

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.

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

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

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

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

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

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

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

Key areas of focus this year

Effective risk management processes and internal controls

We continued to seek improvements in our risk management processes to ensure the quality and integrity of information and the ability to respond swiftly to direct risks. During the year, the Audit committee on behalf of the board conducted reviews on the

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

Brexit

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

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

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

- **Imports to the UK.** The UK government has indicated the tariffs that will be applied to imports in the absence of a transitional agreement and we expect these to have a net positive impact on the group. All necessary registrations have been completed. Where goods are imported into the UK by third parties

on behalf of the businesses, assurances have been sought that these will be available when required.

- **Disruption to EU-UK logistics.** In the absence of a withdrawal agreement, there is a risk of delays and disruption to the flow of goods between the UK and the EU in both directions. The businesses that could potentially be impacted by this have reviewed their exposure and where appropriate have increased inventory levels to partially mitigate the risk. The ability to do this is constrained by warehouse availability and the shelf life of the goods.
- **Data.** Where necessary, the businesses have agreed Standard Contractual Terms to enable certain personal data to be transferred from the EU to the UK.

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

Our principal risks and uncertainties

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

Associated British Foods is exposed to a variety of other risks related to a range of issues such as human resources and talent, community

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

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

External risks

Risk trend	Mitigation	Changes since 2018
<p>Increased </p> <p>Movement in exchange rates</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 25 to the financial statements for more information).</p>	<p>Sterling weakened against some of our major trading currencies this year, resulting in a gain on translation this year of £9m.</p> <p>Primark covers its currency exposure on purchases of merchandise denominated in foreign currencies at the time of placing orders, with an average tenor of Primark's hedging activity of between 3 and 4 months. There was a minimal transactional effect from changes in the US dollar exchange rate on Primark's largely dollar denominated purchases for the year in aggregate.</p> <p>In the last quarter of the financial year there has been a greater level of volatility in sterling exchange rates against our major trading currencies.</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>The group purchases a wide range of commodities in the ordinary course of business.</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>Lower sugar prices had another negative impact on the profitability of our businesses in the UK, Spain and China this year. However, spot EU prices increased during the second half and should have a positive impact on profitability next year.</p> <p>The price of UK wheat, a key commodity for our UK bakery business, returned to more normal levels following a significant increase in 2018.</p>

Principal risks and uncertainties

External risks *continued*

Risk trend	Mitigation	Changes since 2018
<p>Increased </p> <p>Operating in global markets</p> <p>Context and potential impact Associated British Foods operates in 52 countries with sales and supply chains in many more, so we are exposed to global market forces; fluctuations in national economies; societal unrest and geopolitical uncertainty; a range of consumer trends; evolving legislation and changes made by our competitors.</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>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>Following declines in the world and EU sugar prices in 2018, AB Sugar continues to reduce its cost base through its performance improvement programme.</p> <p>We conduct rigorous due diligence when entering, or commencing business activities in, new markets.</p>	<p>In June 2019, Primark opened its first store in Slovenia.</p> <p>High inflation in Argentina adversely affected our yeast and bakery ingredients business based there.</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>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.</p> <p>Our Sugar and Grocery businesses have supported healthy eating campaigns again this year to help consumers make informed choices about their food.</p> <p>We continue to invest in new product design.</p>

Operational risks

Risk trend	Mitigation	Changes since 2018
<p>Unchanged </p> <p>Workplace health and safety</p> <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 19% reduction in our employee Lost Time Injury rate to 0.65%. Our businesses conduct thorough root cause analyses to learn from accidents and implement safety changes.</p> <p>The safety performance of the group is reported in the 2019 Responsibility Report at www.abf.co.uk/responsibility.</p>
<p>Unchanged </p> <p>Product safety and quality</p> <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 is in place to ensure the safety of our retail products.</p> <p>Our sites comply with international food safety and quality management standards and our businesses 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> <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>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, 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>There is an ongoing programme of investment in both technology and people to enhance our cyber-security capabilities.</p> <p>During the year we have reviewed IT disaster recovery plans across the businesses.</p> <p>We are refreshing IT Security policies and we have made further investment in people, processes and technology to detect, respond and recover from disruptive cyber-threats.</p>

Principal risks and uncertainties

Operational risks continued

Risk trend	Mitigation	Changes since 2018
<p>Unchanged </p> <p>Our use of natural resources and managing our environmental impact</p> <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, waste generation and packaging.</p> <p>In our assessment of climate-related business risks, we recognise that the cumulative impacts of changes in weather and water availability could affect operations at a group level. The diversified nature of Associated British Foods means that mitigation or adaptation strategies are considered and implemented by individual businesses and divisions.</p> <p>Our operations generate a range of emissions such as dust, waste water and waste which, if not controlled, could pose a risk to the environment and local communities.</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 contribute positively to local environments and minimise impact.</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 is reported in the 2019 Responsibility Report 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 businesses are continuously seeking ways to reduce their impact on the environment.</p> <p>We look for ways to progressively reduce our greenhouse gas (GHG) emissions and reduce our contribution to climate change.</p> <p>AB Sugar, Primark and AB Agri businesses have each set commitments for their own operations and supply chain to improve sustainability performance.</p>
<p>Unchanged </p> <p>Our supply chain and ethical business practices</p> <p>Context and potential impact As an international business with suppliers and representatives the world over, people with whom we deal and in particular our suppliers and our representatives must live up to our values and standards and share that responsibility.</p> <p>We therefore work with them to ensure reliability and to help them meet our standards of product quality and safety, acceptable working conditions, financial stability, ethics and technical competence.</p> <p>Potential supply chain and ethical business practice risks include:</p> <ul style="list-style-type: none"> • supply chain weaknesses such as poor conditions for the workforce; • unacceptable and unethical behaviour including bribery, corruption and slavery risk; • impact on reliability of supply and business continuity due to unforeseen incidents e.g. natural disasters; and • long-term sustainability of key suppliers. 	<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>We have developed a company-wide online training module about modern slavery to help accelerate awareness-raising and give businesses the tools to train people.</p> <p>In addition to Primark and Twinings, AB Sugar has produced an interactive sourcing map that outlines where AB Sugar grows, sources and exports sugar: www.absugar.com/sourcing-map</p> <p>Primark has been working to strengthen its policies relating to human rights and modern slavery and has published a revised supplier code of conduct and made public its human rights policy.</p> <p>Our Modern Slavery and Human Trafficking Statement 2019 and the steps we take to try to ensure that any forms of modern slavery are not present within our own operations or supply chain are reported in detail in the 2019 Responsibility Report at www.abf.co.uk/responsibility.</p>