in 2010. Under their stewardship distribution has doubled, and it is now number two in wholesome cereals with a repeat purchase rate of over 40%. A small but growing Dorset Cereals business has recently been established, managed by the same team.

### Blue Dragon

In 2012, AB World Foods conducted a study to identify which markets around the world offered the best long-term opportunities for its world-cuisine products. Criteria for the study included GDP growth, levels of consumer spend, sophistication of the grocery market, population growth and urbanisation, consumer influences and lifestyles. However, a key factor was the extent to which the group already had experience and assets in each market. Mexico and Brazil were identified as affording the most potential.

Our operation in Mexico leverages the existing ABF presence in the country through ACH. Products are sold by the ACH sales team alongside other ACH consumer brands such as Capullo and Mazola oils, while a dedicated Blue Dragon marketing team manages the brand. The range has expanded from 7 to 11 products and is centred on stir-fry meals and oriental condiments. Sales grew by 46% in 2014/15 and by a further 43% in the current year.

In Brazil, as in Mexico, we used a hosting model, leveraging ABF's international presence and existing structure, but this time with AB Mauri. AB World Foods has a dedicated in-country resource based in Sao Paulo, supported by AB Mauri's sales and finance teams.

### France

12%

of the adult cereals market

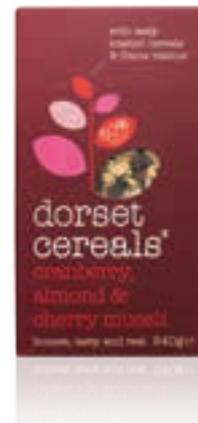
### In Australia

10%

of households regularly eat Jordans products

### Sold in

45 countries



CASE  
STUDY

## DELIVERING THE PERFECT BAKE

**Already established as one of the UK's top muffin bakers, Speedibake identified a gap in the market for innovative and affordable decorated muffins capable of being produced at high volume.**

You will not have seen the Speedibake name on supermarket shelves but you may well have eaten one of our muffins, doughnuts or garlic breads. This is because they are all sold as customers' own brands. Speedibake has successfully made a variety of American-style muffins for over 20 years and is a well-established supplier to many of the UK's supermarkets, restaurant chains and coffee shops.

Recent research identified that tastes are changing and consumers are now looking for greater variety but still at affordable prices. In response, an automated line capable of making distinctive muffins continuously and consistently at high volume was installed

at our Bradford bakery. At the same time, the bakery itself was extensively renovated to meet ever more challenging technical standards. The new muffins can have one or two batter types in one cup (marbling), can be sprinkled with wet or dry toppings before baking, injected with a filling after baking and topped with many forms of icing and decoration. The permutations are numerous so, not only can we design and create the customer's 'ultimate' muffin, we can now do so at a competitive price by comparison with traditional, batch-production.

The success of this project was in no small part due to the involvement, right from the design stage, of those who would eventually run the production line. This led to a project with no accidents, completion on time and on budget, and very quick sign-off by our customers as products were trialled and approved.

A photograph of two industrial workers in a factory setting. Both are wearing orange hard hats and high-visibility orange safety vests over blue and white clothing. The man on the left is wearing safety glasses and a blue mesh ear protection device. The woman on the right is also wearing safety glasses and a blue mesh ear protection device. They are both looking at a tablet computer held by the woman. The background shows complex industrial machinery with pipes and tanks.

# SHARING IDEAS



### About Sugar

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

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

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

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

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

## BUILDING THE WORLD'S LEADING SUGAR BUSINESS

Responding to changes in the sugar industry by enhancing the supply chain, working with growers and continuously improving performance.

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## ILLOVO SUGAR – A MAJOR CONTRIBUTOR TO AFRICAN DEVELOPMENT

A responsible approach to operating in the developing world.



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## SUGAR

# A WORLD-LEADING SUGAR BUSINESS FOCUSED ON EXCELLENCE, OPERATING IN TEN COUNTRIES

## Revenue

£1,798m

2015: £1,818m

Actual fx: -1%  
Constant fx: +5%

## Adjusted operating profit

£34m

2015: £33m

Actual fx: +3%  
Constant fx: +55%

## Adjusted operating profit margin

1.9%

2015: 1.8%

## Return on average capital employed

2.1%

2015: 1.9%

**Our reported revenue and adjusted operating profit for AB Sugar for the period were in line with last year, and substantially ahead at constant currency as a result of the weakness of the African currencies.**

A reduction in EU stock levels and an increase in world sugar prices resulted in a strengthening of European sugar prices. This benefited our Spanish business in the year but, with most of British Sugar's contracts agreed on an annual basis, no material impact on its results from the improvement in pricing will be seen until the 2016/17 financial year. All of our sugar businesses delivered substantial cost reductions again this year through a combination of continuous improvement, business transformation, capital expenditure and procurement activities.

In June, we completed the buyout of the minority interests in Illovo Sugar Limited for a purchase consideration of £247m. Africa is a growth market for sugar,

driven by increasing populations and rising incomes and, with AB Sugar's strong track record of commercial development and delivery of performance improvement, full ownership will accelerate Illovo's progress. In order to align Illovo's financial year end more closely with that of the group, Illovo's results will now be consolidated for the year to 31 August. These results therefore include Illovo's revenue and profit for an 11 month period. They also reflect a change in accounting policy for the valuation of Illovo's sugar cane roots in line with an amendment to IAS 41 which now permits the valuation of such assets at cost less accumulated depreciation. The cane roots adjustment had the effect of reducing adjusted operating profit by £8m this year, with a restatement of the adjusted operating profit for 2015 to reduce it by £10m.

UK sugar production for the 2015/16 year was just short of 1.0 million tonnes, as planned, with a return to more typical

beet yields and a smaller contracted growing area designed to reduce excessive stocks from the prior year. Above average rainfall in June slowed the growth of the new crop for the 2016/17 season and, combined with a further small reduction in the contracted area, we expect a further reduction in sugar production next year. Delivered beet costs for the 2016/17 campaign will be lower than this year.

The end of the EU sugar regime in October 2017 represents an opportunity for British Sugar to increase its sugar production and it is working with growers to restore beet supplies to more normal levels in 2017/18. This is the first crop for which growers will be able to choose between one and three-year deals, both of which will have bonuses linked to the sugar sales price. This is designed to strengthen the partnership with our farmers and underpin British Sugar's competitive position.

During the year, British Sugar completed a £15m investment in an anaerobic digestion plant at the Bury St Edmunds factory. This new facility will consume some 100,000 tonnes of pressed sugar beet pulp as a feedstock and will generate five megawatts of electricity for export to the national grid. This investment will reduce our carbon emissions and our energy consumption by avoiding the need to dry the pulp and by eliminating the transportation of it for animal feed.

In Spain, the operating result improved significantly with the benefit of lower beet costs, higher beet sugar production and better pricing. Total production for the year is estimated to be 474,000 tonnes of which 449,000 tonnes was from beet and 25,000 tonnes was from raw sugars co-refined in the beet factories in the north.

Beet sugar in north China made a small profit with the benefit of increased production to 159,000 tonnes and record operating performances at both factories. In the south, our cane sugar factories operated at a much lower level than last year and sugar production reduced to 284,000 tonnes mainly as a result of poor sugar content. On 12 September we reached agreement to sell our cane sugar business in south China to a consortium led by Nanning Sugar, a leading producer in the region which has



# Process driven

**By pooling knowledge and experience, our Sugar teams in the UK and Spain are working to save energy and increase efficiency...**



# Working together to save energy

ANTONIO BAS PARDO, DIRECTOR OF AZUCARERA'S  
GUADALETE FACTORY



"We have had a very positive collaboration with our colleagues from British Sugar's Cantley plant about their success in saving energy. Cantley lowered its energy consumption by reducing the amount of process water used and introducing a 'pre-scalding' in the sugar diffusion (extraction) process. Formerly steam had been used to heat the water that sugar beet passes through in the early stages of extraction. Pre-scalding the beet heats up the water too – saving energy.

A team from Guadalete visited Cantley to learn more about this approach. Our UK colleagues shared their technical and project management information, which proved really helpful. The learnings from Cantley have already enabled us to reduce our energy usage and cut our overall fuel consumption by 15%."

CASE  
STUDY

Hospital and clinic services  
are provided on-site for

**6,500**

employees and their  
family members

Refined sugar production  
capacity doubled in Zambia to

**100,000**

tonnes following  
recent expansion

## ILLOVO SUGAR — A MAJOR CONTRIBUTOR TO AFRICAN DEVELOPMENT

**The Illovo group operates in six countries in southern Africa. It is the continent's largest sugar producer and a significant manufacturer of downstream products.**

Illovo owns 270 square miles of agricultural land under cane which, when combined with the 703 square miles owned by private growers, yield enough sugar cane to produce upwards of 1.7 million tonnes of sugar annually at the group's 11 cane sugar plants. The group also produces a range of co-products downstream of the sugar making process, including furfural, an important renewable chemical feedstock, and ethyl alcohol. The majority of these co-products are made at plants in South Africa and Tanzania and are sold internationally into high-value niche markets. Illovo's plants also utilise milled cane stalks (bagasse) as a bio-renewable fuel to co-generate enough electricity to meet around 90% of their own power requirements and, in power-deficit countries such as Swaziland, they sell surplus power into the national grid.

Our business in Mazabuka, Zambia, exemplifies the huge scale of the group's operations and the important role it plays in local community life. Located in 108 square miles of agricultural land is the continent's largest cane sugar plant, providing employment within the factory and also in marketing and administration functions. But it doesn't stop there. Villages have been built for staff housing; hospital and clinic services are provided on-site for 6,500 employees and their family members, together with schools, community centres and churches; and the business also provides electricity, drinking water and refuse removal services.

Illovo's key markets are consumers and industrial customers in its own countries of operation as well as in neighbouring regional African markets, employing an extensive network of distribution and logistics channels. The group's continuing strategy of securing increasing growth opportunities, in local and regional sugar outlets, reduces its exposure to lower-priced EU markets. This is evidenced by this year's commissioning of Zambia Sugar's most recent expansion project which more than doubles annual refined sugar production capacity to around 100,000 tonnes.

As a major private investor in Africa, Illovo operates and markets its products in countries that face considerable challenges in the form of poverty, unemployment, inequality and disease – the United Nations classifies Malawi, Mozambique, Zambia and Tanzania as being among the world's least developed countries. By providing significant employment, accommodation, healthcare, educational assistance and basic services to rural communities, the group has a significant positive impact on these economies. In an extensive and independent socio-economic impact study released in 2014, it was shown that Illovo contributed an estimated ZAR 18.5bn in 2012/13 to African economies, including direct, indirect and induced economic impacts.



the support of the Guangxi government. Upon completion of the transaction, which is subject to third-party consents and regulatory approvals, we will receive consideration for our shareholdings in the business together with the repayment of related loans.

Illovo production was lower than last year as a result of severe drought. However, an improved sales mix and further cost savings across the business contributed to an increase in full year profit. With the exception of Tanzania, all of Illovo's countries of operation experienced substantial currency devaluations during the year but, despite the pressure this placed on consumers and on production costs, Illovo maintained its margin development through a combination of price increases and benefits delivered by the performance improvement programme. The new refining and sugar conditioning facility at the Nakambala plant in Zambia, was commissioned in July 2016, is now fully operational, and is a key step in broadening our product range to meet the demands of a fast developing domestic market.

Good progress was made this year by Vivergo Fuels which increased throughput in the bioethanol plant, although achieving operational reliability remained challenging. An improvement in the operating result was driven by better margins with the benefit of lower wheat prices and higher EU bioethanol prices. The UK Energy & Climate Change Select Committee recently issued a report recommending a proposal to increase bioethanol inclusion in road fuel from the current level of 5% to 10%. We believe this is the only practical next step towards achieving the UK Government's previously agreed 2020 renewable obligation for transport fuel in the near term, and would bring the UK into line with the US, Brazil, France and Germany.

#### CASE STUDY

## BUILDING THE WORLD'S LEADING SUGAR BUSINESS

**AB Sugar operates in a diverse and continually changing environment with many opportunities and challenges – the final round of changes to the EU sugar regime in 2017 being just one example. These changes will see the abolition of production quotas, the removal of minimum beet prices and the elimination of the artificial distinction between sugar sold for food and industrial applications in the EU. Furthermore, World Trade Organization (WTO) export constraints will no longer be applicable to European producers although WTO-controlled import duties for non-preferential sugars into the EU will remain in place.**

As a consequence, sugar prices in the EU are likely to move more in line with world prices than has previously been the case. In such a dynamic market, increased pressure will be placed on the competitiveness of the total EU sugar supply chain. Growers, processors, haulage companies and other key stakeholders will all need to ensure their individual competitiveness in order to maintain the ability of the sugar industry as a whole to compete. The UK vote on Brexit clearly introduces a further dimension to the 2017 regime reform for sugar producers in the EU.

#### **So, what scenarios are we most likely to face beyond 2017?**

- suppliers to the European market will need to improve further their efficiency and competitiveness. This will include energy efficiency, process technology and co-product development. Well-targeted and effective investment will be key;
- with inflation in other major world markets outstripping that in the EU, we have already seen EU beet sugar producers improve their position in world league tables for cost of production. With the exception of distortions generated by movements in currency exchange rates it is anticipated that this trend will be maintained;

- continuing growth in sugar beet productivity will be essential to support these changes. This has already led to EU white sugar yields, expressed on a per hectare basis, exceeding those of Brazil;
- the relative profitability of alternative crops will become even more of a key determinant of production scale in the EU as growers look to maximise total farm profitability;
- EU refiners may need to take a more opportunistic view of refining, for example, by focusing on periods when world sugar prices are sufficiently below EU prices to generate attractive returns; and
- global trade flows will adjust to accommodate EU exports and sales into regions outside Europe, some of which may be new markets.

## THE SUCCESS OF OUR SUPPLY CHAIN

Historically, our success as an industry has been delivered through processor improvement – size of factory and cost of production.

In the future, AB Sugar's success will be determined by our ability to serve the customer – whether local, regional or global – and by contributing to the long-term success and sustainability of the wider supply chain and local communities. In short, it will be the evolving competitiveness of our total supply chain that will determine our ability to become the world's leading sugar business.

“**In the future, AB Sugar's success will be determined by our ability to serve the customer – whether local, regional or global – and by contributing to the long-term success and sustainability of the wider supply chain and local communities.**”



Managing and enhancing our supply chain from end-to-end involves our businesses operating within a local context informed by our global knowledge network – by working together we do what is right for the location and market. As an example, in north China, AB Sugar has continued to put growers firmly at the centre of the business by improving communication, with the development of bespoke digital and social applications, and by attracting growers to beet production through the use of innovative marketing techniques.

## RESPONDING TO THE NEEDS OF GROWERS

In British Sugar, where both processor and grower have been used to operating in a highly regulated environment, our approach will focus increasingly on the attractiveness of the crop on farm. To ensure a competitive beet supply for the future, we will seek to add further value to the growers by building flexibility into contracting options and by developing the capabilities of our agricultural teams to respond to the needs of the next generation of growers and farm



owners. New and innovative technologies to reduce or recycle waste, such as the development of anaerobic digestion, may also provide an opportunity to generate further income on farm and secure a sustainable, profitable revenue stream.

## CONTINUOUS IMPROVEMENT

We have an excellent track record of active engagement in performance improvement programmes that build capability, enhance plant performance and deliver cost reduction whilst maintaining our well-invested assets. This drive for continuous improvement has enabled us to maintain our cost leadership and ensure we remain competitive. As staff relocate to different parts of our operations around the world, so this process gathers momentum supported by our centralised technology resource. As an example, Azucarera has created a team that has optimised the beet supply to our factories which resulted in a €2m cost reduction this year. This was achieved by an integrated team working, across the supply chain, towards a common goal to increase productivity and reduce costs.

# FEEDING SUCCESS





**About Agriculture**

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

AB Agri’s core capabilities include:

**Specialised feed ingredients**

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

**Co-product innovation & marketing**

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

**Finished feed manufacture**

A major global manufacturer and supplier of pig, poultry and dairy feeds, with 20 production sites in the UK and China. We work closely with major processors and producers to benchmark productivity and develop tailored feeds and feeding regimes to improve performance for every customer.

**Supply chain solutions**

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

**Commodity risk management**

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

**EFFICIENCY AND INNOVATION IN AGRI-FOOD PRODUCTION**



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**EXTRACTING VALUE FROM FEEDSTOCK MATERIALS**

Taking our first step into the anaerobic digestion market.

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**RESPONSIBLY PRODUCED PROTEIN**

Rising to the challenge of an increasing demand for protein feed.

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## ADDING VALUE BY IMPROVING THE SUSTAINABILITY OF FOOD PRODUCTION

### Revenue

£1,084m

2015: £1,211m

Actual fx: -10%  
Constant fx: -11%

### Adjusted operating profit

£58m

2015: £60m

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

### Adjusted operating profit margin

5.4%

2015: 5.0%

### Return on average capital employed

17.7%

2015: 19.2%

The pace of development of our international operations has increased. AB Vista, our animal nutrition and technology business, achieved further volume and market share growth driven by strong sales of its two leading feed enzyme products, Quantum Blue and Econase XT. We have developed our pig starter feed business in Spain and the recent acquisition of Agro Korn in Denmark provides an exciting platform for further growth in specialist proteins for pigs, calves, poultry, fish and pets.

AB Agri China enjoyed a good year due to its continued focus on sales into the fast growing larger-farm sector and the development of its service business aimed at integrated international livestock producers. These relationships, supported by the construction of a new pre-mix feed mill which will provide an assured source of high-quality feed and is due to be completed next spring, will further differentiate our feed business in China.

**UK agriculture faced a number of challenges this year and in that context AB Agri performed well, delivering an adjusted operating profit just below last year but with a higher reported operating margin. Good results from the specialist businesses and a strong finish by Frontier Agriculture were more than offset by lower UK feed profits.**

The UK dairy market saw continued price pressure resulting from global oversupply, and pig prices fell to their lowest level for a number of years. Against this background our UK pig starter feed business had a strong year but the smaller UK sugar beet crop resulted in less beet feed availability which adversely affected revenue and profit at AB Connect, our UK feed business.

AB Agri has a strong tradition of seeking ways of extracting value from feedstock materials and has entered the specialist anaerobic digestion (AD) products and services sector this year. A new business was created to market a range of specialist vitamin and mineral packs, and a nutritionally balanced, blended food-waste product for use as the feedstock for AD plants. We have built an AD plant in Yorkshire, due to be commissioned before the end of the calendar year, which will enable us to promote our nutritional, operational and product expertise in this developing market.

Frontier Agriculture achieved record grain procurement volumes from farms and benefited from strong grain exports in the second half of the year. The creation of a strategic alliance with a major UK fertiliser manufacturer and the acquisition of a bio-stimulant specialist will further strengthen Frontier's crop inputs business.



# Attracting world-class talent

AB Agri's growing global reputation for innovation, expertise and career opportunities is attracting high calibre recruits from all over the world...



# Attracting and developing the brightest talent

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CRISTINA MIGLIAVACCA, EUROPEAN TECHNICAL SALES MANAGER, AB AGRI



“Since qualifying as a vet in Brazil in 2008, I have focused on neonatal swine health. I joined AB Agri in the UK in January 2016. It was a big decision – I left my home, my friends and my family – but it was definitely the right move.

My colleagues are incredibly knowledgeable and innovative and could not be kinder or more helpful. I have been able to develop my technical understanding about animal health and nutrition, my capabilities in sales and negotiation and my understanding of the European farming sector. As well as becoming a better sales manager, my role at AB Agri is helping me become a better vet.”

## CASE STUDY

## EXTRACTING VALUE FROM FEEDSTOCK MATERIALS

**AB Agri has its roots in looking for alternative ways to extract more value from feedstock materials and this year we have taken our first step into a new market segment with the formation of Amur, an anaerobic digestion (AD) business unit which was launched at the UK AD and Biogas Show in July.**

It is positioned as the leading and first expert in the provision of products and services into the UK AD market and is a great example of how AB Agri approaches growth and innovation and leverages the breadth of skills to which it has access.

A cornerstone of this new operation is our ability to demonstrate our commitment to the AD market and our in-depth understanding of the sector. To that end we have built our own 3MWe AD plant at South Milford in Yorkshire which will use 60,000 tonnes of blended food and green waste each year as its material source and produce 50,000 tonnes of digestate that will be sold as an organic fertiliser. This is a 'gas to grid' plant, enabling methane to be injected directly into the gas network for maximum carbon efficiency.

Whilst expected to generate a financial return in its own right, this investment will also provide invaluable specialist insight, that we can pass on to our customer base, on how to consistently 'feed' an AD process, something we believe is required in order to maximise returns and outputs. This is fundamentally no different to what we do with livestock feeding. Indeed AD plants are often referred to as 'concrete cows' given the similarity of the biological processes.

Significant investment has also been made to ensure we can provide comprehensive advice on the relevant range of feedstocks, additives and how to operate an AD facility at optimum capacity, to underpin the credentials of Amur. This business will drive innovation by bringing new 'fully tested' products into the sector which promote increased gas production. AB Agri has 30 years' experience in managing and adding value to feedstocks and a key feature in embarking on this development has been our success in bringing together existing group expertise in nutrition, biology, chemistry, environmental legislation, safety, risk management, energy policy and procurement.

South Milford plant in Yorkshire will use

### 60,000 tonnes

of blended food and green waste each year as its material source

## CASE STUDY

## RESPONSIBLY PRODUCED PROTEIN

**Global meat production has increased by some 20% in the last ten years and, with growth rates escalating, demand for responsibly produced protein for inclusion in animal feeds is increasing.**

Soya is one of the most effective protein sources for animal feed but increased demand has contributed to deforestation in South America. Whilst we have been active in the development of European industry standards to source soya responsibly, we have also been exploring how to use soya more efficiently. By combining our expertise in nutrition and co-product development with the

specialisms of some of the food businesses elsewhere in the ABF group, we are also successfully developing alternative protein replacements.

This year's acquisition of Agro Korn, a Danish producer of animal nutrition products, premixes and milk replacers, has extended our capability in alternative protein development. Agro Korn produces AlphaSoy, a protein that has been enzyme enriched and made easier to digest through heat treatment and mechanical manufacture. This means less soya is required to provide young, growing animals with the necessary protein.

Like soya, yeast is rich in high-value protein. In partnership with Ohly, another ABF business, research is underway into the nutritional value and digestibility of yeast protein products for use in animal feed. We have also developed a yeast-based protein product using the residual grain from whisky and ethanol production, traditionally sold as a feed for beef and dairy cattle, that extends its use into aquaculture and the pig and poultry sectors.



CASE  
STUDY

**Meeting demand cost-efficiently, safely and in an ethically responsible manner is a major challenge facing all businesses that operate in today's agri-food production industry.**

# EFFICIENCY AND INNOVATION IN AGRI-FOOD PRODUCTION

Agri-food production is increasingly operating in a global marketplace with strong but changing demand patterns and a volatile and resource-constrained supply dynamic. The strong correlation between increased disposable income and the consumption of animal protein such as chicken, pork and beef, is very visible in developing markets such as China. This is putting increasing pressure on the livestock sector to meet the growing demand for high-value products whilst challenging the way the industry operates.

Meeting demand cost-efficiently, safely and in an ethically responsible manner is a major challenge facing all businesses that operate in today's agri-food production industry. It is requiring those businesses to be increasingly transparent and to evidence, to consumers and stakeholders, not only their role in delivering efficiency but also how they are innovating and collaborating.

This is not an easy task when today's global agri-food supply chains are often complex and multi layered, beginning with farms of varying size and sophistication through to a variety of primary and secondary processors and distributors.

#### **AB Agri at the forefront of development**

AB Agri has a 30 year history of responding to market changes, leading the development of innovative, science-based products and not being afraid to challenge the status quo. Our contribution to driving ever higher standards of feed safety and actively transferring best practice into global markets such as China is unrivalled. Standing still without innovation in products and services has never been an option for us, which means that today's business has a real breadth of operations, skills, technologies, customers, products and services. It has also led to an overarching culture within our people of being curious and continually looking for, and enabling, a better way.

For AB Agri the chain starts with the crop farmer who buys seed, fertiliser and agrochemicals and sells grain. Frontier Agriculture, our joint venture with Cargill, is the UK's leading crop inputs and grain marketing operation and provides AB Agri with a unique insight into that key sector. Frontier is recognised for its close customer relationships, both with farmers and grain customers, and for its risk management expertise which is essential in driving value for grain buyers and sellers in today's volatile global commodity markets.

The business has its foundations in working with food and drink processors to design, trial and manage multiple co-product streams and to manufacture animal feed consistently to meet specifications crucial for efficient livestock production. Traffordgold ruminant feed is a good example of co-product delivery through innovation and customer collaboration. First introduced in 2001, it created value in the co-product space by combining a range of skills to manage complexity, raw material variability, animal nutrition and safety. This year we have used these well-established core skills and capabilities, added new science and technology and applied the resulting combination to open up the emerging renewable energy market to AB Agri with investment in anaerobic digestion.



**To read more about our investment in anaerobic digestion go to page 29**

Further down the protein supply chain, the nutritional design of animal feed recipes and the selection and optimisation of ingredients chosen has a major impact on the cost, efficiency and safety of animal protein food products. The use of specialist, highly technical, assured ingredients, such as enzymes and yeasts, has been a real growth area over the last five years.

Through investment in people and technology and through collaboration with other ABF businesses, academics and innovative businesses globally, we have developed a deeper capability in animal nutrition. This has enabled us to build the world's third largest feed enzyme business and extend our geographic footprint and reach.

The same approach is being used to bring highly technical, precision feeds to the market, targeted at, for example, the specific nutritional requirements of baby animals – so called, neonate feeding regimes. The impact of these changes has been immense. Since 2010 the rate at which pigs convert their feed into pork has improved by more than 5% thereby reducing the quantity of feed needed over a typical lifecycle by 13kg/pig. This has been delivered by a combination of increased data analysis, investment in product design, and trials with, and knowledge transfer to, producers. This focus has led to a range of truly innovative products being brought to market such as Quantum Blue and Axcelera P.

AB Agri has also pioneered new approaches to the use of these ingredients such as enzyme superdosing.

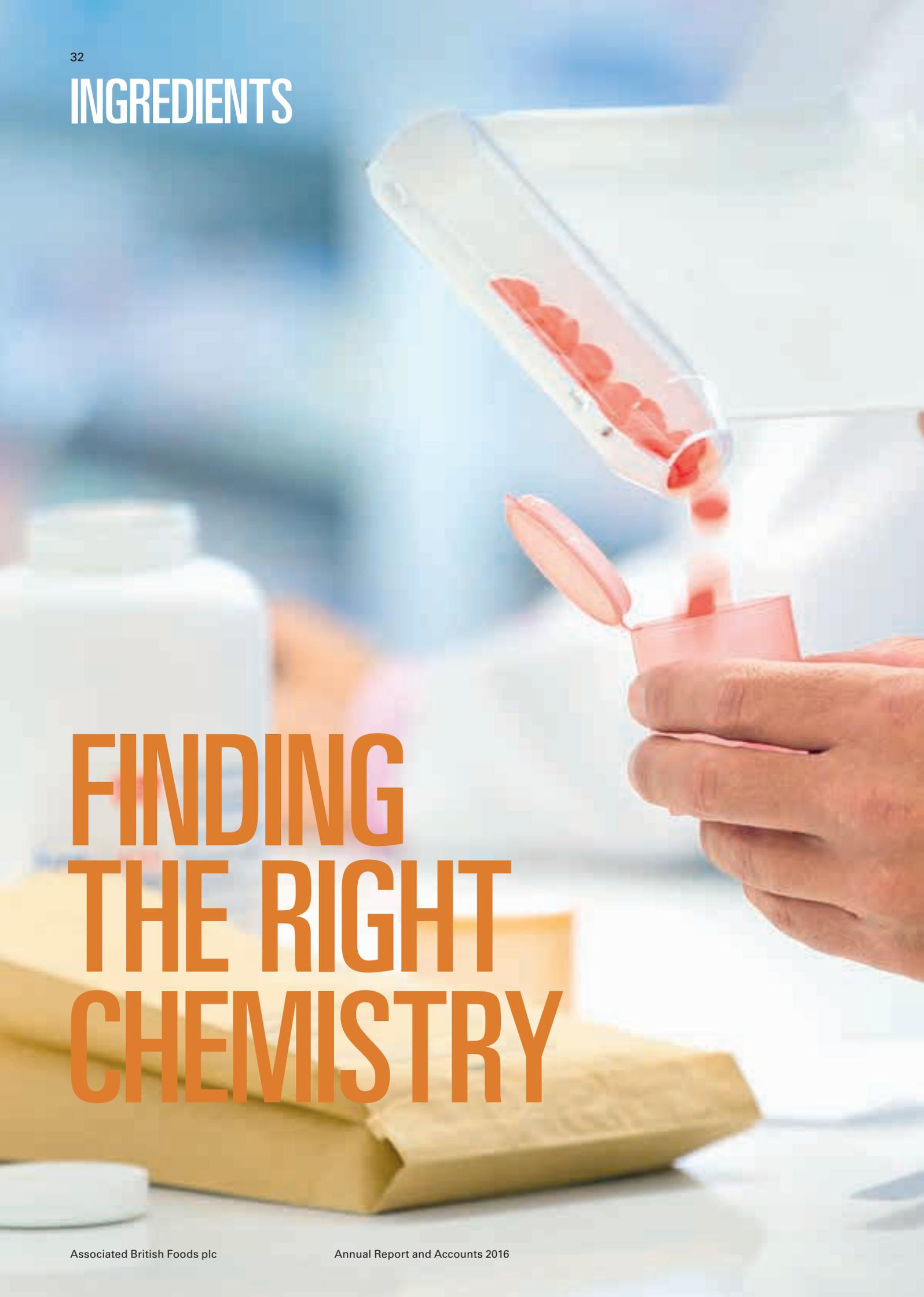
Another unique feature of the AB Agri business is its deep understanding of the responsibilities of operating in today's food supply chains. For more than 15 years we have helped brand owners and retailers to build insights and develop tools to understand the efficacy, safety and risks within their agri-chains and to drive continuous improvement. To ensure that the food processing industry is able to meet today's higher standards and increasing scrutiny, we are continually developing new tools that enable better management and visibility across the whole agricultural supply chain.

A contributory factor to the success of AB Agri is the way in which the business is structured. Quite deliberately, AB Agri is organised with a specific focus on each link within the agri-food supply chain. This is supplemented with overarching innovation and participation in collaborative species nutrition and strategy forums that aim to push the thinking along and nurture ideas.

#### **The future**

Over the last ten years AB Agri has achieved compound annual profit growth of almost 14%. We have ambitious plans to build on existing core products and services but also to leverage our increasingly global footprint to move into new markets and territories. With innovative technologies, a collaborative structure and an entrepreneurial culture, we have every reason to believe that our track record of growth will continue.

# INGREDIENTS



# FINDING THE RIGHT CHEMISTRY



### About Ingredients

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

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

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

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

### ABITEC — FOCUSED ON FORMULATION

Developing drug delivery systems that enable the body to absorb and effectively utilise the active ingredients.

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### IN THE HANDS OF EXPERTS

How AB Mauri manages its yeast cultures to ensure safe and consistent products.

35

## INGREDIENTS

# PROVIDING INNOVATIVE, HIGH-QUALITY, INGREDIENTS GLOBALLY

## Revenue

£1,294m

2015: £1,247m

Actual fx: +4%  
Constant fx: +5%

## Adjusted operating profit

£93m

2015: £76m

Actual fx: +22%  
Constant fx: +24%

## Adjusted operating profit margin

7.2%

2015: 6.1%

## Return on average capital employed

13.1%

2015: 11.1%

**Ingredients' revenues were 4% ahead of last year and operating profit was again substantially ahead with a further improvement in margin.**

AB Mauri, our bakery ingredients and yeast business, delivered a third year of significant profit recovery with The Americas being a major contributor to its success. In North America, new bakery ingredient products targeted at the faster growing market segments, such as tortillas and flatbreads, were well received. A robust performance in Latin America, despite continuing economic difficulties, was driven by higher output from the yeast factory in Veracruz and strong operational execution.

A focus on the development of new products to meet changing consumer tastes included the creation of organic bread ingredient solutions and a range of natural ferments and flavours. We also successfully introduced new shelf-life extension products aimed at reducing food waste in the supply chain.

We made further progress in China this year including the rationalisation of production facilities with the closure of our old factory site at Harbin. In the rest of Asia good revenue growth drove higher profit and further factory optimisation initiatives drove efficiencies in manufacturing operations.

A key driver of the development of the business has been the recent investment in the US and UK Centres of Excellence. Opened in November 2015 in response to customer requests for support in developing their products, the UK facility in Corby, Northamptonshire provides an opportunity for customers to access the latest innovations in bakery development. This mirrors the successful US bakingHUB™ which was opened in January last year in St Louis, Missouri. Expansion of the bakery ingredients research and development centre in the Netherlands will be completed next year.

ABF Ingredients made further progress with margin improvement driven by lower raw material costs and tight control of overheads. Our speciality lipids business, Abitec in North America, had an excellent year with increased sales in human nutrition applications for cognitive health and weight management, and success for its range of products designed to enhance bioavailability of molecules in pharmaceutical and nutraceutical applications.

Yeast extracts came under some price pressure in the more mature European and North American markets but the effects were, in part, mitigated by tight cost control. Sales of SPI's excipients and drug delivery solutions increased in line with market growth for pharmaceutical reformulations and, at PGPI, the cereal crisp extrusion business continued to develop, fuelled by the consumer trend for healthy snacking.

Our range of bakery enzymes was extended during the year with a number of new product launches including a new glucose oxidase enzyme for the bakery sector. Increased sales into the detergent sector were driven by a focus on the speciality enzymes segments and a broadening of our customer base. The food enzyme business in South America and Asia was also expanded with a particular emphasis on bakery. Expansion of the enzymes plant in Finland is on schedule for completion next year.



# Differentiating our offering

Merging two baking ingredients companies to form MAURI anz created a unique, integrated business with capabilities, scale and knowledge far beyond the sum of its parts...



# Sharing the knowledge for a perfect bake

**ROBYN MURRAY, HEAD OF RESEARCH AND DEVELOPMENT, MAURI ANZ**



“The merger between Weston Milling and AB Mauri in Australia and New Zealand gave us access to industry-leading expertise, to the benefit of our customers, our business and our people.

We have established strong links with AB Mauri’s global baking ingredients and yeast technical centres. This enables us to link into new and emerging technologies and to the latest consumer and customer insights. By developing local applications of such global knowledge, we have been able to create innovative and bespoke baking solutions for our customers. This is a key differentiator for us. Access to the latest technology and learning is also proving exciting and motivating for our employees.”

## CASE STUDY

## IN THE HANDS OF EXPERTS

**At the heart of AB Mauri's yeast products is the yeast strain which accounts for between 60% and 80% of the product's functionality. The yeast strain can be isolated from nature; acquired from fermentations, product or culture collections; bred via natural spore cultivation; or generated via recombinant DNA techniques.**



Our yeast strain collection, located in our Yeast Technology Centre in Sydney, contains a wide range of yeasts with different characteristics that determine a product's ability to function in traditional bakery applications and in the production of wine, beer, whisky, animal feed and biofuels. Some strains are more appropriate for use in cream products due to their very high gas generation ability, some are better for compressed products due to their intrinsic stability, while others are more suited for use in dry yeast products due to their desiccation tolerance.

Our culture collection currently contains in excess of 1,600 distinct yeast strains representing a sizeable investment in intellectual property. The strains can be used to develop new yeast products or as a source of genetic material for strain breeding programmes. All of AB Mauri's commercial yeast is derived from starter cultures routinely distributed from Sydney to all of AB Mauri's production facilities, typically quarterly.

To ensure finished product integrity and purity, the culture collection is managed

from a single site employing a stringent sub-culturing and maintenance programme. This ensures that end use application performance is inseparably linked to the specific yeast strain contained within the product; that the product does not degrade over time; and that all products carrying the same branding are derived from the same parent strain.

A centralised strain management and delivery strategy is critical to minimising the risk of changes in a strain's genetic make-up. Running separate or discrete culturing practices would increase the risk of strain change and genetic variation across the business. Supplying an impure strain or a contaminated culture would have a dramatic impact on plant economics and product performance in the end use application, with a knock-on impact on reputation and profitability. Whilst maintenance of a single strain collection inevitably carries with it a site dependency risk, this is mitigated by a detailed business continuity programme which is regularly tested and is designed to reduce the possibility of culture loss or changes in strain performance.

## CASE STUDY

## ABITEC — FOCUSED ON FORMULATION

**ABITEC Corporation is based in the US and is a global leader in the development and manufacture of high-quality functional lipids and surfactants for the pharmaceutical, nutraceutical and specialty chemical markets. Through its offerings of world-class technical, scientific, regulatory, and manufacturing expertise, ABITEC delivers the highest quality product-based solutions in solubilisation, emulsification and lubrication to its customers globally.**

As drug development technology advances, so must the complex delivery systems that enable the body to absorb and effectively utilise the active ingredients.

The majority of new active pharmaceutical ingredients are poorly water soluble. However, excipients that are lipid based offer many advantages including the complete dissolving of the active ingredient, enhanced dispersion of the active ingredient in the body, and flexibility that allows the development of delivery systems specific to the characteristics of individual active ingredients.

ABITEC produces cGMP lipid-based excipients that enhance the bioavailability of active pharmaceutical ingredients that are either poorly soluble in water or have low permeability. These lipid excipients are critical components across a multitude of drug formulations and are used in various dosage forms for oral, transdermal, ophthalmic and topical delivery.

ABITEC's specialty lipids are also used in a wide array of other markets including, sports nutrition, weight management, dietary supplements and overall healthy living, and its specialty chemicals business serves the industrial and chemical markets by offering a full range of non-toxic surfactants, solubilisers, couplers and emollients.

ABITEC's core focus on technical and knowledge innovation, in combination with an extensive product portfolio, enables the organisation to address effectively the demands of a variety of industries and market sectors globally. The business remains at the forefront of these new technologies and continually strives to provide the most effective solutions in the market.



# RETAIL



# ALWAYS ON TREND



## About Retail

Primark is one of the largest clothing retailers in Europe. It has 315 stores and employs 68,000 people in the UK, Republic of Ireland, Spain, Portugal, Germany, the Netherlands, Belgium, Austria, France, Italy and the USA. It was founded in June 1969 in the Republic of Ireland where it continues to trade as Penneys.

Primark's organic growth has been achieved through a combination of like-for-like growth and increasing selling space. The like-for-like growth reflects investment in buying, merchandising and our success in constantly refreshing the stores to ensure they remain exciting places to shop. The increase in selling space has been driven by capital investment in freehold and leasehold properties as they have become available, first

on the high streets of the UK and Ireland, and more recently on the high streets and in the shopping centres of continental Europe and the USA. 2006 saw Primark's first foray into continental Europe with the opening of a store in Madrid and it now operates from over 12 million sq ft of selling space across 11 countries.

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

## A WINNING BLEND OF STYLE AND FUNCTIONALITY

With the increasing trend for looking fashionable while working out, Primark responds with a range of 'athleisure' wear.

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## WORN IN THE USA

Primark's successful entry into the north east of the USA followed two years of painstaking planning and research.

41

## PHENOMENAL GROWTH

In a global beauty market worth over £290bn, Primark's PS Beauty is firmly making its mark.

40



## OFFERING CUSTOMERS QUALITY, UP-TO-THE-MINUTE FASHION AT VALUE-FOR-MONEY PRICES

### Revenue

£5,949m

2015: £5,347m

Actual fx: +11%  
Constant fx: +9%

### Adjusted operating profit

£689m

2015: £673m

Actual fx: +2%  
Constant fx: +1%

### Adjusted operating profit margin

11.6%

2015: 12.6%

### Return on average capital employed

30.2%

2015: 31.1%

**Sales at Primark were 9% ahead of last year at constant currency driven by a weighted average increase in selling space of 9% with a much higher proportion of this year's new store openings being in the second half.**

Revenue benefited by two percentage points from the 53rd week this year. Unseasonable weather and cautious consumer sentiment led to value declines in the clothing retail sector in some of our important markets, particularly the UK and Germany. Warm weather in the pre-Christmas period was followed by a very cold March and April. Like-for-like sales were 2% negative overall. The UK like-for-like performance was in line with this but Ireland delivered a strong sales performance throughout the year, Spain, France and Austria traded well and the Netherlands and Germany were less affected by cannibalisation as the year progressed. As a result of the weakening of sterling, sales were 11% ahead when translated at actual exchange rates.

The operating profit margin reduced from 12.6% to 11.6% driven by the devaluation of the euro against the US dollar early in calendar 2015. Primark buys a substantial proportion of its garments in US dollars and sells them in euros and sterling and is therefore subject to transactional currency exposures. Forward currency contracts are taken out to cover these exposures when orders are placed and as a consequence last year's results were largely unaffected by this devaluation and the impact was felt throughout this financial year. A large part of the gross impact was mitigated by a good buying performance and also a lower level of mark-downs as a result of tight stock management.

Sterling's weakening against the US dollar, particularly following the EU referendum, had little transactional impact on Primark's margins in this financial year. However, at current exchange rates the effect will be adverse in the new financial year. The reaction of UK clothing retailers to this major movement in exchange rates

is currently uncertain but Primark is committed to leading the value sector of the market with its on-trend product offering and maintenance of its price leadership position in clothing.

In the US, awareness of the Primark brand started at a low level and has continued to grow. The brand has been well received with very positive customer feedback, particularly for its exceptional value-for-money and the breadth of its product range. We are encouraged by the most recent openings in the regional malls at Danbury, Willow Grove and Freehold Raceway.

### NEW STORE OPENINGS

#### UK

**Banbury**  
**Birmingham Fort**  
**Broughton Park, Chester**  
**Fort Kinnaird**  
**Fosse Park, Leicester**  
**Lancaster**  
**Monk's Cross, York**

#### Spain

**Gran Via, Madrid**

#### Portugal

**Almada Forum, Lisbon**

#### France

**Cagnes-sur-Mer**  
**La Valette-du-Var**  
**Lyon**

#### Italy

**Arese**

#### Germany

**Leipzig**

#### The Netherlands

**Alkmaar**  
**Dordrecht**  
**Groningen**

#### Austria

**Linz**

#### USA

**Danbury, Connecticut**  
**Freehold Raceway, New Jersey**  
**King of Prussia, Philadelphia**  
**Willow Grove, Philadelphia**

### RELOCATIONS

#### UK

**Oxford**  
**Grimsby**



# Building an international retailer

Primark went from newcomer to Spanish market leader in just ten years, a template for growth that is now fuelling the brand's continued expansion...



# A decade of growth in Spain

STEPHEN MULLEN, DIRECTOR GENERAL  
OF IBERIA REGION, PRIMARK



"I'm very lucky to have been part of our Spanish project since the beginning, having relocated here from Ireland in 2006 as the then-area manager.

All our people in Spain are really proud of what we've achieved. We have created an exciting business that tailors its products to the local market and delivers fantastic prices and value, we have 41 stores employing more than 5,000 staff and are planning more openings, we're number one in market share, and our learnings are helping us grow in other countries. It's been an amazing journey and we're not finished yet."

We have

41

stores in Spain

employing more than

5,000

staff

During this financial year we opened 1.2 million sq ft of selling space, bringing the total estate to 315 stores and 12.3 million sq ft at the financial year end. A net 22 new stores were opened and two stores, in Oxford and Grimsby, were temporarily relocated to smaller premises pending redevelopment. This was another very active year for store development, particularly in the second half when 16 new stores and 0.9 million sq ft of selling space were opened. New stores this year comprised our first store in Italy, at Arese north west of Milan, a 135,000 sq ft Spanish flagship on Gran Via in Madrid, three stores in each of France and the Netherlands, seven in the UK, four stores in the north east of the US and a store in each of Germany, Portugal and Austria. Four stores were extended including a 49,000 sq ft increase in the selling space at Creteil in Paris, which doubled the size of the store only two years after its opening.

Store development has also focused this year on upgrading the back-of-house area to create a more motivating work environment for our employees. First trialled with the opening of the Leeds Trinity store in 2013, we have now rolled out this concept in 59 new stores and, to date, 34 existing stores have been upgraded as part of their planned refurbishment. Designed with a

	Year ended 17 September 2016		Year ended 12 September 2015	
	# of stores	sq ft 000	# of stores	sq ft 000
UK	171	6,362	164	6,083
Spain	41	1,503	40	1,369
Germany	20	1,272	19	1,194
Republic of Ireland	36	1,032	36	1,028
Netherlands	15	679	12	547
France	8	407	5	231
USA	5	322	1	77
Portugal	9	300	8	267
Austria	5	243	4	193
Belgium	4	166	4	166
Italy	1	56	–	–
	<b>315</b>	<b>12,342</b>	<b>293</b>	<b>11,155</b>

completely open plan, fresh, modern look and feel, the effect has been dramatic. Wi-fi throughout the area has made it easier for key tasks to be undertaken 'on-the-go'; the open-plan environment encourages team interaction, collaboration and efficiency – staff briefings and inductions take less time leaving more time to be spent on the shop floor; and instances of paid absence are lower than in similar stores.

1.3 million sq ft of new space is currently planned to be opened next year. Five stores are planned for Germany, two more Italian stores in Florence and Brescia, and notably an 89,000 sq ft store in the centre of Amsterdam. Three more stores

will be opened in the north east of the US, bringing the total to eight, and an extension to the Downtown Crossing store in Boston is planned which will increase selling space by 20%. A 32,000 sq ft extension to the Oxford Street East store will also be opened ahead of the important Christmas period.

Our new warehouse at Islip, Northamptonshire is now operational and relocation of capacity from Magna Park will be completed early in the new financial year. The new distribution centre at Roosendaal in the Netherlands is on track to open early in the new calendar year.

CASE STUDY

## A WINNING BLEND OF STYLE AND FUNCTIONALITY

**Changing consumer lifestyles coupled with a focus on health, fitness and wellbeing has seen a growth in the demand for Primark's 'athleisure' and active wear. The desire to look fashionable while working out first invaded the world of fitness, but active wear has fast become an everyday, must-have, fashion item.**

Our customers are wearing athleisure and trainers not just to the gym but also out shopping, meeting friends and around town. Comfort and versatility through

fabric innovation, functionality, colour, styling and accessories have broadened customer appeal and made athleisure a fashion statement.

Key product features include moisture wicking, which keeps the body dry and cool; fabrics that are breathable, fast absorbent, quick drying and water repellent; and designs that are figure flattering with durable, multi-way stretch for support, comfort and mobility. Hidden zip pockets, power mesh at inside waistband for core support and internal cords are all integral features of our products.

Active wear trends for the season were interpreted from fashion apparel trends. Colour blocking in black and white, and bold typography in oversize text, gave the products a cool, street-style, sports edge. In menswear, garments were designed for endurance runs, extreme workouts and were adaptable, functioning no matter what the conditions. In footwear, lightweight construction and good foot support are key.

Our Sportswear/Active wear range has gone from strength to strength, helping to drive sales across all regions. The trend of healthy living, wellbeing and fitness is a global phenomenon and is gaining momentum. The Primark customer has joined this lifestyle journey and we are continually re-inventing and developing exciting new products and fabric innovation to meet their expectations.



# PHENOMENAL GROWTH



CASE STUDY

In a global beauty market worth over £290bn, Primark's PS Beauty is firmly making its mark.

Now one of Primark's fastest growing departments, all stores feature a comprehensive Beauty offering with a range of more than 1,000 colour cosmetics, accessories, fragrance and skincare products.

Sales of eye, lip and face cosmetics continue to grow – responding to the latest trends for contouring, matte lips and colour correcting – while expansion of our product range across foundations, lips and brows has broadened our customer base. New categories launched this year include: PS Pro (professional level cosmetics), PS Sun Protect (sun care range), Skincare, PS Love (fragrances) and PS Bronze (self-tan and cosmetics).

Within stores, the space dedicated to beauty has been expanded and the department has been given a fresh look. 'How to' guides have been introduced creating a new approach to range collections and making products easier to shop.

The reaction from customers, press and key influencers has been one of high praise with favourable comparison to big name brand equivalents. The level of engagement across social media channels in particular has been very high, with Instagram posts regularly achieving in excess of 40,000 likes and Snapchats reaching an average of more than 1.5 million views.

## PS...



### what the bloggers say



**Love Laugh and Make Up**

I love love love the illuminating primer, mascara and the lip scrub from the PS...Pro range. The packaging looks great, really simple, but chic."



**Itssabrinaaa**  
Beauty blogger



**It's totally perfect!**

The Penneys beauty range just keeps getting bigger and better!"



**Pippa O'Connor**  
Fashion and beauty blogger

CASE  
STUDY

# WORN IN THE USA



**Primark's successful entry into the north east of the USA in late 2015 followed two years of painstaking planning and research.**

To prepare ourselves for the US retail environment, our dedicated 'new markets' group established 15 different workstreams covering every aspect of Primark's business – from product PR to property, from risk and compliance to social media.

The group identified and considered the wide-ranging costs and process implications of entry into this new market. The legal environment offered particular challenges, with new laws and regulations spanning all areas of the business and the federal legal system meaning that laws varied across our five target states.

We invested enormous effort in establishing the Primark brand that, pre-entry, was little known in the USA. To promote our unique story, promise, value proposition and customer experience – and what differentiates us – we worked hard to nurture trust with government,



business influencers, businesses, educational establishments and the media. Brand-building will remain an on-going focus as we seek to bring the Primark name to a wider audience and where a strong brand is key to recruiting the best employees.

Despite our thorough preparation, inevitably, some differences between the new market and our European

heartland only became apparent when we began trading. We are reacting swiftly to these learnings, for example, we are adapting our ranges as some lines do not sell as well, and developing a different coaching model to familiarise US staff with our empowering and high-velocity culture.



JOHN BASON, FINANCE DIRECTOR

### Group performance

Group revenue increased by 5% to £13.4bn and adjusted operating profit was 3% higher at £1,118m. In calculating adjusted operating profit, the amortisation charge on non-operating intangibles, profits or losses on disposal of non-current assets and any exceptional items are excluded. On an unadjusted basis, operating profit was £1,103m, 18% higher than last year which included a £98m exceptional charge. Revenue and operating profit both benefited to a small extent from a 53rd week's trading activity in some of our businesses this year but this was offset by the consolidation of only 11 month's results for Illovo as a consequence of the alignment of its year end with the rest of the group.

These results take into account a change in our accounting policy for the valuation of Illovo's sugar cane roots following the amendment of IAS 41 which now permits the valuation of such assets at cost less accumulated depreciation. This change reduced both adjusted and unadjusted operating profit in the current year

by £8m and in the prior year, which has been restated, by £10m.

The currency markets in this financial year have been more volatile than in recent years, especially for sterling, our reporting currency. Sterling's strength in the first half of the year had an adverse translation effect on the group's results. In the second half, and particularly after the result of the EU referendum, sterling weakened and we benefited from translation, resulting in little net effect for the financial year as a whole. The biggest transactional exposures in our group are in British Sugar and Primark. Margins at British Sugar benefit from euro strength while margins at Primark are adversely affected by sterling or euro weakness against the US dollar. Because Primark hedges its exposures when orders are placed, the impact of sterling's weakness will not be felt until the new financial year.

Finance expense less finance income of £50m was lower than last year's net charge of £53m reflecting a lower average level of debt during the year.

Profit before tax increased from £707m to £1,042m with the benefit of a substantially lower level of losses on disposal of businesses and exceptional items. On our adjusted basis which excludes these items, profit before tax rose by 5% to £1,071m.

### Acquisitions and disposals

Some ten years after the acquisition of 51% of Illovo Sugar Limited, we acquired the non-controlling interests of the company on 28 June for a purchase consideration of £247m. The transaction was immediately earnings accretive for the group. The business rationale is explained in the operating review and moving to full ownership presented the opportunity to align management and financial reporting including a change of year end.

The disposal of our cane sugar business in south China is subject to regulatory approvals but is expected to complete later this year. The sale of ACH's herbs and spices business in the US is due to complete by the end of this month. The combined proceeds net of costs are expected to be over £0.5bn with little impact on the group's adjusted operating profit after these disposals and some overhead rationalisation.

Assets and liabilities which will be disposed of when these transactions complete are shown separately on the balance sheet as assets and liabilities classified as held for sale. The net assets are held at their net book value without impairment as these values are lower than the expected disposal proceeds.

### 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 policy is based on seven tax principles that are embedded in the financial and non-financial processes and controls of the group. These tax principles are included in the appendix to our Corporate Responsibility report [www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility).

As a substantial UK tax payer, the group will benefit from the future reductions in the UK corporation tax rate to 19% from 1 April 2017 and 17% from 1 April 2020. These reductions were enacted before our balance sheet date and their effect on our UK deferred tax liability is therefore taken into account in the current year and will be reflected in

our current tax charge in the years in which the lower rates apply.

This year's tax charge of £221m includes an underlying charge of £227m at an effective rate of 21.2% (2015 – 21.3%) on the adjusted profit before tax. This year's effective rate includes the beneficial effect of the revaluation of UK deferred tax balances. This will not be repeated next year and, combined with profit increasing in businesses subject to a corporation tax rate higher than that in the UK, we expect the group's effective tax rate to increase a little from this level. The overall tax charge for the year benefited from a credit of £5m (2015 – £8m) for tax relief on the amortisation of non-operating intangible assets and goodwill arising from previous acquisitions.

### Earnings and dividends

Last year's earnings per share have been restated for the change of accounting policy for the valuation of sugar cane roots with a reduction of 0.5p. Earnings attributable to equity shareholders in the current year were £818m and the weighted average number of shares in issue during the year, which is used to calculate earnings per share, was 791 million (2015 – 790 million). Earnings per ordinary share were 55% higher than last year at 103.4p with the benefit of substantially lower losses on sale of businesses and exceptional items this year. Adjusted earnings per share, which provides a more consistent measure of trading performance, increased by 5% from 101.5p to 106.2p.

The interim dividend was increased by 3% to 10.3p and a final dividend has been proposed at 26.45p which represents an overall increase of 5% for the year. The proposed dividend is expected to cost £209m and will be charged next year. Dividend cover, on an adjusted basis, remains at 2.9 times.

### Balance sheet

Non-current assets of £6.9bn were £0.6bn higher than last year driven by substantially higher capital expenditure than depreciation this year and as a result of the translation of overseas assets at a weaker sterling exchange rate. The change of accounting policy for sugar cane roots resulted in the reclassification of these assets from non-current biological assets to property, plant and equipment where they are now carried at historic cost rather than fair value.

Working capital at the year end was at a similar level to last year. Year-on-year

changes in the carrying values of inventory, trade receivables and payables were largely the result of currency translation. Average working capital as a percentage of sales at 8.4% was lower than last year's 9.4%. Net debt at the year end was £121m higher than last year at £315m reflecting the buyout of the Illovo minorities and a £53m increase attributable to the effect of translating foreign currency denominated net debt at weaker sterling exchange rates.

The group's net assets increased by £611m to £7,122m.

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 18.1% compared with 17.6% last year. This reflected the higher profit and only a small increase in average capital employed which was primarily the consequence of Primark's expansion.

### Cash flow

The group generated a net cash flow from operating activities of £1,310m this year with tight management of working capital throughout the year. Gross expenditure on property, plant and equipment and intangibles amounted to £796m compared with £613m last year. Primark spent £435m on the acquisition of new stores and the fit-out of new and existing stores, while a number of expansion projects increased the expenditure in the food businesses. £27m was realised from the sale of property, plant and equipment, the major elements of which were the sale of farmland in South Africa and the continued redevelopment of a former factory site in Western Australia where further lots were sold for housing development during the year.

£10m was incurred on the acquisition of two small businesses for AB Agri and £252m was spent on the buyout of the minority interests in Illovo Sugar Limited which is shown in the cash flow statement under financing activities inclusive of costs associated with the buyout.

### Financing

The financing of the group is managed by a central treasury department. The group has total committed borrowing facilities amounting to £2.1bn, which comprise: £0.6bn of US private placement notes maturing between 2017 and 2024, with an average fixed rate coupon of 4.7%, £15m of which is payable in March 2017; £1.2bn provided under a syndicated, revolving credit

facility which matures in July 2021; and £0.3bn of local committed facilities in Africa and Spain. During the financial year we repaid, from existing cash resources, £78m of private placement notes. At the year end, £740m was drawn down under these committed facilities. The group also had access to £0.8bn of uncommitted credit lines under which £142m was drawn at the year end. Cash and cash equivalents, including cash within assets held for sale, totalled £581m at the year end.

### Pensions

The deficit in the group's defined benefit pension schemes increased from £16m last year to £303m, including liabilities held for sale, this year end. The UK scheme accounts for 88% of the group's gross liabilities and its deficit was £138m. Long-term bond yields, which are used to value defined benefit pension obligations for accounting purposes, have been falling for some time, with a marked decline in UK yields at the balance sheet date following the EU referendum. This had a material impact on the discounted value of pension liabilities. When considered in the context of gross pension assets of £4bn, and with the group's strong balance sheet and substantial cash generating ability, it is well within the group's capacity to fund the future requirements of all these schemes. However, bond yields at current levels will result in an increased service cost and a higher interest charge next year.

The next triennial valuation of the UK scheme is due in April 2017 and it is expected that appropriate contribution plans, designed to fund the scheme and any deficit over the long term, will be implemented. The last valuation of the UK scheme was undertaken as at 5 April 2014 which was agreed by the trustees in December 2014, and revealed a surplus of £79m.

The charge for the year for the group's defined contribution schemes, which was equal to the contributions made, amounted to £74m (2015 – £76m). This was substantially greater than the cash contribution to the defined benefit schemes of £38m (2015 – £39m) reflecting the changing shape of pension provision in the group.

**John Bason**  
Finance Director

# MEASURING OUR SOCIAL IMPACT

Ever since Associated British Foods was incorporated, our businesses have been making a difference to people's lives.

As we have grown and evolved into an international food, ingredients and retail business, we have been able to hire more people, work with more businesses and support more communities. We are proud that Associated British Foods is a force for good in the world, helping to make people's lives better. Some examples are:

# In 2016...

Our **NUTRITION EDUCATION**

websites have helped



# 8 million

consumers make more

# informed choices

about what they eat

We've created **5,880**  
**NEW** jobs

We **RECYCLED**

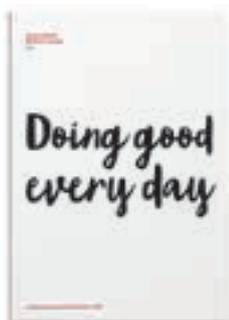
# 78%

 of our  
**waste**


**TO SEE ALL THE WAYS WE ARE MAKING A DIFFERENCE TO PEOPLE'S LIVES, DOWNLOAD OUR CORPORATE RESPONSIBILITY REPORT 2016**



To view a copy of the Corporate Responsibility report visit [www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility)



**72,367** people  
in **OUR SUPPLY CHAIN**  
have been helped by



**health initiatives**  
we've funded

# OPERATING ETHICALLY

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

**George Weston**  
Chief Executive

We engaged Ernst & Young to provide limited assurance over the reliability of 13 KPIs for the year ended 31 July 2016. These are marked with the symbol Δ in the following pages.

## THE FIVE PILLARS OF OUR CORPORATE RESPONSIBILITY APPROACH ARE:

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

This year, we are publishing our first full corporate responsibility report since 2013. For the first time, we have sought to quantify our social impact in order to show the benefits of our collective endeavour on people’s lives. This includes our own people, our suppliers, our neighbours and our customers. To do this, we have asked our businesses to collect data on a range of measures. This is the first time we have requested this data and it is our intention to expand this information in the coming years so that we can provide a more comprehensive picture in future.

Our businesses have common areas of interest: every business strives to minimise its environmental impact; look after its employees, customers and suppliers; and be a good neighbour. We have categorised our corporate responsibility programmes into five pillars, which you will see reflected throughout our communications.

This is the first year that we have chosen to separate our work with suppliers into a distinct pillar. In previous years, this content has been spread between Neighbours and People but, as it is an increasingly significant part of our corporate responsibility agenda, it deserves greater prominence. As part of this, we are publishing our first Modern Slavery Statement (see [www.abf.co.uk/modern\\_slavery\\_statement](http://www.abf.co.uk/modern_slavery_statement)) which details our work to eradicate this activity within our supply chain.

As well as detailing our group priorities, our 2016 Corporate Responsibility report also reviews the activities of each of the five divisions, providing an overview of their ongoing efforts to make a difference to people’s lives.

In the following pages, we share only the topics required by our reporting obligations. However, we encourage you to read a fuller account of our corporate responsibility projects, initiatives, investments and the impact we are making in our 2016 Corporate Responsibility report which can be downloaded at: [www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility).

### Energy use

In 2016, our absolute use of energy was 22,800GWh Δ, down from 25,000GWh in 2015. This 9% reduction in energy use is partly the consequence of a 5% reduction in production and partly due to energy-efficiency projects.

A number of our sites not only generate their own energy but also export surplus electricity to national grids. In 2016, we exported 765GWh which is an 8% reduction on last year, mainly due to lower sugar production and therefore bagasse, the residual fibre which is used as an energy source across our southern African operations.

## CORPORATE RESPONSIBILITY

For the same reason, we generated less energy from renewable sources this year: 11,300GWh  $\Delta$  compared with 12,500GWh in 2015. However, 49% of the total energy consumed across the group this year was from renewable fuel sources.

### Greenhouse gas emissions

In 2016, our total greenhouse gas (GHG) emissions fell by 9% to 8.7 million tonnes of carbon dioxide equivalent (CO<sub>2</sub>e)  $\Delta$ . Gross emissions from energy, transport, our processes and agriculture all fell.

79% of our total emissions came from the energy we use in factories, offices, warehouses and stores. 11% were generated by the transportation of our goods and people, by owned or third-party vehicles. We report the emissions and fuel types associated with vehicle movement of materials for which we are responsible including: raw materials, ingredients, packaging, waste, processing aids, and finished products by land, sea or air. Process emissions from, for example, the production of enzymes, bread baking or the on-site treatment of waste water, accounted for 8% of the total emissions. Agricultural emissions accounted for the remaining 2%.

As the combustion of sugar cane biomass is regarded as carbon neutral, we also disclose our net emissions, i.e. those from conventional fossil fuels, which were 4.9 million tonnes of CO<sub>2</sub>e  $\Delta$ . This is 7% lower than last year which reflects the overall decrease in energy used.

Of the 6.5 million tonnes of CO<sub>2</sub>e  $\Delta$  emitted by our Sugar division,

59% was generated from the use of bagasse and other renewable sources.

We developed detailed reporting guidance for our companies including estimation methodologies and assumptions which have taken into account guidance from ISO 14064/1 and the Greenhouse Gas Protocol. See our 'CR Reporting Guidance 2016' at [www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility) for our GHG methodology and more detail about how we quantify our emissions including emission scopes.

### Water usage and disposal of waste water

In 2016, we abstracted 800 million m<sup>3</sup> of water, a decrease of 14% compared with 2015. In the main, this is due to Illovo's reduction in water abstracted for agricultural use because of the extreme dry weather in many parts of southern Africa. There was inadequate water in the rivers and other water sources to fulfil irrigation requirements.

Of the total amount abstracted by the group, 30% was used in our premises and 70% was for agricultural purposes, primarily to irrigate our extensive own-grown sugar cane fields in southern Africa and sugar beet fields in Spain. Of the water we abstract, a large amount returns to the watercourse as part of the natural water cycle.

This year, 20 sites reused treated waste water for a beneficial purpose before returning it to the natural watercourse. 27% was reused mainly for irrigation. This reduces the amount of water the sites need to abstract.

### Waste management

In 2016, we generated just over 1 million tonnes of waste  $\Delta$ . Of this, 78% (or 787,000 tonnes)  $\Delta$  was diverted from landfill because we reused or recovered it for a beneficial purpose. Of the remainder, 5,500 tonnes  $\Delta$  was hazardous waste, a 6% reduction on the previous year, and 211,000 tonnes was non-hazardous waste  $\Delta$ , a decrease of 4%.

### Environmental compliance

In 2016, 93% of our sites operated without any environmental complaints. We received 62 complaints during the year, 12 more than last year. We also received ten environmental fines  $\Delta$  totalling £41,000  $\Delta$ , six more than we received in 2015.

The majority of complaints related to odour, noise, discharge standards for effluent, and transportation. The sites are engaged with relevant stakeholders to maintain good relations and are working with regulators to help us meet or exceed regulatory standards.

### Fatal injuries

This year, over 130,000 employees and numerous contractors worked for Associated British Foods across 50 countries, with a range of skills, expertise and backgrounds. Safeguarding the wellbeing, health and safety of our people and those who work with us continues to be a group priority.

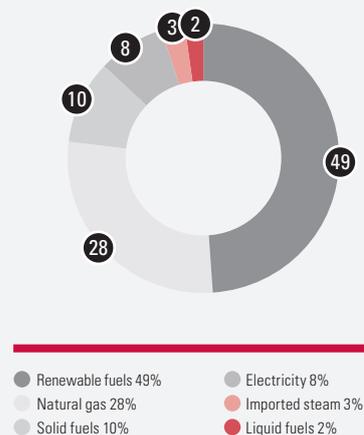
Loss of life in our operations is entirely unacceptable and we deeply regret that there were three fatalities  $\Delta$  this year, all in Africa. They were the

### Our greenhouse gas emissions

	2016 emissions (tCO <sub>2</sub> e)	2015 emissions (tCO <sub>2</sub> e)
Combustion of fuel and operation of facilities	7,645,000 $\Delta$	8,526,000
Purchased electricity and steam	1,054,000 $\Delta$	1,081,000
<b>Total gross emissions</b>	<b>8,699,000 <math>\Delta</math></b>	<b>9,607,000</b>
Generation and use of renewable energy	3,807,000 $\Delta$	4,361,000
<b>Total net emissions</b>	<b>4,892,000 <math>\Delta</math></b>	<b>5,246,000</b>
Emission intensity (gross)	649 tonnes per £1m of revenue	751 tonnes per £1m of revenue
<b>Gross emissions by business division</b>		
Sugar	6,468,000 $\Delta$ 74%	6,802,000 71%
Other	2,231,000 $\Delta$ 26%	2,805,000 29%

**Total gross emissions** includes emissions from the use of energy within our factories and stores, our manufacturing processes, the operation of owned and third-party vehicles and from directly controlled agricultural activities. See our 'CR Reporting Guidance 2016' at [www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility) for our GHG methodology and more detail about how we quantify our emissions including emission scopes.

Types of energy used in 2016 (%)



result of a vehicle accident, a fall from height and an accident involving large moving machinery. Training continues to be provided to all employees and contractors on the importance of following safe working procedures and using safety equipment such as safety harnesses and seat belts.

Thorough root cause investigations of all fatalities are conducted to identify opportunities to strengthen our controls. The findings are shared beyond the site with the rest of the group to ensure that all of our businesses learn from their experience. All work-related fatalities are reported to the group board and local management is held to account.

### Injuries to employees

During 2016, we recorded 454 reportable injuries to employees  $\Delta$ . This represents a reduction in our reportable injuries to 0.47%. We also had a 2% decrease in employee Lost Time Injuries (LTIs). Overall, 61% of our factories and stores achieved a year's operation without any reportable injuries and 48% did not have an LTI.

During 2016, our businesses invested £36m in health and safety, including £14m specifically on major safety improvement projects.

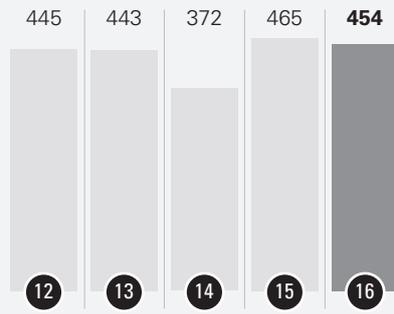
### Health and safety fines

During 2016, we received two safety fines  $\Delta$  totalling £4,600  $\Delta$  for breaches of safety regulations. The number of fines is half that of last year despite an increase in the number of operating sites during the year. The fines were for not maintaining relevant authority permissions and for breaching noise at work regulations. The businesses

### Gender metrics

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

### Reportable injuries



Details of our health and safety reporting can be found in our 'CR Reporting Guidance 2016' at [www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility)

involved were required to report to the Group Safety and Environment Manager on their remedial actions and are now compliant.

### Gender diversity

We are committed to running businesses which attract and retain the best female talent by creating a culture that is welcoming to women. The proportion of women in each of our businesses varies but, overall, the split is close to equal – in the last year the percentage of women in the workforce was 48%. A third of our senior management positions (32%) are held by women and we continue to strive to increase this.

### Human rights

Associated British Foods promotes human rights and dignity through the employment we create, both directly and indirectly in our global supply chains, and through the positive contribution our products make to people's lives. Our commitment to respect human rights is founded on a strong ethos of

workplace safety and employee wellbeing, and is supported by our commitment to ensure compliance with The Universal Declaration of Human Rights. We value our ongoing engagement and collaboration with a broad range of interested and concerned stakeholder groups. We are active in our collaborative approach, seeking to remain sensitive to the risk of breaching human rights resulting from our products, services and operations.

As a matter of good practice, we risk-assess the impact that our operations may have on the protection and respect of human rights. We ensure a greater focus on operations under the jurisdiction of governments that have a lesser commitment to the protection of human rights.

### Addressing modern slavery

Modern slavery is a global issue that requires global action. It can occur in many different forms including, but not limited to, forced labour, child labour, domestic servitude or human trafficking. As an international business we have a role to play in eliminating these practices as well as respecting human rights across our own operations and supply chains.

We value our ongoing engagement and collaboration with a broad range of interested and concerned stakeholder groups. We operate in 50 countries and our supply chains are far-reaching and complex. The steps we take to try to ensure that any forms of modern slavery are not present within our own operations or supply chains are set out in our Modern Slavery Statement which can be downloaded from our website at [www.abf.co.uk/modern\\_slavery\\_statement](http://www.abf.co.uk/modern_slavery_statement).

	Total employees*	Men in workforce	Women in workforce	Percentage of women in workforce	Number of senior management roles**	Number of men in senior management roles	Number of women in senior management roles	Percentage of senior management who are women
Sugar	34,856	29,026	5,830	17%	229	180	49	21%
Grocery	17,444	11,769	5,675	33%	841	526	315	37%
Ingredients	6,720	5,032	1,688	25%	547	402	145	27%
Agriculture	2,320	1,725	595	26%	216	150	66	31%
Retail	68,262	19,644	48,618	71%	232	143	89	38%
Central	314	185	129	41%	68	44	24	35%
<b>Total</b>	<b>129,916</b>	<b>67,381</b>	<b>62,535</b>	<b>48%</b>	<b>2,133</b>	<b>1,445</b>	<b>688</b>	<b>32%</b>

\* Full-time, part-time and seasonal/contractors.

\*\* Includes directorships of subsidiary undertakings.

# EFFECTIVE RISK MANAGEMENT IS CENTRAL TO THE BOARD'S ROLE IN PROVIDING STRATEGIC OVERSIGHT AND STEWARDSHIP OF THE GROUP

## Risk management

In order to deliver our strategic plans, we believe we must understand and respond appropriately to risks and also consider whether additional business opportunities can be realised through effective risk management.

We require all of our businesses to implement appropriate levels of risk management to ensure compliance with relevant legislation, our overriding business principles and group policies relating to them.

We have embedded a process for identifying risks and put in place activities to mitigate them. Our decentralised business model empowers the management of our businesses to identify, evaluate and manage the risks they face on a timely basis. 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 them with the divisional chief executives. These risks and their impact on business performance are reported during the year and are considered as part of the monthly management review process.

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

The board undertakes an annual review of the material risks facing our businesses together with the internal control procedures and resources devoted to them. It also monitors the group's exposure to these risks as part of the performance reviews undertaken at each board meeting. Financial risks are reviewed by the Audit committee and all other risks are reviewed by the board.

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

## Reporting our principal risks and uncertainties

The group's principal risks and uncertainties identified by the above process during 2016 are detailed in the following tables. 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 2015' highlight the significant variations in the profile of our principal risks or describe our experience and activity over the last year.

These are the principal risks of the group as a whole and are not in any order of priority. The operational and product diversity of the group reduces the impact that any one business risk can have on the group's results.

The UK's decision to leave the European Union has had some immediate impact on our results as a consequence of the effect on currency markets, but the extent to which our operations and financial performance are affected in the longer term will only become apparent as details emerge of how the exit is to be engineered. Both at a group and individual business level, we are preparing for changes in legislation, trade agreements and working practices and formulating plans to take advantage of the changing landscape and to mitigate risk.

# EXTERNAL RISKS

## MOVEMENT IN EXCHANGE RATES AND INFLATION

### Context and potential impact

**Associated British Foods is a multinational group with operations and transactions in many currencies.**

**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.**

### Risk trend

Increased



### Mitigation

Businesses impacted by exchange rate volatility, specifically those manufacturing or purchasing in one currency and selling in another, constantly review their currency related exposures.

Board approved policies require businesses to hedge, using foreign exchange forward contracts, all transactional currency exposures, and long-term supply or purchase contracts which give rise to currency exposures.

Borrowings are largely maintained in the functional currency of the local operations.

Cross currency swaps are used to align borrowings with the underlying currencies of the group's net assets; (refer to note 25 to the financial statements in the annual report for more information).

### Changes since 2015

Exchange rates between sterling and some of our major trading currencies have changed markedly this year.

The net impact on adjusted operating profit for 2015/16 from the translation of overseas results into sterling was a gain of £5m compared with the prior year but, as a result of our hedging strategies, this has had only a limited transactional impact in the financial year although the impact on margins will be more evident next year.

The fall in long-term bond yields, particularly since the EU referendum, had a substantial impact on the valuation of the group's defined benefit pension obligations. However, it is well within the group's capacity to fund the future requirements of all of the group's pension schemes.

## FLUCTUATIONS IN COMMODITY AND ENERGY PRICES

### Context and potential impact

**Changes in commodity and energy prices can have a material impact on the group's operating results, asset values and cash flows.**

### Risk trend

Unchanged



### Mitigation

We constantly monitor the markets in which we operate and manage certain of these exposures through the use of exchange traded contracts and hedging instruments.

The commercial implications of commodity price movements are continuously assessed and, where appropriate, are reflected in the pricing of our products.

### Changes since 2015

Our businesses have been less affected by changes in commodity prices this year. EU and world sugar prices have increased and are expected to benefit our EU sugar business in the coming year.

## OPERATING IN GLOBAL MARKETS

### Context and potential impact

**Operating in 50 countries with a supply chain covering even more, we are exposed to global market forces, fluctuations in national economies, societal and political changes, a range of consumer concerns and evolving legislation.**

**Failure to recognise and respond to any of these factors could directly impact the profitability of our operations.**

**Entering new markets is a risk to any business.**

### Risk trend

Unchanged



### Mitigation

Our approach to risk management incorporates potential short-term market volatility and evaluates longer-term socio-economic and political scenarios.

The group's financial control framework and board adopted tax and treasury policies require all businesses to comply fully with relevant local laws. Provision is made for known issues based on management's interpretation of country-specific tax law and the likely outcome.

We engage with governments, local regulators and community organisations to contribute to, and anticipate important changes in, public policy.

Extensive research is conducted into each new market that Primark enters, and, in the case of its entry into the US where there was no existing local infrastructure, care has been taken to limit capital investment to a minimum. Expansion into new markets in Europe is supported by our existing business which has extensive experience of developing a successful retail business model across western Europe.

### Changes since 2015

AB Sugar continued to reduce its cost base with the benefit of its performance improvement programme. It is preparing for the removal of sugar quotas in the EU from October 2017 and consideration is being given to the implications for British Sugar of the EU referendum.

Primark continues to learn from its early experience in the US and has taken this into account when opening the further four stores there this year.

## PRINCIPAL RISKS AND UNCERTAINTIES

# EXTERNAL RISKS CONTINUED

### HEALTH AND NUTRITION

#### Context and potential impact

**Failure to respond appropriately to health and nutrition concerns in the formulation of our products could result in adverse consumer reaction.**

**We must also act responsibly across the spectrum of food poverty and malnutrition to obesity.**

#### Risk trend

Unchanged



#### Mitigation

Recipes are regularly reviewed and reformulated to improve the nutritional value of our grocery products, all of which are labelled with nutritional information.

We develop partnerships with other organisations to help educate consumers about making healthy choices.

#### Changes since 2015

Our businesses continued to review their products and to partner with others to enable a swift and innovative response to changing consumer needs.

Our Sugar and Grocery businesses have supported healthy eating campaigns during the year to help consumers make informed choices about their food.

# OPERATIONAL RISKS

### WORKPLACE HEALTH AND SAFETY

#### Context and potential impact

**Many of our operations, by their nature, have the potential for injuries and fatal accidents to employees, contractors and visitors.**

#### Risk trend

Unchanged



#### Mitigation

Safety continues to be the number one priority for our businesses with active endorsement and accountability from the chief executives of each business.

Our Health and Safety policy and practices are firmly embedded in each business, supporting a strong ethos of workplace safety.

Independent audits are conducted to verify implementation and support continuous improvement.

Best practice safety and occupational health training and guidance are shared across the businesses, co-ordinated from the corporate centre, to supplement the delivery of their own training programmes.

#### Changes since 2015

Regrettably, there were three fatalities this year all of which were unrelated and occurred in our African operations. Two were the result of contractors failing to comply with group health and safety policies. A thorough root-cause analysis was undertaken following each accident and lessons learned have been widely shared across the business.

### PRODUCT SAFETY AND QUALITY

#### Context and potential impact

**As a leading food manufacturer and retailer it is fundamental that we manage the safety and integrity of our products throughout the supply chain.**

#### Risk trend

Unchanged



#### Mitigation

Across the group, product safety is put before economic considerations.

Our businesses employ quality control specialists and operate strict policies within an organisational culture of hygiene and product safety to ensure that consistently high standards are maintained in our operations and in the sourcing and handling of raw materials and garments.

We monitor the regulatory environment and emerging scientific research while reviewing our food safety systems for efficacy and legal compliance.

A programme of independent food quality and safety audits is undertaken across all of our manufacturing sites and a due diligence programme is in place to ensure the safety of our retail products.

#### Changes since 2015

In the UK, AB Agri implemented a process to track the compliance of all suppliers with a range of product quality assurance schemes.

## OPERATIONAL RISKS CONTINUED

### OUR USE OF NATURAL RESOURCES AND MANAGING OUR ENVIRONMENTAL IMPACT

#### Context and potential impact

**Our businesses rely on a stable supply of natural resources some of which are vulnerable to external factors such as natural disasters and climate change.**

**Our operations give rise to a range of emissions including dust, waste water and waste which, if not controlled, could lead to a risk to the environment and our local communities.**

#### Risk trend

Unchanged



#### Mitigation

We aim to go beyond environmental compliance.

Our businesses employ environmental specialists who use the best available technologies and techniques to reduce our use of consumables, adapt operations to climate change and reduce our environmental footprint.

We report group environmental performance every year in our Corporate Responsibility and Annual Reports as well as the voluntary CDP disclosure (formerly Carbon Disclosure Project).

#### Changes since 2015

The environmental performance of the group, with updates by division, is reported in the 2016 Corporate Responsibility report at [www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility).

### OUR SUPPLY CHAIN AND ETHICAL BUSINESS PRACTICES

#### Context and potential impact

**Our suppliers are essential to the successful operation of the group. We therefore work with them to ensure reliability and to help them meet acceptable standards of product quality and safety, financial stability, ethics, technical competence and people safety.**

**Potential supply chain and ethical business practice risks include:**

- reputational damage through supply chain weaknesses e.g. poor conditions for workers;
- unacceptable and unethical behaviour, including bribery and corruption;
- impact on reliability of supply and business continuity due to unforeseen incidents e.g. natural disasters; and
- long-term sustainability of key suppliers.

#### Risk trend

Unchanged



#### Mitigation

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 the Company's website [www.abf.co.uk/supplier\\_code\\_of\\_conduct](http://www.abf.co.uk/supplier_code_of_conduct).

Adherence to the Code is verified through ABF's 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.

#### Changes since 2015

Our businesses have continued to engage with key suppliers on a range of shared issues such as maximising environmental and cost efficiencies, maintaining safe workplaces, supporting steady employment and increasing transparency across the wider supply chain.

All of our businesses have undertaken risk assessments to identify supply chains at high risk from modern slavery.

The steps we take to try to ensure that any forms of modern slavery are not present within our own operations or our supply chain are reported in the 2016 Corporate Responsibility report [www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility).

## OPERATIONAL RISKS CONTINUED

### BREACHES OF IT AND INFORMATION SECURITY

**Context and potential impact**

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

**There is also the potential for disruption to operations from unforeseen IT and system malfunctions or external attack.**

**Risk trend**

Unchanged



**Mitigation**

We seek to understand the changing cyber risks faced by our businesses and take appropriate action.

We have established processes, group IT security policies and technologies in place 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 Head of IT Security tasked with identifying and responding to potential security risks.

**Changes since 2015**

During the year there has been an ongoing focus on raising the awareness of all employees of the risks associated with the use of IT.

Our IT security capability has been strengthened with the appointment of specialist resource and consolidation of existing personnel under the direction of the Head of IT Security.

We have instigated regular security scanning of all websites. Remediation of any identified vulnerabilities is treated as a high priority and there has been a focus on the development of incident management plans across the businesses.

## VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code, the directors are required to assess the prospects of the Company taking account of its current position and principal risks. The guidance published by the Financial Reporting Council suggests that the period of assessment should be significantly longer than the 12 months from the approval of the financial statements that is applied in the directors' going concern consideration (page 61).

Consistent with the group's business model which devolves operational decision making to the businesses, each of them sets a strategic planning time horizon appropriate to its activities which are typically of three years' duration. In determining the appropriate period over which to make their assessment, the directors considered the duration of these strategic plans, the diverse nature of the group's activities and the degree to which the businesses change and evolve in the relatively short term. A period of three years beyond the balance sheet date was considered appropriate for the group.

The directors considered the group's profitability, cash flows and key financial ratios over this period and the potential impact that the Principal Risks and Uncertainties set out on pages 48 to 52 could have on the solvency or liquidity of the group. Sensitivity analysis was applied to these metrics and the projected cash flows were stress tested against a range of scenarios.

The directors considered the level of performance that would cause the group to breach its debt covenants, the financial implications of making any strategic acquisitions and a variety of factors that have the potential to reduce profit substantially. These included the rate and success of Primark's expansion, actions which could damage the group's reputation for the long term, and macroeconomic influences such as fluctuations in world currency and commodity markets. Consideration was given to the currently benign interest rate environment in Europe and the US.

The implications of the referendum on the UK's continued membership of the EU were specifically considered. The group's business model aligns production, wherever possible, with the end markets for its products. Primark operates discrete supply chains for its stores in each of the UK, US and eurozone and relatively little cross border trading is undertaken between the UK and the rest of the EU. Specifically, the decline in sterling exchange rates against our major trading currencies will have both positive and negative effects on the group's profit and the long-term viability of the group is unlikely to be affected.

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

At 17 September 2016, £1.3bn of committed borrowing facilities available to the group were undrawn and the directors are of the opinion that substantial further funding could be secured, at relatively short notice, should the need arise. The revolving credit facility is not due for renewal until July 2021 and £316m of the private placement funding matures beyond the period under consideration.

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

Even in a worst case scenario, with risks modelled to materialise simultaneously and for a sustained period, the likelihood of the group having insufficient resources to meet its financial obligations is remote.

Based on this assessment, the directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 14 September 2019.

On behalf of the board

**Charles Sinclair**  
Chairman

**George Weston**  
Chief Executive

**John Bason**  
Finance Director

## BOARD OF DIRECTORS

# EFFECTIVE LEADERSHIP AND STRONG GOVERNANCE

### Board committees key

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



**Charles Sinclair** R N  
**Chairman (age 68)**

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

**Other appointments:**

He is Warden of Winchester College.



**George Weston**  
**Chief Executive (age 52)**

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

**Other appointments:**

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



**John Bason**  
**Finance Director (age 59)**

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

**Other appointments:**

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


**Emma Adamo**
**Non-executive director (age 53)**

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

**Other appointments:**

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


**Ruth Cairnie**
**Independent non-executive director (age 62)**

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

**Other appointments:**

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


**Timothy Clarke**
**Independent non-executive director (age 59)**

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

**Other appointments:**

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


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

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

**Other appointments:**

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


**Wolfhart Hauser**
**Independent non-executive director (age 66)**

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

**Other appointments:**

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


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

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

**Other appointments:**

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

## CORPORATE GOVERNANCE

### DEAR FELLOW SHAREHOLDERS

I am pleased to present the Associated British Foods corporate governance report for the year ended 17 September 2016.

As I have highlighted in my Chairman's statement on pages 4 and 5, we were delighted to welcome Richard Reid to the board in April 2016 as an independent non-executive director and as successor to Peter Smith as chairman of the Audit committee. We report on the formal process by which Richard was appointed in the Nomination committee report on page 64.

Richard Reid's appointment represents further progress towards refreshing the membership of the board but we are of course mindful that two of our independent non-executive directors, Tim Clarke and Javier Ferrán, have been members of the board for more than nine years. On page 59 we set out our reasoning for determining their continued independence notwithstanding their length of service. In considering the future shape of the board, it remains our intention that the transition of the board should continue to be phased carefully, so that we maintain an appropriate degree of continuity while our more recently appointed non-executive directors build their knowledge of the Company's diverse businesses.

This year we chose to undertake an internal evaluation of the board and its committees, following a successful externally-facilitated board evaluation last year. It is the Company's practice, whenever the review is carried out internally, for this to be led by a different non-executive director on each occasion. This year's evaluation was headed by Ruth Cairnie. A summary of the process, key outcomes as well as progress from the previous year's exercise is provided on page 60.

We are very much aware of the recent focus on, and debate around, the importance of good corporate culture. The Company has a strong, constant, corporate culture, referred to within the group as the 'essence' of Associated British Foods. Essence refers to the solid ethical foundations on which the Company is built including the approach to guiding its decentralised and diversified group of businesses. It has been a vital factor in creating and protecting long-term shareholder value and is described in more detail on pages 6 and 7 of the 2016 Corporate Responsibility report, which is available for download at [www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility). In order to assure the ethical culture in which we operate, the board and the corporate centre provide an important governance function which sets a framework for, and complements, our decentralised structure.

In the following pages, we set out our approach to corporate governance and explain how our governance practices support sustainable, responsible long-term growth for our shareholders. We will continue to keep our governance practices under review, keeping in mind developing market practice. As always, we welcome feedback or comments from shareholders either through the website [www.abf.co.uk](http://www.abf.co.uk) or in person at the annual general meeting.

**Charles Sinclair**  
Chairman

### Compliance with the UK Corporate Governance Code

As a premium listed company on the London Stock Exchange, the Company is reporting in accordance with the UK Corporate Governance Code published in September 2014 (the 'Code') which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. The Code is published by the UK Financial Reporting Council ('FRC') and a copy of the Code is

available from the FRC website ([www.frc.org.uk](http://www.frc.org.uk)).

An updated version of the UK Corporate Governance Code was published in April 2016 and first applies to companies with financial years commencing on or after 17 June 2016 ('the 2016 Code'). The Company has already taken account of the small number of changes required and will report formally in accordance with the 2016 Code in its 2017 annual report.

The board considers that the Company has, throughout the year ended 17 September 2016, applied the main principles and complied with the provisions set out in the Code, with the following exception:

#### Code provision

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

#### Status

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

#### Explanation

The board of Associated British Foods plc continues to consider that Charles Sinclair, due to his experience, is best suited to chair this committee. No director has any involvement in the determination of his own remuneration. The board believes that the Company has maintained robust governance while at the same time benefiting from having Charles Sinclair as the chairman of the Remuneration committee.

### Leadership The board

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

There are a number of matters which are specifically reserved for the board's approval. These are set out in a clearly defined schedule and include: matters relating to the group's strategic plan; approving the annual business strategy and objectives; the nature and extent of principal risks to be taken to achieve the strategic objectives; changes relating to structure and capital; approval of trading statements, interim results, final results and annual report and accounts; declaring interim dividends and recommending final dividends; the group's policies and systems of internal control and risk management; approving capital projects, acquisitions and disposals valued at over £30m; provision of adequate succession planning,

approving major group policies and matters relating to the compliance with the terms of the Relationship Agreement between the Company and its controlling shareholders dated 14 November 2014. The schedule of matters reserved is available to view on the corporate governance section of the Company's website ([www.abf.co.uk](http://www.abf.co.uk)).

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

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

#### Chairman and Chief Executive

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

#### Senior Independent Director

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

#### The non-executive directors

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

#### Election and re-election of directors

In accordance with the Code's recommendations, all directors currently in office will be proposed for election or re-election at the 2016 annual general meeting to be held in December.

#### Board meetings

The board held a total of eight meetings during the year. Periodically, board meetings take place away from the corporate centre in London. During the year under review, one of the meetings was held at Primark's offices in Dublin, providing the non-executive directors in particular with the opportunity to meet local management and other employees. The board held another of its meetings away from the centre and visited the AB Vista Marlborough site for a tour and to meet local management.

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

The attendance of the directors at board and committee meetings during the year to 17 September 2016 is shown in the table below. Where a director was unable to participate in a meeting either in person or remotely, the Chairman solicited their views on key items of business in advance of the relevant meeting and shared these with the meeting so that they were able to contribute to the debate.

#### Board committees

The board has established three principal board committees, to which it has delegated certain of its responsibilities. These are the Audit, Nomination and Remuneration committees. The membership, responsibilities and activities of these committees are described later in this corporate governance report and, in the case of the Remuneration committee, in the Remuneration report which starts on page 69. Membership of these committees is reviewed annually. Minutes of committee meetings are made available to all directors on a timely basis.

	Board	Audit committee	Nomination committee	Remuneration committee
Charles Sinclair	8/8	–	1/1	6/6
George Weston	8/8	–	–	–
John Bason	8/8	–	–	–
Emma Adamo	8/8	–	–	–
Ruth Cairnie <sup>1</sup>	8/8	4/4	1/1	6/6
Tim Clarke	8/8	–	1/1	6/6
Javier Ferrán <sup>2</sup>	8/8	1/1	1/1	6/6
Wolffhart Hauser <sup>3</sup>	8/8	4/4	1/1	6/6
Lord Jay <sup>4</sup>	1/1	1/1	–	1/1
Richard Reid <sup>5</sup>	3/3	1/1	–	3/3
Peter Smith <sup>6</sup>	4/5	3/3	–	2/3

<sup>1</sup> Ruth Cairnie was appointed as a member of the Nomination committee on 1 November 2015.

<sup>2</sup> Javier Ferrán stepped down as a member of the Audit committee on 26 October 2015.

<sup>3</sup> Wolffhart Hauser was appointed as a member of the Nomination committee on 13 April 2016.

<sup>4</sup> Lord Jay retired as a director and ceased to be a member of the Audit, Nomination and Remuneration committees on 30 November 2015.

<sup>5</sup> Richard Reid was appointed as a non-executive director, chairman of the Audit committee and a member of the Remuneration committee with effect from 14 April 2016.

<sup>6</sup> Peter Smith retired and ceased to be chairman of the Audit committee and a member of the Nomination and Remuneration committees on 13 April 2016. He was unable to attend one board and Remuneration committee meeting but he reviewed the relevant information and provided comments to the Chairman.

## CORPORATE GOVERNANCE

The chairmen of the Audit, Nomination and Remuneration committees were present at the 2015 annual general meeting and intend to be present at this year's meeting to answer questions on the work of their respective committees.

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

### Directors' insurance

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

### The work of the board during the year

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

#### Strategy

- Conducting regular strategy update sessions in board meetings.
- Holding an annual 'away-day' focused on strategy.

#### Acquisitions/disposals

- Approving the increased ownership of Illovo Sugar Limited.
- Receiving regular updates on acquisitions/disposals, including disposal of the group's cane sugar business in south China and of the North American herbs and spices business of ACH Foods.

#### Performance monitoring

- Receiving regular reports to the board from the Chief Executive.
- Receiving, on a rolling basis, senior management presentations from each of the group business areas.
- Approving the group budget for the 2016/17 financial year.
- Receiving regular feedback on directors' meetings held with institutional investors.
- Receiving reports from the board committee chairmen.

#### Governance and risk

- Approving the Company's full year and interim results.
- Recommending the 2015 final dividend and approving the 2016 interim dividend.
- Annual review of the material financial and non-financial risks facing the group's businesses.
- Receiving regular divisional food safety updates.
- Half yearly review of progress in implementing actions arising from the 2015 board evaluation.
- Participating in the 2016 annual board performance evaluation and receiving a report on the evaluation.
- Reviewing and approving new inside information and share dealing policies and procedures following implementation of the EU Market Abuse Regulation in July 2016.
- Receiving regular updates on regulatory matters.

#### Corporate responsibility

- Approving the 2016 Corporate Responsibility report.
- Receiving regular management reports on health, safety and environmental issues.
- Receiving updates on Primark ethical sourcing.

#### People

- Appointing Richard Reid as an independent non-executive director.
- Receiving updates on and considering senior succession planning and people activities with presentation from the Group HR Director.
- Confirming directors' independence.
- Appointing Wolfhart Hauser to the Nomination committee.
- Appointing Ruth Cairnie to the Nomination committee.

#### Various

- Receiving updates on procurement, information technology and communications from the heads of the relevant functions.
- Undertaking appropriate preparations for the holding of the annual general meeting including considering and approving an 'outlook' statement and subsequently, discussing issues arising from the annual general meeting.

### Effectiveness

#### Board composition

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

#### Chairman

Charles Sinclair

#### Executive directors

George Weston (Chief Executive)

John Bason (Finance Director)

#### Non-executive directors

Emma Adamo

Ruth Cairnie

Tim Clarke

Javier Ferrán

Wolfhart Hauser

Richard Reid

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

Richard Reid was appointed as an independent non-executive director on 14 April 2016. The board considered Richard's independence by reference to the relevant provisions of the Code and concluded that he is independent notwithstanding his past relationship with KPMG, which was formerly the group's auditor. KPMG LLP ceased to be the Company's auditor in November 2015, following a competitive tender for the external audit. Richard was formerly a partner at KPMG, retiring from that role in September 2015. He had no personal engagement with any business within the Associated British Foods group during a period of the four years prior to his appointment by the Company in April 2016. Before the four-year period, Richard was client liaison partner on behalf of KPMG for Associated British Foods, but at no time did he have responsibility for signing off an audit report on the Company. His prior knowledge of the diversity and complexity of the group is of significant value to the board. Although the audit relationship between the Company and KPMG and the employment relationship between Richard Reid and KPMG ended within the last three years, the board has concluded

and is satisfied that, on the basis of the facts outlined above, the former KPMG relationship would not in any way compromise Richard's independence and that it was in the best interests of the group to appoint him as an independent non-executive director of the Company. Further details of the process by which Richard was appointed are given in the Nomination committee report on page 64.

The Code requires that, if a director has served on the board for more than nine years, the board should state its reasons why it considers the director, notwithstanding his or her length of service, to be independent. Accordingly, the board has considered the independence of Tim Clarke and Javier Ferrán as follows:

- as at 3 November 2016, Tim Clarke had served 12 years as a director of the Company. The board has continued to keep Tim's independence under close review given his length of service. Having given careful consideration to the matter, the board is satisfied that Tim continues to demonstrate the qualities of independence in carrying out his role as a non-executive director and Senior Independent Director, supporting the team in an objective and independent manner. The board considers that he continues to be independent in character and judgement and that there are no relationships or circumstances which are likely to affect, or could appear to affect, his judgement. Tim retains his role as Senior Independent Director and is offering himself for re-election at the annual general meeting. The board will continue to keep his independence under review.
- as at 1 November 2016, Javier Ferrán had served ten years as a director of the Company. Javier's service and consequent knowledge and experience of the group, together with the invaluable retail experience he brings to the role, are highly regarded by the board. Notwithstanding his length of service and, having given due deliberation to the matter, the board is satisfied that Javier continues to demonstrate the qualities of independence and objectivity in carrying out his role as a non-executive director. The board considers that he continues to be independent in character

and judgement and that there are no relationships or circumstances which are likely to affect, or could appear to affect, his judgement. Javier is offering himself for re-election at the annual general meeting and the board will continue to keep his independence under review.

During the year, Lord Jay and Peter Smith retired from the board as non-executive directors, on 30 November 2015 and 13 April 2016, respectively. As at the date of this report, the board comprises the Chairman, Chief Executive, Finance Director and six non-executive directors.

Biographical and related information about the directors is set out on pages 54 and 55.

#### Appointments to the board

There is a formal and transparent procedure for the appointment of new directors to the board. Details are available in the Nomination committee report set out on page 63 which also provides details of the committee's role and activities.

#### Commitment

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

#### Board development

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

#### Board induction

Richard Reid joined the board as a non-executive director on 14 April 2016 and undertook a formal, tailored programme of induction, facilitated by the Chairman and the Company Secretary.

Richard's induction took account of his prior knowledge of the group, his experience and business perspectives and the committees on which he serves. The aim of the programme was to allow Richard to refresh and develop his knowledge of how the group operates through its five strategic business segments and to familiarise him with its governance policies and procedures and his duties as a director.

All new directors are encouraged to accelerate their knowledge of the group by visiting a variety of its businesses and operations. Key elements of the induction programme undertaken by Richard to date following his appointment are set out below:

#### Board and governance

- Legal and regulatory duties of a UK listed company director.
- Group governance framework including matters reserved to the board for its decision and committee terms of reference.
- Inside information policy and procedures, restrictions and procedures for dealing in the Company's shares.
- Procedure for dealing with board conflicts, guidance and procedures on related party transactions and transactions with controlling shareholders.
- The group's approach to corporate responsibility.

#### Management meetings and site visits

- Individual meetings with members of the senior management team at the group centre including an Audit committee briefing with Group Financial Controller.
- Meetings with the chief executives of AB Mauri, ABF Ingredients and George Weston Foods.
- Visits to a number of group businesses for meetings with local management including AB Sugar and AB Agri in Peterborough, a bakery site tour at Allied Bakeries in Stevenage and a tour of the Twinings Andover factory.
- Tour of a number of Primark stores with the Primark CEO and senior management. Attended Lancaster and Leicester store openings.
- Attending a session of the ABF Women's Business Education Forum.

Following his appointment in January 2015, Wolfhart Hauser's induction programme continued during the year under review with further site visits and management meetings including to AB World Foods in Leigh for an introduction to its operations and supply chain; attending a Primark sourcing, technical and compliance meeting in Dublin; a factory tour and site presentation at AB Mauri in Hull; a visit to Vivergo Fuels in Hull to receive an overview of the business and plant tour; a visit to Twinings in Andover to discuss a broad agenda including tea procurement and supply chain-related issues and a site visit

## CORPORATE GOVERNANCE

to AB Enzymes at Roal Oy in Rajamäki, Finland, involving an introduction to each of ABF Ingredients and AB Enzymes from senior management, factory tours and an overview of research and development.

### Training and development

The Chairman has overall responsibility for ensuring that the directors receive suitable training to enable them to carry out their duties and is supported in this by the Company Secretary. Directors are also encouraged personally to identify any additional training requirements that would assist them in carrying out their role. Training is provided in briefing papers, such as the regular update from the Company Secretary as part of the board pack ahead of each meeting covering developments in legal, regulatory and governance matters, and by way of presentations and meetings with senior executives or other external sources. During the year, the Market Abuse Regulation which took effect in July 2016 was a particular point of focus and the board was fully briefed on the updated inside information and share dealing policies and procedures arising from the new regulation and its implementing measures.

### Information flow

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

### Board performance evaluation

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

### Progress on objectives from the 2015 evaluation

During the year, the Chairman oversaw the implementation of various recommendations arising from the 2015 evaluation, which included the actions set out in the table below.

#### 2015 objectives

##### Role of the board

The quality of strategic conversations in regular board meetings was reinforced and enhanced with a greater focus on strategic issues at a group level. There was an increased focus on reputational risk.

##### Engagement with divisional level executive

The regular programme of presentations to the board by divisional heads was enhanced through prior disclosure of information to the board and more time being set aside at the meetings to discuss the issues and the strategic choices arising from the respective presentations.

##### Succession and resource

Progress on board transition during the year was acknowledged to have been successful and the ongoing work on talent development was valuable and well managed. There was an appetite for further consideration of succession planning (see 2016 objectives opposite).

##### Board support

Trialling of electronic board papers was considered during the year but it was concluded that this should be postponed pending an anticipated enhancement to the security of the preferred software.

### 2016 evaluation

Following the externally-facilitated performance evaluation carried out in 2015, this year's review was conducted internally and was led, at the invitation of the Chairman, by Ruth Cairnie, one of the independent non-executive directors. The review took place in the final quarter of the financial year.

A framework was prepared outlining the priority areas and points of particular focus for discussion. This was circulated to each director, the Company Secretary, the group HR Director, the Chief Executive of Primark and the audit engagement partner of the Company's auditor, Ernst & Young LLP, each of whom were invited to take part in a confidential interview with Ruth Cairnie. Ruth's own performance review was undertaken by the Chairman.

A discussion guide was circulated to each interviewee which formed the agenda for the meetings and included the following topics:

- **Key issues addressed during the year** – such as the change of auditor; the revising of the remuneration policy; and refreshing the membership of the board;
- **Governance and risk management** – including information flow to the board; the effectiveness of group corporate governance processes; and the board's approach to risk management;
- **Board organisation, structure and dynamics** – including the approach to determining the future board composition; the effectiveness of the induction process; maintenance and development of skills of board members; familiarity with the business; and creating the environment for effective debate;
- **Effectiveness and efficiency** – in particular, the quality and extent of the input and challenge received by the executive directors, and whether the skills and experience of the individual board members are used effectively;
- **Business performance** – including clarification on the role of the board with respect to business performance; the adequacy of the information provided to the board; and the quality of the discussion and decision-making process;
- **People** – the role of the board in addressing people, talent, diversity and succession planning issues; and
- **Broader themes** – including what the board can learn from the experience of members on other boards.

Following the conclusion of the interviews, Ruth produced a written report which was discussed with the Chairman and the Chief Executive before being sent to board members for discussion at the following board meeting.

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

## 2016 objectives

### Board meetings

More time to be taken for reflective discussion and debate after divisional presentations with feedback provided to the Chief Executive to share, as appropriate, with divisional management.

### Non-executive directors

Non-executive directors encouraged to take more opportunities to engage with the businesses (beyond the initial visits organised as part of the induction programme) to enable them to build a deeper understanding of the group's operations.

Recognising that the involvement of the non-executive directors could be of benefit to the individual businesses, and given their willingness to provide advice based on their business experience, a more detailed description of their areas of expertise to be compiled and made available to the businesses to facilitate knowledge and skills transfer.

### Risk management

The non-executive directors desired greater visibility of emerging strategic risks. Future divisional presentations to include more detail in this area.

### Succession and talent

There should be further emphasis and discussion, with input from all members, on the future shape of the board through more frequent meetings of the Nomination committee. A need to spend more time on the critical issue of non-board executive succession was also highlighted.

### Audit committee

Acknowledging the opportunity, with a change of committee chairman, to make a few practical changes to facilitate the running of the meetings and the functioning of the committee.

Based on the outcome of the 2016 review, it was concluded that the board and its committees were continuing to function very effectively with a good balance of support, challenge and mutual trust between the executives and the non-executives. Each of the directors was considered to be making a valuable contribution and with proper commitment, including of time, to their respective roles.

### Conflicts of interest procedure

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

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

### Accountability

#### Financial and business reporting

The board is required by the Code to present a fair, balanced and understandable assessment of the Company's position, performance, business model and strategy. In relation to this requirement, reference is made to the statement of directors' responsibilities for preparing the financial statements set out on page 91 of this annual report and accounts. The board recognises that its responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive public reports, reports to regulators, and information required to be presented by statutory requests.

#### Business model

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

#### Going concern and viability

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

The Code requires the directors to assess and report on the prospects of the group over a longer period.

This longer term viability statement is set out on page 53.

### Internal control and risk management

The directors confirm that the board has undertaken a robust assessment of the principal risks facing the group, including those that could threaten its business model, future performance, solvency or liquidity. A description of the principal risks and how they are being managed and mitigated is set out on pages 48 to 52.

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

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

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

## CORPORATE GOVERNANCE

### Standards

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

### High level controls

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

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

### Financial reporting

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

### Internal audit

The group's businesses employ internal auditors (both employees and resources provided by major accounting firms other than the firm involved in the audit of the group) with skills and experience relevant to the operation of each business. All of the internal audit activities are co-ordinated centrally by the group's Director of Financial Control, who is accountable to the Audit committee.

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

### Remuneration

A separate Remuneration report is set out on pages 69 to 87 which provides details of our remuneration policy and how it has been implemented, together with the activities of the Remuneration committee.

### Articles of association and share capital

Information in relation to share capital, the appointment and powers of directors, the issue and buy back of shares and significant interests in share capital is set out in the Directors' report on pages 88 to 90.

### Relations with shareholders Shareholder engagement

The board recognises its responsibility for ensuring that a satisfactory dialogue takes place with shareholders. During the year, the board has continued to maintain an active programme of engagement with investors, the aim

being both to develop shareholders' understanding of the Company's strategy, operations and performance and to provide the board with awareness of the views of significant shareholders. At each board meeting, the directors are briefed on shareholder meetings that have taken place and on feedback received, including any significant concerns raised.

Each year, the Chairman issues an invitation to the Company's largest institutional shareholders to hear their views and discuss any issues or concerns on governance, strategy and remuneration. During the year, the Chairman held meetings with a number of institutional shareholders and advisory bodies to discuss a range of topics including the Company's draft update of its remuneration policy which is to be presented for approval at the 2016 annual general meeting. A full discussion of the issues, including how the feedback was taken into account in finalising the policy, is set out in the Remuneration report on page 69.

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

The Company Secretary acts as a focal point for communications on matters of corporate responsibility. During the year, the Company responded to requests for meetings, telephone meetings or written information from both existing and potential institutional shareholders on a broad range of environmental, social and governance risk matters including food and beverage safety, nutrition, additives and packaging, climate change related matters, supply chain management, water risk management, animal welfare, corporate ethics, gender balance and succession planning.

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

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

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

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

#### Annual general meeting (AGM)

The 2016 AGM will be held on Friday, 9 December 2016 at 11.00 am at the Congress Centre in London. The board considers that the AGM provides a valuable communication opportunity for private shareholders, in particular, to hear about the general development of the business and to ask questions of the Chairman and, through him, the chairmen of the key committees and other directors. All members of the board are available to talk to shareholders after the meeting.

A trading update is provided at the meeting and, each year, the Company shows a short film at the meeting highlighting a particular area of the group's business. At this year's AGM, the film will focus on the move to full ownership by Associated British Foods of Illovo Sugar Limited.

The Notice of AGM, which sets out in full the resolutions for consideration by shareholders together with explanatory notes, has been sent to shareholders and is also available on the Investors section of the Company's website ([www.abf.co.uk](http://www.abf.co.uk)). All resolutions for which notice has been given will be decided on a poll.

## NOMINATION COMMITTEE REPORT

### Members

During the year and at the date of this report:

Charles Sinclair (Chairman)  
Ruth Cairnie (from 1 November 2015)  
Tim Clarke  
Javier Ferrán  
Wolffhart Hauser (from 13 April 2016)  
Lord Jay (until 30 November 2015)  
Peter Smith (until 13 April 2016)

### Primary responsibilities

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

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

## Governance

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

Only members of the committee have the right to attend committee meetings. Other individuals such as the Chief Executive, members of senior management, head of human resources and external advisors may be invited to attend meetings as and when appropriate.

The Chairman does not chair the Nomination committee when it is dealing with the appointment of his successor. In these circumstances the committee is chaired by an independent non-executive director elected by the remaining members.

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

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

The terms of reference of the Nomination committee are available on the Investors section of the Company's website ([www.abf.co.uk](http://www.abf.co.uk)).

### Board appointments process

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

### Meetings

The committee met once during the year under review.

## CORPORATE GOVERNANCE

### Committee activities during the year Appointment of a new independent non-executive director

The Nomination committee and the board adhere to the principle that appointments to the board should be made on the basis of merit.

During the year, as part of an ongoing programme for the progressive refreshing of the board, the Chairman led the process for the appointment of a new independent non-executive director, who could also take on the role of Audit committee chairman.

It is generally the committee's practice to engage the services of an independent executive search consulting firm, or to consider open advertising, to assist in the search for potential candidates from a range of backgrounds. Cognisant of the fact that the Audit committee chairman role, vacated on the retirement from the board of Peter Smith on 13 April 2016, required a particular set of financial skills, expertise and experience, the board considered potential candidates from the very highest level of the accounting profession. On this occasion the committee took the view that this approach would achieve the right outcome for the Company and accordingly that it was not necessary to use the services of a search consulting firm or to utilise open advertising.

Richard Reid, formerly a partner at KPMG, was identified as the outstanding candidate who best fulfilled the brief developed by the committee. Following a series of rigorous interviews with members of the board, on the recommendation of the Nomination committee, the board approved the appointment of Richard Reid with effect from 14 April 2016. Biographical details about Richard can be found on page 55. Information about how the board determined his independence is set out in the section on board composition on page 58.

### Diversity policy

As a board, we recognise that diversity is key for introducing different perspectives into board debate and decision-making. A genuinely diverse board comprises individuals with a range of personal attributes, perspectives, skills, experience and backgrounds, as well as representing differences in nationality, race and gender. The board has decided against setting any measurable objectives in relation

to its diversity policy but candidates for future board appointments will be considered from the widest possible pool. Gender remains an important aspect of the overall diversity, and it is our policy to ask any executive search agencies engaged to ensure that half of the candidates they put forward for consideration are women.

Looking beyond the board to the group's wider workforce, we recognise that true diversity can only be achieved when the entire workforce is committed to delivering it. There are a number of ongoing initiatives across Associated British Foods which aim to promote diversity. A groupwide gender diversity task force, which includes representation from across the five divisions of the business, has as one of its principal objectives the aim of ensuring that there are no barriers preventing talented people from succeeding. Senior and high-potential women are invited to join another initiative, the Women's Business Education Forum, which meets several times a year providing a chance for networking, learning and support for personal career development. For a number of years, training in 'unconscious bias' has been included in the group's leadership development programme and this training is now being extended to a wider group of managers; the training aims to build awareness and challenge commonly held myths around diversity.

### Re-election of non-executive directors

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

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

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

## AUDIT COMMITTEE REPORT

### Members

During the year and at the date of this report:

Richard Reid (member and chairman from 14 April 2016)  
Peter Smith (member and chairman until 13 April 2016)  
Ruth Cairnie  
Javier Ferrán (until 26 October 2015)  
Lord Jay (until 30 November 2015)  
Wolfhart Hauser

### Primary responsibilities

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

#### Financial reporting

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

#### Narrative reporting

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

**Primary responsibilities** continued**Internal financial controls**

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

**Whistleblowing and fraud**

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

**Internal audit**

- monitoring and reviewing the role, effectiveness and independence of the group's internal audit function in the context of the group's overall financial risk management system; and

**External audit**

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

**Governance**

The Audit committee comprises a minimum of three members, all of whom are independent non-executive directors of the Company. Two members constitute a quorum. Appointments are for a period of three years after which they are subject to annual review, extendable by two further three-year periods so long as members continue to be independent. Any term beyond six years is subject to particularly rigorous review. No members of the committee have served a term of more than six years. Membership of the Audit committee was refreshed during the year: Richard Reid was appointed to the committee as its chairman on 14 April 2016 following the retirement of Peter Smith as a non-executive director and chairman of the Audit committee on 13 April 2016; Javier Ferrán stepped down as a member on 26 October 2015; and Lord Jay ceased to be a member of the committee on his retirement as a non-executive director on 30 November 2015.

The committee structure requires the inclusion of at least one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies) with recent and relevant financial experience and competence in accounting or auditing (or both). The committee chairmen fulfilled this requirement during the year. All committee members are expected to be financially literate and to have an understanding of the following areas:

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

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

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

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

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

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

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

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

**Meetings**

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

**Activities during the year**

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

**Monitoring the integrity of reported financial information**

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

## CORPORATE GOVERNANCE

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

- the accounting principles, policies and practices adopted in the group's financial statements, any proposed changes to them, and the adequacy of their disclosure;
- important accounting issues, areas of complexity and the actions, estimates and judgements of management in relation to financial reporting and in particular the assumptions underlying the going concern and viability statements;

- any significant adjustments to financial reporting arising from the audit;
- litigation and contingent liabilities affecting the group; and
- potential tax contingencies, compliance with statutory tax obligations and the group's tax policy.

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

A key responsibility of the committee is to consider the significant areas of complexity, management judgement and estimation that have been applied in the preparation of the financial

statements. The committee has, with support from Ernst & Young as external auditor, reviewed the suitability of the accounting policies which have been adopted and whether management has made appropriate estimates and judgements.

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

### Significant accounting issues material to the group financial statements

#### Impairment of goodwill, intangible and tangible assets

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

#### Tax provisions

The level of current and deferred tax recognised in the financial statements is dependent on subjective judgements as to the outcome of decisions by tax authorities in various jurisdictions around the world and the ability of the group to use tax losses within the time limits imposed by the various tax authorities. See also reference to taxation on page 42.

### Audit committee assurance

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

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

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

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

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

The external auditor explained to the committee the work they had conducted during the year, including how their audit procedures were focused on those provisions requiring the highest degree of judgement. The committee discussed with both management and the external auditor the key judgements which had been made. It was satisfied that the judgements were reasonable and that, accordingly, the provision amounts recorded were appropriate.

### Other accounting areas requiring management judgement or estimation

#### Biological assets

The valuation of growing sugar cane requires management to estimate:

- the sucrose content in the cane and the expected cane and sucrose yields for the following season taking into account weather conditions, harvesting programmes, and an assessment of the maturity of the cane at the balance sheet date; and
- the sucrose price, which depends on the markets to which the forthcoming crop is likely to be sold, the probable domestic and export prices, and related foreign currency exchange rates.

#### Post-retirement benefits

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

#### Misstatements

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

#### Internal financial control and risk management

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

- the external auditors' management letters and their Audit committee reports;
- internal audit reports on key audit areas and significant deficiencies in the financial control environment;
- reports on the systems of internal financial control and risk management;

### Audit committee assurance

The sugar business has a good track record of calculating reliable estimates and any significant over or under-estimation becomes apparent in subsequent profit realisation.

Actual results were reviewed for consistency of measurement in the light of profit budgets and forecasts and the actual results of prior periods. The committee was satisfied that appropriate assumptions had been made and consistently applied. As growing sugar cane represents less than 1% of total assets and 1% of net assets, material misstatement of the financial statements was considered unlikely.

The committee also reviewed the adequacy of disclosures in respect of the sensitivities to unobservable inputs on the fair valuation of biological assets (note 16) and the change of accounting policy for cane roots (page 106).

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

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

- reports on fraud perpetrated against the group;
- the group's approach to IT, cyber security and whistleblowing; and
- reports on significant systems implementations.

#### Internal audit

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

- internal audit's reporting lines and access to the committee and all members of the board;
- internal audit's plans and its achievement of the planned activity;
- the results of key audits and other significant findings, the adequacy of management's response and the timeliness of their resolution;
- statistics on staff numbers, qualifications and experience and timeliness of reporting;
- the nature and extent of non-audit activity performed by internal audit; and

- changes since the last annual assessment of the significant financial risks and the group's ability to respond to changes in its business and the external environment.

#### Whistleblowing and Fraud

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

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

## CORPORATE GOVERNANCE

### External audit

#### Auditor independence

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

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

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

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

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

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

The total fees paid to Ernst & Young LLP for the year ended 17 September 2016 were £6.7m of which £1.2m related to non-audit work. Further details are provided in note 2 to the financial statements.

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

#### Auditor effectiveness

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

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

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

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

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

#### Auditor appointment

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

In accordance with the requirements of the 2014 UK Corporate Governance Code and other changes to the EU and UK regulatory framework, the Audit committee undertook a comprehensive competitive tender for the external audit during 2015 and the appointment of Ernst & Young LLP to replace the Company's previous auditors was approved by shareholders at the AGM on 4 December 2015. Accordingly, the Company has no current retendering plans.

#### Compliance with the CMA Order

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

## REMUNERATION REPORT

Annual statement by the Remuneration committee chairman

### DEAR FELLOW SHAREHOLDERS

I am pleased to present the Directors' Remuneration report for the year ended 17 September 2016 on behalf of the board.

This Remuneration report is split into two sections:

- a new directors' remuneration policy; and
- the annual implementation report on remuneration.

#### Review of remuneration policy

Last year I explained that we had decided to undertake a complete review of the group's incentive arrangements during the course of this year.

The starting point of our review was a reflection on the shape and nature of the group's portfolio and the challenges that our business model presents in designing incentives that align with our remuneration principles and fairly reward performance. Whilst we considered advice on market practice from our remuneration advisors, Willis Towers Watson, the main elements of this plan were developed by the committee. This is consistent with the subsequent report of the Executive Remuneration Working Group of the Investment Association (ERWG) and enabled us to focus on what would drive business performance rather than aligning with a 'one size fits all' external norm.

Our businesses are diverse, not only in terms of their products and services but also in terms of their life cycles and their contribution to total shareholder return. Financial analysts value the Company's shares on a 'sum of the parts' basis, attributing a greater price-earnings multiple to Primark than to Sugar. Profitability in the Sugar business in recent years has been volatile. World and European sugar prices, which are outside management control, can have an impact on incentive outcomes that is disproportionate to their impact on shareholders.

To address the above concerns we propose introducing a second adjusted earnings per share (eps) measure into the long term incentive plan (LTIP), which excludes the performance

of the Sugar businesses. Across the total incentives package, 68% of the maximum financial performance measurement will remain based on the performance of the whole group and 32% will be based on performance excluding Sugar. We believe that it is right to make this change now in view of the uncertainties faced by the EU sugar industry over the next few years.

We propose adopting a return on average capital employed (ROCE) modifier on the LTIP. The modifier will be used to adjust the calculated outcome based on eps performance downwards if ROCE targets have not been delivered. We are seeking shareholder approval for a new set of LTIP rules at this year's AGM to ensure that the LTIP can be operated consistently with the remuneration policy.

We considered the market-competitiveness of our reward package and concluded that, whilst our salaries are well aligned with companies of a comparable size in the FTSE 100 and reflect the tenure and experience of our executive directors, our incentives have fallen materially behind market levels. We are a global organisation with businesses in 50 countries operating in different industries. We therefore need experienced leaders to run the group well, in the interests of all of our stakeholders. Although wishing to guard against the inflationary effect of using market data, the committee believes it has a duty to investors to ensure that remuneration arrangements for senior executives are sufficiently attractive to retain the talented individuals that run our businesses.

We are therefore proposing the addition of a new incentive element with a maximum value of 50% of salary in the form of a deferred award of shares that will be released to participants three years from the start of the Short Term Incentive Plan (STIP) performance period. We have chosen a share-based incentive to reflect the performance of the business over time and provide a link between short and long-term performance. We have a strong history of setting stretching performance targets on the STIP and this will continue.

George Weston has requested that his incentive opportunity as a percentage of salary be consistent with that of the Group Finance Director rather than being aligned with the higher market levels typical for Chief Executives. Bearing in mind that we intend these incentive arrangements to endure without material change for many years, the committee needs to ensure that the remuneration policy is not a barrier to future succession. As such, we are allowing flexibility within our remuneration policy for our incentive plans to offer a fully market-competitive package to any future Chief Executive.

#### Shareholder engagement

In May and June 2016 we consulted extensively with our largest shareholders and their representative bodies on our remuneration structure. We welcomed the constructive feedback provided and have taken full account of it in our final proposals.

Shareholders appreciated:

- the introduction of a return-based performance measure on the LTIP;
- the increase (from 100% of salary to 250% of salary) in the level of shareholding required of our executive directors;
- the agreement to disclose STIP targets retrospectively; and
- the addition of value in the form of shares rather than cash.

We discussed with our investors ways of ensuring that sugar price volatility is properly dealt with in our incentives. A significant majority agreed with our proposed approach. Some other alternatives that were suggested included:

- measuring group eps over the length of the sugar cycle or on a rolling multi-year basis;
- using strategy-aligned metrics; or
- substituting eps with a total shareholder return (TSR) measure.

## REMUNERATION REPORT

Annual statement by the Remuneration committee chairman

We considered these suggestions and concluded that:

- phasing in a longer eps cycle would be problematic as there is no clearly defined fixed length of sugar cycle and, at the outset, judgement would be required to determine whether to include historic performance or build up the average from that point;
- in our decentralised model, long-term qualitative strategic metrics are more appropriately used to incentivise divisional management; and
- making awards in the form of shares gives absolute TSR alignment without the challenges of a relative TSR measure when there are no truly comparable companies against which to measure ourselves.

We also considered the use of restricted shares (i.e. a share allocation that vests after a certain time without any performance conditions applying) but concluded that for such senior roles in our organisation, performance related targets as set out in our policy are more appropriate. Our discussions with shareholders noted the importance of setting stretching performance targets and acknowledged that we are an organisation that seeks to drive long-term performance.

Taking into account all of the feedback received, some of which was contradictory, we determined that the proposed approach to incentives is aligned with shareholder interests and is appropriate.

### Performance targets

In setting our incentive targets we have regard to the performance potential of the different parts of the business and of the whole. The on-target performance level for STIP is set at the start of each financial year and is at, or close to, the budgeted level of performance. The committee then sets a range around the target to both incentivise delivery of a stretching performance and allow for limited under performance due to events beyond management control.

The range itself varies each year, taking into account the risks and opportunities facing the business.

As outlined above, we are adopting two performance measures for the LTIP as Sugar profitability has been more volatile than that of our other businesses. When setting the LTIP targets, the committee conducts an analysis of the challenges and growth opportunities facing each of the divisions over the performance period. Target eps ranges are tested to ensure that they are sufficiently stretching.

We are in a period of exceptional economic uncertainty in the post EU referendum environment and our performance ranges for the 2016–19 LTIP cycle will reflect this. The eps target range with Sugar removed is wider this year than we would expect it to be in future as a result of the volatility in foreign exchange rates and the risks and opportunities facing our portfolio of non-Sugar businesses. The ranges and targets with Sugar in and Sugar out are very similar this year, reflecting the above and the operating profit of Sugar in 2015/16. We would not normally expect this to be the case.

### 2015/16 performance and incentive outcomes

Our performance expectations at the start of 2015/16 were for a modest decline in adjusted eps. This was taken into account when setting the STIP adjusted operating profit targets, which were intended to drive the best performance outcomes for our investors over the year.

The actual adjusted eps for the year was better than expected benefiting from the delivery of substantial cost reduction and efficiency improvements in a number of businesses but particularly in Sugar; a further profit recovery in Ingredients; an excellent performance in Primark where the impact on garment purchases of last year's euro devaluation against the US dollar was heavily mitigated by good buying and tight stock management; and a benefit from the translation of overseas results into sterling following its substantial weakening against most of our trading currencies during the year.

The 2013–16 LTIP target range was set when the profit in the Sugar business was £435m. With the subsequent fall in world and European sugar prices, the profit of our Sugar business has decreased to £34m this year. In this context, delivering significant eps growth over the performance period has been challenging. As a result, no shares will vest to executive directors under the LTIP this year. This pattern could be repeated for 2016/17 hence our proposal to treat Sugar, in part, separately for future incentives.

I trust that this provides a helpful overview of the work of the committee this year and the decisions it has made. We trust that you will support our remuneration policy which we firmly believe balances the need to be fair and provide appropriate reward with the over-arching requirement to ensure alignment with shareholder interests.

**Charles Sinclair**

Remuneration committee chairman

### This report

This report sets out:

- the remuneration policy that, if approved, will apply to executive and non-executive directors from the date of the 2016 AGM;
- how the existing policy, approved in 2014, was implemented;
- the amounts earned by our executive and non-executive directors in the year ended 17 September 2016; and
- how we expect to implement the proposed remuneration policy.

The Directors' remuneration policy (set out on pages 75 to 81) will be subject to a binding vote at the 2016 AGM of the Company.

The committee chairman's letter, this introduction and the annual implementation report on directors' remuneration (set out on pages 82 to 87) will be subject to an advisory vote at the 2016 AGM of the Company. The vote will have advisory status in respect of overall remuneration packages and will not be specific to individual levels of remuneration.

### Compliance

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

### Role of the Remuneration committee

The committee is responsible to the board for determining:

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

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

### Members of the Remuneration committee

The committee comprises the Chairman, who was independent on appointment, and the following members, all of whom are independent non-executive directors:

	Role on committee	Independence	Year of appointment	Meetings attended
Charles Sinclair	Chairman	Chairman <sup>4</sup>	2008	6/6
Tim Clarke	Member	Senior Independent Director	2004	6/6
Lord Jay <sup>1</sup>	Member	Independent Director	2006	1/1
Peter Smith <sup>2</sup>	Member	Independent Director	2007	2/3
Javier Ferrán	Member	Independent Director	2006	6/6
Ruth Cairnie	Member	Independent Director	2014	6/6
Wolfhart Hauser	Member	Independent Director	2015	6/6
Richard Reid <sup>3</sup>	Member	Independent Director	2016	3/3

<sup>1</sup> Lord Jay retired in November 2015 and attended the one meeting held before his retirement.

<sup>2</sup> Peter Smith retired in April 2016 and attended two of the three meetings held before that date.

<sup>3</sup> Richard Reid joined the board on 14 April 2016.

<sup>4</sup> The Chairman was appointed Chairman of the Remuneration committee as he had the greatest prior experience of executive reward of any of the non-executive directors. The Chairman ensures that all board members are kept informed of the remuneration setting process.

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

### Remuneration committee advisors and fees

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

WTW is a member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting. The only other advice that WTW provides to the Company is in survey provision and remuneration benchmarking. The fees paid to WTW for committee assistance over the past financial year totalled £105,852.

## REMUNERATION REPORT

### REMUNERATION POLICY REVIEW

It became clear in 2015 that we would need a different approach to remuneration in future to ensure that our incentive outcomes remain fully aligned with the delivery of stretching performance across our portfolio.

#### Challenges with previous remuneration policy

Over the years since we implemented an LTIP, the vesting outcomes have been as follows:

LTIP Cycle	2006–09	2007–10	2008–11	2009–12	2010–13	2011–14	2012–15	2013–16
Vesting as % of maximum	0%	99%	84%	100%	100%	100%	19%	0%

The exceptional performance in 2012 to 2014 reflected steady growth in our foods business, outstanding performance by Primark and a Sugar performance that benefited from exceptionally high sugar prices. Primark's contribution to the results in these years meant that we would have been at, or very close to, maximum vesting in this period even without the sugar impact. However, the level of profit in the Sugar business inflated the starting point for eps targets set at the end of 2012, 2013 and 2014 and the subsequent sugar price declines substantially reduced, or removed entirely, any chance of long-term incentive targets being achieved over the following three years.

We do not intend to make any changes to the LTIP target ranges that have already been set but we believe it is in the interests of all our investors for us to address the volatility in incentive outcomes for future allocations.

Our Sugar business has delivered an acceptable average return on capital employed (ROCE) for a number of years and is a strong generator of cash. Its financial performance is, however, affected by agricultural influences which can result in price and often profit volatility, despite its focus on being a very efficient sugar producer. This has informed our proposals on incentive design for the future. In particular, it has led us to conclude that we should operate a split eps measure, part of which will exclude the impact of Sugar, and to adjust the outcome of the LTIP downwards if average ROCE for the year is unacceptable.

#### Remuneration principles

Our review of incentives has taken into account our portfolio model, our market positioning for executive remuneration and our remuneration principles.

#### ALIGNMENT, ACCOUNTABILITY AND DOING THE RIGHT THING

Our board is accountable for ensuring that the portfolio that we operate is the right one to deliver optimal returns to shareholders and for ascertaining that the businesses are well run.  
Our remuneration policy aims to align executive rewards with shareholder value creation.

#### LINE OF SIGHT

We aim to align remuneration and business objectives through performance measures to which individuals have line of sight.

#### CLARITY AND SIMPLICITY

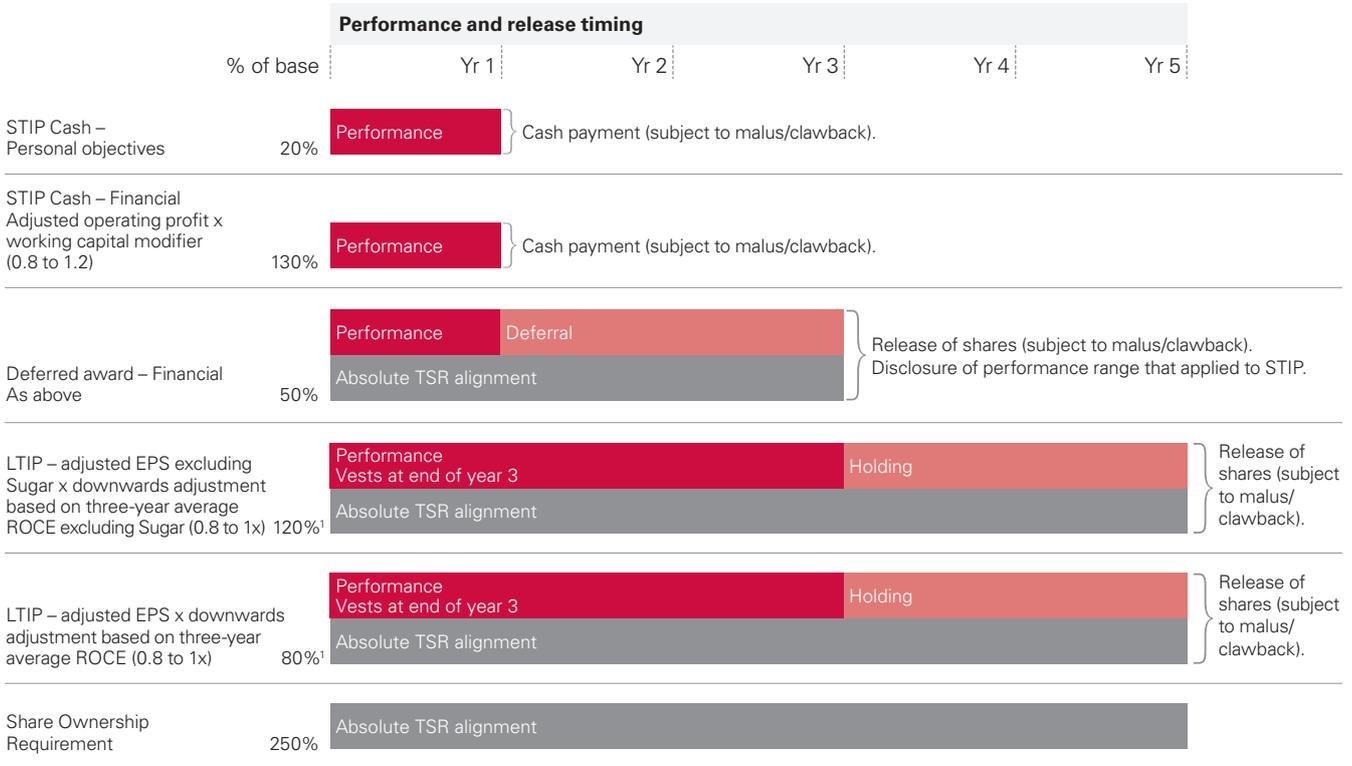
We believe that executive pay should be clear and simple for participants to understand. The best way to achieve this is through alignment with business performance.

#### FAIRNESS

Total remuneration should fairly reflect the performance delivered and efforts made by executives.

**Summary of remuneration approach**

Under these principles we developed our new remuneration proposals, key components of which for the 2016/17 STIP and 2016–19 LTIP are shown below.



<sup>1</sup> Weighting shown applies for 2016–19 but may change each year.

**Alignment to strategy**

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

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

## REMUNERATION REPORT

### New remuneration structures at a glance

The table below sets out a summary of how the new remuneration structure will apply during the 2016/17 financial year. Further details are set out in the directors' remuneration policy and in the annual implementation report for 2016/17.

Remuneration element	New remuneration structure
<b>Base salary</b> Approach is unchanged	2017 salaries as follows: <ul style="list-style-type: none"> <li>• CEO £1,072,000 (2.0% increase effective from 1 December 2016); and</li> <li>• Finance Director £706,000 (2.0% increase effective from 1 December 2016).</li> </ul>
<b>Pension</b> Approach is unchanged	No change to current pension arrangements for existing executive directors who have benefits under the Company's defined benefit scheme and/or Employer Financed Retirement Benefit Scheme (EFRBS), which deliver a retirement benefit target of around two-thirds of final pensionable salary at normal retirement age.  Future executive directors who are not already entitled to our defined benefit pension at the time of appointment would benefit from a defined contribution arrangement with a Company contribution (or cash equivalent) of 25% of salary.
<b>Cash STIP</b> Approach is unchanged	Maximum cash STIP 150% of salary: <ul style="list-style-type: none"> <li>• 20% of salary based on personal performance linked to strategic goals; and</li> <li>• 130% of salary based on financial performance (currently adjusted operating profit with a working capital multiplier).</li> </ul>
<b>Deferred award (shares)</b> Proposed change	Maximum deferred award 50% of salary: <ul style="list-style-type: none"> <li>• based on the same financial targets as the cash STIP financial element;</li> <li>• shares vest three years after grant;</li> <li>• a dividend equivalent payment is made, pro rata to the number of shares vesting, at the release date; and</li> <li>• following release, at least 50% of net shares must be held until the shareholding requirement is met.</li> </ul> Awards are settled using shares purchased in the market.
<b>LTIP</b> Proposed new measures and introduction of dividend equivalent payments and exceptional maximum	Maximum shares LTIP 200% of salary: <ul style="list-style-type: none"> <li>• awards made annually;</li> <li>• target vesting is half of maximum and threshold vesting is 10% of maximum;</li> <li>• a portion (60% for the 2016 allocation) of the shares vest based on performance against an adjusted eps range with a three-year average ROCE moderator. For both measures the Sugar profit will be removed and, for the eps measure, interest and tax attributable to Sugar will be removed on a pre-defined basis;</li> <li>• a portion (40% for the 2016 allocation) of the shares vest based on performance against a group adjusted eps range with a three-year average group ROCE moderator;</li> <li>• a dividend equivalent payment is made, pro rata to the number of shares vesting, at the release date;</li> <li>• the committee will retain discretion to ensure that outcomes under the plan are consistent with overall performance and to ensure that the element with Sugar performance removed does not lead to unintended consequences;</li> <li>• the LTIP performance range for 2016–19 is shown on page 87; and</li> <li>• following release, and the payment of any taxes due, at least 50% of any post-tax vested shares must be held until the shareholding requirement is met.</li> </ul> Awards are settled using shares purchased in the market.
<b>Shareholding requirement</b> Proposed increase	Shareholding target of 250% of salary for the CEO and Finance Director to be met using beneficially owned shares. Conditional share awards, including deferred awards, do not count towards this limit as shown on page 84. Shares that have vested and are subject to a holding period do count towards this limit.

# REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

This report sets out our new remuneration policy. Assuming that this policy is approved, it will apply from the close of the AGM on 9 December 2016. The committee does not expect to present a revised remuneration policy to investors until the 2019 AGM.

The previous remuneration policy for executive directors applied from the date of the 2014 AGM and will continue to apply until the 2016 AGM. For unvested share awards only, the provisions of the remuneration policy presented in the 2013 and 2014 Remuneration reports will continue to apply until such time as all long-term incentive awards granted under those policies have vested or lapsed.

<p><b>BASE SALARY (100% CASH)</b></p> <p><b>Element and purpose</b> To provide core reward for the role, recognising responsibility for setting and delivering the strategy.</p>	<p><b>Operation and link to business strategy</b> Base salaries are normally reviewed on an annual basis or following a significant change in responsibilities. Factors taken into account include market pay movements, the level of increases awarded to UK employees across the group and the impact of any increase on the total remuneration package. If there is a significant change in role scope, remuneration will be adjusted to reflect this.</p>	<p><b>Maximum opportunity</b> Increases will be aligned with those available for other UK employees.</p>
<p><b>BENEFITS (EXCLUDING RELOCATION AND PENSION)</b></p> <p><b>Element and purpose</b> To provide a competitive and cost-effective benefits package appropriate to the role.</p>	<p><b>Operation and link to business strategy</b> Benefits are restricted to typical UK market levels for executive directors and include, but are not limited to, death in service payment, permanent health insurance, company car plus private fuel, family healthcare and, where relevant, fees to maintain professional memberships.</p>	<p><b>Maximum opportunity</b> The cost of benefits is not expected to exceed 10% of salary but is dependent on factors that can vary.</p>
<p><b>PENSION</b></p> <p><b>Element and purpose</b> To provide a competitive retirement benefit in line with best practice standards adopted by major companies in the UK and continental Europe.</p>	<p><b>Operation and link to business strategy</b></p> <p><b>Defined benefit (DB) pension arrangements – closed to new members</b> The current executive directors are members of the Company's DB pension scheme. The scheme is designed to provide retirement benefits of around two-thirds of final pensionable salary at age 65 (62 for John Bason). Both executive directors opted out of the scheme on 5 April 2006, but retain their accrued benefits. Since then they have earned benefits in an EFRBS. The EFRBS is designed to broadly mirror the provisions of the DB pension scheme.</p> <p><b>Defined contribution pension arrangements</b> Future executive directors, who are not already entitled to DB pension arrangements at the time of appointment, will benefit from a defined contribution arrangement, with a Company contribution of 25% of base salary.</p> <p><b>Cash alternative</b> Where a UK-based pension arrangement is not possible, or is not tax efficient, a cash supplement equivalent to the normal pension contribution may be paid in lieu of pension contributions.</p>	<p><b>Maximum opportunity</b> For directors entitled to benefits under the DB scheme and/or EFRBS, a retirement benefit target of c. two-thirds of final pensionable salary is payable at normal retirement age.</p> <p>Otherwise, executives may receive Company contributions (or cash equivalent) up to a maximum of 25% of base salary.</p>

# REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

## CASH SHORT-TERM INCENTIVE PLAN (STIP)

### Element and purpose

To encourage and reward the attainment of challenging financial targets and the achievement of personal performance objectives over a one-year period.

### Operation and link to business strategy

#### Performance measures and target setting

Group financial performance is assessed against prime financial/strategic measures used across the group on a day-to-day basis to drive and monitor performance. The personal element of the STIP is based on personal targets aligned to our strategic goals.

The on-target performance level is set at the start of each financial year and is at or around the budgeted level of performance, taking into account any early re-forecasts. The committee then sets a range around the target to incentivise delivery of stretching performance.

#### Retrospective disclosure of targets

Achievement against financial targets will be disclosed after the end of the relevant financial year in that year's Remuneration report and the performance range that applied to financial targets will be disclosed when the deferred awards vest.

#### Discretion, clawback and malus

Please refer to the notes that follow this table.

### Maximum opportunity

STIP cash of 150% of base salary.

In exceptional circumstances, such as the appointment of a new CEO, this could be increased to 200% of base salary to correct any shortfall against market. Any increase would take into account adjustments in other elements of the package to ensure that the total was not excessive.

## DEFERRED AWARDS (SHARES) – NEW THIS YEAR

### Element and purpose

To encourage and reward the attainment of challenging financial targets.

To facilitate the operation of malus and clawback.

To align the interests of executives and shareholders.

To promote executive retention.

### Operation and link to business strategy

#### Performance measures and target setting

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

#### Vesting period

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

#### Calculation of outcomes, discretion, clawback and malus

As for the financial element of the cash STIP.

#### Dividend equivalents

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

### Maximum opportunity

Shares worth 50% of base salary at allocation.

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

## LONG-TERM INCENTIVE PLAN (LTIP) – NEW MECHANISM FOR TARGETS

### Element and purpose

To reward long-term business growth.

To promote executive retention.

To align the interests of executives and shareholders.

### Operation and link to business strategy

#### Vesting period

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

#### Performance measures and target setting

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

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

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

#### Discretion, clawback and malus

Please refer to the notes that follow this table.

#### Dividend equivalents – new this year

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

### Maximum opportunity

200% of base salary at allocation.

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

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

# REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

## SHAREHOLDING REQUIREMENT

### Element and purpose

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

### Operation and link to business strategy

This is not part of our formal remuneration policy. Details of our current requirement are provided in our annual implementation report on page 84.

## NON-EXECUTIVE DIRECTORS' FEES

### Element and purpose

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

### Operation and link to business strategy

#### Non-executives

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

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

#### Chairman

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

#### Shareholding – new this year

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

#### Expenses

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

## REMUNERATION REPORT

### Notes to the remuneration policy table

#### Changes to the remuneration policy

The rationale for the changes shown in the remuneration policy table is detailed in the letter from the chairman of the committee on pages 69 and 70 and in the remuneration policy review section on pages 72 to 74.

#### Malus and clawback

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

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

#### Discretion

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

#### Executive directors serving as non-executive directors

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

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

The group is geographically dispersed and therefore subject to very different pay markets. As a result, it is difficult to make sensible comparisons with all employees across the group and the salaries of executive directors are therefore reviewed in line with the group's UK employees. In December 2015, when the on-target salary increase for employees in the UK was between 1.25% and 3.4%, the Chief Executive received a salary increase of 2.2%.

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

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

As outlined in the policy table, the committee limits the range of salary increases for executive directors to the range of increases available to UK-based employees unless there has been a change of role. In addition, the design of incentives is broadly consistent across the group.

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

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

#### Statement of consideration of shareholders' views

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

Ahead of the 2015 AGM, we received feedback from some investors who did not feel that our earnings per share targets were sufficiently stretching. The committee undertakes a robust review of targets each year, with detailed input from our advisors and from the Company. We have satisfied ourselves, in the context of the challenges facing the Sugar business, that the targets that we set for the LTIP were extremely challenging and that achieving these targets would represent a very good performance by the executive directors on behalf of shareholders.

During 2016 we have conducted a more detailed consultation with our largest shareholders. We were grateful for the constructive feedback throughout the process, which was taken into account in our final proposals.

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

## Approach to recruitment remuneration

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

## REMUNERATION REPORT

### Service contracts and policy on payment for loss of office

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

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

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

**Executive directors’ reward potential – 2016/17 policy**



Notes 2016/17 Policy:

- Fixed elements for George Weston comprise salary of £1,044,765, benefits of £16,000 and pension of £608,775 and applies to minimum, threshold, on-target and maximum performance.
- Fixed elements for John Bason comprise salary of £680,265, benefits of £21,000 and pension of £505,865 and applies to minimum, threshold, on-target and maximum performance.
- STIP cash bonus is calculated on base salary at the end of the financial year and both the deferred awards and LTIP share values are calculated on base salary at the date of allocation and exclude share price movement and dividend equivalents.
- Minimum:  
No STIP, deferred awards or LTIP payment for failure to achieve threshold performance.
- Threshold:  
STIP cash of 12% of base salary (12% of base salary for threshold financial performance and 0% for failure to achieve threshold personal performance).  
Deferred awards vesting at 10% of maximum (i.e. 5% of grant date base salary).  
LTIP vesting at 10% of maximum (i.e. 20% of grant date base salary) following achievement of threshold performance targets.
- On-target:  
STIP cash of 78.3% of base salary (65% for target financial performance and 13.3% for target personal performance).  
Deferred awards vesting at 50% of maximum (i.e. 25% of grant date base salary).  
LTIP vesting at 50% of maximum (i.e. 100% of grant date base salary).
- Maximum:  
STIP cash of 150% of base salary (130% for maximum financial performance and 20% for achieving maximum personal performance).  
Deferred awards vesting at 100% of maximum (i.e. 50% of grant date base salary).  
LTIP vesting at 100% of maximum (i.e. 200% of salary).

## REMUNERATION REPORT

### Annual implementation report on directors' remuneration

This report sets out the elements of remuneration paid to directors in respect of the financial year 2015/16. The notes to the single figure table provide further detail on the elements that make up the total single figure of remuneration in respect of each of the executive directors.

This report is subject to an advisory vote at the 2016 AGM.

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

	Salary or fees		Taxable benefits		Pensions		STIP <sup>6</sup>		LTIP <sup>7</sup>		Single total figure <sup>8</sup>	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	2016 <sup>1,2</sup>	2015 <sup>2</sup>	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Executive directors</b>												
George Weston	1,038	998	16 <sup>3</sup>	15	711	592	1,368	686	–	848	3,133	3,139
John Bason	676	649	21 <sup>4</sup>	19	576	486	945	456	–	558	2,218	2,168
<b>Non-executive directors</b>												
Charles Sinclair	395	380	1 <sup>5</sup>	1							396	381
Tim Clarke	94	90	–	–							94	90
Lord Jay <sup>9</sup>	16	71	–	–							16	71
Javier Ferrán	74	71	–	–							74	71
Peter Smith <sup>10</sup>	54	90	–	–							54	90
Emma Adamo	74	71	–	–							74	71
Ruth Cairnie	74	71	–	–							74	71
Wolfhart Hauser <sup>11</sup>	74	48	–	–							74	48
Richard Reid <sup>12</sup>	40	–	–	–							40	–

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

<sup>2</sup> For executive directors, the salary in the year is not the same as a weighted average of the headline salaries, since salary actually paid is reduced for pension-related salary sacrifices. The benefit of these salary sacrifices are captured in the increase in pension entitlements for which a remuneration value is shown in the pensions line. For non-executive directors, the value shown reflects the split across the year from the previous fee rate to the revised rates of £72,500 for non-executive directors, £92,500 for the Senior Independent Director and Chairman of the Audit committee and £390,000 for the Chairman.

<sup>3</sup> The value of George Weston's benefits comprised £1,787.81 taken in cash and £14,397.18 taxed as benefits-in-kind.

<sup>4</sup> The value of John Bason's benefits comprised £6,175.58 taken in cash and £14,397.18 taxed as benefits-in-kind.

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

<sup>6</sup> The annual bonus is paid in December in respect of the preceding financial year. None of the incentive is subject to deferral.

<sup>7</sup> As required by UK regulations, vesting under the LTIP for 2012–15 has been recalculated to update last year's estimates using the actual share price of 3451.794p that applied on vesting. Information relating to performance targets, weightings and outcomes can be found on page 84 of the 2015 annual report. No shares will vest under the LTIP for 2013–16.

<sup>8</sup> The single total figure for 2015 has been updated to reflect the LTIP adjustment noted in (7) above.

<sup>9</sup> Lord Jay retired from the board on 30 November 2015.

<sup>10</sup> Peter Smith retired from the board on 13 April 2016.

<sup>11</sup> Wolfhart Hauser joined the board on 14 January 2015.

<sup>12</sup> Richard Reid joined the board on 14 April 2016.

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

#### Single total figure – base salary

Executive directors' salaries were reviewed on 1 December 2015 in accordance with normal policy and were increased in line with average increases for the Company's UK-based employees.

	Dec 2014	Increase in Dec 2015	Dec 2015
George Weston	£1,028,000	2.2%	£1,051,000
John Bason	£677,000	2.2%	£692,200

#### Single total figure – taxable benefits

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

## Pensions

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

### George Weston

George Weston has an overall benefit promise of a minimum of 2/3rds of final pay or 1/45th of final pensionable earnings for each year of pensionable service. He opted out of the Associated British Foods Pension Scheme on 5 April 2006 and has a deferred benefit in the Scheme; the balance of the promise is provided under an EFRBS. His pension benefits are payable from age 65. There is no additional benefit entitlement for members if they take early retirement. His accrued pension at 17 September 2016 was £548,225.

### John Bason

John Bason has an overall benefit promise of a minimum of 2/3rds of final pay or 1/45th of final pensionable earnings for each year of pensionable service, less an allowance for retained benefits from his previous employment. He opted out of the Associated British Foods Pension Scheme on 5 April 2006 and has a deferred benefit in the Scheme; the balance of the promise is provided under an EFRBS. His pension benefits are payable from age 62. There is no additional benefit entitlement for members if they take early retirement. His accrued pension at 17 September 2016 was £340,576.

## Short-Term Incentive Plan – 2015/16

The table below shows outcomes against the specific measures in the year. None of the incentive is subject to deferral.

Measures	Achievements against performance measures		
	Threshold 15% salary	Target 65% salary	Maximum 108.3% salary
A – Operating profit	108.3%		
	Threshold x 0.8	Target x 1	Maximum x 1.2
B – Working capital as % of sales	x 1.0759		
	Threshold 12% salary	Target 65% salary	Maximum 130% salary
A x B – Total financial	116.56%		
	Threshold 0% salary	Target 13.3% salary	Maximum 20% salary
C – Personal – George Weston	13.61%		
C – Personal – John Bason	20%		
	Threshold 12% salary	Target 78.3% salary	Maximum 150% salary
(A x B) + C – Total STIP – George Weston	130.17%		
(A x B) + C – Total STIP – John Bason	136.56%		

The committee considered whether it would be in the best interests of the Company and its shareholders to disclose the precise targets agreed for each of the performance measures for 2015/16. Their conclusion was that retrospective detail on financial targets set will not be disclosed at this stage. In future we will disclose the target ranges that apply to STIP when the deferred awards are released two years from the end of the performance period. We expect that the directors will make the right decisions for the long-term performance of the business, even if this reduces their incentive pay-out under the STIP. When we disclose the performance range that applied to the STIP, we wish to be able to add any commentary that will help investors to understand the performance. In most cases, this is not appropriate immediately following the end of the year and remains commercially sensitive. For these reasons, we believe that this delayed disclosure is appropriate. A discussion of performance against financial targets for STIP 2015/16 can be found on page 70.

Following a review of personal performance against specific objectives for the 2015/16 financial year, the committee determined that George Weston will receive 13.61% of salary in relation to performance that was on-target against set objectives, with cost reduction and efficiency improvements in a number of businesses but especially in Sugar, a further profit improvement in Ingredients and an excellent performance in Primark. John Bason will receive 20% of base salary for the individual element of the annual bonus, reflecting a very strong overall performance, delivering positive outcomes on a number of important transactions. Personal objectives set for each of the executive directors were closely aligned to the overall strategy of the group but additional details will not be disclosed because of commercial sensitivity.

## Long-Term Incentive Plan – 2013–16

The performance measures for each three-year LTIP cycle are set by the committee. Awards are made annually, at the discretion of the committee, and eligible executives receive shares at the end of the performance period, subject to achievement of the performance measures. For the 2013–16 cycle the adjusted eps performance range was 113.6p for threshold vesting, 123.6p for target vesting and 134.2p for maximum vesting.

Actual eps was 106.2p. In November 2016 executive directors will therefore receive no shares.

## REMUNERATION REPORT

### Scheme interests awarded in 2015/16 (audited information)

Under the remuneration policy that was approved in 2014, conditional share awards were granted under the LTIP each year at the end of November, following announcement of the Company's results. In addition, further awards were made, following approval by the committee, during the year to new starters or newly promoted individuals who were eligible to participate. The share price used to determine the number of shares in an allocation was the average of the closing share prices on the five trading days immediately preceding the award date.

All awards are settled using shares bought in the market.

The table below details the conditional share interests awarded to the executive directors during the year in respect of the 2015-18 LTIP. The awards made were in line with the existing remuneration policy and are subject to performance conditions over the vesting period.

Executive directors	Award date	Vesting date	Maximum award			Shares vesting			Below threshold (0% of maximum)
			% salary	Face value £000	Market price at grant	Maximum	Target (50% of maximum)	Threshold (10% of maximum)	
George Weston	23/11/15	23/11/18	200%	2,056	3462.0p	59,388	29,694	5,939	0
John Bason	23/11/15	23/11/18	200%	1,354	3462.0p	39,110	19,555	3,911	0

As disclosed in the annual report and the Remuneration committee chairman's letter last year, the Company was forecasting a modest decline in eps for 2015/16. Taking this into account together with volatility in currency markets and uncertainty of Sugar profitability as the 2017 reform of the EU sugar regime approaches, the committee determined that the eps performance range for the 2015-18 award should be 112.5p for threshold vesting, 119p for target vesting and 125.7p for maximum vesting. The committee believed that this range was extremely stretching. In setting this target, the committee also took into account:

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

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

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

Under our new remuneration policy, the executive directors are required to build up a beneficially owned shareholding of 250% of salary. This requirement has been met. The interests below remained the same at 8 November 2016.

Executive directors	Holding requirement	Beneficial 17 September 2016	Beneficial as % of salary <sup>1</sup>	Conditional <sup>2</sup> 17 September 2016	Total 17 September 2016	Total 12 September 2015
<b>George Weston<sup>3</sup></b>						
Wittington Investments Limited, ordinary shares of 50p	n/a	2,613	n/a	n/a	2,613	2,613
Associated British Foods plc, ordinary shares of 515/22p	250% of salary	3,561,936	9,188%	208,189	3,770,125	3,830,300
<b>John Bason</b>						
Associated British Foods plc, ordinary shares of 515/22p	250% of salary	130,502	511%	137,076	267,578	309,220

<sup>1</sup> Calculated using share price as at 17 September 2016 of 2711p and base salary as at 17 September 2016.

<sup>2</sup> The awards, in the preceding and following tables are conditional allocations under the LTIP described in the policy section of last year's Remuneration report.

<sup>3</sup> George Weston is a director of Wittington Investments Limited which, together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares in Associated British Foods plc as at 17 September 2016.

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

	Scheme name	Dates of award and vesting	Market price at award	Maximum (shares)	Face value at grant £000	End of performance period
George Weston	Share incentive plan	25/11/13 – 25/11/16	2321.2p	84,181	1,954	17.09.16
	Long-Term Incentive Plan	24/11/14 – 24/11/17	3101.2p	64,620	2,004	16.09.17
John Bason	Share incentive plan	25/11/13 – 25/11/16	2321.2p	55,402	1,286	17.09.16
	Long-Term Incentive Plan	24/11/14 – 24/11/17	3101.2p	42,564	1,320	16.09.17

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

Under our new remuneration policy, non-executive directors are encouraged to hold shares to a value equal to their annual fees. The following shareholdings are ordinary shares of Associated British Foods plc unless stated otherwise. The interests below remained the same at 8 November 2016.

	2016 total holding as a % of annual fee <sup>4</sup>	Total 17 September 2016	Total 12 September 2015
Charles Sinclair	89%	12,760	12,760
Tim Clarke	117%	4,000	4,000
Javier Ferrán	90%	2,400	2,400
Emma Adamo <sup>1</sup>			
Wittington Investments Limited, ordinary shares of 50p	n/a	1,322	1,322
Associated British Foods plc, ordinary shares of 515/22p	18,864%	504,465	504,465
Ruth Cairnie	56%	1,507	1,500
Wolfhart Hauser <sup>2</sup>	147%	3,918	1,283
Richard Reid <sup>3</sup>	98%	3,347	n/a
Peter Smith			No longer in role
Lord Jay			No longer in role

<sup>1</sup> Emma Adamo is a director of Wittington Investments Limited which, together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares in Associated British Foods plc as at 17 September 2016.

<sup>2</sup> Wolfhart Hauser was appointed a director on 14 January 2015.

<sup>3</sup> Richard Reid was appointed a director on 14 April 2016.

<sup>4</sup> Calculated using share price as at 17 September 2016 of 2711p and fee rate as at 17 September 2016.

### Payments to past directors (audited information)

No payments were made to past directors in the year.

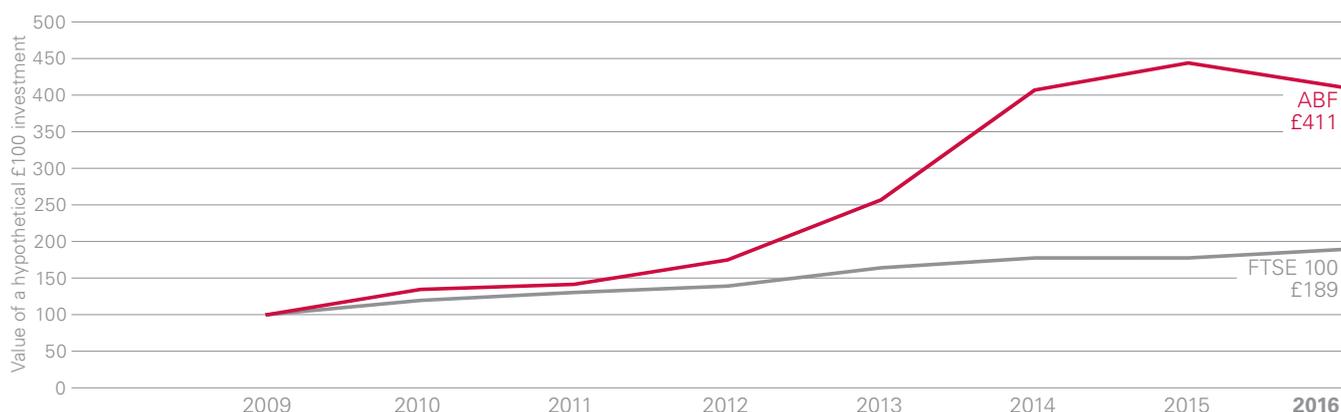
### Payments for loss of office (audited information)

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

### TSR performance and Chief Executive's pay

The performance graph below illustrates the performance of the Company over the seven years from September 2009 to September 2016, in terms of total shareholder return compared with that of the companies comprising the FTSE 100 index. This index has been selected because it represents a cross-section of leading UK companies.

In addition, the table below the graph provides a summary of the total remuneration of the Chief Executive over the same period. For the purpose of calculating the value of the remuneration of the Chief Executive, data has been collated on a basis consistent with the 'single figure' methodology as defined in the applicable UK directors' reporting regulations.



Source: DataStream Return Index

Single total figure remuneration variable element (£000)	3,886	3,182	3,859	5,832	7,470	3,139	3,133
Annual variable element (£000)	1,266	438	864	1,219	894	686	1,368
Potential maximum annual variable element (£000)	1,310	1,373	1,425	1,466	1,503	1,542	1,577
Annual variable element (% of maximum)	96.68%	31.91%	60.63%	83.15%	59.49%	44.46%	86.75%
Long-term variable element – shares vesting as % of maximum	99.12%	83.80%	97.42%	85.00%	100.00%	18.54%	0%

At close of business on 16 September 2016, the last trading day before the end of the financial year, the market value of the Company's ordinary shares was 2711p. During the previous 12 months, the market value ranged from 2350p to 3599p.

## REMUNERATION REPORT

### Percentage change in remuneration of the Chief Executive

Between 2015 and 2016, the increase in the Chief Executive's salary was 2.2% and the average increase in salaries for our UK employees was between 1.25–3.4%.

The total reward for the Chief Executive remained broadly the same as last year, reflecting 0% vesting on the LTIP compared with 18.54% vesting in the previous year and an above target payment on the STIP.

The overall increase in expenditure on reward for all employees was 7%. This number is based on aggregate data presented in the table below, which include increases in headcount, as it is neither practical nor worthwhile, in a decentralised group of our size, to separate the increase in expenditure on incentives and taxable benefits.

### Executive directors serving as non-executive directors

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

John Bason is a non-executive director and chairman of the audit committee of Compass Group PLC, for which he received a fee of £106,000 in the 2015/16 financial year. He also served as a trustee of Voluntary Service Overseas and as chairman of the charity FareShare, but received no compensation in respect of either of these roles.

### Relative importance of spend on pay

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

Expenditure	2016 £m	2015 £m	Change
Pay spend for the group	2,208	2,058	+7%
Dividends relating to the period	290	277	+5%
Taxes paid	211	230	-8%

### Implementation of policy 2016/17

#### Base salary

Executive directors' salaries are subject to review on 1 December 2016 and will be increased as shown in the table below.

	Dec 2015	Increase in Dec 2016	Increase in Dec 2016	Dec 2016
George Weston	£1,051,000	2.0%	£21,000	£1,072,000
John Bason	£692,200	2.0%	£13,800	£706,000

#### Benefits and pension

No change to current operation.

#### Short-Term Incentive Plan – 2016/17

The STIP will be operated in 2016/17 in line with the remuneration policy.

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

As detailed in our remuneration policy, we believe that the targets used for our 2016/17 STIP are commercially sensitive but are set at a stretching level. Achievement against financial targets will be disclosed retrospectively in our 2017 Remuneration report as we have done in this report for 2015/16. In addition, when the shares element is released, we will disclose the related target range.

#### Deferred Awards (Shares) – 2016–19

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

	Vesting based on operating profit only as % of shares allocated	Modification to payout based on average working capital	Overall vesting as % of shares allocated	
Maximum	83.3%	x1.2	100%	Shares vest after a further two years.
On-target (budget)	50%	x1.0	50%	No further performance conditions apply but shares will lapse if the individual resigns from the Company.
Threshold	12.5%	x0.8	10%	
Below threshold	0.0%	x0.8	0.0%	

### Long-Term Incentive Plan – 2016–19

The LTIP will be operated in line with the remuneration policy, assuming that this is approved by shareholders. Awards over shares with a value of 200% of salary will be allocated as soon as possible following the AGM. The performance targets that will apply are set out below.

		Primary Measure			Multiplier	
		Threshold	Target	Maximum	Threshold	Maximum
Shares vesting as % of award		10%	50%	100%		
Adjustment to % of shares vesting					80%	100%
Adjusted eps range in 2018/19 (p)	40% of award	116	134	153		
Three-year average ROCE range (%)					12%	15%
Adjusted eps without Sugar range in 2018/19 (p)	60% of award	115	133	152		
Three-year average ROCE without Sugar range (%)					13.5%	16.5%

When setting the above ranges, the committee conducted an analysis of the growth potential and challenges facing each of the divisions over the performance period. These ranges were then tested to ensure that they were sufficiently stretching. We are in a period of exceptional economic uncertainty in the post EU referendum environment and the above ranges reflect this. The proposed eps range for the Company as a whole takes into account the operating profit of Sugar in 2015/16. The eps range with Sugar removed is wider this year than we would expect it to be in future as a result of the volatility in foreign exchange rates and the risks and opportunities facing our portfolio of non-Sugar businesses. The ranges and targets with Sugar in and Sugar out are very similar this year; we would not usually expect this to be the case.

### Service contracts

	Date of appointment	Date of current contract/ letter of appointment	Notice from Company	Notice from individual	Unexpired period of service contract
<b>Executive directors</b>					
George Weston	19.04.99	01.06.05	12 months	12 months	Rolling contract
John Bason	04.05.99	16.03.99	12 months	12 months	Rolling contract
<b>Non-executive directors</b>					
Charles Sinclair	01.10.08	21.04.09	6 months	6 months	Rolling contract
Tim Clarke	03.11.04	03.11.04	6 months	6 months	Rolling contract
Javier Ferrán	01.11.06	01.11.06	6 months	6 months	Rolling contract
Emma Adamo	09.12.11	09.12.11	6 months	6 months	Rolling contract
Ruth Cairnie	01.05.14	01.05.14	6 months	6 months	Rolling contract
Wolfhart Hauser	14.01.15	14.01.15	6 months	6 months	Rolling contract
Richard Reid	14.04.16	13.04.16	6 months	6 months	Rolling contract
Lord Jay	01.11.06		Lord Jay has now retired as a non-executive director		
Peter Smith	28.02.07		Peter Smith has now retired as a non-executive director		

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

### Non-executive directors' fees for 2016/17

	Dec 2015	Increase in Dec 2016	<b>Dec 2016</b>
Chairman	£390,000	£20,000	<b>£410,000</b>
Senior Independent Director	£92,500	£2,500	<b>£95,000</b>
Chairman of Audit committee	£92,500	£2,500	<b>£95,000</b>
Director	£72,500	£1,500	<b>£74,000</b>

Non-executive directors' fees will be revised as shown above in December 2016. The next review of fees will be in 2018.

### Statement on shareholder voting

At the last AGM in December 2015 the voting results on resolution two, to receive and approve the Remuneration report for the year ended 12 September 2015, were as follows:

- (i) the total number of votes cast in relation to the resolution was 664,298,880: 605,111,819 'for' and 59,187,061 'against'
- (ii) the percentage 'for' was 91.09% and the percentage 'against' was 8.91%
- (iii) the number of abstentions was 8,793,188

By order of the board

**Paul Lister**  
Company Secretary  
8 November 2016

## DIRECTORS' REPORT

### Introduction

The directors of Associated British Foods plc (the 'Company') present their report for the 53 weeks ended 17 September 2016, in accordance with section 415 of the Companies Act 2006. The UKLA's Disclosure and Transparency Rules and Listing Rules also require the Company to make certain disclosures, some of which have been included in other appropriate sections of the annual report and accounts.

The information set out on page 91 and the following cross-referenced material, is incorporated into this directors' report:

- likely future developments in the group's business (pages 12 to 41);
- greenhouse gas emissions (page 46); and
- the board of directors and the corporate governance report (pages 54 to 68).

### Results and dividends

The consolidated income statement is on page 98. Profit for the financial year attributable to equity shareholders amounted to £818m.

The directors recommend a final dividend of 26.45p per ordinary share to be paid, subject to shareholder approval, on 13 January 2017. Together with the interim dividend of 10.3p per share paid on 1 July 2016, this amounts to 36.75p for the year. Dividends are detailed on page 114.

### Directors

The names of the persons who were directors of the Company during the financial year and as at 8 November 2016 appear on pages 54 and 55, with the exception of Lord Jay and Peter Smith who each retired as a non-executive director on 30 November 2015 and 13 April 2016, respectively. All the other directors are standing for election or re-election at this year's AGM in December.

### Appointment of directors

The Company's articles of association (the 'Articles') give the directors power to appoint and replace directors. Under the terms of reference of the Nomination committee, any appointment must be recommended by the Nomination committee for approval by the board of directors. A person who is not recommended by the directors may only be appointed as a director where details of that director have been provided at least seven and not more than 35 days

prior to the relevant meeting by at least two members of the Company. The Articles require directors to retire and submit themselves for election at the first AGM following appointment and all directors who held office at the time of the two preceding AGMs and, in any event, not less than one-third of the relevant directors (excluding those directors who retire other than by rotation), to submit themselves for re-election. The Articles notwithstanding, all directors will stand for election or re-election at the AGM this year in compliance with the UK Corporate Governance Code. Details of unexpired terms of directors' service contracts are set out in the Remuneration report on page 87.

### Power of directors

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

### Directors' indemnities

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

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

### Directors' share interests

Details regarding the share interests of the directors (and their persons closely associated) in the share capital of the Company, including any interests under the long-term incentive plan, are set out in the Remuneration report on pages 84 and 85.

### Employees

During the year under review, the group employed an average of 129,916 people worldwide (2015–124,036) of whom 43,954 were employed in the UK. The group's business priority is to safeguard the wellbeing, development and safety

of its employees and those who work with it. It also wants employees to have opportunities to grow and progress as part of an enjoyable career. While the group's approach to human resource management is decentralised, with flexibility given to each of the businesses, as a group it abides by the following principles:

- equal opportunities – the group is committed to offering equal opportunities in recruitment, training, career development and promotion to all people, including those with disabilities, having regard for their particular aptitudes and abilities. As a matter of policy, full and fair consideration is given to applicants with disabilities and every effort is made to give employees who become disabled whilst employed by the group an opportunity for retraining and for continuation in employment. It is group policy that the training, career development and promotion of disabled persons should, as far as possible, be the same as that of other employees;
- health and safety – health and safety are considered as equal in importance to that of any other function of the group and its business objectives and the group is committed to providing a safe and healthy workplace to protect all employees, visitors and the public from foreseeable work hazards. The health and safety policy is available on the Company's website at [www.abf.co.uk](http://www.abf.co.uk);
- harassment – sexual, mental or physical harassment in the workplace will not be tolerated. It is expected that incidents of harassment are reported to the appropriate human resources director;
- human rights – the group provides opportunities that promote human rights and dignity every day through the employment created, both directly and indirectly in its global supply chains and through the positive contribution its products make to people's lives. Ongoing engagement and collaboration with a broad range of interested and concerned stakeholder groups is valued and Associated British Foods is active in its collaborative approach, seeking to remain sensitive to the risks of adverse human rights impacts resulting from its products, services and operations. While

respecting all human rights throughout the business, six priority areas of focus to mitigate risk have been highlighted, namely: workplace safety; gender and diversity; slavery and human trafficking; supply chain; use of commodities; and access to water. It is, however, acknowledged that these may change over time due to the constantly evolving nature of the businesses and environments in which the group operates. Further details on the group's approach to human rights can be found in the 2016 Corporate Responsibility Report and our Modern Slavery Act statement which is available on the Company's website at [www.abf.co.uk/responsibility](http://www.abf.co.uk/responsibility);

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

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

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

#### Disclosures required under Listing Rule 9.8.4R

The following table is included to meet the requirements of Listing Rule section 9.8.4R. The information required to

be disclosed by that section, where applicable to the Company, can be located in the annual report and accounts at the references set out below.

Information required	Location in annual report
(12) Shareholder waiver of dividends	Note 23 on page 130
(13) Shareholder waiver of future dividends	Note 23 on page 130
(14) Board statement on relationship agreement with controlling shareholder	Directors' report on page 89

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

#### Relationship agreement with controlling shareholders

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

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

Wittington Investments Limited ('Wittington') and, through their control of Wittington, the trustees of the Garfield Weston Foundation (the 'Foundation') are controlling shareholders of the Company. Certain other individuals, including certain members of the Weston family who hold shares in the Company (and including two of the Company's directors, George

Weston and Emma Adamo) are, under the Listing Rules, treated as acting in concert with Wittington and the trustees of the Foundation and are therefore also treated as controlling shareholders of the Company. Wittington, the trustees of the Foundation and these individuals together comprise the controlling shareholders of the Company and, at 17 September 2016, had a combined interest in approximately 59.16% of the Company's voting rights.

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

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

#### Major interests in shares

As at 17 September 2016, the Company had received formal notification, under the Disclosure and Transparency Rules, of the following material interest in its shares:

Shareholder	Number of ordinary shares	% of issued share capital	Date of notification of interest
The Capital Group Companies, Inc.	79,392,778	10.03	15 July 2016

No changes in the holdings of 3% or more of the voting rights in the Company's ordinary shares have been notified to the Company between 18 September 2016 and 2 November 2016.

## DIRECTORS' REPORT

### Share capital

Details of the Company's share capital and the rights attached to the Company's shares are set out in note 21 on page 127. The Company has one class of share capital: ordinary shares of 5<sup>15</sup>/22p. The rights and obligations attaching to these shares are governed by UK law and the Company's Articles.

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

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

### Authority to issue shares

At the last AGM, held on 4 December 2015, authority was given to the directors to allot unissued relevant securities in the Company up to a maximum of an amount equivalent to two-thirds of the shares in issue (of which one-third must be offered by way of rights issue). This authority expires on the date of this year's AGM to be held on 9 December 2016. No such shares have been issued. The directors propose to renew this authority at the 2016 AGM for the forthcoming year.

A further special resolution passed at that meeting granted authority to the directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 2006. This authority also expires on the date of the 2016 AGM and the directors will seek to renew this authority for the forthcoming year.

### Authority to purchase own shares

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

### Amendment to Company's articles of association

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

### Significant agreements – change of control

The group has contractual arrangements with many parties including directors, employees, customers, suppliers and banking groups. The following arrangements are considered to be

significant in terms of their potential impact on the business of the group as a whole and could alter or terminate on a change of control of the Company:

- the group has a number of borrowing facilities provided by various banking groups. These facility agreements generally include change of control provisions which, in the event of a change in ownership of the Company, could result in their renegotiation or withdrawal. The most significant of these are the £1.2bn syndicated loan facility signed on 15 July 2014 which was undrawn at the year end; and
- in addition to these bank facilities, the Company has in issue £588m of private placement notes to institutional investors. In the event of a change in ownership of the Company, the Company is obliged to make an offer of immediate repayment to the remaining note holders.

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

### Political donations

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

### Financial risk management

Details of the group's use of financial instruments, together with information on our risk objectives and policies and our exposure to price, credit, liquidity, cash flow and interest rate risks, can be found in note 25 on pages 131 to 140.

### Research and development

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

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

### Branches

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

### Post-balance sheet events

Significant events affecting the group that have arisen between 17 September 2016 and the date of this report and that require disclosure are described in note 30 on page 148.

### Disclosure of information to auditors

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

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

For these purposes, relevant audit information means information needed by the Company's auditors in connection with the preparation of their report on pages 92 to 97.

### Auditors

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

### Annual general meeting

The AGM will be held on 9 December 2016 at 11.00 am at Congress Centre, 28 Great Russell Street, London WC1B 3LS. Details of the resolutions to be proposed are set out in a separate Notice of meeting which accompanies this report for shareholders receiving hard copy documents and which is available at [www.abf.co.uk](http://www.abf.co.uk) for those who elected to receive documents electronically. At the 2016 AGM, all voting will be by poll using electronic handsets.

On behalf of the board

### Paul Lister

Company Secretary  
8 November 2016

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

Company No. 293262

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

the assets of the group and to prevent and detect fraud and other irregularities.

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

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

### Responsibility statement of the directors in respect of the annual report

We confirm that to the best of our knowledge:

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

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

On behalf of the board

**Charles Sinclair**  
Chairman

**George Weston**  
Chief Executive

**John Bason**  
Finance Director

8 November 2016

## INDEPENDENT AUDITOR'S REPORT

To the members of Associated British Foods plc

### Our opinion on the financial statements

In our opinion:

- Associated British Foods plc's group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the parent company's affairs as at 17 September 2016 and of the group's profit for the 53 weeks then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

### What we have audited

Associated British Foods plc's financial statements comprise:

Group	Parent company
Consolidated balance sheet as at 17 September 2016	Balance sheet as at 17 September 2016
Consolidated income statement for the 53 weeks then ended	Statement of changes in equity for the 53 weeks then ended
Consolidated statement of comprehensive income for the 53 weeks then ended	Related notes 1 to 10 to the financial statements
Consolidated statement of changes in equity for the 53 weeks then ended	
Consolidated cash flow statement for the 53 weeks then ended	
Related notes 1 to 30 to the financial statements	

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

### Overview of our audit approach

Risks of material misstatement	Audit scope	Materiality
<ul style="list-style-type: none"> <li>• Assessment of the carrying value of goodwill, other intangible assets and property, plant and equipment.</li> <li>• Tax provisions.</li> <li>• Revenue recognition, including the risk of management override.</li> </ul>	<ul style="list-style-type: none"> <li>• We performed an audit of the complete financial information of 125 components and audit procedures on specific balances for a further 60 components.</li> <li>• The components where we performed full or specific scope audit procedures accounted for 93% of profit before taxation, 91% of revenue and 92% of total assets.</li> </ul>	<ul style="list-style-type: none"> <li>• We used a group materiality of £50m, which represents 5% of profit before taxation.</li> </ul>

### Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit committee
<p><b>Assessment of the carrying value of goodwill, other intangible assets and property, plant and equipment (£6,493m, 2015–£5,885m).</b></p> <p>The group has a significant value of goodwill, other intangible assets and property, plant and equipment that has arisen from acquisitions and capital investments. The AB Mauri (carrying value of £696m), Australian meat (£156m) and UK bakeries (£281m) businesses all experienced challenging trading environments in recent years.</p> <p>AB Mauri's profitability has been impacted by competitive pricing pressures in some of its businesses compounded by macroeconomic conditions, including high inflation rates and currency devaluations.</p> <p>The Australian meat and UK bakeries businesses operate in environments of significant retailer pressure on price and competitor activity.</p> <p>There is a risk that these cash generating units ('CGUs') may not achieve the anticipated business performance to support their carrying value, leading to an impairment charge that has not been recognised by management.</p> <p>Significant judgement is required in forecasting the future cash flows of each CGU, together with the rate at which they are discounted.</p> <p><i>Refer to the Audit committee report (page 66); accounting policies (pages 105 and 106); accounting estimates and judgements (page 108); and notes 8 and 9 to the consolidated financial statements.</i></p>	<p>We understood the methodology applied by management in performing its impairment test for each of the relevant CGUs and walked through the controls over the process.</p> <p>For all CGUs we calculated the degree to which the key inputs and assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring. We performed our own sensitivities on the group's forecasts and determined whether adequate headroom remained.</p> <p>For CGUs where there were indicators of impairment or low levels of headroom, we performed detailed testing to critically assess and corroborate the key inputs to the valuations, including:</p> <ul style="list-style-type: none"> <li>• analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience;</li> <li>• for certain CGUs, visiting factories to better understand the operations and to assess the ability to achieve forecast volume growth, operational improvements and production yields;</li> <li>• corroborating the discount rate used by obtaining the underlying data used in the calculation and benchmarking it against market data and comparable organisations; and</li> <li>• validating the growth rates assumed by comparing them to economic and industry forecasts.</li> </ul> <p>We assessed the disclosures in note 8 against the requirements of IAS 36 Impairment of Assets, in particular in respect of the requirement to disclose further sensitivities for CGUs where a reasonably possible change in a key assumption would cause an impairment.</p> <p>For the AB Mauri CGU, the audit procedures performed to address this risk were performed by the group audit team. The Australian meat and UK bakeries operating intangible assets and property, plant and equipment were subject to full scope audit procedures by the respective component teams and reviewed by the group audit team.</p>	<p>We agreed with management's conclusion that no impairments were required, based on the results of our work. Of the group's goodwill, that relating to the AB Mauri business is most sensitive to reasonably possible changes in key assumptions. Management has described these sensitivities appropriately in the 'Intangible assets' note to the group financial statements, in accordance with IAS 36.</p>
<p><b>Tax provisions (included within the income tax liability of £147m, 2015–£126m).</b></p> <p>The global nature of the group's operations results in complexities in the payment of and accounting for tax.</p> <p>Management applies judgement in assessing tax exposures in each jurisdiction, many of which require interpretation of local tax laws.</p> <p>Given this judgement, there is a risk that tax provisions are misstated.</p> <p><i>Refer to the Audit committee report (page 66); accounting policies (page 105); accounting estimates and judgements (page 108); and note 5 to the consolidated financial statements.</i></p>	<p>We understood the group's process for determining provisions for tax and calculating the tax charge, and walked through management's controls over tax reporting.</p> <p>The group audit team, including tax specialists, evaluated the tax positions taken by management in each significant jurisdiction in the context of local tax law, correspondence with tax authorities and the status of any tax audits. Our work utilised additional support from country tax specialists in Australia, China, Germany, Ireland, Spain and the US.</p> <p>We assessed the group's transfer pricing judgements, considering the way in which the group's businesses operate and the correspondence and agreements reached with tax authorities.</p>	<p>We consider the amounts provided to be within an acceptable range in the context of the group's overall tax exposures.</p>

## INDEPENDENT AUDITOR'S REPORT

To the members of Associated British Foods plc

### Our assessment of risk of material misstatement continued

Risk	Our response to the risk	What we concluded to the Audit committee
<p><b>Revenue recognition, including the risk of management override (£13,399m, 2015–£12,800m).</b></p> <p>There continues to be pressure on the group to meet expectations and targets. Management reward and incentive schemes based on achieving profit targets may also place pressure to manipulate revenue recognition.</p> <p>The majority of the group's sales arrangements are generally straightforward, being on a point of sale basis and requiring little judgement to be exercised. However, in the Grocery segment, management estimates the level of trade promotions and rebates to be applied to its sales to customers, adding a level of judgement to revenue recognition. Approximately 4% of the group's gross revenue is subject to such arrangements.</p> <p>There is a risk that management may override controls to intentionally misstate revenue transactions, either through the judgements made in estimating rebates in the Grocery segment or by recording fictitious revenue transactions across the business.</p> <p><i>Refer to the accounting policies (page 104); and note 1 to the consolidated financial statements.</i></p>	<p>We understood each business' revenue recognition policies and how they are applied, including the relevant controls, and tested controls over revenue recognition where appropriate.</p> <p>We discussed key contractual arrangements with management and obtained relevant documentation, including in respect of rebate arrangements. Where rebate arrangements existed, we obtained third-party confirmations or performed appropriate alternative procedures, including review of contracts and recalculation of rebates. We also performed hindsight analysis over changes to prior period rebate estimates to challenge the assumptions made, including assessing the estimates for evidence of management bias.</p> <p>For a number of businesses, including Primark, as part of our overall revenue recognition testing we used data analysis tools to test the correlation of revenue transactions to cash receipts for 100% of sales through the year. This provided us with a high level of assurance over £8.6bn (64%) of revenue recognised. For those in-scope businesses where we did not use data analysis tools, we performed appropriate alternative procedures over revenue recognition.</p> <p>We performed cut-off testing for a sample of revenue transactions around the period end date, to check that they were recognised in the appropriate period.</p> <p>Other audit procedures specifically designed to address the risk of management override of controls included journal entry testing, applying particular focus to the timing of revenue transactions.</p> <p>We performed full and specific scope audit procedures over this risk area in 101 locations, which covered 91% of the group's revenue.</p>	<p>Based on the procedures performed, including those in respect of trade deductions and rebates in the Grocery segment, we did not identify any evidence of material misstatement in the revenue recognised in the year.</p>

The risks of material misstatement as set out in the table above are consistent with those reported by Associated British Foods plc's previous external auditor, with the exception of the inclusion in 2016 of revenue recognition, including the risk of management override.

**The scope of our audit**

**Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the level of revenue and profit before taxation, risk profile (including country risk, controls and internal audit findings) and the extent of changes in management, systems and processes and the business environment) and other known factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the group financial statements and to achieve adequate quantitative coverage of significant accounts in the financial statements, of the 596 reporting components of the group, we selected 185 components, which represent the principal business units within the group.

Of the 185 components selected, we performed an audit of the complete financial information of 125 components ('full scope components') which were selected based on their size or risk characteristics. For the remaining 60 components ('specific scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed full and specific scope audit procedures accounted for 93% of the group's profit before taxation, 91% of the group's revenue and 92% of the group's total assets. For the current period, the full scope components contributed 87% of the group's profit before taxation, 81% of the group's revenue and 76% of the group's total assets. The specific scope components contributed 6% of the group's profit before taxation, 10% of the group's revenue and 16% of the group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but contributed to the coverage of significant accounts tested for the group.

Of the remaining 411 components that together represent 7% of the group's profit before taxation, none are individually greater than 1.1% of the group's profit before taxation. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the group financial statements.

Associated British Foods plc's previous external auditor performed full and specific scope audit procedures on components accounting for 90% of the group's profit before taxation, 91% of the group's revenue and 91% of the group's total assets.

The charts illustrate the coverage obtained from the work performed by our audit teams.

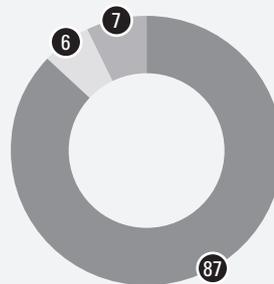
**Involvement with component teams**

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the group audit team, or by component auditors from other EY global network firms or other auditors operating under our instruction. Of the 125 full scope components, audit procedures were performed on 77 of these directly by the group audit team and 48 by component audit teams. For the 60 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the group as a whole.

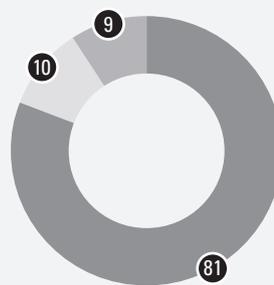
During the period the Senior Statutory Auditor or other members of the group audit team visited 36 full and specific scope components in the UK, Ireland, Australia, the US, Argentina, Brazil, China, Italy, Mexico, Poland, South Africa, Spain and Thailand.

These visits involved meeting with our component team to discuss and direct its audit approach, reviewing and understanding the significant audit findings in response to the risk areas including asset impairment, tax provisions and revenue recognition, holding meetings with local management, undertaking factory tours and obtaining updates on local regulatory matters including tax, pensions and legal. The group audit team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial statements.

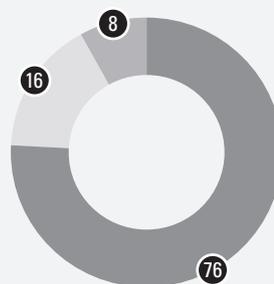
**Profit before taxation (%)**



**Revenue (%)**



**Total assets (%)**



● Full scope components  
 ● Specific scope components  
 ● Other procedures

## INDEPENDENT AUDITOR'S REPORT

To the members of Associated British Foods plc

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

**Materiality** – “The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.”

We determined materiality for the group to be £50m, which is 5% of profit before taxation. We believe that profit before taxation is the most relevant performance measure to the stakeholders of the group. In 2015, Associated British Foods plc's previous external auditor used a materiality level of £50m, based on 5% of normalised profit before taxation.

During the course of our audit, we reassessed initial materiality and, as the actual profit before taxation did not differ significantly from the group's initial estimates, we did not change our materiality assessment.

**Performance materiality** – “The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.”

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £25m, reflecting that this is our first period as auditor of Associated British Foods plc.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current period, the range of performance materiality allocated to components was £1m to £11m.

**Reporting threshold** – “An amount below which identified misstatements are considered as being clearly trivial.”

We agreed with the Audit committee that we would report to them all uncorrected audit differences in excess of £1m, which is set at 2% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on page 91, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

### Matters on which we are required to report by exception

<b>ISAs (UK and Ireland) reporting</b>	<p>We are required to report to you if, in our opinion, financial and non-financial information in the annual report and accounts is:</p> <ul style="list-style-type: none"> <li>• materially inconsistent with the information in the audited financial statements; or</li> <li>• apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or</li> <li>• otherwise misleading.</li> </ul> <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report and accounts appropriately addresses those matters that we communicated to the Audit committee that we consider should have been disclosed.</p>	We have no exceptions to report.
<b>Companies Act 2006 reporting</b>	<p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> <li>• adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or</li> <li>• the parent company financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or</li> <li>• certain disclosures of directors' remuneration specified by law are not made; or</li> <li>• we have not received all the information and explanations we require for our audit.</li> </ul>	We have no exceptions to report.
<b>Listing Rules review requirements</b>	<p>We are required to review:</p> <ul style="list-style-type: none"> <li>• the directors' statement in relation to going concern, set out on page 61, and longer-term viability, set out on page 53; and</li> <li>• the part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.</li> </ul>	We have no exceptions to report.

### Statement on the directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

<b>ISAs (UK and Ireland) reporting</b>	<p>We are required to give a statement as to whether we have anything material to add or draw attention to in relation to:</p> <ul style="list-style-type: none"> <li>• the directors' confirmation in the annual report and accounts that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;</li> <li>• the disclosures in the annual report and accounts that describe those risks and explain how they are being managed or mitigated;</li> <li>• the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and</li> <li>• the directors' explanation in the annual report and accounts as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul>	We have nothing material to add or to draw attention to.
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#### Andrew Walton (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

8 November 2016

## CONSOLIDATED INCOME STATEMENT

for the 53 weeks ended 17 September 2016

Continuing operations	Note	2016 £m	2015 (restated <sup>1</sup> ) £m
<b>Revenue</b>	1	<b>13,399</b>	12,800
Operating costs before exceptional item	2	<b>(12,359)</b>	(11,821)
Exceptional item	2	<b>(5)</b>	(98)
		<b>1,035</b>	881
Share of profit after tax from joint ventures and associates	10	<b>57</b>	48
Profits less losses on disposal of non-current assets		<b>11</b>	8
<b>Operating profit</b>		<b>1,103</b>	937
Adjusted operating profit	1	<b>1,118</b>	1,082
Profits less losses on disposal of non-current assets		<b>11</b>	8
Amortisation of non-operating intangibles	8	<b>(21)</b>	(55)
Exceptional item	2	<b>(5)</b>	(98)
Profits less losses on sale and closure of businesses	22	<b>(14)</b>	(172)
<b>Profit before interest</b>		<b>1,089</b>	765
Finance income	4	<b>6</b>	8
Finance expense	4	<b>(56)</b>	(61)
Other financial income/(expense)	4	<b>3</b>	(5)
<b>Profit before taxation</b>		<b>1,042</b>	707
Adjusted profit before taxation		<b>1,071</b>	1,024
Profits less losses on disposal of non-current assets		<b>11</b>	8
Amortisation of non-operating intangibles	8	<b>(21)</b>	(55)
Exceptional item	2	<b>(5)</b>	(98)
Profits less losses on sale and closure of businesses	22	<b>(14)</b>	(172)
Taxation – UK (excluding tax on exceptional item)		<b>(73)</b>	(88)
– UK (on exceptional item)		<b>–</b>	22
– Overseas		<b>(148)</b>	(125)
	5	<b>(221)</b>	(191)
<b>Profit for the period</b>		<b>821</b>	516
<b>Attributable to</b>			
Equity shareholders		<b>818</b>	528
Non-controlling interests		<b>3</b>	(12)
<b>Profit for the period</b>		<b>821</b>	516
Basic and diluted earnings per ordinary share (pence)	7	<b>103.4</b>	66.8
Dividends per share paid and proposed for the period (pence)	6	<b>36.75</b>	35.0

<sup>1</sup> The results of the prior year have been restated to reflect the change of accounting policy for sugar cane roots (see page 106).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 53 weeks ended 17 September 2016

	2016 £m	2015 (restated) £m
<b>Profit for the period recognised in the income statement</b>	<b>821</b>	516
<b>Other comprehensive income</b>		
Remeasurements of defined benefit schemes	(258)	27
Deferred tax associated with defined benefit schemes	50	(5)
Current tax associated with defined benefit schemes	1	–
Items that will not be reclassified to profit or loss	(207)	22
Effect of movements in foreign exchange	610	(444)
Net (loss)/gain on hedge of net investment in foreign subsidiaries	(75)	22
Deferred tax associated with movements in foreign exchange	8	2
Current tax associated with movements in foreign exchange	1	1
Reclassification adjustment for movements in foreign exchange on subsidiaries disposed	–	(8)
Movement in cash flow hedging position	(13)	(56)
Deferred tax associated with movement in cash flow hedging position	4	11
Share of other comprehensive income of joint ventures and associates	16	(2)
Items that are or may be subsequently reclassified to profit or loss	551	(474)
<b>Other comprehensive income for the period</b>	<b>344</b>	(452)
<b>Total comprehensive income for the period</b>	<b>1,165</b>	64
<b>Attributable to</b>		
Equity shareholders	1,153	151
Non-controlling interests	12	(87)
<b>Total comprehensive income for the period</b>	<b>1,165</b>	64

**CONSOLIDATED BALANCE SHEET**

at 17 September 2016

	Note	2016 £m	2015 (restated <sup>1</sup> ) £m	2014 (restated <sup>1</sup> ) £m
<b>Non-current assets</b>				
Intangible assets	8	<b>1,348</b>	1,367	1,467
Property, plant and equipment	9	<b>5,145</b>	4,518	4,701
Investments in joint ventures	10	<b>221</b>	180	180
Investments in associates	10	<b>39</b>	32	32
Employee benefits assets	11	<b>6</b>	125	90
Deferred tax assets	12	<b>139</b>	125	152
Other receivables	13	<b>41</b>	23	164
<b>Total non-current assets</b>		<b>6,939</b>	6,370	6,786
<b>Current assets</b>				
Assets classified as held for sale	14	<b>312</b>	–	–
Inventories	15	<b>2,033</b>	1,827	1,631
Biological assets	16	<b>86</b>	70	109
Trade and other receivables	13	<b>1,337</b>	1,176	1,293
Derivative assets	25	<b>105</b>	74	74
Income tax		<b>9</b>	–	–
Cash and cash equivalents	17	<b>555</b>	702	519
<b>Total current assets</b>		<b>4,437</b>	3,849	3,626
<b>Total assets</b>		<b>11,376</b>	10,219	10,412
<b>Current liabilities</b>				
Liabilities classified as held for sale	14	<b>(75)</b>	–	–
Loans and overdrafts	18	<b>(245)</b>	(319)	(358)
Trade and other payables	19	<b>(2,551)</b>	(2,226)	(2,046)
Derivative liabilities	25	<b>(73)</b>	(33)	(15)
Income tax		<b>(147)</b>	(126)	(193)
Provisions	20	<b>(54)</b>	(38)	(72)
<b>Total current liabilities</b>		<b>(3,145)</b>	(2,742)	(2,684)
<b>Non-current liabilities</b>				
Loans	18	<b>(640)</b>	(577)	(607)
Provisions	20	<b>(34)</b>	(28)	(29)
Deferred tax liabilities	12	<b>(139)</b>	(220)	(251)
Employee benefits liabilities	11	<b>(296)</b>	(141)	(133)
<b>Total non-current liabilities</b>		<b>(1,109)</b>	(966)	(1,020)
<b>Total liabilities</b>		<b>(4,254)</b>	(3,708)	(3,704)
<b>Net assets</b>		<b>7,122</b>	6,511	6,708
<b>Equity</b>				
Issued capital	21	<b>45</b>	45	45
Other reserves	21	<b>175</b>	175	175
Translation reserve	21	<b>433</b>	(120)	238
Hedging reserve	21	<b>(22)</b>	(11)	29
Retained earnings		<b>6,423</b>	6,232	5,933
<b>Total equity attributable to equity shareholders</b>		<b>7,054</b>	6,321	6,420
Non-controlling interests		<b>68</b>	190	288
<b>Total equity</b>		<b>7,122</b>	6,511	6,708

<sup>1</sup> Prior year balances have been restated to reflect the change of accounting policy for sugar cane roots (see page 106).

The financial statements on pages 98 to 148 were approved by the board of directors on 8 November 2016 and were signed on its behalf by:

**Charles Sinclair**  
Chairman

**John Bason**  
Director

**CONSOLIDATED CASH FLOW STATEMENT**

for the 53 weeks ended 17 September 2016

	2016 £m	2015 (restated) £m
<b>Cash flow from operating activities</b>		
Profit before taxation	1,042	707
Profits less losses on disposal of non-current assets	(11)	(8)
Profits less losses on sale and closure of businesses	14	172
Finance income	(6)	(8)
Finance expense	56	61
Other financial (income)/expense	(3)	5
Share of profit after tax from joint ventures and associates	(57)	(48)
Amortisation	47	81
Depreciation	439	408
Exceptional item	5	98
Net change in the fair value of current biological assets	(12)	16
Share-based payment expense	7	11
Pension costs less contributions	7	6
Increase in inventories	(62)	(310)
(Increase)/decrease in receivables	(55)	10
Increase in payables	107	234
Purchases less sales of current biological assets	(2)	(2)
Increase/(decrease) in provisions	5	(28)
Cash generated from operations	1,521	1,405
Income taxes paid	(211)	(230)
<b>Net cash from operating activities</b>	<b>1,310</b>	<b>1,175</b>
<b>Cash flows from investing activities</b>		
Dividends received from joint ventures and associates	25	50
Purchase of property, plant and equipment	(766)	(582)
Purchase of intangibles	(30)	(31)
Purchase of non-current biological assets	(8)	(10)
Sale of property, plant and equipment	27	72
Purchase of subsidiaries, joint ventures and associates	(10)	(52)
Sale of subsidiaries, joint ventures and associates	–	5
Loans to joint ventures	–	(7)
Interest received	6	7
<b>Net cash from investing activities</b>	<b>(756)</b>	<b>(548)</b>
<b>Cash flows from financing activities</b>		
Dividends paid to non-controlling interests	(10)	(16)
Dividends paid to equity shareholders	(279)	(271)
Interest paid	(62)	(64)
Decrease in short-term loans	(109)	(115)
Increase in long-term loans	12	15
Purchase of shares in subsidiary undertaking from non-controlling interests	(252)	–
Sale of shares in subsidiary undertaking to non-controlling interests	–	11
Movements from changes in own shares held	(19)	–
<b>Net cash from financing activities</b>	<b>(719)</b>	<b>(440)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(165)</b>	<b>187</b>
Cash and cash equivalents at the beginning of the period	585	399
Effect of movements in foreign exchange	42	(1)
<b>Cash and cash equivalents at the end of the period</b>	<b>462</b>	<b>585</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the 53 weeks ended 17 September 2016

	Attributable to equity shareholders						Non-controlling interests £m	Total equity £m	
	Note	Issued capital £m	Other reserves £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m			Total £m
Balance as at 13 September 2014 as originally stated		45	175	238	29	5,950	6,437	316	6,753
Impact of change in accounting policy (see page 106)		–	–	–	–	(17)	(17)	(28)	(45)
Balance as at 13 September 2014 restated		45	175	238	29	5,933	6,420	288	6,708
<b>Total comprehensive income</b>									
Profit for the period recognised in the income statement (restated)		–	–	–	–	528	528	(12)	516
Remeasurements of defined benefit schemes		–	–	–	–	26	26	1	27
Deferred tax associated with defined benefit schemes		–	–	–	–	(5)	(5)	–	(5)
Items that will not be reclassified to profit or loss		–	–	–	–	21	21	1	22
Effect of movements in foreign exchange (restated)		–	–	(371)	(1)	–	(372)	(72)	(444)
Net gain on hedge of net investment in foreign subsidiaries		–	–	22	–	–	22	–	22
Deferred tax associated with movements in foreign exchange		–	–	–	–	–	–	2	2
Current tax associated with movements in foreign exchange		–	–	1	–	–	1	–	1
Reclassification adjustment for movements in foreign exchange on subsidiaries disposed		–	–	(8)	–	–	(8)	–	(8)
Movement in cash flow hedging position		–	–	–	(49)	–	(49)	(7)	(56)
Deferred tax associated with movement in cash flow hedging position		–	–	–	10	–	10	1	11
Share of other comprehensive income of joint ventures and associates		–	–	(2)	–	–	(2)	–	(2)
Items that are or may be subsequently reclassified to profit or loss (restated)		–	–	(358)	(40)	–	(398)	(76)	(474)
Other comprehensive income (restated)		–	–	(358)	(40)	21	(377)	(75)	(452)
Total comprehensive income (restated)		–	–	(358)	(40)	549	151	(87)	64
<b>Transactions with owners</b>									
Dividends paid to equity shareholders	6	–	–	–	–	(271)	(271)	–	(271)
Net movement in own shares held		–	–	–	–	11	11	–	11
Current tax associated with share-based payments		–	–	–	–	4	4	–	4
Dividends paid to non-controlling interests		–	–	–	–	–	–	(16)	(16)
Acquisition and disposal of non-controlling interests (restated)		–	–	–	–	6	6	5	11
Total transactions with owners (restated)		–	–	–	–	(250)	(250)	(11)	(261)
Balance as at 12 September 2015 (restated)		45	175	(120)	(11)	6,232	6,321	190	6,511
<b>Total comprehensive income</b>									
Profit for the period recognised in the income statement		–	–	–	–	818	818	3	821
Remeasurements of defined benefit schemes		–	–	–	–	(258)	(258)	–	(258)
Deferred tax associated with defined benefit schemes		–	–	–	–	50	50	–	50
Current tax associated with defined benefit schemes		–	–	–	–	1	1	–	1
Items that will not be reclassified to profit or loss		–	–	–	–	(207)	(207)	–	(207)
Effect of movements in foreign exchange		–	–	603	2	–	605	5	610
Net loss on hedge of net investment in foreign subsidiaries		–	–	(75)	–	–	(75)	–	(75)
Deferred tax associated with movements in foreign exchange		–	–	8	–	–	8	–	8
Current tax associated with movements in foreign exchange		–	–	1	–	–	1	–	1
Movement in cash flow hedging position		–	–	–	(17)	–	(17)	4	(13)
Deferred tax associated with movement in cash flow hedging position		–	–	–	4	–	4	–	4
Share of other comprehensive income of joint ventures and associates		–	–	16	–	–	16	–	16
Items that are or may be subsequently reclassified to profit or loss		–	–	553	(11)	–	542	9	551
Other comprehensive income		–	–	553	(11)	(207)	335	9	344
Total comprehensive income		–	–	553	(11)	611	1,153	12	1,165
<b>Transactions with owners</b>									
Dividends paid to equity shareholders	6	–	–	–	–	(279)	(279)	–	(279)
Net movement in own shares held		–	–	–	–	(12)	(12)	–	(12)
Deferred tax associated with share-based payments		–	–	–	–	(2)	(2)	–	(2)
Current tax associated with share-based payments		–	–	–	–	1	1	–	1
Dividends paid to non-controlling interests		–	–	–	–	–	–	(10)	(10)
Acquisition and disposal of non-controlling interests		–	–	–	–	(128)	(128)	(124)	(252)
Total transactions with owners		–	–	–	–	(420)	(420)	(134)	(554)
<b>Balance as at 17 September 2016</b>		<b>45</b>	<b>175</b>	<b>433</b>	<b>(22)</b>	<b>6,423</b>	<b>7,054</b>	<b>68</b>	<b>7,122</b>

## SIGNIFICANT ACCOUNTING POLICIES

for the 53 weeks ended 17 September 2016

Associated British Foods plc ('the Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the 53 weeks ended 17 September 2016 comprise those of the Company and its subsidiaries (together referred to as 'the group') and the group's interest in associates and joint arrangements.

The financial statements were authorised for issue by the directors on 8 November 2016.

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

The Company has elected to prepare its parent company financial statements under Financial Reporting Standard 101 *Reduced Disclosure Framework*. These are presented on pages 149 to 156.

### Basis of preparation

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

The preparation of financial statements under Adopted IFRS requires management to make judgements, estimates and assumptions about the reported amounts of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on experience. Actual results may differ from these estimates. Judgements made by management in the application of Adopted IFRS that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment next year, are discussed in Accounting estimates and judgements detailed on page 108.

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

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

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

The consolidated financial statements of the group are prepared to the Saturday nearest to 15 September. Accordingly, these financial statements have been prepared for the 53 weeks ended 17 September 2016 (2015 – 52 weeks ended 12 September 2015). To avoid delay in the preparation of the consolidated financial statements, the results of certain subsidiaries, joint arrangements and associates are included up to 31 August each year. The results of Illovo are included for the period to 31 August 2016, with Illovo's 2015 results being included to 30 September. Adjustments are made as appropriate for significant transactions or events occurring between 17 September and these other balance sheet dates.

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 6 to 41. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 42 and 43. In addition, the Principal risks and uncertainties on pages 48 to 52 and note 25 on pages 131 to 140 provide details of the group's policy on managing its financial and commodity risks.

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

### Basis of consolidation

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

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to direct the activities of an entity so as to significantly affect the returns of that entity.

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

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

Associates are those entities in which the group has significant influence, being the power to participate in the financial and operating policy decisions of the entity, but which does not amount to control or joint control.

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

Control, joint control and significant influence are generally assessed by reference to equity shareholdings and voting rights.

### Business combinations

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired, reflecting conditions at the date of acquisition. Adjustments to fair values include those made to bring accounting policies into line with those of the group. Provisional fair values are finalised within 12 months of the business combination date and, where significant, are adjusted by restatement of the comparative period in which the acquisition occurred. Non-controlling interests are measured at the proportionate share of the net identifiable assets acquired.

Existing equity interests in the acquiree are remeasured to fair value as at the date of the business combination, with any resulting gain or loss taken to the income statement.

## SIGNIFICANT ACCOUNTING POLICIES

for the 53 weeks ended 17 September 2016

Goodwill arising on a business combination is the excess of the remeasured carrying amount of any existing equity interest plus the fair value of consideration payable for the additional stake over the fair value of the share of net identifiable assets and liabilities acquired (including separately identified intangible assets), net of non-controlling interests. Total consideration does not include acquisition costs, which are expensed as incurred. Contingent consideration is measured at fair value at the date of the business combination, classified as a liability or equity (usually as a liability), and subsequently accounted for in line with that classification. Changes in contingent consideration classified as a liability resulting other than from the finalisation of provisional fair values are accounted for in the income statement.

### Revenue

Revenue represents the value of sales made to customers after deduction of discounts, sales taxes and a provision for returns. Discounts include sales rebates, price discounts, customer incentives, certain promotional activities and similar items. Revenue does not include sales between group companies. Revenue is recognised when the risks and rewards of the underlying products have been substantially transferred to the customer and when it can be measured reliably.

In the food businesses, revenue from the sale of goods is generally recognised on dispatch or delivery to customers, dependent on shipping terms. Discounts and returns are provided for as a reduction to revenue when sales are recorded, based on management's best estimate of the amount required to meet claims by customers, taking into account contractual and legal obligations, historical trends and past experience.

In the retail business, revenue from the sale of goods is recognised when the customer purchases goods in-store. Returns are provided for as a reduction to revenue when sales are recorded, based on management's best estimate of the amount required to meet claims by customers, taking into account historical trends and past experience.

### Borrowing costs

Borrowing costs are accounted for using the effective interest method. The group capitalises borrowing costs directly attributable to the acquisition, construction or production of qualifying items of property, plant and equipment as part of their cost. Interest capitalised is taxed under current or deferred tax as appropriate.

### Exceptional items

Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure on the face of the income statement.

### Adjusted profit and earnings measures

Adjusted operating profit is stated before amortisation of non-operating intangibles, profits less losses on disposal of non-current assets and exceptional items. Adjusted profit before tax is stated before amortisation of non-operating intangibles, profits less losses on disposal of non-current assets, profits less losses on sale and closure of businesses and exceptional items. Both measures are shown on the face of the income statement.

Adjusted earnings per share is shown in the notes and is stated before amortisation of non-operating intangibles, profits less losses on disposal of non-current assets, profits less losses on sale and closure of businesses and exceptional items together with the related tax effect.

### Constant currency

Constant currency is derived by translating the prior year results at current year weighted average exchange rates.

### Foreign currencies

In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rate prevailing at the balance sheet date. Any resulting differences are taken to the income statement.

On consolidation, assets and liabilities of foreign operations that are denominated in foreign currencies are translated into sterling at the rate of exchange at the balance sheet date.

Income and expense items are translated into sterling at weighted average rates of exchange.

Differences arising from the retranslation of opening net assets of group companies, together with differences arising from the restatement of the net results of group companies from average rates to rates at the balance sheet date, are taken to the translation reserve in equity.

### Pensions and other post-employment benefits

The group's principal pension schemes are defined benefit plans. In addition the group has defined contribution plans and other unfunded post-employment liabilities. For defined benefit plans, the amount charged in the income statement is the cost of benefits accruing to employees over the year, plus any benefit improvements granted to members by the group during the year. It also includes net interest expense or income calculated by applying the liability discount rate to the net pension asset or liability. For each plan, the difference between market value of assets and present value of liabilities is disclosed as an asset or liability in the balance sheet.

Any related deferred tax (to the extent recoverable) is disclosed separately in the balance sheet. Remeasurements are recognised immediately in other comprehensive income. Surpluses are recognised only to the extent that they are recoverable. Movements in irrecoverable surpluses are recognised immediately as remeasurements in other comprehensive income.

Contributions payable by the group in respect of defined contribution plans are charged to operating profit as incurred. Other unfunded post-employment liabilities are accounted for in the same way as defined benefit pension plans.

### Share-based payments

The fair value of share awards at grant date is recognised as an employee expense with a corresponding increase in equity, spread over the period during which the employees become unconditionally entitled to the shares. The amount recognised is adjusted to reflect expected and actual levels of vesting except where the failure to vest is as a result of not meeting a market condition.

### Income tax

Income tax on profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items taken directly to equity.

Current tax is the tax expected to be payable on taxable income for the year, using tax rates enacted or substantively enacted during the period, together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill; initial recognition of assets or liabilities affecting neither accounting nor taxable profit other than those acquired in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

### Financial assets and liabilities

Financial assets and financial liabilities, except for other non-current investments and derivatives, are measured initially at fair value, plus directly attributable transaction costs, and thereafter at amortised cost. Other non-current investments (classified under other non-current receivables) comprise available-for-sale investments measured at market prices where available. Where quoted market prices in an active market are not available, and where fair value cannot be reliably measured, unquoted equity instruments are measured at cost less impairment.

### Cash and cash equivalents

Cash and cash equivalents comprise bank and cash balances, call deposits and short-term investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

### Derivatives

Derivatives are used to manage the group's economic exposure to financial and commodity risks. The principal instruments used are foreign exchange and commodity contracts, futures, swaps or options (the 'hedging instrument'). The group does not use derivatives for speculative purposes.

Derivatives are recognised in the balance sheet, at fair value, based on market prices or rates, or calculated using either discounted cash flow or option pricing models.

Changes in the value of derivatives are recognised in the income statement unless they qualify for hedge accounting, when recognition of any change in fair value depends on the nature of the item being hedged.

The purpose of hedge accounting is to mitigate the impact on the group's income statement of changes in foreign exchange or interest rates and commodity prices, by matching the impact of the hedged risk and the hedging instrument in the income statement.

Changes in the value of derivatives used as hedges of future cash flows are recognised through other comprehensive income in the hedging reserve, with any ineffective portion recognised immediately in the income statement.

When the future cash flow results in the recognition of a non-financial asset or liability, the gains and losses previously recognised in the hedging reserve are included in the initial measurement of that asset or liability. Otherwise, gains and losses previously recognised in the hedging reserve are recognised in the income statement at the same time as the hedged transaction.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in the hedging reserve is retained in the hedging reserve until the forecast transaction occurs. Gains or losses on hedging instruments relating to an underlying exposure that no longer exists are taken to the income statement.

Hedges of the group's net investment in foreign operations principally comprise borrowings in the currency of the investment's net assets.

The group economically hedges foreign currency exposure on recognised monetary assets and liabilities but does not normally seek hedge accounting. Any derivatives that the group holds to hedge this exposure are classified as 'held for trading' within derivative assets and liabilities. Changes in the fair value of such derivatives and the foreign exchange gains and losses arising on the related monetary items are recognised within operating profit.

### Intangible assets other than goodwill

Non-operating intangible assets are intangible assets that arise on business combinations and typically include technology, brands, customer relationships and grower agreements. Operating intangible assets are acquired in the ordinary course of business and typically include computer software, land use rights and emissions trading licences.

Intangible assets other than goodwill are stated at cost less accumulated amortisation and impairment charges.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives are generally deemed to be no longer than:

Technology and brands – up to 15 years  
Customer relationships – up to 5 years  
Grower agreements – up to 10 years

## SIGNIFICANT ACCOUNTING POLICIES

for the 53 weeks ended 17 September 2016

### Goodwill

Goodwill is defined under 'Business combinations' on page 103. Certain commercial assets associated with the acquisition of a business are not capable of being recognised in the acquisition balance sheet. In such circumstances, goodwill is recognised, which may include, but is not necessarily limited to, workforce assets and the benefits of expected future synergies.

Goodwill is not amortised but is subject to an annual impairment review.

### Research and development

Research expenditure is expensed as incurred. Development expenditure is capitalised if the product or process is technically and commercially feasible but is otherwise expensed as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment charges.

### Impairment

The carrying amounts of the group's intangible assets and property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangibles without a finite life, the recoverable amount is estimated at least annually.

An impairment charge is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.

Impairment charges recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to that CGU and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

### Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less costs to sell and their value in use. In assessing value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the CGU to which the asset belongs.

### Reversals of impairment

An impairment charge in respect of goodwill is not subsequently reversed. For other assets, an impairment charge is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the new carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment charge had been recognised.

### Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment charges.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment sufficient to reduce them to estimated residual value. Land is not depreciated. Estimated useful lives are generally deemed to be no longer than:

Freehold buildings	66 years
Plant and equipment, fixtures and fittings – sugar factories, yeast plants, mills and bakeries	20 years
– other operations	12 years
Vehicles	10 years

### Leases

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or a series of payments, the right to use a specific asset for an agreed period of time.

Where the group is a lessee and has substantially all the risks and rewards of ownership of an asset, the arrangement is considered a finance lease. Finance leases are recognised as assets of the group within property, plant and equipment at the inception of the lease at the lower of fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Payments made under finance leases are apportioned between capital repayments and interest expense charged to the income statement. Other leases where the group is a lessee are treated as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease, as is the benefit of lease incentives.

Where the group is a lessor under an operating lease, the asset is capitalised within property, plant and equipment and depreciated over its useful economic life. Payments received under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

### Biological assets

Non-current biological assets are sugar cane roots which are stated at cost less accumulated depreciation and impairment charges and included within property, plant and equipment. Depreciation is calculated using the same method as for property, plant and equipment.

Current biological assets are measured at fair value less costs to sell.

The basis of valuation for growing cane is estimated sucrose content valued at estimated sucrose price for the following season, less estimated costs for harvesting and transport.

When harvested, growing cane is transferred to inventory at fair value less costs to sell.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses and an appropriate proportion of production and other overheads, calculated on a first-in first-out basis.

Inventories for the retail businesses are valued at the lower of cost and net realisable value using the retail method, calculated on the basis of selling price less appropriate trading margin. All retail inventories are finished goods.

### New accounting policies

The group has adopted early the amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* which were not otherwise applicable until the 2017 financial year. This follows the acquisition of the remaining minority stake in Illovo Sugar Limited and the change of Illovo's year end to 31 August to align it more closely with the rest of the group.

The amendments bring bearer plants (which for the group are sugar cane roots) into the scope of IAS 16 rather than IAS 41. The previous valuation of these non-current biological assets is replaced by a cost or revaluation approach. The group has selected the historic cost approach as this removes subjective judgement from the accounting calculation. The change of policy has been applied retrospectively as if the amendments had always applied.

Sugar cane roots are now shown in the consolidated balance sheet at cost less accumulated depreciation and impairment charges as a separate category within property, plant and equipment. The net changes in fair value of sugar cane roots previously credited to the consolidated income statement have been reversed and replaced with historic cost depreciation. There is no net change to the consolidated cash flow statement, but the adjustment to profit before tax for the net change in fair value of sugar cane roots has been reversed and replaced with an adjustment for historic cost depreciation and increased capital expenditure.

The impact of the changes prior to the 2014 balance sheet date have been reflected in retained earnings in equity in the restated 2014 consolidated balance sheet, together with the related impact on non-controlling interests. In the 2014 consolidated balance sheet, non-current biological assets reduced from £96m to £36m and are now disclosed as sugar cane roots within property, plant and equipment. Deferred tax liabilities decreased from £266m to £251m. The reduction in consolidated net assets of £45m comprised £17m attributable to equity shareholders and £28m attributable to non-controlling interests.

In the 2015 consolidated income statement, the impact was an increase of £10m in cost of sales and a decrease of £2m in the overseas tax charge. Of the net reduction of £8m in profit after tax, £4m was attributable to equity shareholders and £4m to non-controlling interests. 2015 basic earnings and adjusted earnings per share both decreased by 0.5p, from 67.3p to 66.8p, and 102.0p to 101.5p, respectively.

In the 2015 consolidated balance sheet, non-current biological assets reduced from £83m to £30m. Deferred tax liabilities decreased from £233m to £220m. The reduction in consolidated net assets of £40m comprised £15m attributable to equity shareholders, with £(5)m reflected in the translation reserve and £20m in retained earnings, and £25m attributable to non-controlling interests.

In the 2015 consolidated cash flow statement, the previously reported £12m adjustment to profit before tax for the net change in fair value of sugar cane roots has been reversed and replaced with a £7m adjustment for historic cost depreciation and £9m of increased capital expenditure.

These adjustments affect only the Sugar operating segment and the Europe & Africa geographic segment.

There were no other changes to accounting policies during the year. The group is also assessing the impact of the following standards, interpretations and amendments that are not yet effective. Where already endorsed by the EU, these changes will be adopted on the effective dates noted. Where not yet endorsed by the EU, the adoption date is less certain. The standards effective in 2017 are not expected to have any material effect on the group. The impact of the other standards is currently under review.

- Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions* effective 2019 financial year (not yet endorsed by the EU)
- Amendments to IFRS 4: *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* effective 2019 financial year (not yet endorsed by the EU)
- *Annual Improvements to IFRSs 2012–2014* effective 2017 financial year
- IFRS 9 *Financial Instruments: Classification and Measurement* effective 2019 financial year (not yet endorsed by the EU)

- Amendments to IFRS 10, IFRS 12 and IAS 28: *Investment Entities – Applying the Consolidation Exception* effective 2017 financial year (endorsed by the EU since the balance sheet date)
- Amendments to IFRS 11: *Accounting for Acquisitions of Interests in Joint Operations* effective 2017 financial year
- IFRS 15 *Revenue from Contracts with Customers* effective 2019 financial year (endorsed by the EU since the balance sheet date)
- IFRS 16 *Leases* effective 2020 financial year (not yet endorsed by the EU)
- Amendments to IAS 1: *Disclosure Initiative* effective 2017 financial year
- Amendments to IAS 7: *Disclosure Initiative* effective 2018 financial year (not yet endorsed by the EU)
- Amendments to IAS 12: *Recognition of Deferred Tax Assets for Unrealised Losses* effective 2018 financial year (not yet endorsed by the EU)
- Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation* effective 2017 financial year

## ACCOUNTING ESTIMATES AND JUDGEMENTS

for the 53 weeks ended 17 September 2016

In applying the accounting policies detailed on pages 103 to 107, management has made estimates in a number of areas and the actual outcome may differ from those calculated. Key sources of estimation uncertainty at the balance sheet date, with the potential for material adjustment to the carrying value of assets and liabilities within the next financial year, are set out below.

### Forecasts and discount rates

The carrying values of a number of items on the balance sheet are dependent on estimates of future cash flows arising from the group's operations which, in some circumstances, are discounted to arrive at a net present value.

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

The realisation of deferred tax assets is dependent on the generation of sufficient future taxable profits. The group recognises deferred tax assets to the extent that it is considered probable that sufficient taxable profits will be available in the future. Deferred tax assets are reduced to the extent that it is no longer considered probable that the related tax benefit will be realised.

### Post-retirement benefits

The group's defined benefit pension schemes and similar arrangements are assessed annually in accordance with IAS 19. The accounting valuation, which has been assessed using assumptions determined with independent actuarial advice, resulted in a net liability of £303m being recognised as at 17 September 2016. The size of this net liability is sensitive to the market value of the assets held by the schemes, to the discount rate used in assessing liabilities, to the actuarial assumptions (which include price inflation, rates of pension and salary increases, mortality and other demographic assumptions) and to the level of contributions. Further details are included in note 11.

### Biological assets

In valuing growing cane, estimating sucrose content requires management to assess expected cane and sucrose yields for the following season considering weather conditions and harvesting programmes; estimating sucrose price requires management to assess into which markets the forthcoming crop will be sold and assess domestic and export prices as well as related foreign currency exchange rates. The carrying value of growing cane is disclosed in note 16.

### Taxation

The group makes provision for open tax issues including, in a number of jurisdictions, routine tax audits which are by nature complex and can take a number of years to resolve. Provisions are based on management's interpretation of tax law in each country and reflect the best estimate of the liability. The group believes it has made adequate provision for such matters.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 53 weeks ended 17 September 2016

### 1. Operating segments

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

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

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

Segment assets and liabilities are presented before the reclassification of assets and liabilities held for sale.

The group is comprised of the following operating segments:

#### Grocery

The manufacture of grocery products, including hot beverages, sugar & sweeteners, vegetable oils,

bread & baked goods, cereals, ethnic foods, herbs & spices, and meat products, which are sold to retail, wholesale and foodservice businesses.

#### Sugar

The growing and processing of sugar beet and sugar cane for sale to industrial users and to Silver Spoon, which is included in the grocery segment.

#### Agriculture

The manufacture of animal feeds and the provision of other products and services for the agriculture sector.

#### Ingredients

The manufacture of bakers' yeast, bakery ingredients, enzymes, lipids, yeast extracts and cereal specialities.

#### Retail

Buying and merchandising value clothing and accessories through the Primark and Penneys retail chains.

### 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	
	2016 £m	2015 £m	2016 £m	2015 (restated) £m
<b>Operating segments</b>				
Grocery	3,274	3,177	304	285
Sugar	1,798	1,818	34	33
Agriculture	1,084	1,211	58	60
Ingredients	1,294	1,247	93	76
Retail	5,949	5,347	689	673
Central	–	–	(60)	(45)
	<b>13,399</b>	12,800	<b>1,118</b>	1,082
<b>Geographical information</b>				
United Kingdom	5,375	5,444	484	535
Europe & Africa	4,564	4,080	364	325
The Americas	1,403	1,269	168	148
Asia Pacific	2,057	2,007	102	74
	<b>13,399</b>	12,800	<b>1,118</b>	1,082

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**1. Operating segments** continued

For the 53 weeks ended 17 September 2016

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Total £m
Revenue from continuing businesses	3,277	1,898	1,090	1,444	5,949	(259)	13,399
Internal revenue	(3)	(100)	(6)	(150)	–	259	–
Revenue from external customers	3,274	1,798	1,084	1,294	5,949	–	13,399
Adjusted operating profit before joint ventures and associates	272	32	44	84	689	(60)	1,061
Share of profit after tax from joint ventures and associates	32	2	14	9	–	–	57
Adjusted operating profit	304	34	58	93	689	(60)	1,118
Profits less losses on disposal of non-current assets	3	8	–	–	–	–	11
Amortisation of non-operating intangibles	(19)	(1)	–	(1)	–	–	(21)
Exceptional item	–	(5)	–	–	–	–	(5)
Profits less losses on sale and closure of businesses	–	–	–	(5)	–	(9)	(14)
Profit before interest	288	36	58	87	689	(69)	1,089
Finance income	–	–	–	–	–	6	6
Finance expense	–	–	–	–	–	(56)	(56)
Other financial income	–	–	–	–	–	3	3
Taxation	–	–	–	–	–	(221)	(221)
<b>Profit for the period</b>	<b>288</b>	<b>36</b>	<b>58</b>	<b>87</b>	<b>689</b>	<b>(337)</b>	<b>821</b>
Segment assets (excluding joint ventures and associates)	2,503	2,139	333	1,359	3,942	95	10,371
Investments in joint ventures and associates	52	21	129	58	–	–	260
<b>Segment assets</b>	<b>2,555</b>	<b>2,160</b>	<b>462</b>	<b>1,417</b>	<b>3,942</b>	<b>95</b>	<b>10,631</b>
Cash and cash equivalents	–	–	–	–	–	581	581
Income tax	–	–	–	–	–	13	13
Deferred tax assets	–	–	–	–	–	145	145
Employee benefits assets	–	–	–	–	–	6	6
<b>Segment liabilities</b>	<b>(522)</b>	<b>(498)</b>	<b>(106)</b>	<b>(274)</b>	<b>(1,166)</b>	<b>(156)</b>	<b>(2,722)</b>
Loans and overdrafts	–	–	–	–	–	(896)	(896)
Income tax	–	–	–	–	–	(147)	(147)
Deferred tax liabilities	–	–	–	–	–	(180)	(180)
Employee benefits liabilities	–	–	–	–	–	(309)	(309)
<b>Net assets</b>	<b>2,033</b>	<b>1,662</b>	<b>356</b>	<b>1,143</b>	<b>2,776</b>	<b>(848)</b>	<b>7,122</b>
Non-current asset additions	116	141	27	69	466	9	828
Depreciation	(98)	(78)	(10)	(47)	(202)	(4)	(439)
Amortisation	(38)	(4)	(1)	(3)	–	(1)	(47)
Exceptional item	–	(5)	–	–	–	–	(5)

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

Segment disclosures given above are stated before reclassification of assets and liabilities classified as held for sale (see note 14).

## 1. Operating segments continued

For the 52 weeks ended 12 September 2015 (restated)

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Total £m
Revenue from continuing businesses	3,179	1,887	1,213	1,402	5,347	(228)	12,800
Internal revenue	(2)	(69)	(2)	(155)	–	228	–
Revenue from external customers	3,177	1,818	1,211	1,247	5,347	–	12,800
Adjusted operating profit before joint ventures and associates	259	33	48	66	673	(45)	1,034
Share of profit after tax from joint ventures and associates	26	–	12	10	–	–	48
Adjusted operating profit	285	33	60	76	673	(45)	1,082
Profits less losses on disposal of non-current assets	19	3	1	–	(8)	(7)	8
Amortisation of non-operating intangibles	(19)	(35)	–	(1)	–	–	(55)
Exceptional item	–	(98)	–	–	–	–	(98)
Profits less losses on sale and closure of businesses	6	(181)	3	–	–	–	(172)
Profit before interest	291	(278)	64	75	665	(52)	765
Finance income	–	–	–	–	–	8	8
Finance expense	–	–	–	–	–	(61)	(61)
Other financial expense	–	–	–	–	–	(5)	(5)
Taxation	–	–	–	–	–	(191)	(191)
<b>Profit for the period</b>	291	(278)	64	75	665	(301)	516
Segment assets (excluding joint ventures and associates)	2,369	2,016	318	1,142	3,126	84	9,055
Investments in joint ventures and associates	22	17	125	48	–	–	212
<b>Segment assets</b>	2,391	2,033	443	1,190	3,126	84	9,267
Cash and cash equivalents	–	–	–	–	–	702	702
Deferred tax assets	–	–	–	–	–	125	125
Employee benefits assets	–	–	–	–	–	125	125
<b>Segment liabilities</b>	(451)	(391)	(115)	(230)	(1,034)	(104)	(2,325)
Loans and overdrafts	–	–	–	–	–	(896)	(896)
Income tax	–	–	–	–	–	(126)	(126)
Deferred tax liabilities	–	–	–	–	–	(220)	(220)
Employee benefits liabilities	–	–	–	–	–	(141)	(141)
<b>Net assets</b>	1,940	1,642	328	960	2,092	(451)	6,511
Non-current asset additions	104	130	17	58	351	6	666
Depreciation	(94)	(83)	(9)	(45)	(173)	(4)	(408)
Amortisation	(37)	(39)	(2)	(3)	–	–	(81)
Exceptional item	–	(98)	–	–	–	–	(98)
Impairment of goodwill on disposal of business	–	(46)	–	–	–	–	(46)
Impairment of intangible on closure of business	–	(11)	–	–	–	–	(11)

<b>Geographical information</b>	United Kingdom £m	Europe & Africa £m	The Americas £m	Asia Pacific £m	Total £m
Revenue from external customers	5,444	4,080	1,269	2,007	12,800
Segment assets	3,977	3,006	1,009	1,275	9,267
Non-current asset additions	216	298	91	61	666
Depreciation	(185)	(125)	(27)	(71)	(408)
Amortisation	(29)	(38)	(4)	(10)	(81)
Exceptional item	(98)	–	–	–	(98)
Impairment of goodwill on disposal of business	–	–	–	(46)	(46)
Impairment of intangible on closure of business	–	–	(11)	–	(11)

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**2. Operating costs**

	Note	2016 £m	2015 (restated) £m
<b>Operating costs</b>			
Cost of sales (including amortisation of intangibles)		<b>10,258</b>	9,781
Distribution costs		<b>1,265</b>	1,259
Administration expenses		<b>836</b>	781
Exceptional item		<b>5</b>	98
		<b>12,364</b>	11,919
<b>Operating costs are stated after charging/(crediting):</b>			
Employee benefits expense	3	<b>2,208</b>	2,058
Amortisation of non-operating intangibles	8	<b>21</b>	55
Amortisation of operating intangibles	8	<b>26</b>	26
Profits less losses on disposal of non-current assets		<b>(11)</b>	(8)
Depreciation of property, plant and equipment	9	<b>439</b>	408
Exceptional impairment of non-current loans and receivables		<b>–</b>	98
Exceptional charge		<b>5</b>	–
Operating lease payments under property leases		<b>222</b>	192
Operating lease payments for hire of plant and equipment		<b>14</b>	14
Other operating income		<b>(19)</b>	(25)
Research and development expenditure		<b>36</b>	37
Fair value gains on financial assets and liabilities held for trading		<b>(12)</b>	(11)
Fair value losses on financial assets and liabilities held for trading		<b>16</b>	12
Foreign exchange gains on operating activities		<b>(55)</b>	(68)
Foreign exchange losses on operating activities		<b>58</b>	69

The exceptional item in 2016 is a charge of £5m for costs associated with the buyout of the Illovo Sugar Limited non-controlling interests.

In 2015, the exceptional item was a £98m non-cash charge to impair the group's shareholder loans to Vivergo Fuels which, at the time of the impairment, was a joint venture in which the group's equity interest was 47%. Vivergo Fuels is based in the UK and is included in the Sugar segment. The impairment was a consequence of the continuing fall in crude oil and bioethanol prices and the further weakening of the euro against sterling, both of which affected the group's assessment of the recoverability of the shareholder loans. An exceptional tax credit of £22m arose on this item.

<b>Auditors' remuneration</b>	2016 £m	2015 £m
<b>Fees payable to the Company's auditor and its associates in respect of the audit</b>		
Group audit of these financial statements	<b>0.7</b>	0.7
Audit of the Company's subsidiaries' financial statements	<b>4.8</b>	4.9
Total audit remuneration	<b>5.5</b>	5.6
<b>Fees payable to the Company's auditor and its associates in respect of non-audit related services</b>		
Audit-related assurance services	<b>0.3</b>	0.3
Tax compliance services	<b>0.5</b>	0.6
Tax advisory services	<b>0.3</b>	0.9
Information technology services	<b>–</b>	0.2
All other services	<b>0.1</b>	0.3
Total non-audit related remuneration	<b>1.2</b>	2.3
<b>Fees payable to the Company's auditor and its associates in respect of the group's pension schemes</b>		
Audit of the pension schemes	<b>–</b>	0.1
	<b>–</b>	0.1

In 2016 the Company's auditor was Ernst & Young LLP (2015 – KPMG LLP).

### 3. Employees

	2016	2015
<b>Average number of employees</b>		
United Kingdom	<b>43,954</b>	42,416
Europe & Africa	<b>64,308</b>	60,629
The Americas	<b>5,284</b>	4,421
Asia Pacific	<b>16,370</b>	16,570
	<b>129,916</b>	124,036

	Note	£m	£m
<b>Employee benefits expense</b>			
Wages and salaries		<b>1,866</b>	1,723
Social security contributions		<b>216</b>	201
Contributions to defined contribution schemes	11	<b>74</b>	76
Charge for defined benefit schemes	11	<b>45</b>	47
Equity-settled share-based payment schemes	23	<b>7</b>	11
		<b>2,208</b>	2,058

Details of directors' remuneration, share incentives and pension entitlements are shown in the Remuneration report on pages 69 to 87.

### 4. Interest and other financial income and expense

	Note	2016 £m	2015 £m
<b>Finance income</b>			
Cash and cash equivalents		<b>6</b>	8
		<b>6</b>	8
<b>Finance expense</b>			
Bank loans and overdrafts		<b>(26)</b>	(34)
All other borrowings		<b>(28)</b>	(25)
Finance leases		<b>(1)</b>	(1)
Other payables		<b>(1)</b>	(1)
		<b>(56)</b>	(61)
<b>Other financial income/(expense)</b>			
Expected return on employee benefit scheme assets	11	<b>135</b>	140
Interest charge on employee benefit scheme liabilities	11	<b>(134)</b>	(139)
Interest charge on irrecoverable surplus	11	<b>(1)</b>	(1)
Net financial income from employee benefit schemes		<b>-</b>	-
Net foreign exchange gains/(losses) on financing activities		<b>3</b>	(5)
Total other financial income/(expense)		<b>3</b>	(5)

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 53 weeks ended 17 September 2016

### 5. Income tax expense

	2016 £m	2015 (restated) £m
<b>Current tax expense</b>		
UK – corporation tax at 20.0% (2015 – 20.5%)	85	74
Overseas – corporation tax	142	109
UK – under/(over) provided in prior periods	6	(10)
Overseas – overprovided in prior periods	(17)	(15)
	<b>216</b>	<b>158</b>
<b>Deferred tax expense</b>		
UK deferred tax	(14)	(6)
Overseas deferred tax	28	23
UK – (over)/under provided in prior periods	(4)	8
Overseas – (over)/under provided in prior periods	(5)	8
	<b>5</b>	<b>33</b>
<b>Total income tax expense in income statement</b>	<b>221</b>	<b>191</b>
<b>Reconciliation of effective tax rate</b>		
Profit before taxation	1,042	707
Less share of profit after tax from joint ventures and associates	(57)	(48)
<b>Profit before taxation excluding share of profit after tax from joint ventures and associates</b>	<b>985</b>	<b>659</b>
Nominal tax charge at UK corporation tax rate of 20.0% (2015 – 20.5%)	197	135
Effect of higher and lower tax rates on overseas earnings	5	(29)
Effect of changes in tax rates on income statement	(6)	3
Expenses not deductible for tax purposes	38	58
Disposal of assets covered by tax exemptions or unrecognised capital losses	(1)	23
Deferred tax not recognised	8	10
Adjustments in respect of prior periods	(20)	(9)
	<b>221</b>	<b>191</b>
<b>Income tax recognised directly in equity</b>		
Deferred tax associated with defined benefit schemes	(50)	5
Current tax associated with defined benefit schemes	(1)	–
Deferred tax associated with share-based payments	2	–
Current tax associated with share-based payments	(1)	(4)
Deferred tax associated with movement in cash flow hedging position	(4)	(11)
Deferred tax associated with movements in foreign exchange	(8)	(2)
Current tax associated with movements in foreign exchange	(1)	(1)
	<b>(63)</b>	<b>(13)</b>

The UK corporation tax rate was reduced to 20% with effect from 1 April 2015 and further reductions to 19% and 17% have also now been enacted which will take effect in April 2017 and April 2020 respectively. Accordingly, UK deferred tax has been calculated using these rates as appropriate.

In 2015, a tax credit of £22m arose on the exceptional impairment charge, which was included in UK current tax.

Deferred taxation balances are analysed in note 12.

### 6. Dividends

	2016 pence per share	2015 pence per share	2016 £m	2015 £m
2014 final	–	24.30	–	192
2015 interim	–	10.00	–	79
2015 final	<b>25.00</b>	–	<b>198</b>	–
2016 interim	<b>10.30</b>	–	<b>81</b>	–
	<b>35.30</b>	34.30	<b>279</b>	271

The 2016 interim dividend was declared on 19 April 2016 and paid on 1 July 2016. The 2016 final dividend of 26.45 pence, total value of £209m, will be paid on 13 January 2017 to shareholders on the register on 16 December 2016.

Dividends relating to the period were 36.75 pence per share totalling £290m (2015 – 35.00 pence per share totalling £277m).

## 7. Earnings per share

The calculation of basic earnings per share at 17 September 2016 was based on the net profit attributable to equity shareholders of £818m (2015 restated – £528m), and a weighted average number of shares outstanding during the year of 791 million (2015 – 790 million). The calculation of the weighted average number of shares excludes the shares held by the Employee Share Ownership Plan Trust on which the dividends are being waived.

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

The diluted earnings per share calculation takes into account the dilutive effect of share incentives. The diluted, weighted average number of shares is 791 million (2015 – 790 million). There is no difference between basic and diluted earnings.

	2016 £m	2015 (restated) £m
<b>Adjusted profit for the period</b>	<b>840</b>	802
Disposal of non-current assets	<b>11</b>	8
Sale and closure of businesses	<b>(14)</b>	(172)
Exceptional item	<b>(5)</b>	(98)
Tax effect on above adjustments	<b>1</b>	19
Amortisation of non-operating intangibles	<b>(21)</b>	(55)
Tax credit on non-operating intangibles amortisation and goodwill	<b>5</b>	8
Non-controlling interests' share of the above adjustments	<b>1</b>	16
<b>Profit for the period attributable to equity shareholders</b>	<b>818</b>	528

	2016 pence	2015 (restated) pence
<b>Adjusted earnings per share</b>	<b>106.2</b>	101.5
Disposal of non-current assets	<b>1.4</b>	1.0
Sale and closure of businesses	<b>(1.8)</b>	(21.7)
Exceptional item	<b>(0.6)</b>	(12.4)
Tax effect on above adjustments	<b>0.1</b>	2.4
Amortisation of non-operating intangibles	<b>(2.6)</b>	(7.0)
Tax credit on non-operating intangibles amortisation and goodwill	<b>0.6</b>	1.0
Non-controlling interests' share of the above adjustments	<b>0.1</b>	2.0
<b>Earnings per ordinary share</b>	<b>103.4</b>	66.8

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 53 weeks ended 17 September 2016

### 8. Intangible assets

	Non-operating						Operating		Total £m
	Goodwill £m	Technology £m	Brands £m	Customer relationships £m	Grower agreements £m	Other £m	Other £m		
<b>Cost</b>									
At 13 September 2014	1,223	195	362	97	123	6	248	2,254	
Acquisitions – externally purchased	–	–	–	–	–	–	42	42	
Acquired through business combinations	5	–	45	8	–	–	–	58	
Businesses disposed	(46)	–	–	–	–	–	(11)	(57)	
Other disposals	–	–	–	–	–	–	(16)	(16)	
Effect of movements in foreign exchange	(36)	(15)	(5)	(10)	(18)	(1)	(14)	(99)	
At 12 September 2015	1,146	180	402	95	105	5	249	2,182	
Acquisitions – externally purchased	–	–	–	–	–	–	38	38	
Acquired through business combinations	3	–	2	–	–	–	–	5	
Other disposals	–	–	–	–	–	–	(7)	(7)	
Transfer to assets classified as held for sale	(119)	–	(52)	–	–	–	(13)	(184)	
Effect of movements in foreign exchange	107	28	32	14	13	1	36	231	
<b>At 17 September 2016</b>	<b>1,137</b>	<b>208</b>	<b>384</b>	<b>109</b>	<b>118</b>	<b>6</b>	<b>303</b>	<b>2,265</b>	
<b>Amortisation and impairment</b>									
At 13 September 2014	33	195	255	93	99	6	106	787	
Amortisation for the year	–	–	29	2	24	–	26	81	
Businesses disposed	–	–	–	–	–	–	(2)	(2)	
Impairment on closure of business	–	–	–	–	–	–	11	11	
Other disposals	–	–	–	–	–	–	(5)	(5)	
Effect of movements in foreign exchange	–	(15)	(4)	(10)	(18)	(1)	(9)	(57)	
At 12 September 2015	33	180	280	85	105	5	127	815	
Amortisation for the year	–	–	18	3	–	–	26	47	
Transfer to assets classified as held for sale	(1)	–	(52)	–	–	–	(4)	(57)	
Effect of movements in foreign exchange	3	28	32	13	13	1	22	112	
<b>At 17 September 2016</b>	<b>35</b>	<b>208</b>	<b>278</b>	<b>101</b>	<b>118</b>	<b>6</b>	<b>171</b>	<b>917</b>	
<b>Net book value</b>									
At 13 September 2014	1,190	–	107	4	24	–	142	1,467	
At 12 September 2015	1,113	–	122	10	–	–	122	1,367	
<b>At 17 September 2016</b>	<b>1,102</b>	<b>–</b>	<b>106</b>	<b>8</b>	<b>–</b>	<b>–</b>	<b>132</b>	<b>1,348</b>	

### Impairment

As at 17 September 2016, the consolidated balance sheet included goodwill of £1,220m (2015 – £1,113m), of which £118m is classified as held for sale (see note 14). Goodwill is allocated to the group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the business combination that gave rise to the goodwill, as follows:

CGU or group of CGUs	Primary reporting segment	Discount rate	2016 £m	2015 £m
ACH	Grocery	9.8%	292	248
AB Mauri	Ingredients	12.1%	308	268
Twinings Ovaltine	Grocery	9.5%	119	119
Capullo	Grocery	13.4%	46	58
Illovo	Sugar	18.3%	114	102
AB World Foods	Grocery	10.8%	78	78
Other (not individually significant)	Various	Various	263	240
			<b>1,220</b>	1,113

## 8. Intangible assets continued

A CGU, or group of CGUs, to which goodwill has been allocated must be assessed for impairment annually, or more frequently if events or circumstances indicate that the carrying amount may not be recoverable.

The carrying value of goodwill is assessed by reference to its value in use to perpetuity reflecting the projected cash flows of each of the CGUs or group of CGUs. These projections are based on the most recent budget, which has been approved by the board and reflects management's expectations of sales growth, operating costs and margin, based on past experience and external sources of information. Long-term growth rates for periods not covered by the annual budget reflect the products, industries and countries in which the relevant CGU, or group of CGUs, operate.

For some recently acquired intangible assets, management expects to achieve growth over the next three to five years in excess of the long-term growth rates for the applicable country or region. In these circumstances, budgeted cash flows are extended, generally to between three and five years, using specific growth assumptions and taking into account the specific business risks.

The key assumptions in the most recent annual budget on which the cash flow projections are based relate to discount rates, growth rates and expected changes in volumes, selling prices and direct costs.

The cash flow projections have been discounted using the group's pre-tax weighted average cost of capital adjusted for country, industry and market risk. The rates used were between 8.6% and 18.3% (2015 – between 9.5% and 14.8%).

The growth rates to perpetuity beyond the initial budgeted cash flows, applied in the value in use calculations for goodwill allocated to each of the CGUs or groups of CGUs that are significant to the total carrying amount of goodwill, were in a range between 0% and 4%, consistent with the inflation factors included in the discount rates applied (2015 – between 0% and 4%).

Changes in volumes, selling prices and direct costs are based on past results and expectations of future changes in the market.

### Sensitivity to changes in key assumptions

Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. Each of the group's CGUs had significant headroom under the annual impairment review.

Notwithstanding a further substantial improvement in profit in the current year, AB Mauri continued to experience competitive pricing pressure in a number of markets around the world as well as challenging macroeconomic conditions in some markets, including high inflation rates and currency devaluations. Accordingly, management has again undertaken an impairment review. Detailed forecasts for a period of ten years to reflect the time required for completion of the dry yeast production strategy were prepared and management concluded that the assets were not impaired. Key drivers of the forecast improvement in performance include achievement of price increases in high inflation environments, improved reach and competitiveness in the global dry yeast market, implementation of a number of margin improvement initiatives, particularly in cost reduction, and continuing growth in the global bakery ingredients business. Headroom was \$551m on a CGU carrying value of \$911m (2015 – headroom of \$190m on a CGU carrying value of \$947m). The geographic diversity and varying local economic environments of AB Mauri's operations mean that the critical assumptions underlying the detailed forecasts used in the impairment model are wide ranging. It is therefore impractical to provide meaningful sensitivities to these assumptions other than the discount rate. The discount rate used was 12.1% (2015 – 14.7%) and would have to increase to more than 17.0% (2015 – 16.7%) before value in use fell below the CGU carrying value. Estimates of long-term growth rates beyond the forecast periods were 2%–3% (2015 – 2%–3%) per annum dependent on location.

For all goodwill other than AB Mauri, management has concluded that no reasonably possible change in key assumptions on which it has determined value in use would cause carrying values to materially exceed value in use.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 53 weeks ended 17 September 2016

### 9. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Sugar cane roots £m	Total £m
<b>Cost</b>						
At 13 September 2014 as originally stated	2,344	3,275	1,856	149	–	7,624
Impact of change in accounting policy (see page 106)	–	–	–	–	63	63
At 13 September 2014 restated	2,344	3,275	1,856	149	63	7,687
Acquisitions – externally purchased (restated)	76	114	299	125	10	624
Acquired through business combinations	2	2	–	–	–	4
Businesses disposed	(28)	(46)	–	–	–	(74)
Other disposals (restated)	(57)	(45)	(35)	–	(4)	(141)
Transfers from assets under construction	21	107	3	(131)	–	–
Effect of movements in foreign exchange (restated)	(103)	(223)	(74)	(18)	(17)	(435)
At 12 September 2015 restated	2,255	3,184	2,049	125	52	7,665
Acquisitions – externally purchased	37	103	419	218	8	785
Interest capitalised	–	–	–	5	–	5
Acquired through business combinations	1	–	–	–	–	1
Other disposals	(9)	(25)	(7)	–	(3)	(44)
Transfers from assets under construction	30	123	3	(156)	–	–
Transfer to assets classified as held for sale	(94)	(177)	(1)	(3)	–	(275)
Effect of movements in foreign exchange	190	330	202	15	3	740
<b>At 17 September 2016</b>	<b>2,410</b>	<b>3,538</b>	<b>2,665</b>	<b>204</b>	<b>60</b>	<b>8,877</b>
<b>Depreciation and impairment</b>						
At 13 September 2014 as originally stated	520	1,727	712	–	–	2,959
Impact of change in accounting policy (see page 106)	–	–	–	–	27	27
At 13 September 2014 restated	520	1,727	712	–	27	2,986
Depreciation for the year (restated)	42	195	164	–	7	408
Businesses disposed	(9)	(18)	–	–	–	(27)
Other disposals (restated)	(14)	(26)	(35)	–	(4)	(79)
Effect of movements in foreign exchange (restated)	(43)	(74)	(16)	–	(8)	(141)
At 12 September 2015 restated	496	1,804	825	–	22	3,147
Depreciation for the year	46	194	194	–	5	439
Other disposals	(2)	(3)	(7)	–	(3)	(15)
Transfer to assets classified as held for sale	(41)	(130)	(1)	–	–	(172)
Effect of movements in foreign exchange	59	203	69	–	2	333
<b>At 17 September 2016</b>	<b>558</b>	<b>2,068</b>	<b>1,080</b>	<b>–</b>	<b>26</b>	<b>3,732</b>
<b>Net book value</b>						
At 13 September 2014 restated	1,824	1,548	1,144	149	36	4,701
At 12 September 2015 restated	1,759	1,380	1,224	125	30	4,518
<b>At 17 September 2016</b>	<b>1,852</b>	<b>1,470</b>	<b>1,585</b>	<b>204</b>	<b>34</b>	<b>5,145</b>

	2016 £m	2015 £m
Net book value of finance lease assets	12	11
Land and buildings at net book value comprise:		
– freehold	1,453	1,360
– long leasehold	326	301
– short leasehold	73	98
	<b>1,852</b>	<b>1,759</b>
Capital expenditure commitments – contracted but not provided for	<b>498</b>	323

Land and buildings at net book value classified as held for sale comprise £23m of freehold and £30m of short leasehold.

## 9. Property, plant and equipment continued

### Impairment

The methodology used to assess property, plant and equipment for impairment is the same as that described for impairment assessments of goodwill. See note 8 for further details.

An impairment of A\$150m (£98m) was recorded in 2012 in the Australian meat business. Further progress was made in the current year with volume growth, a focus on higher margin products, further reduction in manufacturing costs and improving efficiency. Following a detailed assessment, management has concluded that the carrying value of the assets in the meat business is not further impaired. Headroom was A\$78m on a CGU carrying value of A\$273m (2015 – headroom of A\$30m on a CGU carrying value of A\$284m). The discount rate used was 9.7% (2015 – 10.5%). Estimates of long-term growth rates beyond the forecast periods were 2.0% (2015 – 2.0%) per annum. A sensitivity of plus or minus 1% applied to volume assumptions after 2017 impacts headroom by plus or minus A\$65m.

Low bread prices and strong continuing competition in the UK bakery sector led to low profitability at Allied Bakeries and resulted in the need for an assessment of impairment. Headroom was £43m on a CGU carrying value of £281m (2015 – headroom of £27m on a CGU carrying value of £294m). The discount rate used was 10.4% (2015 – 11.0%). Estimates of long-term growth rates beyond the forecast periods were 0.4%. A sensitivity of plus or minus 1% applied to bread prices impacts headroom by plus or minus £25m.

## 10. Investments in joint ventures and associates

	Joint ventures £m	Associates £m
At 13 September 2014	180	32
Transfer to subsidiary	4	–
Profit for the period	44	4
Dividends received	(47)	(3)
Effect of movements in foreign exchange	(1)	(1)
At 12 September 2015	180	32
Profit for the period	51	6
Dividends received	(22)	(3)
Effect of movements in foreign exchange	12	4
<b>At 17 September 2016</b>	<b>221</b>	<b>39</b>

Details of joint ventures and associates are listed in note 29.

Included in the consolidated financial statements are the following items that represent the group's share of the assets, liabilities and profit of joint ventures and associates:

	Joint ventures		Associates	
	2016 £m	2015 £m	2016 £m	2015 £m
Non-current assets	95	75	19	15
Current assets	316	296	195	157
Current liabilities	(188)	(166)	(171)	(139)
Non-current liabilities	(21)	(42)	(5)	(2)
Goodwill	19	17	1	1
Net assets	221	180	39	32
Revenue	1,268	1,245	576	526
Profit for the period	51	44	6	4

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 53 weeks ended 17 September 2016

### 11. Employee entitlements

The group operates a number of defined benefit and defined contribution retirement benefit schemes in the UK and overseas. The defined benefit schemes expose the group to a variety of actuarial risks including demographic assumptions such as mortality and financial assumptions such as discount rate, inflation risk and market (investment) risk. The group is not exposed to any unusual, entity-specific or scheme-specific risks. All schemes comply with local legislative requirements.

#### UK defined benefit scheme

The group's principal UK defined benefit scheme is the Associated British Foods Pension Scheme, which is a funded final salary scheme that is closed to new members. Defined contribution arrangements are in place for other employees. The UK defined benefit schemes represent 91% (2015 – 92%) of the group's defined benefit scheme assets and 88% (2015 – 89%) of defined benefit scheme liabilities. The Scheme is governed by a trustee board which is independent of the group and which agrees a schedule of contributions with the Company each time a formal funding valuation is performed.

The most recent triennial funding valuation of the Scheme was carried out as at 5 April 2014, using the current unit method, and revealed a surplus of £79m. The market value of Scheme assets was £3,085m, representing 103% of members' accrued benefits after allowing for expected future salary increases.

The Scheme's assets are managed using a risk-controlled investment strategy, which includes a liability-driven investment policy that seeks to match, where appropriate, the profile of the liabilities. This includes the use of derivative instruments to hedge inflation, interest and foreign exchange risks. The Scheme utilises both market and solvency triggers to develop the level of hedges in place. To date, the Scheme is fully hedged for 48% of inflation sensitivity and 21% of interest rate risk. It is intended to hedge 80% of total exposure.

The Scheme is forbidden by the trust deed from holding direct investments in the equity of the Company, although it is possible that the Scheme may hold indirect interests through investments in some equity funds. The Scheme owned the freehold of an office building in London which was leased to the group at an open market rent. The property was sold during the year. The fair value of this building in 2015 was £7m.

#### Overseas defined benefit schemes

The group also operates defined benefit retirement schemes in a number of overseas businesses, which are primarily funded final salary schemes, as well as a small number of unfunded post-retirement medical benefit schemes, which are accounted for in the same way as defined benefit retirement schemes.

#### Defined contribution schemes

The group operates a number of defined contribution schemes for which the charge was £36m in the UK and £38m overseas, totalling £74m (2015 – UK £36m, overseas £40m, total £76m).

#### Actuarial assumptions

The principal actuarial assumptions for the group's defined benefit schemes at the year end were:

	2016 UK %	2016 Overseas %	2015 UK %	2015 Overseas %
Discount rate	2.5	0.2–16.2	3.8	0.9–16.3
Inflation	2.1–3.1	0–9.2	2.8–3.3	0–7.4
Rate of increase in salaries	3.1	0–12.0	3.8	0–12.0
Rate of increase for pensions in payment	2.2–2.9	0–6.5	2.3–3.1	0–4.5
Rate of increase for pensions in deferment (where provided)	2.1	0–2.0	2.4–2.8	0–2.0

The mortality assumptions used to value the UK defined benefit schemes in both years are derived from the S2 mortality tables with improvements in line with the 2015 projection model (2015 – 2013 projection model) prepared by the Continuous Mortality Investigation of the UK actuarial profession, with no rating for males and a +0.7-year rating down for females, both with a long-term trend of 1.25% (2015 – 1.5%). These mortality assumptions take account of experience to date, and assumptions for further improvements in life expectancy of scheme members. Examples of the resulting life expectancies in the UK defined benefit schemes are as follows:

Life expectancy from age 65 (in years)	2016		2015	
	Male	Female	Male	Female
Member aged 65 in 2016 (2015)	22.2	24.8	22.7	25.4
Member aged 65 in 2036 (2035)	23.9	26.7	25.0	27.7

An allowance has been made for cash commutation in line with emerging scheme experience. Other demographic assumptions for the UK defined benefit schemes are set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic funding valuation of the schemes.

For the overseas schemes, regionally appropriate assumptions for mortality, financial and demographic factors have been used.

## 11. Employee entitlements continued

A sensitivity analysis on the principal assumptions used to measure UK defined benefit scheme liabilities at 17 September 2016 is:

	Change in assumption	Impact on scheme liabilities
Discount rate	decrease/increase by 0.5%	increase/decrease by 10.2%
Inflation	increase/decrease by 0.5%	increase/decrease by 8.9%
Rate of increase in salaries	increase/decrease by 0.5%	increase/decrease by 2.0%
Rate of mortality	reduce by one year	increase by 3.4%

A sensitivity to the rate of increase in pensions in payment and pensions in deferment is represented by the inflation sensitivity, as all pensions increases and deferred revaluations are linked to inflation.

The sensitivity analysis above has been determined based on reasonably possible changes in the respective assumptions occurring at the end of the period and may not be representative of the actual change. It is based on a change in the specific assumption while holding all other assumptions constant. When calculating the sensitivities, the same method used to calculate scheme liabilities recognised in the balance sheet has been applied. The method and assumptions used in preparing the sensitivity analysis have not changed since the prior year.

### Balance sheet

	2016			2015		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Equities	<b>1,278</b>	<b>162</b>	<b>1,440</b>	1,213	127	1,340
Government bonds	<b>974</b>	<b>41</b>	<b>1,015</b>	669	36	705
Corporate and other bonds	<b>558</b>	<b>73</b>	<b>631</b>	627	56	683
Property	<b>295</b>	<b>16</b>	<b>311</b>	259	10	269
Cash and other assets	<b>534</b>	<b>61</b>	<b>595</b>	575	62	637
Scheme assets	<b>3,639</b>	<b>353</b>	<b>3,992</b>	3,343	291	3,634
Scheme liabilities	<b>(3,777)</b>	<b>(507)</b>	<b>(4,284)</b>	(3,253)	(391)	(3,644)
Aggregate net deficit	<b>(138)</b>	<b>(154)</b>	<b>(292)</b>	90	(100)	(10)
Irrecoverable surplus*	–	<b>(11)</b>	<b>(11)</b>	–	(6)	(6)
Net pension (liability)/asset	<b>(138)</b>	<b>(165)</b>	<b>(303)</b>	90	(106)	(16)
Analysed as						
Schemes in surplus	–	<b>6</b>	<b>6</b>	120	5	125
Schemes in deficit	<b>(138)</b>	<b>(171)</b>	<b>(309)</b>	(30)	(111)	(141)
	<b>(138)</b>	<b>(165)</b>	<b>(303)</b>	90	(106)	(16)
Unfunded liability included in the present value of scheme liabilities above	<b>(42)</b>	<b>(58)</b>	<b>(100)</b>	(30)	(43)	(73)

\* The surpluses in the plans are only recoverable to the extent that the group can benefit from either refunds formally agreed or from future contribution reductions.

Included within the group's overseas net pension liabilities analysed above is a deficit of £13m (£25m of assets and £38m of liabilities) which is classified as held for sale (2015 – £nil), see note 14.

Corporate and other bonds relating to UK schemes of £558m (2015 – £627m) include £52m (2015 – £49m) of assets whose valuation is not derived from quoted market prices. The valuation for all other equity assets, government bonds, corporate and other bonds is derived from quoted market prices. The carrying value of UK property assets is based on a 31 March market valuation, adjusted for purchases, disposals and price indexation between the valuation and the balance sheet dates. Cash and other assets contains £296m (2015 – £185m) of assets whose valuation is not derived from quoted market prices.

For financial reporting in the group's accounts, liabilities are assessed by actuaries using the projected unit method. The accounting value is different from the result obtained using the funding basis, mainly due to different assumptions used to project scheme liabilities.

The defined benefit scheme liabilities comprise 30% (2015 – 28%) in respect of active participants, 24% (2015 – 23%) for deferred participants and 46% (2015 – 49%) for pensioners.

The weighted average duration of the defined benefit scheme liabilities at the end of the year is 20 years for both UK and overseas schemes (2015 – 18 years for both UK and overseas schemes).

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**11. Employee entitlements** continued**Income statement**

The charge to the income statement for employee benefit schemes comprises:

	2016 £m	2015 £m
Charged to operating profit:		
Defined benefit schemes		
Current service cost	(44)	(48)
Past service cost	(1)	(2)
Gain on settlements	–	3
Defined contribution schemes	(74)	(76)
Total operating cost	(119)	(123)
Reported in other financial expense:		
Net interest income on the net pension asset/(liability)	1	1
Interest charge on irrecoverable surplus	(1)	(1)
Net impact on profit before tax	(119)	(123)

**Cash flow**

Group cash flow in respect of employee benefits schemes comprises contributions paid to funded schemes of £38m (2015 – £39m) and benefits paid in respect of unfunded schemes of £nil (2015 – £nil). Contributions to funded defined benefit schemes are subject to periodic review. Contributions to defined contribution schemes amounted to £74m (2015 – £76m).

Total contributions to funded schemes and benefit payments by the group in respect of unfunded schemes in 2017 are currently expected to be approximately £26m in the UK and £8m overseas, totalling £34m (2016 – UK £28m, overseas £9m, totalling £37m).

**Other comprehensive income**

Remeasurements of the net asset/liability recognised in other comprehensive income are as follows:

	2016 £m	2015 £m
Return on scheme assets excluding amounts included in net interest in the income statement	288	118
Actuarial losses arising from changes in financial assumptions	(805)	(151)
Actuarial gains/(losses) arising from changes in demographic assumptions	257	(6)
Experience gains on scheme liabilities	6	60
Change in unrecognised surplus	(4)	6
Remeasurements of the net pension asset/liability	(258)	27

**Reconciliation of change in assets and liabilities**

	2016 assets £m	2015 assets £m	2016 liabilities £m	2015 liabilities £m	2016 net £m	2015 net £m
At beginning of year	3,634	3,485	(3,644)	(3,516)	(10)	(31)
Current service cost	–	–	(44)	(48)	(44)	(48)
Employee contributions	10	10	(10)	(10)	–	–
Employer contributions	38	39	–	–	38	39
Benefit payments	(160)	(135)	160	135	–	–
Settlements	–	(6)	–	9	–	3
Past service cost	–	–	(1)	(2)	(1)	(2)
Interest income/(expense)	135	140	(134)	(139)	1	1
Return on scheme assets less interest income	288	118	–	–	288	118
Actuarial losses arising from changes in financial assumptions	–	–	(805)	(151)	(805)	(151)
Actuarial gains/(losses) arising from changes in demographic assumptions	–	–	257	(6)	257	(6)
Experience gains on scheme liabilities	–	–	6	60	6	60
Effect of movements in foreign exchange	47	(17)	(69)	24	(22)	7
At end of year	3,992	3,634	(4,284)	(3,644)	(292)	(10)

**11. Employee entitlements** continued**Reconciliation of change in irrecoverable surplus**

	2016 £m	2015 £m
At beginning of year	(6)	(12)
Change recognised in other comprehensive income	(4)	6
Interest charge on irrecoverable surplus	(1)	(1)
Effect of movements in foreign exchange	–	1
At end of year	<b>(11)</b>	<b>(6)</b>

**12. Deferred tax assets and liabilities**

	Property, plant and equipment £m	Intangible assets £m	Employee benefits £m	Financial assets and liabilities £m	Other temporary differences £m	Tax value of carry-forward losses £m	Total £m
At 13 September 2014 as originally stated	138	86	(16)	9	(30)	(73)	114
Impact of change in accounting policy (see page 106)	–	–	–	–	(15)	–	(15)
At 13 September 2014 restated	138	86	(16)	9	(45)	(73)	99
Amount charged/(credited) to the income statement (restated)	(6)	4	(2)	–	26	6	28
Amount charged/(credited) to equity	–	–	5	(11)	(2)	–	(8)
Acquired through business combinations	(42)	4	–	–	–	–	(38)
Businesses disposed	–	–	–	–	–	5	5
Effect of changes in tax rates on income statement	(1)	–	–	–	5	1	5
Effect of movements in foreign exchange (restated)	(9)	1	2	–	–	10	4
At 12 September 2015 restated	80	95	(11)	(2)	(16)	(51)	95
Amount charged/(credited) to the income statement	8	11	1	–	(19)	11	12
Amount charged/(credited) to equity	–	–	(51)	(4)	(8)	–	(63)
Acquired through business combinations	(1)	–	–	–	1	–	–
Effect of changes in tax rates on income statement	(6)	–	–	–	(2)	1	(7)
Effect of changes in tax rate on equity	–	–	3	–	–	–	3
Transfer to assets/liabilities classified as held for sale	1	(41)	5	–	–	–	(35)
Effect of movements in foreign exchange	6	12	(5)	–	(10)	(8)	(5)
<b>At 17 September 2016</b>	<b>88</b>	<b>77</b>	<b>(58)</b>	<b>(6)</b>	<b>(54)</b>	<b>(47)</b>	<b>–</b>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016 £m	2015 (restated) £m
Deferred tax assets	<b>(139)</b>	(125)
Deferred tax liabilities	<b>139</b>	220
	–	95

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. Other deferred tax assets totalling £99m (2015 – £86m) have not been recognised on the basis that their future economic benefit is uncertain.

In addition, there are temporary differences of £2,645m (2015 – £1,992m) relating to investments in subsidiaries. No deferred tax has been provided in respect of these differences, since the timing of the reversals can be controlled and it is probable that the temporary differences will not reverse in the future.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**13. Trade and other receivables**

	2016 £m	2015 £m
<b>Non-current – other receivables</b>		
Loans and receivables	37	19
Other non-current investments	4	4
	<b>41</b>	<b>23</b>
<b>Current – trade and other receivables</b>		
Trade receivables	1,032	898
Other receivables	115	110
Accrued income	8	12
	<b>1,155</b>	<b>1,020</b>
Prepayments and other non-financial receivables	182	156
	<b>1,337</b>	<b>1,176</b>

In addition to the amounts disclosed above, there are £10m of trade and other receivables classified as assets held for sale (see note 14).

The directors consider that the carrying amount of receivables approximates fair value.

For details of credit risk exposure on trade and other receivables, see note 25.

Trade and other receivables include £36m (2015 – £19m) in respect of finance lease receivables, with £33m in non-current loans and receivables and £3m in current other receivables (2015 – £16m in non-current loans and receivables and £3m in current other receivables). Minimum lease payments receivable are £4m within one year, £5m between one and five years and £28m in more than five years (2015 – £3m within one year and £16m between one and five years).

The finance lease receivables relate to property, plant and equipment leased to a joint venture of the group (see note 28).

**14. Assets and liabilities classified as held for sale**

In September 2016, the group announced that it had reached agreement to sell its cane sugar business in southern China, subject to third-party consents and regulatory approvals, and ACH's North American herbs and spices business. ACH is in the Grocery segment. The US disposal is expected to complete in mid-November 2016.

Both businesses have been classified as a disposal group at year end. Neither business qualifies as a discontinued operation.

The proceeds of disposal for each business are expected to exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale.

	2016 £m
<b>Assets classified as held for sale</b>	
Intangible assets	127
Property, plant and equipment	103
Deferred tax assets	6
Inventories	36
Trade and other receivables	10
Income tax	4
Cash and cash equivalents	26
	<b>312</b>
<b>Liabilities classified as held for sale</b>	
Loans and overdrafts	11
Trade and other payables	10
Deferred tax liabilities	41
Employee benefits liabilities	13
	<b>75</b>

**15. Inventories**

	2016 £m	2015 £m
Raw materials and consumables	369	283
Work in progress	26	28
Finished goods and goods held for resale	1,638	1,516
	<b>2,033</b>	<b>1,827</b>
Write down of inventories	(113)	(102)

In addition to the amounts disclosed above, there are £36m of inventories classified as assets held for sale (see note 14).

## 16. Biological assets

	Growing cane £m	Other £m	Total £m
At 13 September 2014	96	13	109
Transferred to inventory	(95)	(29)	(124)
Purchases	–	2	2
Changes in fair value	87	21	108
Effect of movements in foreign exchange	(24)	(1)	(25)
At 12 September 2015	64	6	70
Transferred to inventory	(75)	(20)	(95)
Purchases	–	2	2
Changes in fair value	88	19	107
Effect of movements in foreign exchange	1	1	2
<b>At 17 September 2016</b>	<b>78</b>	<b>8</b>	<b>86</b>

### Growing cane

The fair value of growing cane is determined using inputs that are unobservable, using the best information available in the circumstances for using the growing cane, and therefore falls into the level 3 category of fair value measurement. The following assumptions were used in the determination of the estimated sucrose tonnage at 17 September 2016:

	South Africa	Malawi	Zambia	Swaziland	Tanzania	Mozambique
Expected area to harvest (hectares)	5,205	19,701	16,351	8,536	9,676	6,018
Estimated yield (tonnes cane/hectare)	67.2	92.9	109.2	85.1	77.5	80.0
Average maturity of growing cane	46.4%	68.2%	65.7%	67.7%	46.2%	71.6%

The following assumptions were used in the determination of the estimated sucrose tonnage at 12 September 2015:

	South Africa	Malawi	Zambia	Swaziland	Tanzania	Mozambique
Expected area to harvest (hectares)	5,277	19,611	16,671	8,647	9,576	5,907
Estimated yield (tonnes cane/hectare)	66.3	101.3	114.6	94.0	81.0	85.8
Average maturity of growing cane	45.1%	68.5%	65.7%	67.7%	46.2%	71.6%

A 1% change in the unobservable inputs could increase or decrease the fair value of growing cane as follows:

	2016		2015	
	+1% £m	-1% £m	+1% £m	-1% £m
Estimated sucrose content	1.0	(1.0)	1.0	(1.0)
Estimated sucrose price	1.3	(1.3)	1.4	(1.4)

## 17. Cash and cash equivalents

	Note	2016 £m	2015 £m
<b>Cash</b>			
Cash at bank and in hand		376	286
Cash equivalents		205	416
Cash and cash equivalents	25	581	702
<b>Reconciliation to the cash flow statement</b>			
Bank overdrafts	18	(119)	(117)
Cash and cash equivalents in the cash flow statement		462	585
Cash and cash equivalents on the face of the balance sheet		555	702
Cash and cash equivalents classified as held for sale	14	26	–
		581	702

Cash at bank and in hand generally earns interest at rates based on the daily bank deposit rate.

Cash equivalents generally comprise deposits placed on money markets for periods of up to three months which earn interest at a short-term deposit rate; and funds invested with fund managers that have a maturity of less than or equal to three months and are at fixed rates.

The carrying amount of cash and cash equivalents approximates fair value.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**18. Loans and overdrafts**

	Note	2016 £m	2015 £m
<b>Current loans and overdrafts</b>			
Secured loans		45	28
Unsecured loans and overdrafts		210	291
Finance leases	26	1	–
		<b>256</b>	319
<b>Non-current loans</b>			
Secured loans		36	23
Unsecured loans		591	542
Finance leases	26	13	12
		<b>640</b>	577
	25	<b>896</b>	896

	Note	2016 £m	2015 £m
Secured loans			
– USD floating rate		26	19
– EUR floating rate		–	3
– Other floating rate		51	27
– Other fixed rate		4	2
Unsecured loans and overdrafts			
– Bank overdrafts	17	119	117
– GBP floating rate		4	4
– GBP fixed rate		177	177
– USD floating rate		–	18
– USD fixed rate		428	444
– EUR floating rate		55	29
– RMB floating rate		11	35
– Other floating rate		5	8
– Other fixed rate		2	1
Finance leases (fixed rate)		14	12
		<b>896</b>	896
Loans and overdrafts on the face of the balance sheet		<b>885</b>	896
Loans and overdrafts classified as held for sale	14	11	–
		<b>896</b>	896

Secured loans comprise amounts borrowed from commercial banks and are secured by floating charges over the assets of subsidiaries. Bank overdrafts generally bear interest at floating rates.

**19. Trade and other payables**

	2016 £m	2015 £m
Trade payables	1,136	1,029
Accruals	1,149	901
	<b>2,285</b>	1,930
Deferred income and other non-financial payables	266	296
	<b>2,551</b>	2,226

In addition to the amounts disclosed above, there are £10m of trade and other payables classified as liabilities held for sale (see note 14). For payables with a remaining life of less than one year, carrying amount is deemed to reflect fair value.

## 20. Provisions

	Restructuring £m	Deferred consideration £m	Other £m	Total £m
At 12 September 2015	41	7	18	66
Created	35	–	4	39
Utilised	(14)	(2)	(2)	(18)
Released	(5)	–	(1)	(6)
Effect of movements in foreign exchange	3	2	2	7
<b>At 17 September 2016</b>	<b>60</b>	<b>7</b>	<b>21</b>	<b>88</b>
Current	38	3	13	54
Non-current	22	4	8	34
	<b>60</b>	<b>7</b>	<b>21</b>	<b>88</b>

Financial liabilities within provisions comprised deferred consideration in both years (see note 25).

### Restructuring

Restructuring provisions relate to the cash costs, including redundancy, associated with the group's announced reorganisation plans.

### Deferred consideration

Deferred consideration comprises estimates of amounts due to the previous owners of businesses acquired by the group which are often linked to performance or other conditions.

### Other

Other provisions mainly comprise litigation claims and warranty claims arising from the sale and closure of businesses. The extent and timing of the utilisation of these provisions is more uncertain given the nature of the claims and the period of the warranties.

## 21. Share capital and reserves

### Share capital

At 12 September 2015 and 17 September 2016, the Company's issued and fully paid share capital comprised 791,674,183 ordinary shares of 5<sup>15</sup>/<sub>22</sub>p, each carrying one vote per share. Total nominal value was £45m.

### Other reserves

£173m of other reserves arose from the cancellation of share premium account by the Company in 1993. The remaining £2m arose in 2010 as a transfer to capital redemption reserve following redemption of two million £1 deferred shares at par. Both are non-distributable.

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the group's net investment in foreign subsidiaries.

### Hedging reserve

The hedging reserve comprises all changes in the value of derivatives to the extent that they are effective cash flow hedges, net of amounts recycled from the hedging reserve on occurrence of the hedged transaction or when the hedged transaction is no longer expected to occur.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 53 weeks ended 17 September 2016

### 22. Acquisitions and disposals

#### Acquisitions

##### 2016

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

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

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

##### 2015

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

	Pre-acquisition carrying values £m	Recognised values on acquisition £m
<b>Net assets</b>		
Intangible assets	32	53
Property, plant and equipment	4	4
Inventories	10	10
Trade and other receivables	18	18
Cash and cash equivalents	8	8
Trade and other payables	(38)	(40)
Loan interest	(48)	(3)
Overdrafts	(3)	(3)
Loans	(323)	(18)
Taxation	82	20
Net identifiable assets and liabilities	(258)	49
Goodwill		5
Non-controlling interests		1
Total consideration		55
<b>Satisfied by</b>		
Cash consideration		57
Deferred consideration		6
Interest in joint venture		(8)
		55
<b>Net cash</b>		
Cash consideration		57
Cash and cash equivalents acquired		(8)
Overdrafts acquired		3
		52

In October 2014, the group acquired Dorset Cereals in the UK for gross cash consideration of £68m, but with cash acquired of £8m. Non-operating intangible assets of £21m in respect of brand and customer relationships together with the related deferred tax were recognised as fair value adjustments.

In May 2015, the group acquired BP's 47% interest in Vivergo Fuels in the UK, in which the group already held an equity-accounted joint venture interest of 47%. Fair value adjustments comprised the valuation of shareholder loan obligations and associated interest accruals together with the related tax consequences.

A non-cash charge of £75m was recorded in line with accounting requirements to remeasure the group's interest at fair value prior to the acquisition. This was charged to loss on sale and closure of business.

The acquisitions contributed aggregate revenues of £81m and an adjusted loss before tax of £1m for the period between the dates of acquisition and 12 September 2015. Aggregate contributions to revenue and adjusted profit before tax, had the acquisitions occurred at the beginning of the period, were not disclosed as appropriate financial information, prepared under Adopted IFRS, was not available.

## 22. Acquisitions and disposals continued

### Disposals

#### 2016

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

#### 2015

The group sold and closed businesses which had the following impact on adjusted operating profit by segment:

	United Kingdom £m	Europe & Africa £m	The Americas £m	Asia Pacific £m	Total £m
Sugar					
– North China	–	–	–	(100)	(100)
– Vivergo Fuels	(75)	–	–	–	(75)
– Other (including warranties)	–	4	(11)	1	(6)
	(75)	4	(11)	(99)	(181)
Grocery (warranties)	6	–	–	–	6
Agriculture (warranties)	3	–	–	–	3
	(66)	4	(11)	(99)	(172)

The group sold the Yi'an and BoCheng beet sugar factories in Heilongjiang province in north China and restructured the associated head office in Beijing. This reduced the group's assets and liabilities as follows:

	£m
<b>Net assets</b>	
Intangible assets	9
Property, plant and equipment	47
Inventories	3
Trade and other payables	(1)
Loans	(1)
Taxation	5
Net identifiable assets and liabilities	62
Goodwill	46
Non-controlling interests	(2)
Recycle of effect of movements in foreign exchange	(8)
Profits less losses on sale and closure of businesses	(100)
Total consideration	(2)
<b>Satisfied by</b>	
Cash consideration	3
Provisions made	(5)
	(2)
<b>Net cash</b>	
Cash consideration	3

The group incurred a net £75m non-cash charge arising on the acquisition of BP's 47% interest in Vivergo Fuels. Accounting standards required the remeasurement of the group's interest at fair value prior to the acquisition, resulting in a loss on the deemed disposal of the group's original interest prior to its immediate re-acquisition at fair value.

Also in the Sugar segment, an intangible asset with a carrying value of £11m was written off on closure of a small business in North America.

£14m of warranty provisions relating to disposals made in previous years were no longer required and were released during the year. These comprised £6m in Grocery (all in the UK), £5m in Sugar (£4m in Europe & Africa and £1m in Asia Pacific) and £3m in Agriculture (all in the UK).

The cash consideration received for the disposal was £3m which compared with a cash inflow of £5m on the sale of subsidiaries, joint ventures and associates shown in the cash flow statement. The difference related to deferred consideration received in respect of prior year disposals.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**23. Share-based payments**

The group had the following principal equity-settled share-based payment plans in operation during the period:

**Associated British Foods Executive Share Incentive Plan 2003 ('the Share Incentive Plan')**

The Share Incentive Plan was approved and adopted by the Company at the annual general meeting held on 5 December 2003. It takes the form of conditional allocations of shares which are released if, and to the extent that, performance targets are satisfied, typically over a three-year performance period. The Share Incentive Plan expired in December 2013, with the last grant of allocations made in November 2013. Conditional shares allocated under the Share Incentive Plan will vest under the terms of that plan.

**Associated British Foods Long-Term Incentive Plan ('the LTIP')**

The LTIP was approved and adopted by the Company at the annual general meeting held on 6 December 2013. It takes the form of conditional allocations of shares which are released if, and to the extent that, performance targets are satisfied, typically over a three-year performance period.

Further information regarding the operation of the above plans can be found in the Remuneration report on pages 69 to 87.

Total conditional allocations under the group's equity-settled share-based payment plans are as follows:

	Balance outstanding at the beginning of the year	Granted/awarded	Vested	Expired/lapsed	Balance outstanding at the end of the year
2016	3,330,356	849,566	(626,879)	(872,096)	2,680,947
2015	4,365,341	911,832	(1,572,229)	(374,588)	3,330,356

**Employee Share Ownership Plan Trust**

Ordinary shares subject to allocation under the group's equity-settled share-based payment plans are held in a separate Employee Share Ownership Plan Trust. The Trust is funded by the Company. Voting rights attached to shares held by the Trust are exercisable by the trustee, who is entitled to consider any recommendation made by a committee of the Company. At 17 September 2016 the Trust held 1,513,339 (2015 – 1,490,218) ordinary shares of the Company. The market value of these shares at the year end was £41m (2015 – £46m). The Trust has waived its right to dividends. Movements in the year were releases of 626,879 shares and purchases of 650,000 shares (2015 – releases of 1,572,229 shares).

**Fair values**

The weighted average fair value of conditional grants made was determined by taking the market price of the shares at the time of grant and discounting for the fact that dividends are not paid during the vesting period. The weighted average fair value of the conditional shares allocated during the year was 3,185 pence (2015 – 2,873 pence) and the weighted average share price was 3,425 pence (2015 – 3,089 pence). The dividend yield used was 2.5%.

**24. Analysis of net debt**

	At 12 September 2015 £m	Cash flow £m	Non-cash items £m	Exchange adjustments £m	At 17 September 2016 £m
Cash at bank and in hand, cash equivalents and overdrafts	585	(165)	–	42	<b>462</b>
Short-term loans	(202)	109	(26)	(18)	<b>(137)</b>
Long-term loans	(577)	(12)	26	(77)	<b>(640)</b>
	(194)	(68)	–	(53)	<b>(315)</b>

Cash and cash equivalents comprise bank and cash balances, call deposits and short-term investments with original maturities of three months or less. Bank overdrafts that are repayable on demand of £119m form an integral part of the group's cash management and are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

£26m of cash at bank and cash in hand and £11m of short-term loans disclosed above are included within assets and liabilities classified as held for sale (see note 14).

## 25. Financial instruments

Financial instruments include £26m of cash, £10m of trade and other receivables, £10m of trade and other payables and £11m of loans and overdrafts (2015 – £nil) which are classified as held for sale, see note 14. All disclosures in this note are given gross, before the held for sale reclassification is made.

### a) Carrying amount and fair values of financial assets and liabilities

	2016 £m	2015 £m
<b>Financial assets</b>		
Cash and cash equivalents	581	702
<b>Loans and receivables</b>		
Trade and other receivables	1,165	1,020
Other non-current receivables	41	23
<b>At fair value through profit or loss</b>		
Derivative assets not designated in a cash flow hedging relationship:		
– currency derivatives	14	3
<b>Designated net investment hedging relationships</b>		
Derivative assets designated as net investment hedging instruments:		
– currency derivatives	1	33
<b>Designated cash flow hedging relationships</b>		
Derivative assets designated and effective as cash flow hedging instruments:		
– currency derivatives	86	37
– commodity derivatives	4	1
<b>Total financial assets</b>	<b>1,892</b>	1,819
<b>Financial liabilities</b>		
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	(2,295)	(1,930)
Secured loans	(81)	(51)
Unsecured loans and overdrafts (fair value 2016 – £851m; 2015 – £889m)	(801)	(833)
Finance leases (fair value 2016 – £19m; 2015 – £17m)	(14)	(12)
Deferred consideration	(7)	(7)
<b>At fair value through profit or loss</b>		
Derivative liabilities not designated in a cash flow hedging relationship:		
– currency derivatives	(8)	(6)
– commodity derivatives	(1)	(1)
<b>Designated net investment hedging relationships</b>		
Derivative liabilities designated as net investment hedging instruments:		
– currency derivatives	(16)	–
<b>Designated cash flow hedging relationships</b>		
Derivative liabilities designated and effective as cash flow hedging instruments:		
– currency derivatives	(36)	(19)
– commodity derivatives	(12)	(7)
<b>Total financial liabilities</b>	<b>(3,271)</b>	(2,866)
<b>Net financial liabilities</b>	<b>(1,379)</b>	(1,047)

Except where stated, carrying amount is equal to fair value.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 53 weeks ended 17 September 2016

### 25. Financial instruments continued

The methods and assumptions used to estimate fair values of financial assets and liabilities are as follows:

Financial asset/liability	Fair value determination
Cash and cash equivalents, trade receivables, other receivables and accrued income, trade payables, other payables and accruals	Fair values have been stated at book values due to short maturities or otherwise immediate or short-term access and realisability.
Other non-current investments (recorded within other non-current receivables)	These comprise minority shareholdings in privately owned, unquoted companies where there is no active market available to value them. Where the fair value of the equity instruments cannot be reliably measured, they are recorded at cost.
Other non-current receivables, loans and overdrafts and finance leases	Fair values for these level 2 financial instruments have been estimated by discounting expected future cash flows (see below).
Derivatives	<p>Fair values are typically determined either by reference to third-party valuations (usually from a bank), or by reference to readily observable market prices.</p> <p>The group's derivatives primarily cover a period of no more than 12 months from the balance sheet date, and information derived from an active market is almost always available to assist with the valuation of derivatives.</p>
Deferred consideration	Deferred consideration is measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, discounted to present value where material. Fair value is therefore equivalent to book value.

### Valuation of financial instruments carried at fair value

Financial instruments carried at fair value in the balance sheet comprise other non-current investments and derivatives. The group classifies these financial instruments using a fair value hierarchy that reflects the relative significance of both objective evidence and subjective judgements on the inputs used in making the fair value measurements:

- Level 1: financial instruments are valued using observable inputs that reflect unadjusted quoted market prices in an active market for identical instruments. An example of an item in this category is a widely traded equity instrument with a normal quoted market price.
- Level 2: financial instruments are valued using techniques based on observable inputs, either directly (i.e. market prices and rates) or indirectly (i.e. derived from market prices and rates). An example of an item in this category is a currency derivative, where forward exchange rates and yield curve data, which are observable in the market, are used to derive fair value.
- Level 3: financial instruments are valued using techniques involving significant unobservable inputs.

### b) Derivatives

All derivatives are classified as current on the face of the balance sheet. The table below analyses the carrying amount of derivatives and their contractual/notional amounts, together with an analysis of derivatives by the level in the fair value hierarchy into which their fair value measurement method is categorised.

	2016				2015			
	Contractual/ notional amounts £m	Level 1 £m	Level 2 £m	Total £m	Contractual/ notional amounts £m	Level 1 £m	Level 2 £m	Total £m
Financial assets								
Currency derivatives	1,330	–	101	101	1,311	–	73	73
Commodity derivatives	39	1	3	4	24	1	–	1
	<b>1,369</b>	<b>1</b>	<b>104</b>	<b>105</b>	<b>1,335</b>	<b>1</b>	<b>73</b>	<b>74</b>
Financial liabilities								
Currency derivatives	1,353	–	(60)	(60)	929	–	(25)	(25)
Commodity derivatives	112	–	(13)	(13)	108	(1)	(7)	(8)
	<b>1,465</b>	<b>–</b>	<b>(73)</b>	<b>(73)</b>	<b>1,037</b>	<b>(1)</b>	<b>(32)</b>	<b>(33)</b>

## 25. Financial instruments continued

### c) Cash flow hedging reserve

The following table identifies the movements in the cash flow hedging reserve during the year, and the periods in which the cash flows are expected to occur. The periods in which the cash flows are expected to impact profit or loss are materially the same.

	2016			2015		
	Currency derivatives £m	Commodity derivatives £m	Total £m	Currency derivatives £m	Commodity derivatives £m	Total £m
Opening balance	6	6	12	(30)	(4)	(34)
(Gains)/losses recognised in the hedging reserve	(82)	12	(70)	(174)	20	(154)
Amount removed from the hedging reserve and included in the income statement:						
– revenue	(21)	1	(20)	39	–	39
– cost of sales	–	(9)	(9)	–	(16)	(16)
– other financial income/expense	46	–	46	13	1	14
Amount removed from the hedging reserve and included in equity:						
– retained earnings	15	–	15	–	–	–
Amount removed from the hedging reserve and included in a non-financial asset:						
– inventory	56	(5)	51	164	9	173
Deferred tax	(4)	–	(4)	(7)	(4)	(11)
Effect of movements in foreign exchange	–	1	1	1	–	1
Closing balance	16	6	22	6	6	12
Cash flows are expected to occur:						
– within six months	5	6	11	3	5	8
– between six months and one year	8	–	8	–	1	1
– between one and two years	–	–	–	1	–	1
– between two and five years	1	–	1	1	–	1
– after five years	2	–	2	1	–	1
	16	6	22	6	6	12

The closing balance of £22m is wholly attributable to equity shareholders (2015 – £11m attributable to equity shareholders and £1m to non-controlling interests). Of the net movements including foreign exchange in the year of £10m, £11m is attributable to equity shareholders and £(1)m to non-controlling interests (2015 – £40m attributable to equity shareholders and £6m to non-controlling interests).

### d) Financial risk identification and management

The group is exposed to the following financial risks from its use of financial instruments:

- market risk;
- credit risk; and
- liquidity risk.

The group's financial risk management process seeks to enable the early identification, evaluation and effective management of key risks facing the business. Risk management policies and systems have been established and are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The group sources and sells products and manufactures goods in many locations around the world. These operations expose the group to potentially significant price volatility in the financial and commodity markets. Trading and risk management teams have been established in the group's major businesses to manage this exposure by entering into a range of products, including physical and financial forward contracts, futures and, where appropriate, options. These teams work closely with group Treasury and report regularly to executive management.

Treasury operations and commodity procurement are conducted within a clearly defined framework of board-approved policies and guidelines to manage the group's financial and commodity risks. Treasury works closely with the group's procurement teams to manage commodity risks. Treasury policy seeks to ensure that adequate financial resources are available to the group at all times, for the management and development of the group's businesses, whilst effectively managing its market risk and credit risk. The group's risk management policy explicitly forbids the use of financial or commodity derivatives (outside its risk management framework of mitigating financial and commodity risks) for speculative purposes.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 53 weeks ended 17 September 2016

### 25. Financial instruments continued

#### e) Foreign currency translation

The group presents its financial statements in sterling. As a result of its worldwide operations, the group is exposed to foreign currency translation risk where overseas operations have a functional currency other than sterling. Changes in foreign currency exchange rates impact the translation into sterling of both the income statement and net assets of these foreign operations.

Where appropriate, the group finances its operations by borrowing locally in the functional currency of its operations. This reduces net asset values reported in functional currencies other than sterling, thereby reducing the economic exposure to fluctuations in foreign currency exchange rates on translation.

The group also finances its operations by obtaining funding at group level through external borrowings and, where they are not in sterling, these borrowings may be designated as net investment hedges. This enables gains and losses arising on retranslation of these foreign currency borrowings to be charged to other comprehensive income, providing a partial offset in equity against the gains and losses arising on translation of the net assets of foreign operations.

The group does not actively hedge the translation impact of foreign exchange rate movements on the income statement (other than via the partial economic hedge arising from the servicing costs on non-sterling borrowings).

The group designates certain of its intercompany loan arrangements as quasi-equity for the purposes of IAS 21. The effect of the designation is that any foreign exchange volatility arising within the borrowing entity and/or the lending entity is accounted for directly within other comprehensive income.

At year end, the group had \$160m of borrowings (2015 – \$280m) that were designated as hedges of its net investment in foreign operations in US dollars.

A net foreign exchange loss of £26m (2015 – loss of £7m) on retranslation of these loans has been taken to the translation reserve on consolidation, all of which was attributable to equity shareholders. The group also held currency forwards and cross currency swaps that have been designated as hedges of its net investments in Australian dollars and euros, whose change in fair value of £46m has been debited to the translation reserve, all of which was attributable to equity shareholders (2015 – £29m credited to the translation reserve).

#### f) Market risk

Market risk is the risk of movements in the fair value of future cash flows of a financial instrument or forecast transaction as underlying market prices change. The group is exposed to changes in the market price of commodities, interest rates and foreign exchange rates. These risks are known as 'transaction' (or recognised) exposures and 'economic' (or forecast) exposures.

##### (i) Commodity price risk

Commodity price risk arises from the procurement of raw materials and the consequent exposure to changes in market prices.

The group purchases a wide range of commodities in the ordinary course of business. Exposure to changes in the market price of certain of these commodities including wheat, edible oils, soya beans, meat, sugar raws, cocoa, rice, tea and energy is managed through the use of forward physical contracts and hedging instruments, including futures and options contracts, primarily to convert floating or indexed prices to fixed prices. The use of such contracts to hedge commodity exposures is governed by the group's risk management policies and is continually monitored by group Treasury. Commodity derivatives also provide a way to meet customers' pricing requirements whilst achieving a price structure consistent with the group's overall pricing strategy.

Some of the group's commodity derivatives are treated as 'own use' contracts, since they are both entered into, and continue to be held, for the purposes of the group's ordinary operations, and the group takes physical delivery of the commodity concerned. 'Own use' contracts do not require accounting entries until the commodity purchase actually crystallises. Certain other commodity derivatives are accounted for as cash flow hedges, but some are not eligible for treatment as 'own use' contracts and are not contracts for which the strict requirements of hedge accounting can be satisfied. This occurs typically where the group does not take physical delivery of the commodity concerned. Such commodity derivatives are used only where the business believes they provide an economic hedge of an underlying exposure. These instruments are classified as held for trading and are marked to market through the income statement.

The majority of the group's forward physical contracts and commodity derivatives have original maturities of less than one year.

The group does not have significant sensitivities in respect of the accounting for its on-balance sheet commodity contracts.

## 25. Financial instruments continued

### (ii) Interest rate risk

Interest rate risk comprises two primary elements:

- interest price risk results from financial instruments bearing fixed interest rates. Changes in floating interest rates therefore affect the fair value of these fixed rate financial instruments; and
- interest cash flow risk results from financial instruments bearing floating rates. Changes in floating interest rates affect cash flows on interest receivable or payable.

The group's policy is to maintain floating rate debt for a significant proportion of its bank finance, although it periodically assesses its position with respect to interest price and cash flow risk.

At 17 September 2016, £625m (70%) (2015 – £636m and 71%) of total debt was subject to fixed rates of interest, the majority of which is the US private placement loans of £588m (2015 – £601m).

Floating rate debt comprises bank borrowings bearing interest rates fixed in advance, for various time periods up to 12 months, by reference to official market rates (e.g. LIBOR).

The group does not have significant sensitivities to the impact of interest rates on derivative valuations, nor to the impact of interest rates on floating rate borrowings.

### (iii) Foreign currency risk

The group conducts business worldwide and consequently in many foreign currencies. As a result, it is exposed to movements in foreign currency exchange rates which affect the group's transaction costs. The group also publishes its financial statements in sterling and is therefore exposed to movements in foreign exchange rates on the translation of the results and underlying net assets of its foreign operations into sterling.

Translation risk is discussed in section e) on page 134.

#### Transaction risk

Currency transaction exposure occurs where a business makes sales and purchases in a currency other than its functional currency. It also arises where monetary assets and liabilities of a business are not denominated in its functional currency, and where dividends or surplus funds are remitted from overseas. The group's policy is to match transaction exposures wherever possible, and to hedge actual exposures and firm commitments as soon as they occur by using forward foreign currency contracts. All foreign currency instruments contracted with non-group entities to manage transaction exposures are undertaken by group Treasury or, where foreign currency controls restrict group Treasury acting on behalf of subsidiaries, under its guidance. Identification of transaction exposures is the responsibility of each business.

The group uses derivatives (principally forward foreign currency contracts and time options) to hedge its exposure to movements in exchange rates on its foreign currency trade receivables and payables. The group does not seek formal fair value hedge accounting for such transaction hedges. Instead, such derivatives are classified as held for trading and marked to market through the income statement. This offsets the income statement impact of the retranslation of the foreign currency trade receivables and payables.

#### Economic (forecast) risk

The group also uses forward foreign currency contracts to hedge its exposure to movements in exchange rates on its highly probable forecast foreign currency sales and purchases on a rolling 12-month basis. The group does not formally define the proportion of highly probable forecast sales and purchases to hedge, but agrees an appropriate percentage on an individual basis with each business by reference to the group's risk management policies and prevailing market conditions. The group documents currency derivatives used to hedge its forecast transactions as cash flow hedges. To the extent that cash flow hedges are effective, gains and losses are deferred in equity until the forecast transaction occurs, at which point the gains and losses are recycled either to the income statement or to the non-financial asset acquired.

The majority of the group's currency derivatives have original maturities of less than one year.

The group's most significant currency transaction exposures are:

- sugar prices in British Sugar to movements in the sterling/euro exchange rate;
- sugar prices in Illovo to movements in the South African rand/US dollar/euro exchange rates; and
- sourcing for Primark – costs are denominated in a number of currencies, predominantly sterling, euros and US dollars.

Elsewhere, a number of businesses make sales and purchase a variety of raw materials in foreign currencies (primarily US dollars and euros), giving rise to transaction exposures. In all other material respects, businesses tend to operate in their functional currencies.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**25. Financial instruments continued**

The analysis of the group's foreign currency exposure to financial assets and liabilities by currency of denomination is as follows:

	2016				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
<b>Financial assets</b>					
Cash and cash equivalents	1	23	11	11	46
Trade and other receivables	–	32	66	13	111
	<b>1</b>	<b>55</b>	<b>77</b>	<b>24</b>	<b>157</b>
<b>Financial liabilities</b>					
Trade and other payables	(18)	(346)	(38)	(9)	(411)
Unsecured loans and overdrafts	–	(428)	(1)	–	(429)
Finance leases	–	–	–	(1)	(1)
Deferred consideration	–	(2)	–	(1)	(3)
	<b>(18)</b>	<b>(776)</b>	<b>(39)</b>	<b>(11)</b>	<b>(844)</b>
<b>Currency derivatives</b>					
Gross amounts receivable	75	1,521	197	168	1,961
Gross amounts payable	(4)	(49)	(598)	(73)	(724)
	<b>71</b>	<b>1,472</b>	<b>(401)</b>	<b>95</b>	<b>1,237</b>
	<b>54</b>	<b>751</b>	<b>(363)</b>	<b>108</b>	<b>550</b>

	2015				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
<b>Financial assets</b>					
Cash and cash equivalents	1	19	4	8	32
Trade and other receivables	–	22	50	12	84
	1	41	54	20	116
<b>Financial liabilities</b>					
Trade and other payables	(30)	(286)	(40)	(10)	(366)
Unsecured loans and overdrafts	(8)	(444)	–	(3)	(455)
	<b>(38)</b>	<b>(730)</b>	<b>(40)</b>	<b>(13)</b>	<b>(821)</b>
<b>Currency derivatives</b>					
Gross amounts receivable	73	1,207	91	104	1,475
Gross amounts payable	(2)	(96)	(638)	(66)	(802)
	71	1,111	(547)	38	673
	34	422	(533)	45	(32)

The following major exchange rates applied during the year:

	Average rate		Closing rate	
	2016	2015	2016	2015
US dollar	<b>1.43</b>	1.55	<b>1.31</b>	1.54
Euro	<b>1.29</b>	1.34	<b>1.17</b>	1.37
Rand	<b>21.17</b>	18.42	<b>18.74</b>	20.99
Renminbi	<b>9.35</b>	9.62	<b>8.74</b>	9.83
Australian dollar	<b>1.96</b>	1.96	<b>1.75</b>	2.18

**Sensitivity analysis**

The following sensitivity analysis illustrates the impact that a 10% strengthening of the group's operating currencies against local functional currencies would have had on profit and equity. The analysis covers currency translation exposures at year end on businesses' financial assets and liabilities that are not denominated in the functional currencies of those businesses. A similar but opposite impact would be felt on both profit and equity if the group's main operating currencies weakened against local functional currencies by a similar amount.

The exposure to foreign exchange gains and losses on translating the financial statements of subsidiaries into sterling is not included in this sensitivity analysis, as there is no impact on the income statement, and the gains and losses are recorded directly in the translation reserve in equity (see opposite page for a separate sensitivity). This sensitivity is presented before taxation and non-controlling interests.

## 25. Financial instruments continued

	2016 impact on profit for the year £m	2016 impact on total equity £m	2015 impact on profit for the year £m	2015 impact on total equity £m
<b>10% strengthening against other currencies of</b>				
Sterling	–	6	(2)	3
US dollar	11	87	17	52
Euro	6	(42)	4	(60)
Other	8	9	4	7

A second sensitivity analysis calculates the impact on the group's profit before tax if the average rates used to translate the results of the group's foreign operations into sterling were adjusted to show a 10% strengthening of sterling. A similar but opposite impact would be felt on profit before tax if sterling weakened against the other currencies by a similar amount.

	2016 impact on profit for the year £m	2015 impact on profit for the year £m
<b>10% strengthening of sterling against</b>		
US dollar	(13)	(10)
Euro	(24)	(20)
Rand	(1)	2
Renminbi	(1)	7
Australian dollar	(2)	(2)

### g) Credit risk

Credit risk is the risk that counterparties to financial instruments do not perform according to the terms of the contract or instrument. The group's businesses are exposed to counterparty credit risk when dealing with customers, and from certain financing activities.

The immediate credit exposure of financial instruments is represented by those financial instruments that have a net positive fair value by counterparty at 17 September 2016. The group considers its maximum exposure to credit risk to be:

	Note	2016 £m	2015 £m
Cash and cash equivalents		581	702
Loans and receivables	25a	1,206	1,043
Derivative assets at fair value through profit and loss		14	3
Derivative assets in designated net investment hedging relationships		1	33
Derivative assets in designated cash flow hedging relationships		90	38
		<b>1,892</b>	<b>1,819</b>

The majority of cash balances and short-term deposits are held with strong investment-grade banks or financial institutions.

The group uses market knowledge, changes in credit ratings and other techniques to identify significant changes to the financial profile of its counterparties.

#### Trade and other receivables

Concentrations of credit risk are limited as a result of the group's large and diverse customer base. The group has an established credit policy applied by each business under which the credit status of each new customer is reviewed before credit is advanced. This includes external credit evaluations where possible and in some cases bank references. Credit limits are established for all significant or high-risk customers, which represent the maximum amount permitted to be outstanding without requiring additional approval from the appropriate level of management. Outstanding debts are continually monitored by each business. Credit limits are reviewed on a regular basis, and at least annually. Customers that fail to meet the group's benchmark creditworthiness may only transact with the group on a prepayment basis. Aggregate exposures are monitored at group level.

Many of the group's customers have been transacting with the group for many years and the incidence of bad debts has been low. Where appropriate, goods are sold subject to retention of title so that, in the event of non-payment, the group may have a secured claim. The group does not typically require collateral in respect of trade and other receivables.

The group provides for impairment of financial assets including trade and other receivables based on known events, and makes a collective provision for losses yet to be identified, based on historical data. The majority of the provision comprises specific amounts.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**25. Financial instruments continued**

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region of origin was:

	2016 £m	2015 £m
UK	395	385
Europe & Africa	289	214
The Americas	177	146
Asia Pacific	304	275
	<b>1,165</b>	1,020

Trade receivables can be analysed as follows:

	2016 £m	2015 £m
Not overdue	885	778
Up to one month past due	109	88
Between one and two months past due	23	23
Between two and three months past due	7	7
More than three months past due	33	24
Provision for doubtful debts	(25)	(22)
	<b>1,032</b>	898

Based on past experience, the group believes that no impairment allowance is necessary in respect of trade receivables that are not past due.

Trade receivables are stated net of the following provision for irrecoverable amounts:

	2016 £m	2015 £m
Opening balance	22	36
Amounts provided for during the year	4	6
Amounts released during the year	(2)	(13)
Amounts utilised during the year	(3)	(4)
Effect of movements in foreign exchange	4	(3)
Closing balance	<b>25</b>	22

No trade receivables were written off directly to the income statement in either year.

The directors consider that the carrying amount of trade and other receivables approximates fair value.

**Cash and cash equivalents**

Banking relationships are generally limited to those banks that are members of the core relationship group. These banks are selected for their credit status, global reach and their ability to meet the businesses' day-to-day banking requirements. The credit ratings of these institutions are monitored on a continuing basis. In locations where the core relationship banking group cannot be used, operating procedures including choice of bank, opening of bank accounts and repatriation of funds must be agreed with group Treasury. The group has not recorded impairments against cash or cash equivalents, nor have any recoverability issues been identified with such balances. Such items are typically recoverable on demand or in line with normal banking arrangements.

**Other financial assets**

Other non-current investments are typically equity investments with no fixed maturity or recoverability date. No impairment issues have been identified with respect to other non-current investments.

Since derivative assets are recorded at fair value, either through profit and loss for those not in a designated cash flow hedging relationship, or otherwise through the hedging or net investment hedging reserve, no impairment issues have been identified.

## 25. Financial instruments continued

### h) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting its obligations associated with its financial liabilities as they fall due. Group Treasury is responsible for monitoring and managing liquidity and ensures that the group has sufficient headroom in its committed facilities to meet unforeseen or abnormal requirements. The group also has access to uncommitted facilities to assist with short-term funding requirements.

Available headroom is monitored via the use of detailed cash flow forecasts prepared by each business, which are reviewed at least quarterly, or more often, as required. Actual results are compared to budget and forecast each period, and variances investigated and explained. Particular focus is given to management of working capital.

Details of the group's borrowing facilities are given in section i) on page 140.

The following table analyses the contractual undiscounted cash flows relating to financial liabilities at the balance sheet date and compares them to carrying amounts:

	Note	2016					Contracted amount £m	Carrying amount £m
		Due within 6 months £m	Due between 6 months and 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due after 5 years £m		
<b>Non-derivative financial liabilities</b>								
Trade and other payables	19	(2,286)	(9)	–	–	–	(2,295)	(2,295)
Secured loans	18	(12)	(33)	(16)	(20)	–	(81)	(81)
Unsecured loans and overdrafts	18	(177)	(61)	(66)	(274)	(343)	(921)	(801)
Finance leases	26	(1)	(1)	(1)	(3)	(37)	(43)	(14)
Deferred consideration	20	(1)	(2)	(2)	(2)	–	(7)	(7)
<b>Derivative financial liabilities</b>								
– Currency derivatives (net payments)		(28)	(15)	(2)	–	–	(45)	(60)
– Commodity derivatives (net payments)		(25)	(4)	–	–	–	(29)	(13)
<b>Total financial liabilities</b>		<b>(2,530)</b>	<b>(125)</b>	<b>(87)</b>	<b>(299)</b>	<b>(380)</b>	<b>(3,421)</b>	<b>(3,271)</b>

	Note	2015					Contracted amount £m	Carrying amount £m
		Due within 6 months £m	Due between 6 months and 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due after 5 years £m		
<b>Non-derivative financial liabilities</b>								
Trade and other payables	19	(1,914)	(16)	–	–	–	(1,930)	(1,930)
Secured loans	18	(7)	(21)	(7)	(16)	–	(51)	(51)
Unsecured loans and overdrafts	18	(208)	(111)	(40)	(264)	(345)	(968)	(833)
Finance leases	26	(1)	–	(1)	(2)	(37)	(41)	(12)
Deferred consideration	20	(1)	(1)	(1)	(4)	–	(7)	(7)
<b>Derivative financial liabilities</b>								
– Currency derivatives (net payments)		(7)	(3)	–	–	–	(10)	(25)
– Commodity derivatives (net payments)		(30)	(14)	(2)	–	–	(46)	(8)
<b>Total financial liabilities</b>		<b>(2,168)</b>	<b>(166)</b>	<b>(51)</b>	<b>(286)</b>	<b>(382)</b>	<b>(3,053)</b>	<b>(2,866)</b>

The above tables do not include forecast data for liabilities which may be incurred in the future but which were not contracted at 17 September 2016.

The principal reasons for differences between carrying values and contractual undiscounted cash flows are coupon payments on the fixed rate debt to which the group is already committed, future interest payments on the group's finance leases, and cash flows on derivative financial instruments which are not aligned with their fair value.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**25. Financial instruments continued****i) Borrowing facilities**

The group has substantial borrowing facilities available to it. The undrawn committed facilities available at 17 September 2016, in respect of which all conditions precedent have been met, amounted to £1,311m (2015 – £1,380m):

	2016			2015		
	Facility £m	Drawn £m	Undrawn £m	Facility £m	Drawn £m	Undrawn £m
£1.2bn syndicated facility	<b>1,200</b>	–	<b>1,200</b>	1,200	–	1,200
US private placement	<b>588</b>	<b>588</b>	–	601	601	–
Illovo	<b>143</b>	<b>83</b>	<b>60</b>	187	84	103
Azucarera	<b>105</b>	<b>54</b>	<b>51</b>	102	29	73
Other	<b>15</b>	<b>15</b>	–	18	14	4
	<b>2,051</b>	<b>740</b>	<b>1,311</b>	2,108	728	1,380

Uncommitted facilities available at 17 September 2016 were:

	2016			2015		
	Facility £m	Drawn £m	Undrawn £m	Facility £m	Drawn £m	Undrawn £m
Money market lines	<b>100</b>	–	<b>100</b>	100	–	100
Illovo	<b>138</b>	<b>69</b>	<b>69</b>	105	75	30
China banking	<b>424</b>	<b>12</b>	<b>412</b>	353	35	318
Other	<b>184</b>	<b>61</b>	<b>123</b>	141	46	95
	<b>846</b>	<b>142</b>	<b>704</b>	699	156	543

In addition to the above facilities there are also £296m (2015 – £212m) of undrawn and available credit lines for the purposes of issuing letters of credit and guarantees in the normal course of business.

The group also has £14m (2015 – £12m) of finance lease liabilities which are not included in the tables above, but which are included in the group's loans and overdrafts in note 18.

The group has a £1.2bn syndicated facility which matures in July 2021. In addition to the bank debt, the Company has £588m of private placement notes in issue to institutional investors in the US and Europe. At 17 September 2016, these had an average remaining duration of 4.4 years and an average fixed coupon of 4.7%. The other significant core committed debt facilities comprise local committed facilities in Illovo and Azucarera.

Uncommitted bank borrowing facilities are normally reaffirmed by the banks annually, although they can theoretically be withdrawn at any time.

Refer to note 9 for details of the group's capital commitments and to note 27 for a summary of the group's guarantees. An assessment of the group's current liquidity position is given in the Financial review on page 43.

**j) Capital management**

The capital structure of the group is presented in the balance sheet. The statement of changes in equity provides details on equity and note 18 provides details of loans and overdrafts. Short and medium-term funding requirements are provided by a variety of loan and overdraft facilities, both committed and uncommitted, with a range of counterparties and maturities. Longer term funding is sourced from a combination of these facilities, the private placement notes and committed syndicated loan facilities.

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to enable successful future development of the business. The board monitors return on capital by division and determines the overall level of dividends payable to shareholders.

From time to time the trustee of the Employee Share Ownership Plan Trust purchases the Company's shares in the market to satisfy awards under the group's incentive plans. Once purchased, shares are not sold back into the market. The group does not have a defined share buy-back plan.

There were no changes to the group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**26. Lease commitments****Operating leases**

The group acts as a lessee, lessor and sub-lessor for land and buildings, and plant and machinery, under operating leases.

Rental receipts of £9m (2015 – £10m) were recognised in the income statement in the period relating to operating leases. The total of future minimum rental receipts expected to be received is £53m (2015 – £53m).

Under the terms of the lease agreements, no contingent rents are payable.

## 26. Lease commitments continued

The future minimum lease payments under operating leases are as follows:

	2016 land and buildings £m	2016 plant and equipment £m	2016 total £m	2015 land and buildings £m	2015 plant and equipment £m	2015 total £m
Within one year	255	12	267	203	11	214
Between one and five years	1,051	17	1,068	816	17	833
After five years	2,905	–	2,905	2,492	–	2,492
	<b>4,211</b>	<b>29</b>	<b>4,240</b>	3,511	28	3,539

## Finance leases

Finance lease liabilities are payable as follows:

	2016 minimum lease payments £m	2016 interest £m	2016 principal £m	2015 minimum lease payments £m	2015 interest £m	2015 principal £m
Within one year	2	1	1	1	1	–
Between one and five years	4	3	1	3	2	1
After five years	37	25	12	37	26	11
	<b>43</b>	<b>29</b>	<b>14</b>	41	29	12

## 27. Contingencies

Litigation and other proceedings against companies in the group are not considered material in the context of these financial statements.

Where group companies enter into financial guarantee contracts to guarantee the indebtedness of other group companies, the group considers these to be insurance arrangements and has elected to account for them as such in accordance with IFRS 4. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the relevant group company issuing the guarantee will be required to make a payment under the guarantee.

As at 17 September 2016, group companies have provided guarantees in the ordinary course of business amounting to £1,912m (2015 – £1,397m).

## 28. Related parties

The group has a controlling shareholder relationship with its parent company, Wittington Investments Limited, with the trustees of the Garfield Weston Foundation and with certain other individuals who hold shares in the Company. Further details of the controlling shareholder relationship are included in note 29. The group has a related party relationship with its associates and joint ventures (see note 29) and with its directors. In the course of normal operations, related party transactions entered into by the group have been contracted on an arm's length basis.

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

	Sub note	2016 £000	2015 £000
Charges to Wittington Investments Limited in respect of services provided by the Company and its subsidiary undertakings		1,226	661
Dividends paid by Associated British Foods and received in a beneficial capacity by:			
(i) trustees of the Garfield Weston Foundation and their close family	1	10,012	9,838
(ii) directors of Wittington Investments Limited who are not trustees of the Foundation and their close family		2,613	1,529
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited	2	54	50
(iv) members of the Weston family employed within the Associated British Foods group	3	2	1,011
Sales to fellow subsidiary undertakings on normal trading terms	4	48	108
Sales to companies with common key management personnel on normal trading terms	5	16,642	13,343
Commissions paid to companies with common key management personnel on normal trading terms	5	1,490	1,602
Amounts due from companies with common key management personnel	5	1,748	1,541
Sales to joint ventures on normal trading terms		13,460	18,288
Sales to associates on normal trading terms		41,494	29,992
Purchases from joint ventures on normal trading terms		324,959	314,818
Purchases from associates on normal trading terms		17,424	16,132
Amounts due from joint ventures		37,531	18,959
Amounts due from associates		4,244	2,978
Amounts due to joint ventures		28,374	28,533
Amounts due to associates		3,342	2,278

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 53 weeks ended 17 September 2016

### 28. Related parties continued

1. The Garfield Weston Foundation ('the Foundation') is an English charitable trust, established in 1958 by the late W Garfield Weston. The Foundation has no direct interest in the Company, but as at 17 September 2016 was the beneficial owner of 683,073 shares (2015 – 683,073 shares) in Wittington Investments Limited representing 79.2% (2015 – 79.2%) of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 17 September 2016 trustees of the Foundation comprised two children and two grandchildren of the late W Garfield Weston and five children of the late Garry H Weston.
2. Details of the directors are given on pages 54 and 55. Their interests, including family interests, in the Company and its subsidiary undertakings are given on pages 84 and 85. Key management personnel are considered to be the directors, and their remuneration is disclosed within the Remuneration report on page 82.
3. Members of the Weston family who are employed by the group and are not directors of the Company or Wittington Investments Limited and are not trustees of the Foundation.
4. The fellow subsidiary undertakings are Fortnum and Mason plc and Heal & Son Limited.
5. 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 £36m (2015 – £19m) of finance lease receivables (see note 13). The remainder of the balance is trading balances. All but £3m (2015 – £3m) of the finance lease receivables are non-current.

### 29. Group entities

#### Control of the group

The largest group in which the results of the Company are consolidated is that headed by Wittington Investments Limited ('Wittington'), the accounts of which are available at Companies House, Crown Way, Cardiff CF14 3UZ. It is the ultimate holding company, is incorporated in Great Britain and is registered in England.

At 17 September 2016 Wittington, together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares (2015 – 431,515,108) representing in aggregate 54.5% (2015 – 54.5%) of the total issued ordinary share capital of Associated British Foods plc.

Wittington, and, through their control of Wittington, the trustees of the Garfield Weston Foundation ('the Foundation') are controlling shareholders of the Company. Certain other individuals, including certain members of the Weston family who hold shares in the Company (and including two of the Company's directors, George Weston and Emma Adamo) are, under the Listing Rules, treated as acting in concert with Wittington and the trustees of the Foundation and are therefore also treated as controlling shareholders of the Company. Wittington, the trustees of the Foundation and these individuals together comprise the controlling shareholders of the Company and, at 17 September 2016, have a combined interest in approximately 59.16% (2015 – 59.06%) of the Company's voting rights. Information on the relationship agreement between the Company and its controlling shareholders is set out on page 89 of the Directors' report.

#### Subsidiary undertakings

A list of the group's subsidiaries as at 17 September 2016 is given below. The entire share capital of subsidiaries is held within the group except where the group's ownership percentages are shown. These percentages give the group's ultimate interest and therefore allow for the occasional situation where subsidiaries are owned by partly owned intermediate subsidiaries. Where subsidiaries have different classes of shares, this is largely for historical reasons and the effective percentage holdings given represent both the group's voting rights and equity holding. Shares in ABF Investments plc are held directly by Associated British Foods plc. All other holdings in subsidiaries are owned by members of the Associated British Foods plc group. All subsidiaries are consolidated in the group's financial statements.

Name	Country	% effective holding if not 100%	Name	Country	% effective holding if not 100%
A.B. Exploration Limited	United Kingdom		AB Azucarera Iberia, S.L. Sociedad Unipersonal	Spain	
A.B.F. Holdings Limited	United Kingdom		AB Brasil Indústria e Comércio de Alimentos Ltda	Brazil	
A.B.F. Nominees Limited	United Kingdom		AB Calsa S.A.	Ecuador	
A.B.F. Properties Limited	United Kingdom		AB CALSA S.A. de C.V.	Mexico	
AB (Harbin) Food Ingredients Company Limited	China		AB CALSA SERVICIOS, S. DE R.L. DE C.V.	Mexico	
AB Agri Animal Nutrition (Jilin) Co., Ltd	China		AB Enzimas Brasil Comercial Ltda	Brazil	
AB Agri Animal Nutrition (Nantong) Co., Ltd	China		AB Enzymes GmbH	Germany	
AB Agri Limited	United Kingdom		AB Enzymes Oy	Finland	
AB Agri, LLC (in liquidation)	Russian Federation		AB Enzymes Trading (Shanghai) Co., Ltd	China	
AB Agri Pumeixin Tech (Jiangxi) Co. Ltd.	China		AB Food & Beverages (Thailand) Ltd.	Thailand	
AB Agri Vietnam Company Limited	Vietnam		AB Food & Beverages Australia Pty. Limited	Australia	

## 29. Group entities continued

Name	Country	% effective holding if not 100%	Name	Country	% effective holding if not 100%
AB Food & Beverages Philippines, Inc.	Philippines	99	AB Vista Brasil Comércio De Alimentação Animal Ltda	Brazil	
AB Food and Beverages Taiwan, Inc.	Taiwan		AB Vista Iberia, S.L.	Spain	
AB Foods Australia Limited	United Kingdom		AB Vista, Inc.	United States	
AB Foods Luxembourg S.à r.l. (in liquidation)	Luxembourg		AB World Foods (Holdings) Limited	United Kingdom	
AB Foods Polska Spółka z ograniczoną odpowiedzialnością (AB Foods Polska SP. z o.o.)	Poland		AB World Foods Asia Ltd	Thailand	
AB Ingredients Limited	United Kingdom		AB World Foods Limited	United Kingdom	
AB Mauri (Beijing) Food Sales and Marketing Company Limited	China		AB World Foods Pty Ltd	Australia	
AB Mauri (Canada) Limited	Canada		Abdale Finance Limited	Ireland	
AB Mauri (UK) Limited	United Kingdom		ABF (No. 1) Limited	United Kingdom	
AB Mauri Belgium NV	Belgium		ABF (No. 2) Limited	United Kingdom	
AB Mauri Camellia Pty Limited	Australia		ABF (No. 3) Limited	United Kingdom	
AB Mauri Europe Limited	United Kingdom		ABF Colón Park, S.L.U.	Spain	
AB Mauri Food Inc.	United States		ABF Deutschland Holdings GmbH	Germany	
AB Mauri Food, S.A	Spain		ABF Europe Finance Limited	United Kingdom	
AB Mauri Foods (Shanghai) Company Limited	China	90	ABF European Holdings & Co SNC	Luxembourg	
AB Mauri France SAS	France		ABF European Holdings Limited	United Kingdom	
AB Mauri Hispanoamerica S.A.	Argentina		ABF Finance Limited	United Kingdom	
AB Mauri India (Private) Limited	India		ABF Funding	United Kingdom	
AB Mauri Investments (Asia) Pte Ltd	Singapore		ABF Grain Products Limited	United Kingdom	
AB Mauri Italy S.p.A.	Italy		ABF Green Park Limited	United Kingdom	
AB Mauri Lanka (Private) Limited	Sri Lanka		ABF Grocery Limited	United Kingdom	
AB Mauri Malaysia Sdn. Bhd.	Malaysia	52	ABF HK Finance Limited	United Kingdom	
AB Mauri Middle East FZE	United Arab Emirates		ABF Holdings (Thailand) Ltd.	Thailand	
AB Mauri Netherlands B.V.	Netherlands		ABF Ingredients Limited	United Kingdom	
AB Mauri Netherlands European Holdings B.V.	Netherlands		ABF Investments plc	United Kingdom	
AB Mauri Overseas Holdings Limited	Australia		ABF Italy Holdings S.r.l.	Italy	
AB Mauri Pakistan (PRIVATE) Limited	Pakistan	60	ABF Japan Limited	United Kingdom	
AB Mauri Pakistan Pty Limited	Australia		ABF MXN Finance Limited	United Kingdom	
AB Mauri Philippines, Inc.	Philippines		ABF North America Corp.	United States	
AB Mauri Portugal, S.A.	Portugal	96	ABF North America Holdings, Inc.	United States	
AB Mauri Properties Pty Limited	Australia		ABF Overseas Limited	United Kingdom	
AB Mauri ROW Holdings Pty Limited	Australia		ABF Overseas Limited, Sucursal en España	Spain	
AB Mauri Spain, S.L.U.	Spain		ABF PM Limited	United Kingdom	
AB Mauri South America Pty Limited	Australia		ABF Twinings Beverages (Shanghai) Limited	China	
AB Mauri South West Asia Pty Limited	Australia		ABF UK Finance Limited	United Kingdom	
AB Mauri Technology & Development Pty Limited	Australia		ABF US Holdings Limited	United Kingdom	
AB Mauri Technology Pty Limited	Australia		ABF Wynyard Park Limited Partnership	Australia	
AB Mauri Vietnam Limited	Vietnam	66	Abitec Corporation	United States	
AB Sugar Africa Limited	United Kingdom		ABN (Overseas) Limited	United Kingdom	
AB Sugar China Holdings Limited	United Kingdom		ABN (Scotland) Limited	United Kingdom	
AB Sugar China Limited	United Kingdom		ABNA (Shanghai) Feed Co., Ltd.	China	
AB Sugar China North Limited	United Kingdom		ABNA (Tianjin) Feed Co., Ltd.	China	
AB Sugar Limited	United Kingdom		ABNA Feed (Anhui) Co., Ltd.	China	
AB Technology Limited	United Kingdom		ABNA Feed (Liaoning) Co., Ltd.	China	
AB Tip Top (Wuhan) Baking Co Ltd	China		ABNA Feed Company Limited	United Kingdom	
AB Vista Asia Pte. Limited	Singapore		ABNA Limited	United Kingdom	
			ABNA Management (Shanghai) Co., Ltd.	China	
			ABNA Trading (Shanghai) Co., Ltd.	China	
			ACH Food Companies of Puerto Rico, Inc.	Puerto Rico	
			ACH Food Companies, Inc.	United States	
			ACH Foods Mexico, S. de R.L. de C.V.	Mexico	
			ACH Jupiter LLC	United States	
			AgriLines Limited	United Kingdom	
			Agro Korn A/S	Denmark	

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**29. Group entities continued**

Name	Country	% effective holding if not 100%	Name	Country	% effective holding if not 100%
Agroteo S.A.	Spain	51	Fleischmann Foods S.A.	Colombia	
Alimentos Fleischmann, C.A.,	Venezuela		Food Investments Limited	United Kingdom	
Allied Bakeries Limited	United Kingdom		Food Investments Pty. Limited	Australia	
Allied Foods (NZ) Ltd	New Zealand		Foods International Holding B.V.	Netherlands	
Allied Grain (Scotland) Limited	United Kingdom		Foods International S.A.S.	France	
Allied Grain (South) Limited	United Kingdom		Foods International Vertriebs- und Marketing-Gesellschaft GmbH	Germany	
Allied Grain (Southern) Limited	United Kingdom		G. Costa and Company Limited	United Kingdom	
Allied Grain Limited	United Kingdom		G. Costa (Holdings) Limited	United Kingdom	
Allied Mills Limited	United Kingdom		Gb Plange UK Limited	United Kingdom	
Allied Technical Centre Limited	United Kingdom		George Chapman Proprietary Limited	Australia	
Allinson Limited	United Kingdom		George Weston Foods (NZ) Limited	New Zealand	
Alternative Swine Nutrition, S.L.	Spain		George Weston Foods Limited	Australia	
Anzchem NZ Limited	New Zealand		Germain's (U.K.) Limited	United Kingdom	
Anzchem Pty Limited	Australia		Germain's Seed Technology B.V.	Netherlands	
Associated British Foods Asia Pacific Holdings Limited	Hong Kong		Germain's Seed Technology, Inc.	United States	
Associated British Foods Holdings (China) Co., Ltd.	China		Germain's Seed Technology, S.A.	Spain	
Associated British Foods Pension Trustees Limited	United Kingdom		Glendale Sugar Limited	South Africa	
Atrium 100 Properties Limited	United Kingdom		Golden Crumpet Co. Australasia Pty Ltd	Australia	
Atrium 100 Stores Holdings Limited	United Kingdom		Greensted, S.A.	Uruguay	
Atrium 100 Stores Limited	United Kingdom		Guangxi Bodong Food Company Limited	China	60
B.E. International Foods Limited	United Kingdom		Guangxi Bohua Food Company Limited	China	71
B.V. ABF Delaware, Inc (USA)	United States		Guangxi Boqing Food Company Limited	China	60
Banbury Agriculture Limited	United Kingdom		Guangxi Boxuan Food Company Limited	China	70
Bar Circle Ranch Limited	Swaziland	60	Guangxi Boai Agriculture Technical Development Company Limited	China	70
Bodit Tachov S.r.o.	Czech Republic		Harbin Mauri Yeast Co., Ltd.	China	85
Botian Sugar Industry Co., Ltd.	China		Hebei Mauri Food Co., Ltd.	China	
Botian Sugar (Chayou Qianqi) Co., Ltd.	China		Illovo Distillers (Tanzania) Limited	Tanzania	80
Botian Sugar Industry (Zhangbei) Co., Ltd.	China		Illovo Distributors (Pty) Limited	South Africa	
Bonuit Investments Limited	Jersey		Illovo Group Financing Services Limited	Mauritius	
British Sugar (Overseas) Limited	United Kingdom		Illovo Group Holdings Limited	Mauritius	
British Sugar Consulting Services (ShangHai) Co., Ltd.	China		Illovo Group Marketing Services Limited	Mauritius	
British Sugar plc	United Kingdom		Illovo Sugar (Malawi) Limited	Malawi	76
BSO (China) Limited	United Kingdom		Illovo Sugar (South Africa) Limited	South Africa	
Calsa Chile Inversiones Limitada	Chile		Illovo Sugar (Zambia) Limited	Zambia	
CALSA de Peru S.A.C.	Peru		Illovo Sugar Espana, S.L.	Spain	
Carabello Trading and Investments 20 Limited	South Africa		Illovo Sugar Proprietary Limited	South Africa	
Cereal Industries Limited	United Kingdom		Illovo Swaziland Limited	Swaziland	60
Cereform Limited	United Kingdom		Illovo Tanzania Limited	Tanzania	
CGS Investments (Pty) Limited	South Africa		Illprop (Pty) Limited	South Africa	
Compañía Argentina De Levaduras S.A.I.C.	Argentina		Indonesian Yeast Company Pty Limited	Australia	
Compañía de Alimentos Latinoamericana de Venezuela (CALSA) S.A.	Venezuela		Innovative Baking Technology B.V.	Netherlands	
Davjon Food Limited	United Kingdom		Jacksons of Piccadilly Limited	United Kingdom	
Dorset Cereals Limited	United Kingdom		James Neill Limited	United Kingdom	
Dwangwa Sugar Corporation Limited	Malawi	76	Jasol Asia Pacific Ltd	Thailand	
East African Supply (Pty) Limited	South Africa		John K. King & Sons Limited	United Kingdom	
Eastbow Securities Limited	United Kingdom		Jordan Bros. (N.I.) Limited	United Kingdom	
Elsenham Quality Foods Limited	United Kingdom		Kilombero Holdings Limited	Mauritius	73
Enzymes Leasing Finland Oy	Finland		Kilombero Sugar Company Limited	Tanzania	55
Fishers Feeds Limited	United Kingdom		Kingsgate Food Ingredients Limited	United Kingdom	
Fishers Seeds & Grain Limited	United Kingdom				

## 29. Group entities continued

Name	Country	% effective holding if not 100%	Name	Country	% effective holding if not 100%
Korway Foods Limited	United Kingdom		Patak's Breads Limited	United Kingdom	
Korway Holdings Limited	United Kingdom		Patak's Chilled Foods Limited	United Kingdom	
Lacsa (Pty) Limited	South Africa	70	Patak's Foods 2008 Limited	United Kingdom	
LeafTC Limited	United Kingdom		Patak's Frozen Foods Limited	United Kingdom	
Levadura Uruguaya S.A.	Uruguay		PGP International, Inc.	United States	
Lojas Primark Portugal – Exploração, Gestão e Administração de Espaços Comerciais S.A.	Portugal		Premier Nutrition (Nantong) Co., Ltd.	China	
Malawi Sugar Limited	Malawi		Premier Nutrition Products Limited	United Kingdom	
Maragra Açucar, S.A.	Mozambique	90	Pride Oils Public Limited Company	United Kingdom	
Mauri Fermentation Argentina Pty Limited	Australia		Prima	Ireland	
Mauri Fermentation Brazil Pty Limited	Australia		Primark Limited	Ireland	
Mauri Fermentation Chile Pty Limited	Australia		Primark (U.K.) Limited	United Kingdom	
Mauri Fermentation China Pty Limited	Australia		Primark Austria Limited	United Kingdom	
Mauri Fermentation India Pty Limited	Australia		Primark Austria Ltd & Co KG	Austria	
Mauri Fermentation Indonesia Pty Limited	Australia		Primark Fashion B.V.	Netherlands	
Mauri Fermentation Malaysia Pty Limited	Australia		Primark France SAS	France	
Mauri Fermentation Philippines Pty Limited	Australia		Primark GCM LLC	United States	
Mauri Fermentation Vietnam Pty Limited	Australia		Primark Holdings	Ireland	
Mauri Maya Sanayi A.S.	Turkey		Primark Italy S.r.l.	Italy	
Mauri Products Limited	United Kingdom		Primark Mode Limited	United Kingdom	
Mauri Research B.V.	Netherlands		Primark Mode Ltd. & Co. KG	Germany	
Mauri Technology B.V.	Netherlands		Primark Netherlands B.V.	Netherlands	
Mauri Yeast Australia Pty Limited	Australia		Primark Pension Administration Services Limited	United Kingdom	
Meishan Mauri Yeast Co., Ltd. (in liquidation)	China		Primark Pension Trustees Limited	Ireland	
Mitra Sugar Limited	United Kingdom		Primark Property GmbH	Germany	
Mountsfield Park Finance Limited	United Kingdom		Primark SA	Belgium	
Moyeni Ranch Limited	Swaziland	60	Primark Senior Executive Pension Trustees Limited	Ireland	
N&C Enterprises Pty Ltd	Australia		Primark Stil B.V.	Netherlands	
Nanga Farms PLC	Zambia	66	Primark Stores Limited	United Kingdom	
NB Love Industries Pty Ltd	Australia		Primark Tiendas, S.L.U.	Spain	
Nere Properties Limited	United Kingdom		Primark US Corp.	United States	
New Zealand Food Industries Limited	New Zealand		Primary Diets Limited	United Kingdom	
Noodsberg Sugar Company Limited	South Africa		Primary Nutrition Limited	United Kingdom	
Nueva Comercial Azucarera, S.A.	Spain	88	Proofex Products Company	Ireland	
Nutrition Services (International) Limited	United Kingdom		Prospererv Unipessoal Lda	Portugal	88
Nutrition Trading (International) Limited	United Kingdom		PT AB Food & Beverages Indonesia	Indonesia	
Nutrition Trading Limited	United Kingdom		R. Twining and Company Limited	United Kingdom	
Ohly GmbH	Germany		R. Twining and Company Sp. z o. o.	Poland	
Ohly Grundbesitz GmbH	Germany		Relax Limited	Malta	70
Panyu Mauri Food Co., Ltd.	China		Reynolds Brothers Limited	South Africa	
Parkstone (Jersey) Limited (in liquidation)	Jersey		Rheinische Presshefe- und Spritwerke GmbH	Germany	
Parkstone Bakeries Limited (in liquidation)	United Kingdom		Roses Nutrition Ltd	United Kingdom	
Patak (Spices) Limited	United Kingdom		S.A. Sugar Distributors (Pty) Limited	South Africa	
Patak Food Limited	United Kingdom		Seedcote Systems Limited	United Kingdom	
			Serpentine Securities Limited	United Kingdom	
			Serrol Ingredients Pty Limited	Australia	
			Servicios Alimentos Capullo, S. de R.L. de C.V.	Mexico	
			Shanghai AB Food & Beverages Co., Ltd.	China	
			Sizzlers	Ireland	
			Sizzlers Limited	United Kingdom	
			Sizzles International Unlimited Company	Ireland	
			Sizzles Limited	United Kingdom	
			Smithchem (Pty) Limited	South Africa	
			Speedibake Limited	United Kingdom	
			SPI Pharma SAS	France	

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**29. Group entities continued**

Name	Country	% effective holding if not 100%	Name	Country	% effective holding if not 100%
SPI Pharma, Inc.	United States		Twinings Japan Co Ltd	Japan	50
SPI Polyols, LLC	United States		Twinings North America, Inc	United States	
SPI Specialities Pharma Private Limited	India		Twinings Ovaltine Nigeria Limited	Nigeria	
Sucoma Holdings Limited	Mauritius		Twinings Private Limited	India	
Sun Blest Crumpet Co. Limited (The)	United Kingdom		Ubombo Sugar Limited	Swaziland	60
Sunblest Bakeries Limited	United Kingdom		Umzimkulu Sugar Company Limited	South Africa	
Surgras S.A.	Argentina		Vistavet (Ireland) Limited	Ireland	
Talisman Guernsey Limited	Guernsey		Vistavet Limited	United Kingdom	
The Bakery School Limited	United Kingdom		Vivergo Fuels Limited	United Kingdom	94
The Billington Food Group Limited	United Kingdom		W. Jordan & Son (Silo) Limited	United Kingdom	
The Home Grown Sugar Company Limited	United Kingdom		W. Jordan (Cereals) Limited	United Kingdom	
The Jordans & Ryvita Company Limited	United Kingdom		WA Feeds Pty Ltd	Australia	
The Jordans and Ryvita Company Australia Pty Ltd	Australia		Wander AG	Switzerland	
The Natural Sweetness Company Limited	United Kingdom		Wereham Gravel Company Limited (The)	United Kingdom	
The Roadmap Company Limited	United Kingdom		Westmill Foods Europe B.V.	Netherlands	
The Silver Spoon Company Limited	United Kingdom		Westmill Foods Europe GmbH	Germany	
The Weston Biscuit Company Limited	United Kingdom		Westmill Foods Limited	United Kingdom	
Tip Top Bakeries Limited	United Kingdom		Weston Foods Limited	United Kingdom	
Trident Feeds Limited	United Kingdom		Weston Research Laboratories Limited	United Kingdom	
Tukunka Agricultural Limited	Zambia	76	Worldwing Investments Limited	United Kingdom	
Twining Crosfield & Co. Limited	United Kingdom		Xinjiang Mauri Food Co., Ltd.	China	90
			Yantai Mauri Yeast Co., Ltd.	China	92
			Yeast Products Company	Ireland	
			Zambia Sugar plc	Zambia	76
			Ziggys Ireland Unlimited Company	Ireland	

Lusaka Stock Exchange (LuSE) regulations require all listed companies in Zambia to have a minimum of 25% of their shares held by public investors to constitute a free float. As a result, Illovo Sugar was required to reduce its shareholding in Zambia Sugar plc by 6.6%. Effective 26 September 2014, 5.1% of the shares were sold to local Zambian institutional investors. As agreed with LuSE, the remaining 1.5% will be held in a separate account in the LuSE Central Securities Depository. While Illovo will waive its voting rights on these shares, it will still be entitled to receive dividends thereon.

The results and balance sheet of Primark Mode Ltd. & Co. KG are included in these financial statements and these financial statements will be filed in Germany. As a consequence, Primark Mode Ltd. & Co. KG is exempt from the requirement to file its own financial statements under section 264b HGB.

Associated British Foods plc has irrevocably guaranteed all amounts shown as liabilities in the statutory financial statements of the subsidiary undertakings registered in Ireland listed below in respect of the financial year ended 17 September 2016. As a consequence, these subsidiaries qualify for the exemption under section 357 of the Companies Act 2014 (Ireland) from the provisions of sections 347 and 348 of that Act.

Abdale Finance Limited	Primark Senior Executive Pension Trustees Limited
Prima	Sizzlers
Primark Limited	Sizzles International Unlimited Company
Primark Holdings	Ziggys Ireland Unlimited Company
Primark Pension Trustees Limited	

## 29. Group entities continued

### Joint ventures

A list of the group's joint ventures as at 17 September 2016 is given below. All joint ventures are included in the group's financial statements using the equity method of accounting.

Name	Country	% holding
Chiltern Bakeries Limited	United Kingdom	44
Compañía de Melazas, S.A.	Spain	50
Fortnum & Masons Pty Limited	Australia	33
Frontier Agriculture Limited	United Kingdom	50
Boothmans (Agriculture) Limited	United Kingdom	50
Forward Agronomy Limited	United Kingdom	50
G F P (Agriculture) Limited	United Kingdom	50
GH2 Limited	United Kingdom	50
GH Grain Limited	United Kingdom	50
Grain Harvesters Limited	United Kingdom	50
Grampian Crop Services Limited	United Kingdom	50
Lothian Crop Specialists Limited	United Kingdom	50
Nomix Enviro Limited	United Kingdom	50
North Wold Agronomy Limited	United Kingdom	50
Phoenix Agronomy Limited	United Kingdom	50
Southampton Grain Terminal Limited	United Kingdom	25
Soyl Limited	United Kingdom	50
The Agronomy Partnership Limited	United Kingdom	50
Glendale Distilling Company	South Africa	50
Levaduras Collico S.A.	Chile	50
Qingdao Xinghua Cereal Oil and Foodstuff Co., Ltd	China	25
Roal Oy	Finland	50
Stratas Foods LLC	United States	50
Stratas Receivables I LLC	United States	50
Acquisition XVI LLC	United States	50
Synchronis	France	50
UNIFERM GmbH & Co. KG	Germany	50
INA Nahrungsmittel GmbH	Germany	50
Uniferm Polska Sp Z.o.o	Poland	50
UNIFERM Verwaltungs GmbH	Germany	50

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 53 weeks ended 17 September 2016

### 29. Group entities continued

#### Associates

A list of the group's associates as at 17 September 2016 is given below. All associates are included in the group's financial statements using the equity method of accounting.

Name	Country	% holding
Bakers Basco Limited	United Kingdom	20
C. Czarnikow Limited	United Kingdom	43
Czarnikow Group Limited	United Kingdom	43
C. Czarnikow Sugar Futures Limited	United Kingdom	43
C. Czarnikow Sugar Limited	United Kingdom	43
C. Czarnikow Sugar (East Africa) Limited	Kenya	43
C. Czarnikow Sugar (Eurasia) Limited	Russian Federation	43
C. Czarnikow Sugar (Guangzhou) Company Limited	China	43
C. Czarnikow Sugar (India) Private Limited	India	43
C. Czarnikow Sugar (Mexico), S.A. de C.V.	Mexico	43
C. Czarnikow Sugar Inc.	United States	43
Czarnikow Futures Inc. (in liquidation)	United States	43
C. Czarnikow Sugar Pte. Limited	Singapore	43
Czarnikow Brasil Ltda	Brazil	43
Czarnikow Israel Sugar Trading Ltd (Sucarim)	Israel	43
Czarnikow Italia Srl	Italy	43
Czarnikow Servicios de Personal, S.A. de C.V.	Mexico	43
Czarnikow Tanzania Limited	Tanzania	43
Sucris Limited	Israel	21
Sugarworld Limited	United Kingdom	43
Gledhow Sugar Company (Pty) Limited	South Africa	30
Kilombero Sugar Distributors Limited	Tanzania	20
Murray Bridge Bacon Pty Ltd	Australia	20
Big River Pork Pty Ltd	Australia	20
New Food Coatings Pty Ltd	Australia	50
New Food Coatings (New Zealand) Ltd	New Zealand	50
New Food Coatings (Philippines) Inc	Philippines	50
New Quality Ingredients PTY Limited	Australia	50
Newly Weds Foods (Thailand) Ltd	Thailand	50
Newly Wed Foods (Trading) Limited	Thailand	25
Witwood Food Products Pty Limited	Australia	50
PT Indo Fermex	Indonesia	49
P.T. Jaya Fermex	Indonesia	49
PT Sama Indah	Indonesia	49
Sukpak Limited	Mauritius	30

### 30. Subsequent events

On 18 October Stratas Foods, an equity-accounted joint venture in which the group's interest is 50%, announced that it had completed the purchase of Supreme Oil Company in the US. Supreme Oil Company is a supplier of oils, shortenings, mayonnaise and dressings to the foodservice and retail industries.

**COMPANY BALANCE SHEET**

at 17 September 2016

	Note	2016 £m	2015 £m
<b>Fixed assets</b>			
Intangible assets	1	20	19
Investments in subsidiaries	2	667	663
		<b>687</b>	682
<b>Current assets</b>			
Debtors			
– due within one year	3	4,533	4,275
– due after one year	3	325	345
Employee benefits assets – due after one year	4	–	120
Deferred tax assets – due after one year	5	31	–
Derivative assets		68	21
Cash and cash equivalents		273	467
		<b>5,230</b>	5,228
<b>Creditors: amounts falling due within one year</b>			
Bank loans and overdrafts – unsecured		(17)	(81)
Other creditors	6	(2,168)	(2,613)
		<b>(2,185)</b>	(2,694)
<b>Net current assets</b>		<b>3,045</b>	2,534
<b>Total assets less current liabilities</b>		<b>3,732</b>	3,216
<b>Creditors: amounts falling due after one year</b>			
Bank loans – unsecured		(570)	(520)
Amounts owed to subsidiaries	6	(309)	(318)
Employee benefits liabilities	4	(138)	(30)
Deferred tax liabilities	5	–	(8)
		<b>(1,017)</b>	(876)
<b>Net assets</b>		<b>2,715</b>	2,340
<b>Capital and reserves</b>			
Issued capital	7	45	45
Capital redemption reserve	7	2	2
Hedging reserve	7	(3)	(2)
Profit and loss reserve	7	2,671	2,295
<b>Equity shareholders' funds</b>		<b>2,715</b>	2,340

The financial statements on pages 149 to 156 were approved by the board of directors on 8 November 2016 and were signed on its behalf by:

**Charles Sinclair**  
Chairman

**John Bason**  
Director

**COMPANY STATEMENT OF CHANGES IN EQUITY**

for the 53 weeks ended 17 September 2016

	Share capital £m	Capital redemption reserve £m	Hedging reserve £m	Profit and loss reserve £m	Total £m
Balance as at 13 September 2014	45	2	(4)	2,211	2,254
<b>Total comprehensive income</b>					
Profit for the period recognised in the income statement	–	–	–	312	312
Remeasurement of defined benefit schemes	–	–	–	35	35
Deferred tax associated with defined benefit schemes	–	–	–	(7)	(7)
Movements in cash flow hedging position	–	–	2	–	2
Other comprehensive income	–	–	2	28	30
Total comprehensive income	–	–	2	340	342
<b>Transactions with owners</b>					
Dividends paid to equity shareholders	–	–	–	(271)	(271)
Net movement in own shares held	–	–	–	11	11
Deferred tax associated with share-based payments	–	–	–	4	4
Total transactions with owners	–	–	–	(256)	(256)
Balance as at 12 September 2015	45	2	(2)	2,295	2,340
<b>Total comprehensive income</b>					
Profit for the period recognised in the income statement	–	–	–	843	843
Remeasurement of defined benefit schemes	–	–	–	(223)	(223)
Deferred tax associated with defined benefit schemes	–	–	–	42	42
Movements in cash flow hedging position	–	–	(1)	–	(1)
Other comprehensive income	–	–	(1)	(181)	(182)
Total comprehensive income	–	–	(1)	662	661
<b>Transactions with owners</b>					
Dividends paid to equity shareholders	–	–	–	(279)	(279)
Net movement in own shares held	–	–	–	(12)	(12)
Deferred tax associated with share-based payments	–	–	–	(2)	(2)
Current tax associated with share-based payments	–	–	–	7	7
Total transactions with owners	–	–	–	(286)	(286)
<b>Balance as at 17 September 2016</b>	<b>45</b>	<b>2</b>	<b>(3)</b>	<b>2,671</b>	<b>2,715</b>

## ACCOUNTING POLICIES

for the 53 weeks ended 17 September 2016

### Basis of preparation

The financial statements are presented in sterling, rounded to the nearest million. They are prepared under the historical cost basis, except that derivative financial instruments are stated at their fair value, and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and the Companies Act 2006. These financial statements are the first the Company has prepared in accordance with FRS 101. Details of the impact of transition are given in note 10.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and certain related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

As permitted by section 408(4) of the Companies Act 2006, a separate income statement and statement of comprehensive income for the Company has not been included in these financial statements. The principal accounting policies adopted are described below. They have all been applied consistently to all years presented.

### Intangible assets

Intangible assets comprise goodwill arising on business combinations and operating intangibles. Goodwill is defined under 'Business combinations' on page 103 of the consolidated financial statements. The Companies Act 2006 requires goodwill to be amortised on a systematic basis over its useful economic life. Under FRS 101 goodwill is not amortised, but is instead reviewed for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the requirement to amortise goodwill in the Companies Act 2006. Had the Company amortised goodwill, a period of three years would have been chosen as its useful life from the date of transition. The profit for the year would have been £5m lower had goodwill been amortised in the year.

Intangible assets other than goodwill are stated at cost less accumulated amortisation and impairment charges. Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic lives of intangible assets from the date they are available for use. The estimated useful lives are generally deemed to be no longer than five years.

### Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

### Financial assets and liabilities

Financial assets and financial liabilities, except for derivatives, are measured initially at fair value, plus directly attributable transaction costs, and thereafter at amortised cost.

### Derivatives

Derivatives are used to manage the Company's economic exposure to financial risks. The principal instruments used are foreign exchange contracts and swaps. Derivatives are recognised in the balance sheet at fair value based on market prices or rates, or calculated using either discounted cash flow or option pricing models. Changes in the value of derivatives are recognised in the income statement unless they qualify for hedge accounting when recognition of any change in fair value depends on the nature of the item being hedged.

### Pensions and other post-employment benefits

The Company operates one defined contribution and two defined benefit pension schemes. The Company is the principal employer of the Associated British Foods Pension Scheme, which is a funded final salary scheme that is closed to new members, as well as a small unfunded final salary scheme. For the defined benefit plans, the amount charged in the income statement is the cost of benefits accruing to employees over the year, plus any benefit improvements granted to members by the Company during the year. It also includes net interest expense or income calculated by applying the liability discount rate to the net pension asset or liability. The difference between market value of assets and present value of liabilities is disclosed as an asset or liability in the balance sheet. Any related deferred tax (to the extent recoverable) is disclosed separately in the balance sheet. Remeasurements are recognised immediately in other comprehensive income. Surpluses are recognised only to the extent that they are recoverable. Contributions payable by the group in respect of defined contribution plans are charged to operating profit as incurred.

## **ACCOUNTING POLICIES**

for the 53 weeks ended 17 September 2016

### **Income tax**

Income tax on profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items taken directly to equity.

Current tax is the tax expected to be payable on taxable income for the year, using tax rates enacted or substantively enacted during the period, together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, using tax rates enacted or substantively enacted at the balance sheet date, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

### **Share-based payments**

The fair value of the share awards at grant date is recognised as an employee expense with a corresponding increase in equity, spread over the period during which the employees become unconditionally entitled to the shares. The amount recognised is adjusted to reflect expected and actual levels of vesting except where the failure to vest is as a result of not meeting a market condition.

Where the Company grants allocations of shares to employees of its subsidiaries, these are accounted for on the same basis as allocations to employees of the Company, except that the fair value is recognised as an increase to investment in subsidiaries with a corresponding increase in equity.

### **Cash and cash equivalents**

Cash and cash equivalents comprise bank and cash balances, call deposits and short-term investments with original maturities of three months or less.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the 53 weeks ended 17 September 2016

### 1. Intangible assets

	Goodwill £m	Operating intangibles £m	Total £m
<b>Cost</b>			
At 12 September 2015	14	5	19
Additions	–	2	2
<b>At 17 September 2016</b>	<b>14</b>	<b>7</b>	<b>21</b>
<b>Amortisation</b>			
At 12 September 2015	–	–	–
Amortisation	–	(1)	(1)
<b>At 17 September 2016</b>	<b>–</b>	<b>(1)</b>	<b>(1)</b>
<b>Net book value</b>			
At 12 September 2015	14	5	19
<b>At 17 September 2016</b>	<b>14</b>	<b>6</b>	<b>20</b>

### 2. Investments in subsidiaries

	£m
At 12 September 2015	663
Additions	4
<b>At 17 September 2016</b>	<b>667</b>

The additions relate to the allocation of shares under equity-settled share-based payment plans to employees of the Company's subsidiaries. There were no provisions for impairment in either year.

### 3. Debtors

	2016 £m	2015 £m
<b>Amounts falling due within one year</b>		
Amounts owed by subsidiaries	4,483	4,254
Other debtors	18	5
Corporation tax recoverable	32	16
	<b>4,533</b>	4,275
<b>Amounts falling due after one year</b>		
Amounts owed by subsidiaries	325	345

The directors consider that the carrying amount of debtors approximates their fair value.

### 4. Employee entitlements

	2016 assets £m	2015 assets £m	2016 liabilities £m	2015 liabilities £m	2016 net £m	2015 net £m
<b>Reconciliation of changes in assets and liabilities</b>						
At beginning of year	3,343	3,178	(3,253)	(3,120)	90	58
Current service cost	–	–	(33)	(37)	(33)	(37)
Employee contributions	9	9	(9)	(9)	–	–
Employer contributions	27	30	–	–	27	30
Benefit payments	(136)	(120)	136	120	–	–
Settlements	–	(6)	–	9	–	3
Past service cost	–	–	(1)	(2)	(1)	(2)
Interest income/(expense)	123	129	(121)	(126)	2	3
Return on scheme assets less interest income	273	123	–	–	273	123
Actuarial losses arising from changes in financial assumptions	–	–	(758)	(145)	(758)	(145)
Actuarial gains arising from changes in demographic assumptions	–	–	257	–	257	–
Experience gains on scheme liabilities	–	–	5	57	5	57
At end of year	<b>3,639</b>	3,343	<b>(3,777)</b>	(3,253)	<b>(138)</b>	90

Further details of the Associated British Foods Pension Scheme are contained in note 11 of the consolidated financial statements.

**NOTES TO THE COMPANY FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**5. Deferred tax assets and liabilities**

	Employee benefits £m	Share-based payments £m	Other £m	Total £m
At 12 September 2015	(18)	5	5	(8)
Amount (credited)/charged to the income statement	(1)	1	–	–
Amount charged/(credited) to equity	42	(2)	–	40
Effect of changes in tax rates on income statement	–	(1)	–	(1)
<b>At 17 September 2016</b>	<b>23</b>	<b>3</b>	<b>5</b>	<b>31</b>

**6. Other creditors**

	2016 £m	2015 £m
<b>Amounts falling due within one year</b>		
Other taxation and social security	1	1
Accruals and deferred income	65	47
Amounts owed to subsidiaries	2,102	2,565
	<b>2,168</b>	<b>2,613</b>
<b>Amounts falling due after one year</b>		
Amounts owed to subsidiaries	309	318

The directors consider that the carrying amount of creditors approximates their fair value.

**7. Capital and reserves****Share capital**

At 12 September 2015 and 17 September 2016, the Company's issued and fully paid share capital comprised 791,674,183 ordinary shares of 5<sup>1</sup>/<sub>2</sub>p, each carrying one vote per share. Total nominal value was £45m.

**Capital redemption reserve**

The non-distributable capital redemption reserve arose following redemption of two million £1 deferred shares at par in 2010.

**Dividends**

Details of dividends paid and proposed are provided in note 6 to the consolidated financial statements.

**Share-based payments**

Details of the Company's equity-settled share-based payment plans are provided in note 23 to the consolidated financial statements.

**Hedging reserve**

The hedging reserve comprises all changes in the value of derivatives to the extent that they are effective cash flow hedges, net of amounts recycled from the hedging reserve on occurrence of the hedged transaction or when the hedged transaction is no longer expected to occur.

**8. Contingent liabilities**

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. The guarantee contract is treated as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company had provided £709m of guarantees in the ordinary course of business as at 17 September 2016 (2015 – £538m).

## 9. Related parties

The Company has a controlling shareholder relationship with its parent company, Wittington Investments Limited, with the trustees of the Garfield Weston Foundation and with certain other individuals who hold shares in the Company. Further details of the controlling shareholder relationship are included in note 29 to the consolidated financial statements. The Company has a related party relationship with its subsidiaries, associates and joint ventures and directors. In the course of normal operations, related party transactions entered into by the Company have been contracted on an arm's length basis.

Material transactions and year end balances with related parties (excluding wholly owned subsidiaries) were as follows:

	Sub note	2016 £000	2015 £000
Charges to Wittington Investments Limited in respect of services provided by the Company		<b>1,226</b>	661
Charges to fellow subsidiary undertakings on normal trading terms	1	–	60
Dividends paid by the Company and received in a beneficial capacity by:			
(i) trustees of the Garfield Weston Foundation	1	<b>10,012</b>	9,838
(ii) directors of Wittington Investments Limited who are not trustees of the Foundation	1	<b>2,613</b>	1,529
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited	1	<b>54</b>	50
(iv) members of the Weston family employed within the Associated British Foods group	1	<b>2</b>	1,011
Charges to non-wholly owned subsidiaries	2	<b>193</b>	116
Charges to joint ventures	2	<b>3</b>	–
Interest income earned from non-wholly owned subsidiaries	2	<b>211</b>	228
Amounts due from non-wholly owned subsidiaries	2	<b>31,335</b>	7,077
Amounts due to non-wholly owned subsidiaries	2	–	8

1. Details of the nature of the relationships with these bodies are set out in note 28 of the consolidated financial statements.

2. Details of the Company's subsidiaries, joint ventures and associates are set out in note 29 of the consolidated financial statements.

## 10. Transition to FRS 101

For all periods up to and including the period ended 12 September 2015, the Company prepared its financial statements in accordance with previously extant United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). These financial statements for the 53 weeks ended 17 September 2016 are the first the Company has prepared in accordance with FRS 101. The Company's transition date to FRS 101 is 13 September 2014, which is the date from which the changes in accounting policies, restatements and presentational changes required on adoption of FRS 101 have been made. The comparative financial information for the 52 weeks ended 12 September 2015 has been re-presented in line with FRS 101.

The principal differences between previous UK GAAP and FRS 101 are set out below, in addition to which there are minor presentational differences in the format of the balance sheet.

### Goodwill

Under previous UK GAAP, goodwill was amortised over its useful economic life. Under FRS 101, goodwill is considered to have an indefinite life in line with IAS 38 *Intangible Assets* and is no longer amortised. Goodwill is tested annually for impairment in accordance with IAS 36 *Impairment of Assets*. In adopting FRS 101, the Company took advantage of the transitional exemption to use the previous UK GAAP carrying value of goodwill at the transition date (£14m) as its deemed cost. The £5m goodwill amortisation previously charged to the income statement for the 52 weeks ended 12 September 2015 has been reversed.

### Employee entitlements

Under previous UK GAAP, the Company took advantage of the exemption available in FRS 17 to account for contributions arising from its membership of a multi-employer defined benefit scheme as if they were contributions to a defined contribution scheme, on the basis that the Company was unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis.

Under FRS 101, members of a multi-employer defined benefit scheme are required to recognise their share of the costs and net asset or liability arising under the plan. Where there is no contractual agreement or stated policy for identifying this allocation to individual member companies, the full amounts are to be recognised in the individual financial statements of the principal employer of the defined benefit scheme. On transition to FRS 101, the Company has been identified as the principal employer of the Associated British Foods Pension Scheme and has therefore recognised that scheme in full in its individual financial statements.

**NOTES TO THE COMPANY FINANCIAL STATEMENTS**

for the 53 weeks ended 17 September 2016

**Deferred tax**

Under previous UK GAAP, the liability for a small unfunded defined benefit scheme was presented net of the related deferred tax asset. Under FRS 101, the deferred tax assets have been separately disclosed. Other deferred tax assets were previously recognised within debtors but under FRS 101 are separately disclosed along with other deferred tax assets and liabilities.

**Equity shareholders' funds as at 13 September 2014**

At 13 September 2014, a net defined benefit surplus of £87m was recognised in respect of the Associated British Foods Pension scheme, together with a related deferred tax liability of £17m. The net impact of £70m was reflected against the profit and loss reserve.

**Equity shareholders' funds as at 12 September 2015**

At 12 September 2015, a net defined benefit surplus of £120m was recognised in respect of the Associated British Foods Pension scheme, together with a related deferred tax liability of £24m. The net impact of £96m was reflected against the profit and loss reserve. In addition, the £5m goodwill amortisation previously charged to the income statement for the 52 weeks ended 12 September 2015 has been reversed, together with the related tax impact of £1m.

**11. Other information****Emoluments of directors**

The remuneration of the directors of the Company is shown in the Remuneration report for the group on page 82.

**Employees**

The Company had an average of 155 employees in 2016 (2015 – 153).

**Auditors' fees**

Note 2 to the consolidated financial statements of the group provides details of the remuneration of the Company's auditors on a group basis.

## PROGRESS REPORT

Saturday nearest to 15 September

	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Revenue	12,252	13,315	12,943	12,800	<b>13,399</b>
Adjusted operating profit	1,077	1,180	1,163	1,082	<b>1,118</b>
Exceptional items	(98)	–	–	(98)	<b>(5)</b>
Amortisation of non-operating intangibles	(100)	(92)	(72)	(55)	<b>(21)</b>
Profits less losses on disposal of non-current assets	(6)	–	(11)	8	<b>11</b>
Profits less losses on sale and closure of businesses	(9)	(128)	(2)	(172)	<b>(14)</b>
Finance income	9	13	15	8	<b>6</b>
Finance expense	(114)	(100)	(73)	(61)	<b>(56)</b>
Other financial income/(expense)	2	(5)	–	(5)	<b>3</b>
Profit before taxation	761	868	1,020	707	<b>1,042</b>
Taxation	(178)	(240)	(237)	(191)	<b>(221)</b>
Profit for the period	583	628	783	516	<b>821</b>
Basic and diluted earnings per ordinary share (pence)	70.3	74.0	96.5	66.8	<b>103.4</b>
Adjusted earnings per share (pence)	87.2	98.1	104.1	101.5	<b>106.2</b>
Dividends per share (pence)	28.5	32.0	34.0	35.0	<b>36.75</b>

Figures from 2013 onwards reflect the revised IAS 19 *Employee Benefits* standard. Figures from 2015 onwards reflect the amendments to IAS 41 *Agriculture* and IAS 16 *Property, Plant and Equipment*.

## COMPANY DIRECTORY

### Associated British Foods plc

Registered office  
Weston Centre  
10 Grosvenor Street  
London W1K 4QY

Company registered in England, number 293262

### Company Secretary

Paul Lister

### Registrar

Equiniti  
Aspect House  
Spencer Road  
Lancing BN99 6DA

### Auditors

Ernst & Young LLP Chartered Accountants

### Bankers

Barclays Bank PLC  
Lloyds Banking Group plc  
The Royal Bank of Scotland plc

### Brokers

Credit Suisse Securities (Europe) Limited  
One Cabot Square  
London E14 4QJ

Barclays Bank PLC  
5 North Colonnade  
Canary Wharf  
London E14 4BB

### Timetable

Interim dividend paid  
1 July 2016

Final dividend to be paid  
13 January 2017

Annual general meeting  
9 December 2016

Interim results to be announced  
19 April 2017

### Website

[www.abf.co.uk](http://www.abf.co.uk)

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

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