ABF Grain Products Limited

Strategic report, directors' report and financial statements

Registered number 00079590

For the period of 52 weeks ended 16 September 2017

Contents

Strategic report

Principal activities
In the course of the period the principal activities were the manufacture and sale of food products.

Business model
ABF Grain Products Limited (the 'Company') manufactures and markets a variety of well-known brands both nationally and internationally. Brands include Kingsmill, Allinson, Burgen, Jordans Cereals, Dorset Cereals, Ryvita, Tolly Boy, Elephant Atta, Lucky Boat and Rajah. The Company's customers include retailers, as well as the wholesale and restaurant trades.

Business review
The loss for the period of 52 weeks ended 16 September 2017 after taxation is £636,000 (2016 loss £7,322,000).

The Company's key financial and other performance indicators during the year were as follows:

	2017 £'000	**2016 £'000**	**Change %**
Turnover	981,072	827,719	*+18.5%*
Gross profit	261,134	248,367	*+5.1%*
Operating (loss)/profit	(4,719)	(6,122)	*+22.9%*
Average number of employees	5,983	5,750	*+4.1%*
Gross margin percentage	26.7%	30.0%	*-11.0%*

Turnover increased in the year by +18.5% primarily due to the hive-up of Food Investments Limited on 17 September 2016 providing a full year's contribution in the financial year. Gross profit was up +5.1% following the hive-up and despite market conditions remaining highly competitive.

The operating loss in the year of £4,719,000 was +22.9% favourable to 2016. This was primarily due to £14,517,000 profit contributed by Food Investments and a £3,832,730 one-off profit made on the sale of land in the year offsetting a weaker than expected performance by Allied Bakeries in the UK bread market. A one off insurance credit of £1,150,449 was also included in the loss for the year as a result of a fire at one of the Allied Bakeries manufacturing facilities.

The Allied Bakeries Kingsmill relaunch earlier during the year was well received by customers, but the year as a whole was impacted by low retail selling prices, a resurgence of lower margin own label products and inflationary cost pressures which combined to result in a significant decline in margin. Allied Bakeries is closely aligned to the hived-up operations of Food Investments who specialise in flour milling and seed coating technology. As a part of the on-going review of the Allied Bakeries business, operations at Chester and Norwich were closed and a number of redundancies were made at head office.

Jordans and Dorset Cereals continued their international expansion with brands now being sold in 75 countries and overseas sales of Jordans are now greater than sales in the UK. Trading conditions were more challenging for Ryvita with a larger crispbread market share being taken by own label driven by the growth of European retail discounters.

Westmill Foods recently announced a further expansion of noodle production capacity at its Manchester factory responding to increased demand and a continuing focus on overhead reduction led to rationalisation of its distribution operations.

ABF Grain Products Limited acquired two Sports Nutrition brands during the year: H 5 Limited, a hydration and recovery brand with leading positions in the UK and Scandinavia acquired on 6 February 2017 for £26,977,000 with £2,000,000 potential future payments linked to performance and other conditions; and Reflex Nutrition Limited, a premium, protein-based, strength and recovery brand acquired on 1 March 2017 for £23,381,000. Sports nutrition

Strategic report *(continued)*

has grown strongly in recent years reflecting healthier, more active lifestyles. The two brands have annual sales of some £20m and production has now been rationalised into one site in Brighton. Further details regarding the acquisitions are set out in note 13.

On 18 September 2016, ABF Grain Products Limited acquired, by way of an inter-group transfer, all of the operating assets and liabilities of Food Investments Limited, along with the associated trading activities of this entity. Consequently, the ongoing conduct of the transferred business will be managed and reported as a part of ABF Grain Products Limited. Both entities are wholly owned subsidiaries of Associated British Foods plc.

Principal risks and uncertainties
A full description of the principal risks and uncertainties applicable to the Associated British Foods plc (ABF) group, of which this company is a subsidiary, are disclosed on pages 54-58 of the 2017 ABF Annual Report. The principal risks and uncertainties of this group arise in its trading subsidiaries and are assessed within the operating companies where they are identified, evaluated and managed by the directors.

Operating in a global market
The Company actively looks for growth opportunities in the global market place and has and international supply chain both of which expose us to global market forces; fluctuations in national economies; societal and political changes; a range of consumer concerns; and evolving legislation. Mitigations include the Company's financial control framework and board-adopted tax and treasury policies which require the Company 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 outcome. We engage with governments, local regulators and community organisations to contribute to, and anticipate important changes in, public policy. We conduct rigorous due diligence when entering, or commencing business activities in, new markets.

Brexit
As the UK government continues its Brexit negotiations, uncertainty remains as to the extent to which our operations and financial performance will be affected in the longer term. 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.

Health and Nutrition
Failure to respond appropriately to health and nutrition concerns in the formulation of our products could result in adverse consumer reaction. Failure to keep pace with changing consumer tastes, choices and shopping behaviours could impact business performance. We must also act responsibly across the spectrum of food poverty and malnutrition to obesity. To mitigate this risk, consumer preferences and market trends are monitored continuously; recipes are regularly reviewed and reformulated to improve the nutritional value of our grocery products, all of which are labelled with nutritional information. We also develop partnerships with other organisations to help educate consumers about making healthy choices.

Fluctuations in commodity and energy prices
Changes in commodity prices have impact on the Company's operating results, asset values and cash flows. We constantly monitor the markets in which we operate and manage certain of these exposures through the use of hedging instruments.

Movements in exchange rates
The company transacts in a variety of foreign currencies, which are subject to volatility. This risk is managed by the use of hedging instruments for major currencies for up to eighteen months in advance.

Competitive pressure
Competitive pressure in the UK and international markets is a continuing risk for the Company. The Company manages this risk by investing in its brands, developing innovative new products and offering excellent service to its customers.

Strategic report *(continued)*

Credit risk
The Company is exposed to credit risk on its sales. However, internal control systems are in place to minimise this risk by ensuring that sales of products are made to customers with an appropriate credit history and by monitoring adherence to credit terms.

Future developments
The external commercial environment is expected to remain competitive in 2018. However, the directors remain confident that the Company's performance levels will improve into the future.

The Company is currently in the process of constructing a new biscuit manufacturing facility in Bardney in the UK. This represents a significant capital investment and will ensure the Company remains competitive in the Crispbread market heading into the future. We anticipate the facility to be fully operational in 2018.

On 11 November 2017, ABF Grain Products Limited acquired, by way of intra-group transfer, all operating assets and liabilities of H 5 Limited and Reflex Nutrition Limited, along with the associated trading activities of these entities. Consequently, the ongoing conduct of the transferred business will be managed and reported as part of ABF Grain Products Limited. Both entities are wholly owned subsidiaries of ABF Grain Products Ltd.

By order of the board

M Ward
Director
28 March 2018

Weston Centre,
10 Grosvenor Street,
London
W1K 4QY

Directors' report

The directors present their annual report and the audited financial statements for the 52 week period ended 16 September 2017.

Directors and directors' interests
The directors who held office during the period were:

D Barton
J Jenkins
R Lee
I Mace
P Murphy
S Moon
M Ward
J Willis

Dividends
The directors do not recommend the payment of a dividend. (2016: £nil).

Going concern
The Company's business activities together with the factors likely to affect its future development are described in the Strategic report. After making enquiries, including the arrangements with the group undertakings, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Supplier Payment Policy
The Company's policy is to agree payment terms with suppliers when negotiating the terms of each transaction, to ensure that suppliers are fully aware of these payment terms and to abide by them. Trade creditors of the company at 16 September 2017 were equivalent to 26 days' purchases (2016: 24 days), based on the average daily amount invoiced by suppliers during the year.

Disclosure of information to auditor
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors
Pursuant to Section 487 of the Companies Act 2006, Ernst & Young LLP served as independent external auditors for the period of 52 weeks ended 16 September 2017 and will be deemed to be reappointed for the following period.

By order of the board

Mal Ward

M Ward
Director
28 March 2018

Weston Centre,
10 Grosvenor Street,
London
W1K 4QY

Statement of directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABF GRAIN PRODUCTS LIMITED

Opinion

We have audited the financial statements of ABF Grain Products Limited for the year ended 16th September 2017 which comprise the Income Statement, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 101 "Reduced Disclosure Framework.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 16th September 2017 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ernst + Young LLP

Andy Glover (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date 29 March 2018

Income statement

for the 52 week period ended 16 September 2017

	Note	**2017**	2016
		£000	£000
Turnover	*3*	**981,072**	827,719
Operating loss	*3*	**(4,719)**	(6,122)
Interest receivable and similar income	*8*	**3,442**	373
Loss on ordinary activities before taxation		**(1,277)**	(5,749)
Tax credit/(expense)	*9*	**641**	(1,573)
Loss for the financial period	*20*	**(636)**	(7,322)

All turnover and operating results in both financial periods are derived from continuing operations.

A reconciliation of movements in shareholders' funds is given in note 20.

The reporting entity had, in both the current and immediately preceding accounting periods, no recognised gains and losses other than the result for that period, therefore no statement of total recognised gains and losses has been presented.

Balance sheet

at 16 September 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Fixed assets					
Goodwill	*10*		21,768		21,768
Intangible assets	*10*		43,162		52,495
Tangible assets	*11*		318,875		286,658
Investment in subsidiaries	*13*		68,479		16,121
			452,284		377,042
Current assets					
Stocks	*15*	54,104		47,978	
Debtors	*16*	183,365		172,757	
Cash at bank and in hand		592		783	
		238,061		221,518	
Creditors: amounts falling due within one year	*17*	(298,768)		(213,134)	
Net current (liabilities)/assets			(60,707)		8,384
Total assets less current liabilities			391,577		385,426
Provisions for liabilities and charges	*18*		(21,163)		(15,290)
Net assets			370,414		370,136
Capital and reserves					
Called up share capital	*19*		200,000		200,000
Hedging reserve			(223)		(1,101)
Share based payment reserve			4,074		4,038
Profit and loss account			166,563		167,199
Shareholders' funds	*20*		370,414		370,136

These financial statements were approved by the board of directors on 28 March 2018 and were signed on its behalf by:

M Ward
Director

Statement of changes in equity

for the 52 week period ended 16 September 2017

	Share capital	Profit and loss reserve	Hedge reserve	Share based payment reserve	Total
	£000	£000	£000	£000	£000
As at 12 September 2015	200,000	174,521	(121)	3,403	377,803
Loss for the financial period	-	(7,322)	-	-	(7,322)
Movement in hedging reserve	-	-	(980)	-	(980)
Movement in share based payment reserve	-	-	-	635	635
As at 17 September 2016	**200,000**	**167,199**	**(1,101)**	**4,038**	**370,136**
Loss for the financial period	-	(636)	-	-	(636)
Movement in hedging reserve	-	-	878	-	878
Movement in share based payment reserve	-	-	-	36	36
As at 16 September 2017	**200,000**	**166,563**	**(223)**	**4,074**	**370,414**

Notes
(forming part of the financial statements)

1. Authorisation of financial statements and statement of compliance with FRS 101
The financial statements of ABF Grain Products Limited (the "Company") for the 52 weeks ended 16 September 2017 were authorised for issue by the board of directors on 28 March 2018 and the balance sheet was signed on the board's behalf by M Ward. ABF Grain Products Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Associated British Foods plc. The results of ABF Grain Products Limited are included in the consolidated financial statements of Associated British Foods plc which are available from Weston Centre, 10 Grosvenor Street, London, W1K 4QY.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year. The Company has taken advantage of the following disclosure exemptions under FRS 101 as the equivalent disclosures are included in the consolidated financial statements of Associated British Foods plc:

(a) The requirements of paragraphs 45(b) and 46-52 of IFRS 2 *Share based Payments*;
(b) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67of *IFRS 3 Business Combinations;*
(c) the requirements of IFRS 7 *Financial Instruments;*
(d) the requirements of paragraphs 91-99 of IFRS *13 Fair Value Measurement;*
(e) the requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
(i) paragraph 79(a)(iv) of IAS 1;
(ii) paragraph 118(e) of IAS 38 *Intangible Assets;*
(f) The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 *Presentation of Financial Statements*;
(g) the requirements of IAS 7 *Statement of Cash Flows*;
(h) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
(i) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;
(j) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
(k) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets.*

2 . Accounting policies
2.1 Basis of preparation
These accounts have been prepared under FRS 101 'Reduced Disclosure Framework'. FRS 101 sets out a reduced disclosure framework which addresses the financial reporting requirements and disclosure exemptions for the individual financial statements of subsidiaries and ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted FRS. The Company has taken advantage of the disclosure exemptions allowed under this standard. The Company's parent undertaking was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions.

Notes *(continued)*

2 Accounting policies *(continued)*

2.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements:

Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Impairment

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

Rebates

It is Company policy to recognise turnover after deducting rebates and price discounts (see note 2.3 a). If these deductions were recognised elsewhere in the income statement, turnover may be materially higher although profit would be unchanged.

2.3 Significant accounting policies

a) Turnover

The turnover shown in the profit and loss account represents the invoiced value of sales made to customers after the deduction of discounts and excluding value added tax. Discounts include sales rebates, price discounts, customer incentives, certain promotional activities and similar activities. Turnover is recognised when the risks and rewards of the underlying products have been substantially transferred to the customer and when it can be reliably measured.

An analysis of turnover, as required by Companies Act 2006, has been omitted on the grounds that the directors believe that disclosure would be seriously prejudicial to the commercial interest of the Company.

b) Foreign currency translation

The company's financial statements are presented in sterling, which is also the company's functional currency. Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

c) Derivatives

Derivatives are used to manage the company's economic exposure to financial and commodity risks. The principal instruments used are foreign exchange and commodity contracts, futures, swaps or options (the 'hedging instrument'). The company does not use derivatives for speculative purposes.

Derivatives are recognised in the balance sheet, at fair value, based on market prices or rates, or calculated using either discounted cash flow or option pricing models. Changes in the value of derivatives are recognised in the income statement unless they qualify for hedge accounting, when recognition of any change in fair value depends on

Notes *(continued)*

2 Accounting policies *(continued)*

the nature of the item being hedged. The purpose of hedge accounting is to mitigate the impact on the company's income statement of changes in foreign exchange or interest rates and commodity prices, by matching the impact of the hedged risk and the hedging instrument in the income statement.

The hedging reserve represents gains or losses on derivatives used as hedges of future cash flows before the underlying transaction being hedged is recognised on the balance sheet. Movements in the value of derivatives are tested against movements in value of the underlying transaction being hedged for effectiveness. Any ineffective portion of the derivative is recognised immediately in the income statement. When the future cash flow results in the recognition of a non-financial asset or liability, the gains and losses previously recognised in the hedging reserve are included in the initial measurement of that asset or liability. Otherwise, gains and losses previously recognised in the hedging reserve are recognised in the income statement at the same time as the hedged transaction.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in the hedging reserve is retained in the hedging reserve until the forecast transaction occurs. Gains or losses on hedging instruments relating to an underlying exposure that no longer exists are taken to the income statement. Hedges of the company's net investment in foreign operations principally comprise borrowings in the currency of the investment's net assets.

The company economically hedges foreign currency exposure on recognised monetary assets and liabilities but does not normally seek hedge accounting. Any derivatives that the group holds to hedge this exposure are classified as 'held for trading' within derivative assets and liabilities. Changes in the fair value of such derivatives and the foreign exchange gains and losses arising on the related monetary items are recognised within operating profit.

d) Intangible fixed assets - brands
Capitalised brands arose on the acquisition of the trade of BE International in February 2007, Elephant Atta in July 2013 and Dorset Cereals in October 2014. These brands are being amortised over their useful economic lives not exceeding 20 years.

e) Intangible fixed assets – licences
Licences for the use of bread baskets are supplied by Bakers BASCO Ltd, and are issued for continued use of baskets until technology renders the current design obsolete. Licences are also held for various pieces of software used within the business. In the opinion of the directors the useful economic life of these assets is 5 years and the cost of these licences is therefore amortised over this period on a straight line basis.

f) Intangible fixed assets – software
Consistent with IAS 38, software costs are classified as an intangible fixed asset, unless they are an integral part of the related hardware in which case they are classified as a tangible fixed asset.

g) Goodwill
Goodwill arising on a business combination is the excess of the remeasured carrying amount of any existing equity interest plus the fair value of consideration payable for the additional stake over the fair value of the share of net identifiable assets and liabilities acquired (including separately identified intangible assets), net of non-controlling interests. Total consideration does not include acquisition costs, which are expensed as incurred. Certain commercial assets associated with the acquisition of a business are not capable of being recognised in the acquisition balance sheet. In such circumstances, goodwill is recognised, which may include, but is not necessarily limited to, workforce assets and the benefits of expected future synergies. Goodwill is not amortised but is subject to an annual impairment review.

Notes *(continued)*

2 Accounting policies *(continued)*

h) Research and development
Expenditure on research reflected in the income statement in the year in which the expenditure is incurred. Development expenditure is capitalised if the product or process is technically and commercially feasible but is otherwise expensed as incurred.

i) Investments
Investments in subsidiaries, associates and joint ventures are held at historical cost less any applicable provision for impairment.

j) Tangible fixed assets and depreciation

Tangible fixed assets are carried at their original cost less accumulated depreciation.

Depreciation, calculated on cost, is provided on a straight-line basis over the expected life of the asset. No depreciation is provided on freehold land. Leaseholds are written off over the period of the lease. The expected life of other assets is generally deemed to be not longer than:

Freehold buildings	-	50 years
Plant, machinery, fixtures and fittings:		
other operations	-	12 years
vehicles	-	10 years
computer equipment	-	3-7 years

Calculation of recoverable amount
The recoverable amount of fixed assets is the greater of their net realisable value and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

k) Impairment of non-financial assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the income statement, unless the asset is carried at a revalued amount when it is treated as a revaluation increase.

Notes *(continued)*

2 Accounting policies *(continued)*

l) Provisions for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

m) Leases

All material leases entered into by the Company are operating leases whereby substantially all the risks and rewards of ownership of the assets remain with the lessor. Rental payments are charged against profits on a straight-line basis over the life of the lease.

n) Inventories

Inventories are valued at the lower of cost and net realisable value after making due provision against obsolete and slow-moving items. In the case of work in progress and finished goods manufactured by the Company, the term 'cost' includes ingredients, production wages and an appropriate proportion of attributable production overheads.

o) Taxation

Corporation tax payable is provided on taxable profits at the prevailing rate. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

p) Pension costs

The Company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent basis and therefore, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

q) Share based payment reserve

The Associated British Foods group operates a Share Incentive Plan which allows employees to receive allocations of shares subject to the attainment of certain financial performance criteria and typically after a three-year performance period. The fair value of the shares to be awarded is recognised as an employee expense by the

Notes *(continued)*

2 Accounting policies *(continued)*

Company, with a corresponding increase in the share based payment reserve. The fair value is measured at grant date and charged to the income statement over the period during which the employee becomes unconditionally entitled to the shares. The fair value of the shares allocated is measured taking into account the terms and conditions of the Share Incentive Plan under which the shares were allocated. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest.

3 Operating loss

	52 weeks ended 16 September 2017 £000	53 weeks ended 17 September 2016 £000
Turnover	**981,072**	827,719
Cost of sales	**(719,938)**	(579,352)
Gross profit	**261,134**	248,367
Selling and distribution costs	**(180,186)**	(171,671)
Administrative expenses	**(85,667)**	(82,818)
Operating loss	**(4,719)**	(6,122)

Notes *(continued)*

4 Notes to the Profit & Loss Account

	52 weeks ended 16 September 2017 £000	53 weeks ended 17 September 2016 £000
Profit on ordinary activities before taxation is stated after charging:		
Amortisation of intangible assets	**10,997**	9,972
Gain on sale of land	**(3,833)**	-
Gain from insurance claim	**(1,150)**	-
Losses on foreign exchange transactions	**1,957**	1,282
Depreciation of tangible fixed assets	**39,772**	35,015
Rentals payable under property operating leases	**1,425**	1,314
Hire of plant and machinery		
– rentals payable under operating leases	**1,272**	1,354

	52 weeks ended 16 September 2017 £000	53 weeks ended 17 September 2016 £000
Auditor's remuneration:		
Audit of these financial statements	**380**	402
Non-audit services	**7**	34
	387	436

5 Remuneration of directors

	52 weeks ended 16 September 2017 £000	53 weeks ended 17 September 2016 £000
Directors' emoluments	**2,270**	1,889
Pension scheme contributions	**60**	139
Long-term incentive plans	**359**	389
	2,689	2,417

The aggregate emoluments of the highest paid director were £457,643 *(2016: £630,986)*.

Retirement benefits under a defined benefit pension arrangement accrued to one director in both the current and prior years.

Notes *(continued)*

6 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the period was:

	Number of employees	
	52 weeks ended 16 September 2017	53 weeks ended 17 September 2016
Average number of employees per week	**5,983**	5,750

The aggregate payroll costs of these persons were:

	52 weeks ended 16 September 2017 £000	53 weeks ended 17 September 2016 £000
Wages and salaries	**198,102**	184,760
Social security costs	**20,864**	18,503
Other pension costs	**18,120**	24,893
	237,086	228,156

7 Pensions

The Company is a member of the Associated British Foods Pension Scheme which provides benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme's assets and liabilities on a consistent basis, the scheme is accounted for by the Company as if it were a defined contribution scheme. On 30 September 2002 the scheme was closed to new members and a defined contribution arrangement was put in place for other employees. For the defined contribution scheme, the pension costs are the contributions payable.

The most recent actuarial valuation of the Associated British Foods Pension Scheme was carried out as at 5 April 2017 and revealed a surplus of £176m. The market value of Scheme assets was £3,085m representing 103% of members' accrued benefits after allowing for expected future increases in earnings. Full IAS 19 disclosures can be found within the financial statements of Associated British Foods plc, which may be obtained from Weston Centre, 10 Grosvenor Street, London, W1K 4QY. These financial statements are also available for download from the group's website at www.abf.co.uk.

Notes *(continued)*

8 Interest receivable and similar income

	52 weeks ended 16 September 2017 £000	53 weeks ended 17 September 2016 £000
Interest receivable on intercompany balances	**3,442**	373

9 Taxation

	52 weeks ended 16 September 2017 £000	53 weeks ended 17 September 2016 £000
UK corporation tax		
Current tax on income for the period	**(896)**	(1,022)
Adjustment in respect of previous periods	**4**	(153)
Total current tax	**(892)**	(1,175)
Deferred tax (see Note 18)		
Origination and reversal of timing differences	**78**	(3,257)
Effect of change in tax rate	**-**	1,766
Adjustment in respect of previous periods	**173**	4,239
Total deferred tax	**251**	2,748
Tax (credit)/charge on profit on ordinary activities	**(641)**	1,573

Notes *(continued)*

9 Taxation *(continued)*

Current tax reconciliation

	52 weeks ended 16 September 2017 £000	53 weeks ended 17 September 2016 *£000*
Loss on ordinary activities before tax	**(1,277)**	(5,749)
Current tax (credit)/charge at 19.54% *(2016: 20.00%)*	**(249)**	(1,150)
Effect of rate change	**(11)**	(1,840)
Expenses not deductible/(income) not deductible for tax purposes	**418**	427)
Overseas withholding tax not recoverable	**-**	(84)
Profit/(loss) on exempt disposals	**(976)**	50
Adjustments to tax charge in respect of previous years	**177**	4,170
Total tax charge/(credit)	**(641)**	1,573
UK corporation tax debtor	**2,500**	1,225
Deferred tax liability	**16,676**	14,294
Movement in deferred tax provision		
At beginning of period	**14,294**	11,744
Charge to income statement for the period	**251**	2,748
Deferred tax on hive-up	**1,951**	-
Tax to reserves	**180**	(198)
At end of period	**16,676**	14,294

The UK corporation tax rate was reduced from 20% to 19% with effect from 1 April 2017, with further reduction to 17% from 1 April 2020. The legislation to effect these rate changes had been enacted before the balance sheet date. As deferred tax is measured at the rates that are expected to apply in the periods when the underlying timing differences reverse, closing deferred tax balances have been calculated using a rate of 17%.

Notes *(continued)*

10 Intangible fixed assets

	Brands £000	Software £000	Licences £000	Goodwill £000	Total £000
Cost					
At beginning of period	71,436	14,034	1,848	22,628	109,946
Additions	-	640	-	-	640
Additions at cost on hive-up		1,741			1,741
Disposals	-	(75)	-	-	(75)
At end of period	71,436	16,340	1,848	22,628	112,252
Amortisation or impairment					
At beginning of period	28,040	4,935	1,848	860	35,683
Charge for period	8,734	2,263	-	-	10,997
Accumulated amortisation on hive-up		702			702
Disposals	-	(60)	-	-	(60)
At end of period	36,774	7,840	1,848	860	47,322
Net book amount					
At 16 September 2017	**34,662**	**8,500**	**-**	**21,768**	**64,930**
At 17 September 2016	43,396	9,099	-	21,768	74,263

The capitalised brands and goodwill were acquired as part of the acquisition of BE International in 2007, Elephant Atta in July 2013 and Dorset Cereals in October 2014. The main brands, Elephant, Dorset Cereals, Rajah, Green Dragon and Lotus, were valued as part of their respective acquisitions and are being amortised over a period between 8 and 20 years.

Notes *(continued)*

11 Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Assets under construction £000	Total £000
Cost					
At beginning of period	109,285	515,898	36,379	10,439	672,001
Additions	710	13,341	2,147	35,598	51,796
Additions at cost on hive-up	9,730	78,647	2,856	291	91,524
Disposals	(464)	(13,539)	(1,005)	-	(15,008)
Transfers	68	4,347	238	(4,653)	-
At end of period	119,329	598,694	40,615	41,675	800,313
Depreciation					
At beginning of period	46,860	310,459	28,024	-	385,343
Charge for the period	1,716	35,916	2,140	-	39,772
Accumulated depreciation on hive-up	4,057	63,943	2,210	-	70,210
On disposals	(454)	(12,594)	(839)	-	(13,887)
At end of period	52,179	397,724	31,535	-	481,438
Net book amount					
At 16 September 2017	**67,150**	**200,970**	**9,080**	**41,675**	**318,875**
At 17 September 2016	62,425	205,439	8,355	10,439	286,658

Assets under construction relate to various investments around the business including a new biscuit manufacturing facility in Bardney, UK.

An impairment assessment of the Bakeries and Mills business was undertaken that determined no impairment of the Bakeries and Mills assets was required. The impairment model highlighted headroom of £87m.

Analysis of land and buildings at net book value:

	16 September 2017 £000	17 September 2016 £000
Freehold land and buildings	**56,392**	52,562
Short leasehold	**10,758**	9,863
	67,150	62,425

Freehold land of £10,940,242 (*2016: £9,961,046*) is not depreciated.

Notes *(continued)*

12 Fixed asset investments

The companies in which the Company's interest at the period is more than 20% are as follows:

Participating interests	Country of incorporation	Principal activities	Percentage held of ordinary class shares
Chiltern Bakeries Limited [Note 1]	United Kingdom	Distributor of bread products	44%
Bakers BASCO Limited [Note 2]	United Kingdom	Administrator of pool of baskets used in the bread industry	20%

[Note 1] Registered office address is Fine Lady Bakeries Ltd, Southam Road, Banbury, Oxfordshire, OX16 2RE
[Note 2] Registered office address is 6th Floor 10 Bloomsbury Way 6th Floor 10 Bloomsbury Way, London, England, WC1A 2SL

13 Investment in subsidiaries

	Subsidiary undertakings £000
Cost	
At 17 September 2016	16,121
Additions	52,358
At 16 September 2017	68,479
Provision for impairment	
At 17 September 2016	-
At 16 September 2017	-
Net book value	
At 17 September 2016	16,121
At 16 September 2017	68,479

The company's subsidiaries are as follows:

Subsidiary	*Country of incorporation*	*Investment £*	Percentage ordinary shares held
H 5 Limited [Note 3]	United Kingdom	28,977,000	100%
Reflex Nutrition Limited [Note 3]	United Kingdom	23,381,000	100%
Dorset Cereals Limited [Note 3]	United Kingdom	16,121,000	100%
Allied Technical Centre Limited [Note 3]	United Kingdom	100	100%

[Note 3] Registered office address is Weston Centre, 10 Grosvenor Street, London, United Kingdom, W1K 4QY

Notes *(continued)*

13 Investment in subsidiaries *(continued)*

On 18 September 2016, the Company hived up the trading operations, assets and liabilities of Food Investments Limited at book value.

Details of the financial impact of this intra-group transfer are set out in the following table:

	Food Investments Limited £000
Fixed assets	
Intangible assets	1,039
Property, plant and equipment	21,312
Current assets	
Stock	7,137
Debtors	462,924
Cash	125
Total assets	492,537
Trade and other payables	(454,418)
Net assets	**38,119**

Notes *(continued)*

14 Capital commitments

The Company has capital expenditure commitments of £3,090,000 (*2016: £4,302,000*) for which no provision has been made in these financial statements.

15 Stocks

	16 September 2017 £000	17 September 2016 £000
Raw materials and consumables	**27,904**	24,247
Work in progress	**29**	-
Finished goods and goods for resale	**26,171**	23,731
	54,104	47,978

16 Debtors

	16 September 2017 £000	17 September 2016 £000
Trade debtors	**111,160**	108,162
Amounts owed by parent undertakings	**41,019**	45,446
Amounts owed by group undertakings	**19,403**	7,137
Capital receivables	**-**	2,521
Other debtors	**1,219**	1,467
Prepayments and accrued income	**4,630**	2,949
Corporation tax	**2,500**	1,225
Other taxes and VAT	**3,434**	3,850
	183,365	172,757

Trade debtors are non-interest bearing and are normally settled on average on 48 days terms. Amounts owed by group undertakings of £19,403k (2016: £7,137k) relate to trade with group subsidiaries and are non-interest bearing and normally settled within 30 days. Amounts owed by parent undertakings of £41,019k (2016: £45,440k) relate to loans owed by Associated British Foods plc and bear interest at LIBOR + 0.25% (2016: LIBOR + 0.25%) set biannually. Given that Associated British Foods plc has a positive cash balance of £997m and profit after tax worth £1.21m in FY16/17, management has determined that there is no event impacting the recoverability of the amounts owed by parent undertakings. Similarly, there is no event impacting the recoverability of the amounts owed by group undertakings because the group undertakings have been compliant to their 30 day trading terms.

Notes *(continued)*

17 Creditors

Amounts falling due within one year	**16 September 2017 £000**	17 September 2016 £000
Bank loans and overdrafts	**4,152**	4,865
Trade creditors	**67,108**	50,982
Amounts owed to group undertakings	**182,110**	103,651
Other taxes and social security	**3,161**	8,669
Other creditors	**829**	910
Accruals and deferred income	**37,154**	39,098
Capital creditors	**4,254**	4,959
	298,768	213,134

Trade creditors are non-interest bearing and are normally settled on average on 26 days terms. Amounts owed to group undertakings of £171,584k (2016: £92,253k) are non-interest-bearing and represent balances owed to other group companies following the hive-up of Food Investments, Jordans Ryvita and Dorset Cereals. Other amounts owed to group undertakings of £10,526k (2016: £11,398k) relate to trade with group subsidiaries and are non-interest bearing and normally settled within 30 days.

18 Provisions for liabilities and charges

	Deferred Tax £000	**Deferred consideration £000**	**Other £000**	**Total £000**
At beginning of period	14,294	-	996	15,290
Amounts charged/(credited) to the income statement	251	-	3,377	3,628
Amounts in investment in subsidiaries	-	2,000	-	2,000
Amounts added on hive-up	1,951	-	279	2,230
Utilised in the period	-	-	(2,165)	(2,165)
Movement in deferred tax on hedging reserve	180	-	-	180
At end of period	**16,676**	**2,000**	**2,487**	**21,163**

Deferred tax arises primarily on the timing differences between capital allowances and book depreciation and on provisions for expenditure that will be deductible in a later period for tax purposes. Deferred consideration comprises estimates of amounts due to the previous owners of H 5 Limited and Reflex Nutrition Limited which are linked to performance and other conditions. Other provisions relate to redundancies at head office, and the closure of operations at Chester and Norwich.

Notes *(continued)*

19 Called up share capital

	16 September 2017 Number	16 September 2017 £000	17 September 2016 Number	17 September 2016 £000
Allotted, called up and fully paid				
Ordinary shares of £1 each	**200,000,000**	**200,000**	200,000,000	200,000
		200,000		200,000

20 Reconciliation of movement in shareholder's funds

	52 week period ended 16 September 2017 £000	53 week period ended 17 September 2016 £000
Loss for the financial period	**(636)**	(7,322)
Movement in hedging reserve	**878**	(980)
Movement in share based payment reserve	**36**	635
Net increase/(decrease) in shareholder's funds	**278**	(7,667)
Opening shareholder's funds	**370,136**	377,803
Closing shareholder's funds	**370,414**	370,136

Notes *(continued)*

21 Employee share schemes

The Associated British Foods Executive Share Incentive Plan 2003 ('the Share Incentive Plan') was approved and adopted by Associated British Foods plc at its annual general meeting held on 5 December 2003. It takes the form of conditional allocations of shares which will be released if, and to the extent that, certain performance targets are satisfied over a three-year performance period.

The Company recognised total equity-settled share-based payment expense of £36,000 *(2016 – £635,000).*

Further information regarding the operation of the share incentive plan can be found in the financial statements of Associated British Foods plc which may be obtained from Weston Centre, 10 Grosvenor Street, London, W1K 4QY. These financial statements are also available for download from the group's website at www.abf.co.uk

22 Operating leases

The Company has commitments under non-cancellable operating leases. The future minimum operating lease payments are as follows:

	16 September 2017		17 September 2016	
	Land and buildings £000	**Plant and machinery £000**	Land and buildings £000	Plant and machinery £000
Within one year	**1,362**	**1,164**	1,428	990
In two to five years inclusive	**4,703**	**1,043**	3,382	1,532
Over five years	**10,524**	**51**	5,635	0
	16,589	**2,258**	10,445	2,522

23 Ultimate parent undertaking and parent undertaking of larger group of which the Company is a member

The ultimate holding company and controlling party is Wittington Investments Limited, which is incorporated in Great Britain and registered in England and Wales.

The largest group in which the results of the Company are consolidated is that headed by Wittington Investments Limited. The smallest group in which they are consolidated is that headed by Associated British Foods plc, which is incorporated in Great Britain and registered in England and Wales. The consolidated accounts of these groups are available to the public and may be obtained from Associated British Foods plc, Weston Centre, 10 Grosvenor Street, London, W1K 4QY. The consolidated accounts of Associated British Foods plc are also available for download on the group's website at www.abf.co.uk.

Notes *(continued)*

24 Post balance sheet events

On 12 November 2017, ABF Grain Products Limited acquired, by way of intra-group transfer, all operating assets and liabilities of H 5 Limited and Reflex Nutrition Limited, along with the associated trading activities of these entities. Consequently, the ongoing conduct of the transferred business will be managed and reported as part of ABF Grain Products Limited. Both entities are wholly owned subsidiaries of ABF Grain Products Limited.