For release 6 November 2018

Associated British Foods plc

Annual Results Announcement

Year ended 15 September 2018

For release 6 November 2018

ASSOCIATED BRITISH FOODS PLC RESULTS FOR 52 WEEKS ENDED 15 SEPTEMBER 2018

Further progress for the group

Financial Headlines

		Actual	Constant currency
• Group revenue	£15.6bn	+1%	+3%
• Adjusted operating profit	£1,404m	+3%	+5%
• Adjusted profit before tax	£1,373m	+5%	
• Adjusted earnings per share	134.9p	+6%	
• Dividends per share	45.0p	+10%	

- Gross investment of £1,165m
- Net cash £614m
- Statutory operating profit up 1% to £1,344m. Last year included the benefit of a one-time profit on the sale of businesses. Taking this into account, statutory profit before tax was down 19% to £1,279m and basic earnings per share down 16% to 127.5p.

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

"This was another year of progress for the group. We continued to pursue the opportunities to grow our businesses with a gross investment of £1.2bn. Strong profit performances were delivered by each of Primark, Grocery, Agriculture and Ingredients. These more than offset the decline in Sugar profit which was caused primarily by low prices in the first year after the structural change in the EU sugar regime. Looking ahead, management have clear plans for further investment and for pursuing opportunities for business improvement."

Adjusted operating profit is stated before the amortisation of non-operating intangibles, profits less losses on disposal of non-current assets, transaction costs and amortisation of acquired inventory fair value adjustments. These items, together with profits less losses on the sale and closure of businesses, are excluded from adjusted profit before tax and adjusted earnings per share. Constant currency is derived by translating the 2017 results at 2018 average exchange rates.

References to operating profit in the Operating Review are based on the adjusted measure defined above.

For further information please contact:
Until 15.00 only
Associated British Foods:
John Bason, Finance Director
Tel: 020 7638 9571

Citigate Dewe Rogerson:
Chris Barrie, Jos Bieneman
Tel: 020 7638 9571

After 15.00
John Bason, Finance Director
Tel: 020 7399 6500

Notes to Editors

Associated British Foods is a diversified international food, ingredients and retail group with sales of £15.6bn and 137,000 employees in 50 countries. It has significant businesses in Europe, southern Africa, the Americas, Asia and Australia.

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

ANNUAL RESULTS ANNOUNCEMENT

For the 52 weeks ended 15 September 2018

CHAIRMAN'S STATEMENT

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

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

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

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

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

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

Corporate responsibility

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

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

Our standalone Corporate Responsibility Update details the activities undertaken by each of our businesses and can be found on our website at www.abf.co.uk/responsibility.

Remuneration

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

The board

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

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

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

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

Employees

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

Dividends

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

Outlook

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

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

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

Michael McLintock
Chairman

CHIEF EXECUTIVE'S STATEMENT

Gross investment this year reached nearly £1.2bn as we pursued opportunities to develop our businesses through expansion of capacity and lowering of costs through efficiency. Strong profit performances were delivered by each of Primark, Grocery, Agriculture and Ingredients and these more than offset the profit decline in Sugar. At constant currency, group revenue increased by 3% to £15.6bn and adjusted operating profit of £1,404m was 5% higher than last year.

In Grocery the largest profit contributor is Twinings Ovaltine and this business increased its profit significantly. George Weston Foods in Australia continued to improve its margin through cost reduction and successful new products and Acetum made a meaningful first year contribution. Allied Bakeries made an unacceptable loss, the cost of wheat rose significantly this summer, and we are working to mitigate this loss through cost savings and price discussions with our customers.

Improvement in Ingredients continued this year with a 23% increase in profit and margin reached 9.7%. Since 2015 profit has nearly doubled.

The world market sugar price reduced this year and, following the end of the EU sugar regime in October 2017, European prices fell significantly during the transition to a deregulated market. For some time we have been preparing for this new world of lower and more volatile sugar prices. AB Sugar has delivered, and we expect it to continue to deliver, significant cost reduction across all of its businesses in the pursuit of sustainable low-cost production. The focus at British Sugar is to enhance its lowest-cost status amongst EU producers and we would expect it to deliver a shareholder return on its assets over the medium term. Our management in Spain will be addressing the unsustainably high-cost dynamics of the business over the coming year. Illovo is the largest producer of sugar in Africa and delivered another highly profitable result while continuing to develop its domestic and regional sales.

Primark delivered strong growth in profit, driven by sales 5% ahead and an increase in margin from 10.4% to 11.3%. Like-for-like sales declined by 2.1%. We continued to develop our consumer offering. The performance in the UK was striking with a significant increase in our share of the total clothing market. However, unseasonable weather in three distinct periods during the year held like-for-like sales back, especially in the Eurozone.

Workplace health and safety

Our priority is to safeguard the safety and wellbeing of all our employees and those who work with us. I am saddened to report four fatalities this year which all arose from vehicle or traffic accidents. Our immediate response was to support the families and co-workers affected, and we have thoroughly investigated the circumstances of these events. We have improved our processes and safeguards over many years, and health and safety will remain a key focus for all of our operations.

Withdrawal of the UK from the EU

The consequences for the group of the UK's decision to leave the EU should be seen in the context of the diversity of our operations and geographical footprint, combined with a business model that has discrete Primark supply chains for the UK and Eurozone and which, wherever possible, aligns food production with the end markets for our products. Changes in legislation and trade agreements could provide significant opportunities for the food industry to replace imported food and build export markets and, for UK agricultural policy particularly, they have the potential to benefit our group. We continue to engage at all levels with a number of UK Government departments to ensure that the full range of opportunities and risks, as they affect us, are recognised.

In common with many other businesses, we share a concern about the risk of abrupt changes to the UK's customs procedures. We therefore welcome the Government's intention to have a transition period beyond March 2019 in which to implement the necessary systems and processes.

While we continue to regard the possibility of the UK leaving the EU in March 2019 without any form of transition period as highly unlikely, those businesses that might expect to see some disruption in these circumstances are making the preparations necessary to ensure this disruption is minimised. We do not expect these preparations to materially impact the financial performance of the group.

Grocery

Ongoing businesses	2018	2017	Actual fx	Constant fx
Revenue £m	3,420	3,381	+1%	+4%
Adjusted operating profit £m	335	303	+11%	+14%
Adjusted operating profit margin	9.8%	9.0%		
Return on average capital employed	25.9%	24.7%		

Grocery revenues were ahead of last year and adjusted operating profit was well ahead, driven by strong growth in Twinings Ovaltine, improved margin at George Weston Foods in Australia and the first year of contribution from Acetum.

Twinings Ovaltine made excellent progress in profit. Ovaltine revenue growth was especially strong, led by the brand's largest markets: Thailand, where growth was achieved in both ready-to-drink and powder products and Switzerland, due to the success of new product launches and increased distribution. In addition, good sales growth was achieved in other markets, including China, Brazil, Nigeria and Vietnam. Twinings benefited from new launches in the herbal tea segment in the UK, US, Australia and Italy and the launch of a new concept of Cold Infuse teas in the UK and Australia in the last quarter. Much progress has been made in recent years in reducing the operating costs of the Twinings tea supply chain, and we have announced that production at the Jinqiao, China site will cease in early 2019, with consolidation into our existing site in Poland.

At Allied Bakeries losses remained unacceptable, although some progress has been made with cost reduction programmes and price increases. Against a background of a continued increase in the market share of private label bread, investments in the Kingsmill and Allinson's brands have included new product launches for Super Seeds and premium craft loaves. Speedibake opened an expanded doughnut facility in the year and continued its focus on cost control. Wheat prices increased significantly over the summer as a consequence of a reduction in global production. The impact of this on our costs will be reflected in our ongoing discussions with our customers. Silver Spoon enjoyed increased sales in ice cream accompaniments in the extended period of warm weather over the summer, and increased sales of the Billington's premium sugar brand through the Baking Mad website.

Jordans has continued to drive international expansion, delivering strong revenue growth in Australia, New Zealand, Canada and Brazil. In a challenging UK crispbread market, with a large shift towards private label, Ryvita launched a range of protein-enhanced variants. A new production facility was opened at Bardney providing additional crispbread capacity and improved efficiency.

At AB World Foods, Patak's continued to deliver market share growth following the launch of paste pots, endorsed by Jamie Oliver, while Blue Dragon extended international sales growth in Canada, Scandinavia and Australia. Westmill Foods' premium market-leading atta flour, Elephant, was successfully relaunched with a strong brand presence during Ramadan, while continued strong demand for noodles will be met by an expanded production facility in Manchester, investment in which is well underway.

In our sports nutrition businesses, the HIGH5 hydration brand was relaunched during the year with sales driven through event sponsorship, while our protein brand, Reflex, continued to drive sales in eastern Europe and the Middle East.

Acetum, the Modena-based balsamic vinegar business acquired last October, is progressing well. We have focused on continued international expansion, further development of the Mazzetti brand, and on price increases to cover inflation of grape must prices following a poor European grape harvest in 2017.

ACH performed well with favourable oil margins and the Heart Healthy advertising campaign increasing consumer demand for Mazola corn oil, resulting in share gains, while distribution was also expanded in Walmart, Sam's Club and other retail chains. The increased contribution from this was partially offset by higher freight costs.

At George Weston Foods in Australia, Tip Top grew margin and operating profit primarily through ongoing cost reduction, strong sales of Thins and price increases on its branded bread range: The One, Sunblest and Abbotts. The Don KRC meat business significantly improved operating profit through improvements in factory performance, and also launched the nitrite-free All Naturals ham and bacon range.

On 17 September 2018 we completed the acquisition of Yumi's Quality Foods, an Australian manufacturer of chilled dips and snacks. Yumi's was founded by the Friedman brothers Benjamin (Yumi) and his brother Michael, both of whom will remain in the business, and specialises in dairy- and gluten-free dips, aioli, vegetarian snacks, mayonnaise and smoked fish for everyday consumption and entertaining. In the year ended 30 June 2018 the business generated sales of A$51m.

Sugar

Ongoing businesses	2018	2017	Actual fx	Constant fx
Revenue £m	1,730	2,034	-15%	-13%
Adjusted operating profit £m	123	249	-51%	-49%
Adjusted operating profit margin	7.1%	12.2%		
Return on average capital employed	7.5%	15.7%		

Revenue and adjusted operating profit for ongoing businesses at AB Sugar were substantially lower than the previous year due primarily to lower EU prices which adversely affected our UK and Spanish businesses. Our African business, Illovo, had another successful year and continued to be highly profitable. We have shut down operations at the Vivergo bioethanol plant and the operating losses of this business are shown separately under businesses disposed in the segmental analysis.

We remained focused on delivering significant cost reduction across all of our businesses through our ongoing performance improvement programme, and efficiencies continued to be identified in production and procurement.

The global supply of sugar has moved into surplus and the world market sugar price reduced this year. The EU sugar regime ended in October 2017 with the consequent removal of sales quotas. This structural change increased the supply of sugar in the EU market and prices were expected to fall as a result. EU prices have actually fallen faster and more significantly than expected as a consequence of substantially higher EU sugar production in 2017/18, following an increase in crop area and higher than average beet yields. In our next financial year we will see the full year effect of the current level of EU sugar prices, which will represent a further reduction on those prices achieved this year. The effect of these lower prices on our UK and Spanish businesses will be only partially offset by continuing performance improvement initiatives and, in line with previous guidance, the profit at AB Sugar will be significantly lower than that achieved this year.

In the UK, sugar production increased considerably to 1.37 million tonnes reflecting record beet yields and an increase in crop area. The latest sugar production estimate for 2018/19 is a reduction to some 1.05 million tonnes as a consequence of late drilling this spring followed by the unusually dry summer. British Sugar stocks are expected to decline next year as a result.

Looking to the financial year 2019/20, a reduction in beet price has been agreed with our farmers and we expect sugar production to be affected by a lower crop area to be planted in spring 2019. NFU Sugar and British Sugar are disappointed by the UK Government's decision to reject the emergency application for the use of neonicotinoids as a seed treatment from next year. We believe that this decision is ill-founded and disproportionate.

In Spain, beet sugar production is expected to be slightly ahead of last year at 0.4 million tonnes. The Guadelete refinery operated for a much-reduced period this year, with sales supported by stocks carried forward from the previous season. Despite a good operating performance, at current sugar prices our Spanish business is expected to make a substantial loss in our next financial year. Management will be addressing the unsustainably high cost base in this new sugar environment.

Sugar production at Illovo increased to 1.7 million tonnes from 1.64 million tonnes last year. Favourable weather conditions, improved irrigation and crop management more than offset lower yields in Zambia. Illovo remained focused on building domestic and regional sales. The consumer offering was developed further in a number of markets, with investment in the local brand and the introduction of pack sizes at affordable prices for our consumers.

In China, our two factories at Zhangbei and Qianqi completed an excellent campaign, producing 166,000 tonnes of sugar. Major success in further mechanising agricultural operations and the adoption of better beet storage methods improved beet quality and delivered a much higher operating profit for the year. The crop area for the 2018/19 campaign remains in line with expectations but lower sugar prices are expected to reduce the operating profit next year.

We have shut down operations at the Vivergo bioethanol plant in Hull. The current market conditions, particularly high wheat costs and low bioethanol prices, made the operation uneconomic and we do not see these conditions improving for the foreseeable future. A charge has been included in the loss on closure of businesses line in the income statement, as set out in note 5, and the operating losses are separately disclosed under businesses disposed in the segmental analysis.

Germains, our seed treatment and enhancement business, continued to develop new products, particularly in the US, where expansion of the plant at Gilroy, California, is progressing as planned.

Agriculture

Ongoing businesses	2018	2017	Actual fx	Constant fx
Revenue £m	1,350	1,191	+13%	+14%
Adjusted operating profit £m	59	50	+18%	+23%
Adjusted operating profit margin	4.4%	4.2%		
Return on average capital employed	15.7%	14.3%		

AB Agri revenues were well ahead of last year, with growth in all businesses, and with a consequent increase in operating profit.

In the UK, compound feed and premix sales grew significantly and the large sugar beet crop increased the availability of co-products which provided more volume for Trident Feeds. Higher vitamin costs drove an increase in feed prices. A new premix factory at Fradley Park, Staffordshire, opened at the end of the financial year. Operating profit at Frontier was held back by limited grain trading opportunities following a smaller UK wheat crop, while its crop inputs business delivered a record performance with high demand during the growing season in spring and early summer.

AB Vista continued to build international sales and share in the feed enzyme market and is now a leader in the phytase segment. Sales in the ruminant segment and in North America showed good growth but were held back by a reduced demand by the Vietnamese pig industry.

Starter feed exports to continental Europe by our Primary Diets business in the UK grew strongly, especially to Poland, Germany, Denmark and Italy. Agrokorn, our Danish speciality protein business acquired in 2016, continued to grow. Our compound feed business in China had another good year and entered the new markets of sheep and duck feed. Our flaked maize plant in Rudong and a new premix mill were both completed during the year.

Ingredients

Ongoing businesses	2018	2017	Actual fx	Constant fx
Revenue £m	1,467	1,492	-2%	+6%
Adjusted operating profit £m	143	126	+13%	+23%
Adjusted operating profit margin	9.7%	8.4%		
Return on average capital employed	18.1%	15.4%		

At constant currency, Ingredients' revenues were 6% ahead of last year. Adjusted operating profit was well ahead of last year again, delivering a further increase in margin.

AB Mauri delivered another year of sustained growth, in both yeast and bakery ingredients, through continued improvements in operational performance. Significant progress was made in our multi-year investment programme aimed at developing our capabilities in bakery ingredients technology. The goal of this investment is to provide the baker with optimal solutions for their present and future product needs.

North America benefited from cost reductions in yeast manufacturing, sustained growth in bakery ingredients and a full year of ownership of the Speciality Blending business acquired in 2017. Our Latin American businesses have grown despite ongoing economic difficulties and competitive pressures. The operation in Argentina opened its new bakery ingredients plant in Lanus in the year. Trading performance in EMEA continued to be strong and further investments were made in research and development. In June 2018 the acquisition was completed of Holgran, a supplier of malted grains, and Fleming Howden, an Edinburgh-based blender and distributor of bakery ingredients.

ABF Ingredients delivered an outstanding performance with another year of strong profit growth. Gross profit margins improved in all five businesses as a result of a favourable product mix, with sales managed towards markets with higher margins. In our enzymes businesses, innovative products serving the bakery, pulp and paper and detergents markets delivered the sales growth. The increase in enzyme production capacity at the Rajamäki site in Finland was utilised as planned to satisfy the growth in customer demand.

Abitec, our speciality lipids business in North America, continued to perform well. SPI Pharma sustained its growth in excipients and drug delivery solutions driven by the ongoing expansion in the market for pharmaceutical reformulations. Our US protein extrusion business, PGP International, continued to develop its sales of protein crisps which are used in the rapidly expanding health bar and gluten-free segments in the US.

Retail

	2018	2017	Actual fx	Constant fx
Revenue £m	7,477	7,053	+6%	+5%
Adjusted operating profit £m	843	735	+15%	+13%
Adjusted operating profit margin	11.3%	10.4%		
Return on average capital employed	28.2%	27.3%		

Sales at Primark were 6% ahead of last year at actual exchange rates and 5.2% ahead at constant currency, driven by increased selling space offset by a 2.1% decline in like-for-like sales. Operating profit margin increased to 11.3% from 10.4% and, as a consequence, adjusted operating profit was 13% ahead at constant currency.

Primark performed particularly well in the UK: sales were 5.3% ahead of last year, like-for-like sales growth for the full year was 1.2% and our share of the total clothing market increased significantly. This was achieved in a market which declined year-on-year. Like-for-like growth was strong in the first half of the year and was marginally down in the second half in a much weaker market and which compared to an exceptionally strong second half last year. Sell-through of the summer range was strong, and, as a result, markdowns were lower than expected. Early trading of our new autumn/winter range has been encouraging.

Our store in central Belfast was sadly destroyed by fire in August. The safety and well-being of our customers, colleagues and construction team was the most important consideration, and all were evacuated safely and quickly. Our store is housed in an iconic building which is much loved by the people of Belfast. We will shortly re-establish a trading presence in Belfast with the opening of a store in Commonwealth House and are committed to working with the authorities to restore Bank Buildings over the longer term. The full replacement cost of the building and resulting business interruption is insured.

Sales in the Eurozone were 4.7% ahead of last year at constant currency and like-for-like sales fell by 4.7%. Sales growth was achieved in Spain, Portugal and Germany and was especially strong in France, Belgium and Italy. Adjusting for cannibalisation from new store openings, we estimate that the like-for-like decline was 3.6%. This decline was driven by unseasonable weather during three distinct periods this year, especially in northern Europe, and by soft trading in a weak German market.

We are very pleased with our US performance in the second half of this year. Our ninth store, which opened in Brooklyn in July, has been trading very strongly. Our existing stores delivered like-for-like growth in the second half including those stores with reduced selling space, at Freehold and Danbury, with a consequent benefit to store profitability. We have signed agreements for two further stores: American Dream, New Jersey is planned to open in 2019 and Sawgrass Mills, Florida in 2020. We are working on adding further stores in the medium term in the eastern region of the US which would be serviced from our existing US warehouse.

Social media continues to underpin Primark's loyal fashion following with total followers growing to nearly 13 million, up from 10 million last year. Primark's social media channels aim to inspire, and enable its followers to keep up-to-date on all the latest products, create wish lists, receive styling advice, and upload outfit posts to Primania.

Operating profit margin in the second half of the year was well ahead of the first half, and last year, and was driven by the benefit of the weakening of the US dollar exchange rate on purchases and by better buying. Following a very successful sell through of our summer ranges the level of markdowns in the second half was lower than expected, although above the unusually low level in the comparative period last year. These factors together drove the improvement in full year margin from 10.4% to 11.3%.

Looking ahead to next year, forward exchange contracts have been secured against all merchandise in the first half, and the weaker US dollar exchange rate for these contracts will deliver a higher first half margin compared to the first half of this year. Assuming that purchases for the spring/summer range are secured at current exchange rates we would expect a lower second half margin. The full year operating margin in Primark at this stage is expected to be broadly in line with this year. However, the exchange rate applicable to purchases in the second half will be sensitive to sterling exchange rate volatility which is likely to arise given a period of intense Brexit negotiations.

Retail selling space increased by a net 0.9 million sq ft this year with 15 net new stores. This brings the total estate to 360 stores, trading from 14.8 million sq ft which compared to 13.9 million sq ft a year ago. Selling space increased by a gross 1 million sq ft with 16 new stores added; five stores were added in Germany; four in the UK; two in France and one each in Portugal, Belgium, Spain, the Netherlands and the US. A small store at Lisnagelvin, Londonderry, in Northern Ireland was closed and selling space in the US stores in Freehold and Danbury was reduced.

	Year ended 15 September 2018		Year ended 16 September 2017	
	# of stores	sq ft 000	# of stores	sq ft 000
UK	185	7,125	182	6,835
Spain	45	1,764	44	1,675
Germany	27	1,686	22	1,401
Republic of Ireland	37	1,087	37	1,083
Netherlands	19	902	18	849
France	13	649	11	562
US	9	507	8	485
Portugal	10	348	9	300
Belgium	6	292	5	227
Austria	5	242	5	242
Italy	4	203	4	203
	360	14,805	345	13,862

New store openings:

UK
Charlton
Staines
Burnley
Westfield, London

Spain
Valencia

Portugal
Algarve

France
Le Havre
Metz

Belgium
Antwerp

The Netherlands
Tilburg

Germany
Bielefeld
Münster
Stuttgart Koenigstrasse
Munich PEP
Ingolstadt

US
Brooklyn

Relocations:
UK
Oxford
Rotherham
Grimsby
Kingston
Norwich

Spain
Islazul, Madrid

In the next financial year, we are planning to add over 1 million sq ft of net additional selling space. Germany, France, Spain and the UK will see the most space added and overall, we will add a net 15 new stores. We will move to new premises at Birmingham Pavilions which, at 160,000 sq ft, will become our largest store in the whole estate. We have already opened large new stores in Berlin in Germany; Toulouse in France; and Seville and Almeria in Spain. Other large new stores to open later in the year will be: Bordeaux in France; Brussels in Belgium; Utrecht in the Netherlands; and Milton Keynes in the UK.

Our first store in Slovenia will open in 2019 in Ljubljana, taking Primark to its twelfth country. We are planning to enter a number of other markets in central and eastern Europe over the coming years, and have signed the lease for our first store in Poland, Warsaw.

George Weston
Chief Executive

Group performance

Group revenue increased by 1% to £15.6bn and adjusted operating profit was 3% higher at £1,404m. In calculating adjusted operating profit, the amortisation charge on non-operating intangibles, profits or losses on disposal of non-current assets, transaction costs and amortisation of acquired inventory fair value adjustments are excluded. The acquired inventory fair value adjustments arose on balsamic vinegar inventory at Acetum: in accordance with accounting standards, inventory on hand at acquisition was recorded at fair value, some £69m more than the book value. This fair value adjustment is charged to the income statement as the related inventory is sold, with a charge of £23m in the year. On an unadjusted basis, operating profit was 1% higher than last year at £1,344m.

With over 60% of the group's operating profit earned outside the UK, the strengthening of sterling against most of our trading currencies, other than the euro, resulted in a loss on translation this year of £22m. US dollar weakness against the euro had a favourable transactional effect on Primark's largely dollar-denominated purchases, particularly in the second half. The movement in sterling across the year resulted in a negative transactional effect in the first half moving to a favourable effect in the second half.

Next year we expect no material translation benefit at current exchange rates. The weaker US dollar exchange rate will have a favourable transactional effect on Primark's margin in the first half and, assuming current exchange rates continue, we would expect a lower margin in the second half. However, the exchange rate applicable to purchases in the second half will be sensitive to the sterling exchange rate volatility which is likely to arise given a period of intense Brexit negotiations.

Net financing costs reduced from last year, following favourable interest rate movements affecting non-sterling denominated borrowings in southern Africa and an increase in yields on our cash deposits. Last year included the benefit of a profit on the sale of businesses and, taking this into account, statutory profit before tax was down 19% to £1,279m. On our adjusted basis, which excludes these items, profit before tax rose by 5% to £1,373m.

Acquisitions and disposals

In October 2017 we acquired Acetum S.p.A, the leading Italian producer of Balsamic Vinegar of Modena for a net consideration of £284m including debt assumed. In June 2018 our UK Ingredients business acquired Holgran, a supplier of malted grains, and Fleming Howden, an Edinburgh-based blender and distributor of bakery ingredients. AB Agri acquired a small aerial survey and informatics company based in the UK.

In October 2018 we shut down operations at Vivergo, AB Sugar's bioethanol plant in Hull. A charge has been included for this in the loss on closure of businesses line in the income statement.

Taxation

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

This year's tax charge of £257m included a charge of £292m at an effective rate of 21.3% (2017 – 22.4%) on the adjusted profit before tax. The lower effective tax rate in the year is primarily due to the reduction in the US federal corporate tax rate from 35% to 21% with effect from 1 January 2018. The current and deferred impact reduced the group's effective tax rate by 1% in the financial year. We expect next year's effective tax rate for the group to be similar to the current year.

The total tax charge for the year benefited from a credit of £35m (2017 - £15m) for tax relief on the amortisation on non-operating intangible assets, amortisation of fair value adjustments on acquired inventory and goodwill arising from business combinations. The credit this year included £18m on the remeasurement of the group's US goodwill deferred tax liability following the US tax reform. Last year the total tax charge included a charge of £87m arising on the disposal of businesses.

Earnings and dividends

Earnings attributable to equity shareholders in the current year were £1,007m and the weighted average number of shares in issue during the year, which is used to calculate earnings per share, was 790 million (2017 – 790 million). Given the substantial profit on sale of businesses last year, earnings per ordinary share were 16% lower than last year at 127.5p. Adjusted earnings per share, which provides a more consistent measure of trading performance, increased by 6% from 127.1p to 134.9p.

The interim dividend was increased by 3% to 11.7p and a final dividend has been proposed at 33.3p which represents an overall increase of 10% for the year. The proposed final dividend is expected to cost £263m and will be charged next year. Dividend cover, on an adjusted basis, reduced to 3.0 times.

Balance sheet

Non-current assets of £8.4bn were £0.8bn higher than last year driven by capital expenditure ahead of depreciation, the acquisition of Acetum and an increase in employee benefits assets as the UK defined benefit pension scheme moved further into surplus.

Average working capital as a percentage of sales increased from 6.5% last year to 7.2% this year, while working capital at the year end was also higher than last year, due principally to higher inventory levels and lower sales at AB Sugar. Net cash at the year end was £614m compared with net cash at the end of last year of £673m reflecting net cash generated during the year less the purchase of Acetum, including debt acquired.

The group's net assets increased by £0.9bn to £9.3bn. Return on capital employed for the group, which is calculated by expressing adjusted operating profit as a percentage of the average capital employed for the year, was lower this year at 20.1% compared with 20.5% last year. The reduction in the return at AB Sugar more than offset increases in Retail, Grocery, Ingredients and Agriculture.

Cash flow

Net cash inflow from operating activities declined to £1,430m with a working capital outflow of £153m this year compared to last year's inflow of £126m. Gross capital expenditure was in line with last year and amounted to £868m. Primark spent £434m of this which mainly comprised the fit-out of new and existing stores. Expenditure in the food businesses remained at a similar level to last year. £23m was realised from the sale of property, plant and equipment. The net cash outlay on acquisitions was £297m, including debt assumed, and related principally to the acquisition of Acetum.

Tax paid in the year amounted to £297m, a reduction from £356m in the previous year which included £92m arising on business disposals.

Financing

The financing of the group is managed by a central treasury department. The group has total committed borrowing facilities amounting to £1.9bn, which comprise: £0.6bn of US private placement notes maturing between 2019 and 2024, with an average fixed rate coupon of 4.6%; £1.2bn provided under a syndicated, revolving credit facility which matures in July 2021; and £0.1bn of local committed facilities in Africa. At the year end, £639m was drawn down under these committed facilities. The group also had access to £524m of uncommitted credit lines under which £125m was drawn at the year end. Cash and cash equivalents totalled £1.4bn at the year end.

Pensions

The group's defined benefit pension schemes were in surplus by £435m at the year end compared with a surplus last year of £126m. The UK scheme accounts for 91% of the group's gross pension assets and this year's surplus of £530m compared with a surplus of £233m last year. The major drivers of the year-on-year improvement were the increase in long-term bond yields, which are used to value defined benefit pension obligations for accounting purposes, and superior investment returns.

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

The charge for the year for the group's defined contribution schemes, which was equal to the contributions made, amounted to £77m (2017 - £79m). This compared with the cash contribution to the defined benefit schemes of £39m (2017 - £36m).

New accounting standards

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

During the next financial year the group will adopt two new accounting standards: IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. We have completed our review of the requirements of these standards compared to our current accounting policies and have concluded that no material impact will arise on adoption. Grocery revenue will reduce by some £30m next year as certain payments to customers which were previously expensed as incurred are instead deducted from revenue. This will have the effect of increasing Grocery operating margin by approximately 10 basis points. There will be no impact on the timing or amount of operating profit. On transition, comparatives will not be restated.

IFRS 16 Leases will take effect from our 2020 financial year. This will be the most significant accounting change for our group in many years. It will affect many aspects of the group accounts, including operating profit, earnings per share and net debt, as well as return on capital employed. It will not change overall cash flows, nor the economic effect of the leases to which the group is party. We plan to transition using the modified retrospective approach, in line with the majority of other major listed international groups. On transition, comparatives will not be restated. We will provide an update on our progress in our 2019 interim report, followed by fuller details of the expected impact on the group's results and financial position in the 2019 annual report.

John Bason
Finance Director

The annual report and accounts is available at www.abf.co.uk and will be despatched to shareholders on 8 November 2018. The annual general meeting will be held at Congress Centre, 28 Great Russell Street, London, WC1B 3LS at 11am on Friday, 7 December 2018.

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.

PRINCIPAL RISKS AND UNCERTAINTIES

External risks

Risk trend	Context and potential impact	Mitigation	Changes since 2017
◁▷	**Movement in exchange rates and inflation**		
	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.	Our businesses which are impacted by exchange rate volatility and currency depreciation constantly review their currency-related exposures. 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. Cash balances and 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 24 to the financial statements in the annual report for more information).	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. 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.
◁▷	**Fluctuations in commodity and energy prices**		
	Changes in commodity and energy prices can have a material impact on the group's operating results, asset values and cash flows.	We constantly monitor the markets in which we operate and manage certain of these exposures with 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. We operate a diverse portfolio of commodities across a number of geographies.	EU and world sugar prices were lower than last year which had a negative effect on Sugar profitability. 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.
△	**Operating in global markets**		
	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. 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. This risk category is a consolidation of risks which were disclosed separately last year.	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, EU cases and investigations on tax rulings and their likely outcomes. 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. We engage with governments, local regulators and community organisations to contribute to, and anticipate, important changes in public policy.	Following the abolition of EU sugar quotas from October 2017, AB Sugar continues to reduce its cost base through its performance improvement programme. We acquired a leading Italian producer of balsamic vinegar during the year, after thorough due diligence was undertaken. We reviewed and updated contingency plans across our businesses.

		We conduct rigorous due diligence when entering, or commencing business activities in new markets.	
◁▷	Health and nutrition		
	Failure to adapt to changing consumer health choices or to address nutrition concerns in the formulation of our products could result in a loss of consumer base and impact business performance. We act responsibly across the spectrum of food poverty and malnutrition to obesity.	Consumer preferences and market trends are monitored continually. Recipes are regularly reviewed and reformulated to improve the nutritional value of our products. All of our grocery products are labelled with nutritional information. We develop partnerships with other organisations to promote healthy options.	Our businesses continue to review their products and to partner with others to enable a swift and innovative response to changing consumer needs. Our Sugar and Grocery businesses have supported healthy eating campaigns again this year to help consumers make informed choices about their food. A number of our products have undergone reformulation this year to provide consumers with healthier choices.

Operational risks

Risk trend	Context and potential impact	Mitigation	Changes since 2017
◁▷	Workplace health and safety		
	Many of our operations, by their nature, have the potential for loss of life or workplace injuries to employees, contractors and visitors.	Safety continues to be the number one priority for our businesses. The chief executives of each business, who lead by example, are accountable for the safety performance of their business. Our Health and Safety Policy and practices are firmly embedded in each business, supporting a strong ethos of workplace safety. We have a continuous safety audit programme to verify implementation of safety management and support a culture of continuous improvement. Best practice safety and occupational health guidance is shared across the businesses, co-ordinated from the corporate centre, to supplement the delivery of their own programmes.	During the year there has been a 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. The safety performance of the group, with updates by division, is reported in the 2018 Corporate Responsibility Update at www.abf.co.uk/responsibility.
◁▷	Product safety and quality		
	As a leading food manufacturer and retailer, it is vital that we manage the safety and quality of our products throughout the supply chain.	Product safety is put before economic considerations. 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. 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. Our sites comply with international food safety and quality management standards and conduct regular mock product incident exercises.	We did not have any major product recalls. Businesses have continued to define and refine KPIs in this area.
◁▷	Our use of natural resources and managing our environmental impact		
	Our businesses rely on a secure supply of natural resources some of which are vulnerable to external factors such as natural disasters and climate change.	We continuously seek ways to improve the efficiency of our operations, use technologies and techniques to reduce our use of natural resources and adapt	The environmental performance of the group, with updates by division, is reported in the 2018 Corporate

	Our material environmental impacts are energy use and resultant greenhouse gas emissions, water use and waste generation. 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.	operations to climate change in order to positively contribute to local environments and minimise impact. 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. 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.	Responsibility Update at www.abf.co.uk/responsibility. We annually report our approach to climate change, water and deforestation risk via CDP at www.cdp.net. Our UK Grocery business has signed the UK Plastics PACT 2025. There is an ongoing initiative to explore the possibility of using alternative packaging materials. Our Sugar business sets commitments for its own operations and supply chain to improve sustainability performance by 2030.
◁▷	Our supply chain and ethical business practices		
	Our suppliers are essential to the successful operation of the group. 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. 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, corruption and slavery risk; • impact on reliability of supply and business continuity due to unforeseen incidents e.g. natural disasters; and • long-term sustainability of key suppliers.	Our Supplier Code of Conduct is designed to ensure suppliers, representatives and all with whom we deal, adhere to our values and standards. The full Code is available at www.abf.co.uk/ supplier_code_of_conduct. Suppliers are expected to sign and abide by this Code. Adherence to the Code is verified through our supplier audit system with our procurement and operational teams establishing strong working relationships with suppliers to help them meet our standards. All businesses are required to comply with the group's Business Principles including its Anti-Bribery and Corruption Policy.	Primark launched a training course on Forced Labour and Modern Slavery for suppliers. 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. 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. 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. Primark and Twinings published sourcing maps.
△	Breaches of IT and information security		
	To meet customer, consumer and supplier needs, our IT infrastructure needs to be flexible, reliable and secure to allow us to interact through technology. Our delivery of efficient and effective operations is enhanced by the use of relevant technologies and the sharing of information. We are therefore subject to potential cyber-threats such as computer viruses and the loss or theft of data. There is the potential for disruption to operations from data centre failures, IT malfunctions or external cyber-attacks. During the year regulatory requirements were enhanced, across Europe, with the enactment of the General Data Protection Regulation (GDPR) 2018.	In parallel to developing our technology systems, we invest in developing the IT capabilities of our people across our businesses. We monitor and address any cyber-threats and suspicious IT activity. We have established processes, group IT security policies and technologies 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 Chief Information Security Officer (CISO) tasked with identifying and responding to potential security risks.	During the year we have appointed a CISO. 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. There is an ongoing programme of investment in both technology and people to enhance our cyber-security capabilities. An extensive programme of work was completed to ensure that we comply with the requirements of GDPR.

CAUTIONARY STATEMENTS

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

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

We confirm that to the best of our knowledge:

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

The contents of this announcement, including the responsibility statement above, have been extracted from the annual report and accounts for the 52 weeks ended 15 September 2018 which will be despatched to shareholders on 8 November 2018 and may then be found at www.abf.co.uk. Accordingly this responsibility statement makes reference to the financial statements of the Company and the group and to the relevant narrative appearing in that annual report and accounts rather than the contents of this announcement.

On behalf of the board

Michael McLintock	George Weston	John Bason
Chairman	Chief Executive	Finance Director

6 November 2018

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 15 September 2018

Continuing operations	Note	2018 £m	2017 £m
Revenue	1	15,574	15,357
Operating costs		(14,290)	(14,090)
		1,284	1,267
Share of profit after tax from joint ventures and associates		54	63
Profits less losses on disposal of non-current assets		6	6
Operating profit		1,344	1,336
Adjusted operating profit	1	1,404	1,363
Profits less losses on disposal of non-current assets		6	6
Amortisation of non-operating intangibles		(41)	(28)
Acquired inventory fair value adjustments		(23)	–
Transaction costs		(2)	(5)
Profits less losses on sale and closure of businesses	5	(34)	293
Profit before interest		1,310	1,629
Finance income		15	9
Finance expense		(50)	(59)
Other financial income/(expense)		4	(3)
Profit before taxation		1,279	1,576
Adjusted profit before taxation		1,373	1,310
Profits less losses on disposal of non-current assets		6	6
Amortisation of non-operating intangibles		(41)	(28)
Acquired inventory fair value adjustments		(23)	–
Transaction costs		(2)	(5)
Profits less losses on sale and closure of businesses		(34)	293
Taxation – UK		(105)	(62)
– Overseas		(152)	(303)
	2	(257)	(365)
Profit for the period		1,022	1,211
Attributable to			
Equity shareholders		1,007	1,198
Non-controlling interests		15	13
Profit for the period		1,022	1,211
Basic and diluted earnings per ordinary share (pence)	3	127.5	151.6
Dividends per share paid and proposed for the period (pence)	4	45.0	41.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 15 September 2018

	2018 £m	2017 £m
Profit for the period recognised in the income statement	1,022	1,211
Other comprehensive income		
Remeasurements of defined benefit schemes	310	438
Deferred tax associated with defined benefit schemes	(53)	(77)
Items that will not be reclassified to profit or loss	257	361
Effect of movements in foreign exchange	(85)	61
Net loss on hedge of net investment in foreign subsidiaries	(10)	(9)
Deferred tax associated with movements in foreign exchange	1	(2)
Current tax associated with movements in foreign exchange	–	(1)
Reclassification adjustment for movements in foreign exchange on subsidiaries disposed	–	(28)
Movement in cash flow hedging position	55	(8)
Deferred tax associated with movement in cash flow hedging position	(12)	–
Items that are or may be subsequently reclassified to profit or loss	(51)	13
Other comprehensive income for the period	206	374
Total comprehensive income for the period	1,228	1,585
Attributable to		
Equity shareholders	1,215	1,573
Non-controlling interests	13	12
Total comprehensive income for the period	1,228	1,585

CONSOLIDATED BALANCE SHEET

At 15 September 2018

	2018 £m	2017 £m
Non-current assets		
Intangible assets	1,632	1,414
Property, plant and equipment	5,747	5,470
Investments in joint ventures	219	210
Investments in associates	47	44
Employee benefits assets	579	285
Deferred tax assets	133	143
Other receivables	50	54
Total non-current assets	8,407	7,620
Current assets		
Inventories	2,187	2,101
Biological assets	84	90
Trade and other receivables	1,436	1,342
Derivative assets	132	79
Current asset investments	30	–
Income tax	54	28
Cash and cash equivalents	1,362	1,550
Total current assets	5,285	5,190
Total assets	13,692	12,810
Current liabilities		
Loans and overdrafts	(419)	(265)
Trade and other payables	(2,529)	(2,500)
Derivative liabilities	(52)	(113)
Income tax	(160)	(170)
Provisions	(88)	(105)
Total current liabilities	(3,248)	(3,153)
Non-current liabilities		
Loans	(359)	(612)
Other payables	(269)	(216)
Provisions	(52)	(27)
Deferred tax liabilities	(324)	(231)
Employee benefits liabilities	(144)	(159)
Total non-current liabilities	(1,148)	(1,245)
Total liabilities	(4,396)	(4,398)
Net assets	9,296	8,412
Equity		
Issued capital	45	45
Other reserves	175	175
Translation reserve	363	456
Hedging reserve	13	(31)
Retained earnings	8,615	7,694
Total equity attributable to equity shareholders	9,211	8,339
Non-controlling interests	85	73
Total equity	9,296	8,412

CONSOLIDATED CASH FLOW STATEMENT

For the 52 weeks ended 15 September 2018

	2018 £m	2017 £m
Cash flow from operating activities		
Profit before taxation	1,279	1,576
Profits less losses on disposal of non-current assets	(6)	(6)
Profits less losses on sale and closure of businesses	34	(293)
Transaction costs	2	3
Finance income	(15)	(9)
Finance expense	50	59
Other financial (income)/expense	(4)	3
Share of profit after tax from joint ventures and associates	(54)	(63)
Amortisation	65	57
Depreciation	509	514
Acquired inventory fair value adjustments	23	–
Net change in the fair value of current biological assets	5	–
Share-based payment expense	19	21
Pension costs less contributions	4	12
Increase in inventories	(35)	(40)
Increase in receivables	(99)	(2)
(Decrease)/increase in payables	(19)	168
Purchases less sales of current biological assets	(1)	(2)
Decrease in provisions	(30)	(1)
Cash generated from operations	1,727	1,997
Income taxes paid	(297)	(356)
Net cash from operating activities	1,430	1,641
Cash flows from investing activities		
Dividends received from joint ventures and associates	42	69
Purchase of property, plant and equipment	(787)	(823)
Purchase of intangibles	(81)	(43)
Sale of property, plant and equipment	23	49
Purchase of subsidiaries, joint ventures and associates	(208)	(79)
Sale of subsidiaries, joint ventures and associates	1	452
Interest received	10	8
Net cash from investing activities	(1,000)	(367)
Cash flows from financing activities		
Dividends paid to non-controlling interests	(4)	(4)
Dividends paid to equity shareholders	(327)	(299)
Interest paid	(50)	(59)
(Decrease)/increase in short-term loans	(111)	49
Increase/(decrease) in long-term loans	19	(9)
Increase in current asset investments	(30)	–
Purchase of shares in subsidiary undertaking from non-controlling interests	(1)	(3)
Sale of shares in subsidiary undertakings to non-controlling interests	1	–
Movements from changes in own shares held	(30)	(10)
Net cash from financing activities	(533)	(335)
Net (decrease)/increase in cash and cash equivalents	(103)	939
Cash and cash equivalents at the beginning of the period	1,386	462
Effect of movements in foreign exchange	(12)	(15)
Cash and cash equivalents at the end of the period	1,271	1,386

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 15 September 2018

	Note	Attributable to equity shareholders							
		Issued capital £m	Other reserves £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance as at 17 September 2016		45	175	433	(22)	6,423	7,054	68	7,122
Total comprehensive income									
Profit for the period recognised in the income statement		–	–	–	–	1,198	1,198	13	1,211
Remeasurements of defined benefit schemes		–	–	–	–	438	438	–	438
Deferred tax associated with defined benefit schemes		–	–	–	–	(77)	(77)	–	(77)
Items that will not be reclassified to profit or loss		–	–	–	–	361	361	–	361
Effect of movements in foreign exchange		–	–	63	–	–	63	(2)	61
Net loss on hedge of net investment in foreign subsidiaries		–	–	(9)	–	–	(9)	–	(9)
Deferred tax associated with movements in foreign exchange		–	–	(2)	–	–	(2)	–	(2)
Current tax associated with movements in foreign exchange		–	–	(1)	–	–	(1)	–	(1)
Reclassification adjustment for movements in foreign exchange on subsidiaries disposed		–	–	(28)	–	–	(28)	–	(28)
Movement in cash flow hedging position		–	–	–	(9)	–	(9)	1	(8)
Items that are or may be subsequently reclassified to profit or loss		–	–	23	(9)	–	14	(1)	13
Other comprehensive income		–	–	23	(9)	361	375	(1)	374
Total comprehensive income		–	–	23	(9)	1,559	1,573	12	1,585
Transactions with owners									
Dividends paid to equity shareholders	4	–	–	–	–	(299)	(299)	–	(299)
Net movement in own shares held		–	–	–	–	11	11	–	11
Deferred tax associated with share-based payments		–	–	–	–	1	1	–	1
Current tax associated with share-based payments		–	–	–	–	(1)	(1)	–	(1)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(4)	(4)
Acquisition and disposal of non-controlling interests		–	–	–	–	–	–	(3)	(3)
Total transactions with owners		–	–	–	–	(288)	(288)	(7)	(295)
Balance as at 16 September 2017		45	175	456	(31)	7,694	8,339	73	8,412
Total comprehensive income									
Profit for the period recognised in the income statement		–	–	–	–	1,007	1,007	15	1,022
Remeasurements of defined benefit schemes		–	–	–	–	310	310	–	310
Deferred tax associated with defined benefit schemes		–	–	–	–	(53)	(53)	–	(53)
Items that will not be reclassified to profit or loss		–	–	–	–	257	257	–	257
Effect of movements in foreign exchange		–	–	(83)	–	–	(83)	(2)	(85)
Net loss on hedge of net investment in foreign subsidiaries		–	–	(10)	–	–	(10)	–	(10)
Deferred tax associated with movements in foreign exchange		–	–	1	–	–	1	–	1
Movement in cash flow hedging position		–	–	(1)	56	–	55	–	55
Deferred tax associated with movement in cash flow hedging position		–	–	–	(12)	–	(12)	–	(12)
Items that are or may be subsequently reclassified to profit or loss		–	–	(93)	44	–	(49)	(2)	(51)
Other comprehensive income		–	–	(93)	44	257	208	(2)	206
Total comprehensive income		–	–	(93)	44	1,264	1,215	13	1,228
Transactions with owners									
Dividends paid to equity shareholders	4	–	–	–	–	(327)	(327)	–	(327)
Net movement in own shares held		–	–	–	–	(11)	(11)	–	(11)
Deferred tax associated with share-based payments		–	–	–	–	(1)	(1)	–	(1)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(5)	(5)
Acquisition and disposal of non-controlling interests		–	–	–	–	(4)	(4)	4	–
Total transactions with owners		–	–	–	–	(343)	(343)	(1)	(344)
Balance as at 15 September 2018		45	175	363	13	8,615	9,211	85	9,296

1. Operating segments

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

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

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

The group is comprised of the following operating segments:

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

Geographical information

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

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

	Revenue		Adjusted operating profit	
	2018 £m	2017 £m	2018 £m	2017 £m
Operating segments				
Grocery	3,420	3,381	335	303
Sugar	1,730	2,034	123	249
Agriculture	1,350	1,191	59	50
Ingredients	1,467	1,492	143	126
Retail	7,477	7,053	843	735
Central	–	–	(64)	(75)
	15,444	15,151	1,439	1,388
Businesses disposed:				
Grocery	–	53	–	5
Sugar	128	140	(34)	(29)
Agriculture	1	12	(1)	–
Ingredients	1	1	–	(1)
	15,574	15,357	1,404	1,363
Geographical information				
United Kingdom	5,863	5,622	557	530
Europe & Africa	5,851	5,805	528	555
The Americas	1,533	1,538	206	189
Asia Pacific	2,197	2,186	148	114
	15,444	15,151	1,439	1,388
Businesses disposed:				
United Kingdom	66	80	(34)	(26)
Europe & Africa	62	60	–	–
The Americas	1	53	–	5
Asia Pacific	1	13	(1)	(4)
	15,574	15,357	1,404	1,363

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

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Total £m
Revenue from continuing businesses	3,423	1,821	1,354	1,648	7,477	(279)	15,444
Internal revenue	(3)	(91)	(4)	(181)	–	279	–
External revenue from continuing businesses	3,420	1,730	1,350	1,467	7,477	–	15,444
Businesses disposed	–	128	1	1	–	–	130
Revenue from external customers	3,420	1,858	1,351	1,468	7,477	–	15,574
Adjusted operating profit before joint ventures and associates	306	121	47	129	843	(64)	1,382
Share of profit after tax from joint ventures and associates	29	2	12	14	–	–	57
Businesses disposed	–	(34)	(1)	–	–	–	(35)
Adjusted operating profit	335	89	58	143	843	(64)	1,404
Profits less losses on disposal of non-current assets	4	2	–	–	–	–	6
Amortisation of non-operating intangibles	(36)	–	(1)	(4)	–	–	(41)
Acquired inventory fair value adjustments	(23)	–	–	–	–	–	(23)
Transaction costs	(1)	–	–	(1)	–	–	(2)
Profits less losses on sale and closure of businesses	–	(11)	1	(2)	–	(22)	(34)
Profit before interest	279	80	58	136	843	(86)	1,310
Finance income						15	15
Finance expense						(50)	(50)
Other financial income						4	4
Taxation						(257)	(257)
Profit for the period	279	80	58	136	843	(374)	1,022
Segment assets (excluding joint ventures and associates)	2,702	2,090	414	1,396	4,556	110	11,268
Investments in joint ventures and associates	41	25	134	66	–	–	266
Segment assets	2,743	2,115	548	1,462	4,556	110	11,534
Cash and cash equivalents						1,362	1,362
Current asset investments						30	30
Income tax						54	54
Deferred tax assets						133	133
Employee benefits assets						579	579
Segment liabilities	(530)	(429)	(140)	(275)	(1,382)	(234)	(2,990)
Loans and overdrafts						(778)	(778)
Income tax						(160)	(160)
Deferred tax liabilities						(324)	(324)
Employee benefits liabilities						(144)	(144)
Net assets	2,213	1,686	408	1,187	3,174	628	9,296
Non-current asset additions	148	141	19	63	533	12	916
Depreciation	(99)	(81)	(13)	(49)	(264)	(3)	(509)
Amortisation	(48)	(4)	(1)	(6)	(5)	(1)	(65)
Impairment of property, plant and equipment on sale and closure of businesses	–	(14)	–	–	–	–	(14)

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

1. Operating segments for the 52 weeks ended 16 September 2017

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Total £m
Revenue from continuing businesses	3,384	2,113	1,195	1,673	7,053	(267)	15,151
Internal revenue	(3)	(79)	(4)	(181)	–	267	–
External revenue from continuing businesses	3,381	2,034	1,191	1,492	7,053	–	15,151
Businesses disposed	53	140	12	1	–	–	206
Revenue from external customers	3,434	2,174	1,203	1,493	7,053	–	15,357
Adjusted operating profit before joint ventures and associates	264	246	37	113	735	(75)	1,320
Share of profit after tax from joint ventures and associates	39	3	13	13	–	–	68
Businesses disposed	5	(29)	–	(1)	–	–	(25)
Adjusted operating profit	308	220	50	125	735	(75)	1,363
Profits less losses on disposal of non-current assets	17	–	–	–	(6)	(5)	6
Amortisation of non-operating intangibles	(25)	(1)	(1)	(1)	–	–	(28)
Transaction costs	(4)	–	–	(1)	–	–	(5)
Profits less losses on sale and closure of businesses	110	183	–	–	–	–	293
Profit before interest	406	402	49	123	729	(80)	1,629
Finance income						9	9
Finance expense						(59)	(59)
Other financial expense						(3)	(3)
Taxation						(365)	(365)
Profit for the period	406	402	49	123	729	(498)	1,211
Segment assets (excluding joint ventures and associates)	2,349	2,079	371	1,416	4,245	90	10,550
Investments in joint ventures and associates	36	23	131	64	–	–	254
Segment assets	2,385	2,102	502	1,480	4,245	90	10,804
Cash and cash equivalents						1,550	1,550
Income tax						28	28
Deferred tax assets						143	143
Employee benefits assets						285	285
Segment liabilities	(515)	(480)	(112)	(273)	(1,382)	(199)	(2,961)
Loans and overdrafts						(877)	(877)
Income tax						(170)	(170)
Deferred tax liabilities						(231)	(231)
Employee benefits liabilities						(159)	(159)
Net assets	1,870	1,622	390	1,207	2,863	460	8,412
Non-current asset additions	140	100	27	78	519	3	867
Depreciation	(116)	(84)	(11)	(52)	(248)	(3)	(514)
Amortisation	(43)	(4)	(2)	(4)	(3)	(1)	(57)
Impairment of property, plant and equipment on sale and closure of businesses	(2)	–	–	–	–	–	(2)

Geographical information	United Kingdom £m	Europe & Africa £m	The Americas £m	Asia Pacific £m	Total £m
Revenue from external customers	5,702	5,865	1,591	2,199	15,357
Segment assets	4,199	4,123	1,077	1,405	10,804
Non-current asset additions	290	407	89	81	867
Depreciation	(189)	(190)	(54)	(81)	(514)
Amortisation	(33)	(8)	(5)	(11)	(57)
Impairment of property, plant and equipment on sale and closure of businesses	–	–	(2)	–	(2)
Transaction costs	(1)	(1)	(3)	–	(5)

2. Income tax expense

	52 weeks ended 15 September 2018 £m	52 weeks ended 16 September 2017 £m
Current tax expense		
UK – corporation tax at 19% (2017 – 19.54%)	82	82
Overseas – corporation tax	200	297
UK – under/(over) provided in prior periods	8	(12)
Overseas – over provided in prior periods	(28)	(9)
	262	358
Deferred tax expense		
UK deferred tax	–	(10)
Overseas deferred tax	(19)	17
UK – under provided in prior periods	15	2
Overseas – over provided in prior periods	(1)	(2)
	(5)	7
Total income tax expense in income statement	257	365
Reconciliation of effective tax rate		
Profit before taxation	1,279	1,576
Less share of profit after tax from joint ventures and associates	(54)	(63)
Profit before taxation excluding share of profit after tax from joint ventures and associates	1,225	1,513
Nominal tax charge at UK corporation tax rate of 19% (2017 – 19.54%)	233	296
Effect of higher and lower tax rates on overseas earnings	29	39
Effect of changes in tax rates on income statement	(16)	–
Expenses not deductible for tax purposes	33	24
Disposal of assets covered by tax exemptions or unrecognised capital losses	(15)	9
Deferred tax not recognised	(1)	18
Adjustments in respect of prior periods	(6)	(21)
	257	365
Income tax recognised directly in equity		
Deferred tax associated with defined benefit schemes	53	77
Deferred tax associated with share-based payments	1	(1)
Current tax associated with share-based payments	–	1
Deferred tax associated with movement in cash flow hedging position	12	–
Deferred tax associated with movements in foreign exchange	(1)	2
Current tax associated with movements in foreign exchange	–	1
	65	80

The UK corporation tax rate was reduced from 20% to 19% with effect from 1 April 2017, with a further reduction to 17% effective from 1 April 2020. The legislation to effect these rate changes had been enacted before the balance sheet date. Accordingly, UK deferred tax has been calculated using these rates as appropriate.

In October 2017 the European Commission published its preliminary findings on the Group Financing Exemption in the UK's controlled foreign company legislation. The Commission has expressed doubts as to whether the exemption is compliant with EU State Aid rules. The group may be affected by the final outcome of the Commission's review, as will other UK-based multinational groups that have financing arrangements in line with the UK's current legislation. We have calculated our maximum potential liability to be some £22m if the European Commission's review concludes that the Group Financing Exemption represents unlawful state aid and there are no successful appeals against the position. Having analysed the exemption in the context of both the broader UK corporate tax system and the specific controlled foreign company rules, we consider that no provision is required at this time. We will continue to consider this position as the Commission's review develops.

3. Earnings per share

The calculation of basic earnings per share at 15 September 2018 was based on the net profit attributable to equity shareholders of £1,007m (2017 – £1,198m), and a weighted average number of shares outstanding during the year of 790 million (2017 – 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.

3. Earnings per share (continued)

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

The diluted earnings per share calculation takes into account the dilutive effect of share incentives. The diluted, weighted average number of shares is 790 million (2017 – 790 million). There is no difference between basic and diluted earnings.

	52 weeks ended 15 September 2018 pence	52 weeks ended 16 September 2017 pence
Adjusted earnings per share	134.9	127.1
Disposal of non-current assets	0.8	0.8
Sale and closure of businesses	(4.3)	37.0
Acquired inventory fair value adjustments	(2.9)	–
Transaction costs	(0.3)	(0.6)
Tax effect on above adjustments	0.8	(11.0)
Amortisation of non-operating intangibles	(5.2)	(3.5)
Tax credit on non-operating intangibles amortisation and goodwill	3.7	1.8
Earnings per ordinary share	127.5	151.6

4. Dividends

	2018 pence per share	2017 pence per share	2018 £m	2017 £m
2016 final	–	26.45	–	209
2017 interim	–	11.35	–	90
2017 final	29.65	–	234	–
2018 interim	11.70	–	93	–
	41.35	37.80	327	299

The 2018 interim dividend was declared on 17 April 2018 and paid on 6 July 2018. The 2018 final dividend of 33.3p, total value of £263m, will be paid on 11 January 2019 to shareholders on the register on 14 December 2018.

Dividends relating to the period were 45.0p per share totalling £356m (2017 – 41.0p per share totalling £324m).

5. Acquisitions and disposals

Acquisitions

2018

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

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

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

5. Acquisitions and disposals (continued)

	Recognised values on acquisition £m
Satisfied by	
Cash consideration	218
Deferred consideration	4
	222
Net cash	
Cash consideration	218
Cash and cash equivalents acquired	(11)
Deferred consideration paid	1
	208

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

After the year end, on 17 September 2018 the group completed the acquisition of 100% of Yumi's Quality Foods, a chilled food manufacturer in Australia. In the year ended 30 June 2018, the business generated net sales of A$51m and profit after tax of A$4m. Given the timing of the acquisition after the group's financial year end and its proximity to the date of approval of the group's financial statements, completion of the initial accounting for the acquisition has not yet been undertaken. Consequently, the disclosures relating to goodwill, acquired intangibles, and the fair values of other assets and liabilities acquired have not been made. These disclosures will be provided in the condensed consolidated interim financial statements for the 24 weeks ending 2 March 2019.

2017

Last year the group acquired two small Grocery businesses in the UK and an Ingredients business in the US. Total consideration was £85m, comprising cash of £83m and deferred consideration of £2m. Net assets acquired comprised intangible assets of £69m, cash of £5m and other operating assets and liabilities of £11m. The cash outflow of £79m on the purchase of subsidiaries, joint ventures and associates in the cash flow statement comprises cash consideration of £83m less cash acquired with the businesses of £5m and £1m of deferred consideration paid in respect of prior year acquisitions.

Disposals

2018

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

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

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

2017

The group disposed of its US herbs and spices business, reported within the Grocery segment. Cash proceeds amounted to £294m, net assets disposed were £26m and the associated goodwill was £124m. Provisions for transaction and associated restructuring costs were £33m, with a loss of £1m on recycling foreign exchange differences. The pre-tax gain on disposal was £110m. The group also disposed of its south China cane sugar operations for cash proceeds of £194m. The purchaser also assumed £103m of debt resulting in total proceeds of £297m. Net assets disposed were £120m. Provisions for transaction and associated restructuring costs were £24m, offset by a gain of £29m on recycling of foreign exchange differences and £1m of non-controlling interests. The pre-tax gain on disposal was £183m.

The cash inflow of £452m on the sale of subsidiaries, joint ventures and associates in the cash flow statement comprises cash proceeds of £488m less cash disposed with the businesses of £26m and £10m of transaction costs.

6. Analysis of net cash

	At 16 September 2017 £m	Cash flow £m	Acquisitions £m	Non-cash items £m	Exchange adjustments £m	At 15 September 2018 £m
Cash at bank and in hand, cash equivalents and overdrafts	1,386	(103)	–	–	(12)	1,271
Current asset investments	–	30	–	–	–	30
Short-term loans	(101)	111	(89)	(251)	2	(328)
Long-term loans	(612)	(19)	–	268	4	(359)
	673	19	(89)	17	(6)	614

7. Related party transactions

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

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

	Sub note	2018 £000	2017 £000
Charges to Wittington Investments Limited in respect of services provided by the Company and its subsidiary undertakings		1,045	992
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	11,685	10,675
(ii) directors of Wittington Investments Limited who are not trustees of the Foundation and their close family		3,071	2,799
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited		62	62
(iv) members of the Weston family employed within the Associated British Foods group	2	–	2
Sales to fellow subsidiary undertakings on normal trading terms	3	48	46
Sales to companies with common key management personnel on normal trading terms	4	16,043	14,790
Commissions paid to companies with common key management personnel on normal trading terms	4	1,215	1,391
Amounts due from companies with common key management personnel	4	1,887	1,938
Sales to joint ventures on normal trading terms		14,186	16,615
Sales to associates on normal trading terms		39,822	23,112
Purchases from joint ventures on normal trading terms		395,279	400,242
Purchases from associates on normal trading terms		14,577	16,128
Amounts due from joint ventures		48,775	49,649
Amounts due from associates		3,771	2,451
Amounts due to joint ventures		40,715	37,154
Amounts due to associates		857	1,100

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 15 September 2018 was the beneficial owner of 683,073 shares (2017 – 683,073 shares) in Wittington Investments Limited representing 79.2% (2017 – 79.2%) of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 15 September 2018 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. 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.
3. The fellow subsidiary undertakings are Fortnum and Mason plc and Heal & Son Limited.
4. The companies with common key management personnel are the George Weston Limited group, in Canada, and Selfridges & Co. Limited.

7. Related party transactions (continued)

Amounts due from joint ventures include £47m (2017 – £48m) of finance lease receivables. The remainder of the balance is trading balances. All but £5m (2017 – £3m) of the finance lease receivables are non-current.

8. Other information

The financial information set out above does not constitute the Company's statutory accounts for the 52 weeks ended 15 September 2018, or the 52 weeks ended 16 September 2017. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts. Their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006 in respect of the accounts.

9. Basis of preparation

Associated British Foods plc ('the Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the 52 weeks ended 15 September 2018 (2017 – 52 weeks ended 16 September 2017) comprise those of the Company and its subsidiaries (together referred to as 'the group') and the group's interests in joint ventures and associates.

The consolidated financial statements were authorised for issue by the directors on 6 November 2018.

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU. Under IFRS, management is required to make judgements, estimates and assumptions about the reported amounts of assets and liabilities, income and expense and the disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on experience. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised from the period in which the estimates are revised.

The consolidated financial statements are presented in sterling, rounded to the nearest million. They are prepared on the historical cost basis except that biological assets and certain financial instruments are stated at fair value. Assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The consolidated financial statements of the group are prepared to the Saturday nearest to 15 September. Accordingly, these financial statements have been prepared for the 52 weeks ended 15 September 2018. To avoid delay in the preparation of the consolidated financial statements, the results of certain subsidiaries, joint ventures and associates are included up to 31 August 2018.

10. New accounting policies

The following accounting standards and amendments were adopted during the year and had no significant impact on the group:

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to IAS 7 *Disclosures Initiative*
- Annual Improvements to IFRS Standards 2014 – 2016

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

- IFRS 9 *Financial Instruments: Classification and Measurement* effective 2019 financial year
- IFRS 15 *Revenue from Contracts with Customers* effective 2019 financial year
- Clarification to IFRS 15 *Revenue from Contracts with Customers* effective 2019 financial year
- IFRS 16 *Leases* effective 2020 financial year
- IFRS 17 *Insurance Contracts* effective 2022 financial year (not yet endorsed by the EU)
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* effective 2019 financial year
- IFRIC 23 *Uncertainty over Income Tax Treatments* effective 2020 financial year (endorsed by the EU October 2018)
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* effective 2019 financial year
- Amendments to IFRS 3 *Definition of a Business* effective 2021 financial year (published October 2018, not yet endorsed by the EU)
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* effective 2019 financial year
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* effective 2020 financial year
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* effective 2020 financial year (not yet endorsed by the EU)
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* effective 2020 financial year (not yet endorsed by the EU)
- Amendments to *References to the Conceptual Framework in IFRS Standards* effective 2021 financial year (not yet endorsed by the EU)
- *Annual Improvements to IFRS Standards 2014 – 2016* effective 2019 financial year
- *Annual Improvements to IFRS Standards 2015 – 2017* effective 2020 financial year (not yet endorsed by the EU)

The three new standards with the most significant potential effect on the group's financial statements are IFRS 9, IFRS 15 and IFRS 16, further details of which are set out below. The impact of the other standards effective in 2019 and beyond have not yet been fully assessed.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. It includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

The standard introduces changes to three key areas:

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

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

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

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

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

IFRS 9 applies retrospectively to all periods presented, but with substantial transition provisions to consider, including not being required to restate comparative information.

The group will adopt IFRS 9 on 16 September 2018 and apply it for the first time in the 2019 financial year, without restating comparative information. The group does not expect to record a significant transition in opening retained earnings.

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

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

Step 1 Identify the contract(s) with a customer
Step 2 Identify the performance obligations in the contract
Step 3 Determine the transaction price
Step 4 Allocate the transaction price to the performance obligations in the contract
Step 5 Recognise revenue when (or as) the entity satisfies a performance obligation

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

The impact assessment concluded that IFRS 15 would result in no change to the timing of revenue or the timing or amount of profit recognised. The only impact on the amount of revenue recognised was some £30m of operating expenses which under IFRS 15 will be deducted from revenue.

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

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

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

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

The group has engaged external experts to support its implementation project and established a steering committee to oversee its governance, which reports regularly to the Audit committee. During the current period, the group performed a detailed groupwide impact assessment which identified that most existing operating lease arrangements meet the revised definition of a lease.

The group has made progress in a number of project areas, including identification of leases and areas of complexity or judgement, collation of lease data, identification of changes to systems and processes for internal and external reporting, and the development of initial estimates for discount rates.

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

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

The group will provide a further update in the 2019 interim results and annual report, when indicative details of the impact on opening retained earnings will be provided. The first results published under IFRS 16 will be the 2020 interim results.

Impact on the group's results and financial position
The impact of IFRS 16 on the group's results and financial position is dependent on completion of the work areas described above, and on the facts and circumstances at the time of transition. It will not include restatement of prior periods. For these reasons, it is not yet practicable to determine a reliable estimate of the precise impact on the group, but the impact is expected to be significant.

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

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

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

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

IFRS 16 will affect a number of financial statement captions and ratios, including the following:

Item	Comment
Earnings	Based on our impact assessment, the group expects a marginal impact on earnings, it is not yet possible to predict reliably what this might be. There will be a consequent impact on dividend cover.
Operating profit/operating margin	Operating profit and operating margin are expected to increase significantly as operating lease expenses are replaced by depreciation of right-of-use assets.
Finance expense	Finance expense is expected to increase significantly as a result of the interest cost on lease liabilities. Interest cover will therefore reduce.
Taxation	Taxation will change in line with the changes in profit before tax.
Non-current assets	Non-current assets will increase very significantly as the right-of-use assets are recorded alongside property, plant and equipment.
Net debt	Net debt will increase very significantly as lease liabilities are recorded within current and non-current liabilities. Gearing ratios will therefore increase. The reconciliation of net debt will include more non-cash items as new leases are entered into.
Return on capital employed	The return on capital employed will reduce as a result of the changes to operating profit and non-current assets. It is not yet possible to predict reliably what this might be.
Cash flow statement	There is no overall impact on cash flow, but classifications of cash flows will change, as set out above.

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

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

For finance leases where the group is a lessee, the group expects no significant impact.

11. Subsequent events

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

On 26 October 2018, the UK High Court ruled that GMPs must be equalised for inequalities in retirement ages between men and women for all service after 17 May 1990. The ruling outlined a number of potential approaches to achieve the equalisation of GMPs. Should the ruling stand, it is probable that the scheme will be required to record additional liabilities.

The Company is working with the Scheme trustees to determine the potential cost. At this early stage, it is not possible to provide a reliable estimate of that cost because of the number of potential approaches, the long time period and the likely number of individuals affected.