

EFFECTIVE RISK MANAGEMENT

Our approach to risk management

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

The diversified nature of our operations, geographical reach, assets and currencies are important factors in mitigating the risk of a material threat to the group's sustainable growth and long-term shareholder value. However, as with any business, risks and uncertainties are inherent in our business activities. These risks may have a financial, operational or reputational impact. Our structured and robust approach to risk management means we are able to mitigate and manage these risks and maximise opportunities when they arise.

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

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

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

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

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

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

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

Key areas of focus this year Effective risk management processes and internal controls

We continued to seek improvements in our risk management processes to ensure the quality and integrity of information and the ability to respond swiftly to direct risks. During the year, the Audit committee on behalf of the board conducted reviews on the effectiveness of the group's risk management processes and internal controls in accordance with the UK Corporate Governance Code.

Our approach to risk management and systems of internal control is in line with the recommendations in the Financial Reporting Council's (FRC) revised guidance 'Risk management, internal control and related financial and business reporting' (the Risk Guidance). The board is satisfied that internal controls were properly reviewed and key risks are being appropriately identified and managed.

Brexit

In 2016, we identified the UK's decision to leave the European Union as having had some immediate impact on our results as a consequence of the effect on currency markets.

As the UK Government continues its negotiations, uncertainty remains as to the extent to which our operations and financial performance will be affected in the longer term. At a group and business

level, we have continued to prepare for changes in legislation, trade agreements and working practices in order to take advantage of the changing commercial landscape and to mitigate risk.

We have contributed to government-led consultations on the potential changes and their likely impact on businesses and markets to help inform the exit strategy.

Our principal risks and uncertainties

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

Associated British Foods is exposed to a variety of other risks related to a range of issues such as human resources and talent, community relations, the regulatory environment and competition. These are managed as part of the risk process and, a number of these are referred to in our 2018 Corporate Responsibility Update. Here, we report the principal risks which we believe are likely to have the greatest current or near-term impact on our strategic and operational plans and reputation.

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

The 'Changes since 2017' describe our experience and activity over the last year.

EXTERNAL RISKS

RISK TREND	MITIGATION	CHANGES SINCE 2017
<p>UNCHANGED ➡</p> <p>MOVEMENT IN EXCHANGE RATES AND INFLATION</p> <p>Context and potential impact Associated British Foods is a multinational group with operations and transactions in many currencies.</p> <p>Changes in exchange rates give rise to transactional exposures within the businesses and to translation exposures when the assets, liabilities and results of overseas entities are translated into sterling upon consolidation.</p>	<p>Our businesses which are impacted by exchange rate volatility and currency depreciation constantly review their currency-related exposures.</p> <p>Board-approved policies require businesses to hedge all transactional currency exposures and long-term supply or purchase contracts which give rise to currency exposures, using foreign exchange forward contracts.</p> <p>Cash balances and borrowings are largely maintained in the functional currency of the local operations.</p> <p>Cross-currency swaps are used to align borrowings with the underlying currencies of the group's net assets (refer to note 24 to the financial statements for more information).</p>	<p>Sterling has strengthened against most of our major trading currencies this year, other than the euro, resulting in a loss on translation this year of £22m.</p> <p>Although Primark covers its currency exposure on purchases of merchandise denominated in foreign currencies when orders are placed, this hedging activity typically covers a period of only six months. US dollar weakness against the euro has had a favourable transactional effect on Primark's largely dollar denominated purchases, particularly in the second half.</p>
<p>UNCHANGED ➡</p> <p>FLUCTUATIONS IN COMMODITY AND ENERGY PRICES</p> <p>Context and potential impact Changes in commodity and energy prices can have a material impact on the group's operating results, asset values and cash flows.</p>	<p>We constantly monitor the markets in which we operate and manage certain of these exposures with exchange traded contracts and hedging instruments.</p> <p>The commercial implications of commodity price movements are continuously assessed and, where appropriate, are reflected in the pricing of our products.</p> <p>We operate a diverse portfolio of commodities across a number of geographies.</p>	<p>EU and world sugar prices were lower than last year which had a negative effect on Sugar profitability.</p> <p>Wheat prices have increased significantly during the year in the UK. Failure to recover these increases would adversely affect the future profitability of our bakery businesses.</p>

EXTERNAL RISKS CONTINUED

RISK TREND	MITIGATION	CHANGES SINCE 2017
<p>INCREASED </p> <p>OPERATING IN GLOBAL MARKETS</p> <p>Context and potential impact Associated British Foods operates in 50 countries with sales and supply chains in many more, so we are exposed to global market forces; fluctuations in national economies; societal unrest and geopolitical uncertainty; a range of consumer trends; evolving legislation and changes made by our competitors.</p> <p>Failure to recognise and respond to any of these factors could directly impact the profitability of our operations.</p> <p>Entering new markets is a risk to any business.</p> <p>This risk category is a consolidation of risks which were disclosed separately last year.</p>	<p>Our approach to risk management incorporates potential short-term market volatility and evaluates longer-term socio-economic and political scenarios.</p> <p>The group's financial control framework and board-adopted tax and treasury policies require all businesses to comply fully with relevant local laws.</p> <p>Provision is made for known issues based on management's interpretation of country-specific tax law, EU cases and investigations on tax rulings and their likely outcomes.</p> <p>By their nature socio-political events are largely unpredictable. Nonetheless our businesses have detailed contingency plans which include site-level emergency responses and improved security for employees.</p> <p>We engage with governments, local regulators and community organisations to contribute to, and anticipate, important changes in public policy.</p> <p>We conduct rigorous due diligence when entering, or commencing business activities in new markets.</p>	<p>Following the abolition of EU sugar quotas from October 2017, AB Sugar continues to reduce its cost base through its performance improvement programme.</p> <p>We acquired a leading Italian producer of balsamic vinegar during the year, after thorough due diligence was undertaken.</p> <p>We reviewed and updated contingency plans across our businesses.</p>
<p>UNCHANGED </p> <p>HEALTH AND NUTRITION</p> <p>Context and potential impact Failure to adapt to changing consumer health choices or to address nutrition concerns in the formulation of our products could result in a loss of consumer base and impact business performance.</p> <p>We act responsibly across the spectrum of food poverty and malnutrition to obesity.</p>	<p>Consumer preferences and market trends are monitored continually.</p> <p>Recipes are regularly reviewed and reformulated to improve the nutritional value of our products.</p> <p>All of our grocery products are labelled with nutritional information.</p> <p>We develop partnerships with other organisations to promote healthy options.</p>	<p>Our businesses continue 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 again this year to help consumers make informed choices about their food.</p> <p>A number of our products have undergone reformulation this year to provide consumers with healthier choices.</p>

OPERATIONAL RISKS

RISK TREND	MITIGATION	CHANGES SINCE 2017
<p>UNCHANGED ➡</p> <h2>WORKPLACE HEALTH AND SAFETY</h2> <p>Context and potential impact Many of our operations, by their nature, have the potential for loss of life or workplace injuries to employees, contractors and visitors.</p>	<p>Safety continues to be the number one priority for our businesses. The chief executives of each business, who lead by example, are accountable for the safety performance of their business.</p> <p>Our Health and Safety Policy and practices are firmly embedded in each business, supporting a strong ethos of workplace safety.</p> <p>We have a continuous safety audit programme to verify implementation of safety management and support a culture of continuous improvement.</p> <p>Best practice safety and occupational health guidance is shared across the businesses, co-ordinated from the corporate centre, to supplement the delivery of their own programmes.</p>	<p>During the year there has been a 5% increase in our employee Lost Time Injury rate to 0.80%. Our businesses conduct thorough root cause analyses to learn from accidents and implement safety changes.</p> <p>The safety performance of the group, with updates by division, is reported in the 2018 Corporate Responsibility Update at www.abf.co.uk/responsibility.</p>
<p>UNCHANGED ➡</p> <h2>PRODUCT SAFETY AND QUALITY</h2> <p>Context and potential impact As a leading food manufacturer and retailer, it is vital that we manage the safety and quality of our products throughout the supply chain.</p>	<p>Product safety is put before economic considerations.</p> <p>We operate strict food safety and traceability policies within an organisational culture of hygiene and product safety to ensure consistently high standards in our operations and in the sourcing and handling of raw materials and garments.</p> <p>Food quality and safety audits are conducted across all our manufacturing sites, by independent third parties and customers, and a due diligence programme to ensure the safety of our retail products.</p> <p>Our sites comply with international food safety and quality management standards and conduct regular mock product incident exercises.</p>	<p>We did not have any major product recalls.</p> <p>Businesses have continued to define and refine KPIs in this area.</p>
<p>UNCHANGED ➡</p> <h2>OUR USE OF NATURAL RESOURCES AND MANAGING OUR ENVIRONMENTAL IMPACT</h2> <p>Context and potential impact Our businesses rely on a secure supply of natural resources some of which are vulnerable to external factors such as natural disasters and climate change. Our material environmental impacts are energy use and resultant greenhouse gas emissions, water use and waste generation.</p> <p>Our operations generate a range of emissions such as dust, waste water and waste which, if not controlled, could lead to a risk to the environment and local communities.</p>	<p>We continuously seek ways to improve the efficiency of our operations, use technologies and techniques to reduce our use of natural resources and adapt operations to climate change in order to positively contribute to local environments and minimise impact.</p> <p>We monitor developments and engage with governmental bodies on climate change; we limit reliance on certain resources such as fossil fuels and respond to changes such as carbon pricing and energy supply.</p> <p>Our businesses aim to be a good neighbour within their local communities. One aspect of this is the monitoring and management of noise, particle and odour pollution.</p>	<p>The environmental performance of the group, with updates by division, is reported in the 2018 Corporate Responsibility Update at www.abf.co.uk/responsibility.</p> <p>We annually report our approach to climate change, water and deforestation risk via CDP at www.cdp.net.</p> <p>Our UK Grocery business has signed the UK Plastics PACT 2025. There is an ongoing initiative to explore the possibility of using alternative packaging materials.</p> <p>Our Sugar business sets commitments for its own operations and supply chain to improve sustainability performance by 2030.</p>

OPERATIONAL RISKS CONTINUED

RISK TREND	MITIGATION	CHANGES SINCE 2017
<p>UNCHANGED </p> <p>OUR SUPPLY CHAIN AND ETHICAL BUSINESS PRACTICES</p> <p>Context and potential impact Our suppliers are essential to the successful operation of the group.</p> <p>We therefore work with them to ensure reliability and to help them meet our standards of product quality and safety, financial stability, ethics, technical competence and people safety.</p> <p>Potential supply chain and ethical business practice risks include:</p> <ul style="list-style-type: none"> • reputational damage through supply chain weaknesses e.g. poor conditions for workers; • unacceptable and unethical behaviour including bribery, corruption and slavery risk; • impact on reliability of supply and business continuity due to unforeseen incidents e.g. natural disasters; and • long-term sustainability of key suppliers. 	<p>Our Supplier Code of Conduct is designed to ensure suppliers, representatives and all with whom we deal, adhere to our values and standards.</p> <p>The full Code is available at www.abf.co.uk/supplier_code_of_conduct.</p> <p>Suppliers are expected to sign and abide by this Code.</p> <p>Adherence to the Code is verified through our supplier audit system with our procurement and operational teams establishing strong working relationships with suppliers to help them meet our standards.</p> <p>All businesses are required to comply with the group's Business Principles including its Anti-Bribery and Corruption Policy.</p>	<p>Primark launched a training course on Forced Labour and Modern Slavery for suppliers.</p> <p>Primark have a current initiative to identify ways to make it easier, for anyone affected by these issues, to raise a grievance and to ensure that it is addressed appropriately.</p> <p>Primark conducted a review of global grievance systems and industry codes of conduct to help them consider ways to make it easier for anyone affected to raise grievances and ensure that these are addressed effectively.</p> <p>Our Modern Slavery and Human Trafficking Statement 2018 and the steps we take to try to ensure that any forms of modern slavery are not present within our own operations or supply chain are reported in detail in the 2018 Corporate Responsibility Update at www.abf.co.uk/responsibility.</p> <p>Primark and Twinings published sourcing maps.</p>
<p>INCREASED </p> <p>BREACHES OF IT AND INFORMATION SECURITY</p> <p>Context and potential impact To meet customer, consumer and supplier needs, our IT infrastructure needs to be flexible, reliable and secure to allow us to interact through technology.</p> <p>Our delivery of efficient and effective operations is enhanced by the use of relevant technologies and the sharing of information. We are therefore subject to potential cyber-threats such as computer viruses and the loss or theft of data.</p> <p>There is the potential for disruption to operations from data centre failures, IT malfunctions or external cyber-attacks.</p> <p>During the year regulatory requirements were enhanced, across Europe, with the enactment of the General Data Protection Regulation (GDPR) 2018.</p>	<p>In parallel to developing our technology systems, we invest in developing the IT capabilities of our people across our businesses.</p> <p>We monitor and address any cyber-threats and suspicious IT activity.</p> <p>We have established processes, group IT security policies and technologies in place, all of which are subject to regular internal audit.</p> <p>Access to sensitive data is restricted and closely monitored.</p> <p>Robust disaster recovery plans are in place for business-critical applications.</p> <p>Technical security controls are in place over key IT platforms with the Chief Information Security Officer (CISO) tasked with identifying and responding to potential security risks.</p>	<p>During the year we have appointed a CISO.</p> <p>We have adopted the Cyber Security Framework from the US National Institute of Science and Technology (NIST) to describe and measure the capabilities required for cyber resilience.</p> <p>There is an ongoing programme of investment in both technology and people to enhance our cyber-security capabilities.</p> <p>An extensive programme of work was completed to ensure that we comply with the requirements of GDPR.</p>