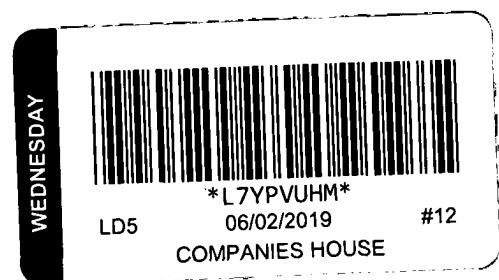


# **R.Twining and Company Limited**

Annual report and financial statements  
for the year ended  
31 August 2018

Company number 00525071



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## Strategic Report

The directors present their annual report and the audited financial statements for the year ended 31 August 2018.

### Business Review

During the course of the year, the principal activities continued to be the purchase, blending and sale of tea, coffee and malt products.

Revenue was 7% higher than last year including the impact of an additional £9.8m relating to intercompany royalties. Underlying trading in the UK market was fairly flat with some contraction in healthy and black tea mitigated by growth in new product sales.

Revenue was up in export sales due to price increases and volume upside across the core portfolio

Financial performance in supply chain was strong benefitting from continued improvements in factory efficiencies.

Operating profit was up 17% including the impact of additional intercompany royalties and favourable mix referred to above.

The results for the year are set out on page 10.

### Key Performance Indicators ("KPIs")

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

	2018	2017
	£'000	£'000
Revenue (continuing operations)	233,993	219,278
Operating profit	73,606	62,837
Profit for the financial year after tax	59,994	51,108
Shareholder's equity	177,001	116,349
Gross profit margin	56%	55%
Operating profit margin	31%	29%
Working capital as a percentage of sales	14%	16%

### Principal Risks and Uncertainties

The principal uncertainties facing the Company are the impact of fluctuating exchange rates on purchases and sales denominated in foreign currencies, competitor activity, consumer trends in the tea market and commodity inflation pressures. These risks are minimised by use of foreign currency hedges, market research for competitor activity and consumer trends and buying strategies to assist with commodity markets. We constantly review our stock levels, current and anticipated market activity as well as weather patterns in order to gather all the necessary information needed to help facilitate optimum buying decisions.

By order of the board



GT McCallum  
Director

18 December 2018

Weston Centre  
10 Grosvenor Street  
London  
W1K 4QY

## **Directors' Report**

The Directors present their report for the year ended 31 August 2018.

### **Directors of the Company**

The directors who held office during the period were:

NS Revett  
RE Tavener  
GT McCallum

### **Financial Instruments**

The Company uses forward currency contracts to hedge certain of its foreign currency cash flows. All contracts are held with Associated British Foods plc which enters into external contracts on the Company's behalf. At the balance sheet date the Company had net assets under forward currency contracts with a mark to market value of £44,000 (2017: assets of £112,000).

### **Dividends**

An interim dividend was not paid during the current or prior year. The directors do not recommend payment of a final dividend (2017: £nil).

### **Future Developments**

The Company intends to continue in the business of purchasing, manufacturing/blending and selling of tea, coffee and malt products.

### **Research and Development**

Expenditure incurred by the Company on research and development consists of product and packaging design testing and market research.

### **Social Impact**

The Company seeks to ensure sustainable supply chains and take care of communities it impacts through its business operations.

The Social Impact team has three main work streams:

#### ***Ethical Audit Programme***

Twining's has its own ethical Code of Conduct which it expects its own sites, those producing its goods and ingredients and suppliers throughout the supply chain, to adhere to. This ensures that people have decent working conditions and that human rights are respected.

This is monitored through Twining's ethical audit programme, in which it conducts a risk assessment for every supplier and audits those, with third-party auditors, that are high risk, whilst also conducting spot check audits on other suppliers. These ethical audits are tailored where necessary to ensure they are as effective as possible, for example by using auditors who speak the language of migrant workers and not just local workers in order to ensure that language does not become a barrier to uncovering any issues.

Twining's has a comprehensive approach to addressing Modern Slavery throughout its operations, in line with the 2015 Modern Slavery Act. This includes assessing the risk, piloting new ways of auditing in order to identify Modern Slavery, tightening its buying practices and training both employees and suppliers in how to spot it.

The Company's commitment to ethical sourcing is integrated into the business and is standard practice throughout the Company.

## **Directors' Report (continued)**

### ***'Sourced with Care' Programme***

Twinings responsible sourcing programme, Sourced with Care, aims to improve the lives in tea communities from which we source.

Firstly, over 80% of the tea gardens the business sources from are certified (i.e.: Rainforest Alliance and Fairtrade) and we aim for 100% by 2020. Twinings also continues to be a member of the ETP, to improve conditions in the tea industry as a whole.

Twinings also acts as a force for good by working to improve access to water and sanitation, creating better future for women and youth and supporting livelihoods in our supply chain. Sourced with Care has the ambitious goal to improve the lives of 500,000 people by 2020, working in partnership with UNICEF, Care International and many more, to drive sustainable positive change.

In 2018, Twinings' Sourced with Care Programme won Silver for Corporate Social Responsibility Programme of the Year in Europe at the International Business Awards.

More details about the programme can be found on the Company's dedicated Sourced with Care website: [www.sourcedwithcare.com](http://www.sourcedwithcare.com).

### ***Sustainable Sourcing of other Raw Materials***

For the other key raw materials that Twinings sources the Company works to map its supply chains, drive certification and collaborate with others to drive change on key issues.

Twinings is a member of the International Cocoa Initiative and World Cocoa Foundation, and contributes to sustainability of the cocoa industry, as well as to specific projects to create a protective environment for children in cocoa growing communities in Cote d'Ivoire.

Twinings is also sourcing all its palm oil as sustainable through a combination of RSPO certified producers and e-trace certificates.

### **Health and Safety**

The Company aims for its employees to Stay Accident Free Everyday (SAFE). The Company encourages its people to enjoy their work and to carry it out in a safe and comfortable environment and minimise the environmental impact of their business activities. Twinings provides leadership, policies, training and guidance on what is expected to ensure that its aims are met, wherever people work and whatever their position in the organisation.

Twinings encourages its people to help monitor the effectiveness of its approach by drawing attention to any failings or weaknesses in systems or procedures so that together they can continually improve performance. The Company believes that success in its health, safety and environmental performance is reliant on an effective partnership approach.

Each site has a representative committee able to address health, safety and environmental issues at the local level and ensure ongoing legal compliance. The Company encourages everyone to be involved proactively in their own and others' health and safety.

The Company keeps its safety, health and environmental performance and levels of legal compliance under regular review and ensures that its risk management controls are appropriate and effective. The Company's board of directors reviews these at least annually, as does the board of Associated British Foods plc.

### **Policy and Practice on Payment of Creditors**

It is the Company's policy to negotiate terms with its suppliers in all sectors, to ensure that payment terms are agreed and understood, and to abide by those terms. Creditor days at the year end were 54 days (2017: 61 days).

## **Employees**

The Company is committed to the further development of employee information and consultation. This is achieved both in conjunction with trade union representatives and through briefing sessions with wider groups of employees. It is the policy of the Company to offer equal opportunities to disabled persons in recruitment, by retaining all those who become disabled during their employment, through training and career development, and having due regard to their aptitudes and abilities in relation to the jobs available.

## **Charitable and Political Contributions**

Contributions to UK charitable organisations during the period totalled £89,000 (2017: £209,000). The Company made no political contributions during the period (2017: £nil).

## **Going Concern**

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities and its exposure to price are described in the strategic report on page 3 and in the Accounting Policies on pages 14 to 17.

The Company has considerable financial resources together with long-term relationships with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## **Italian Branch**

The Company has an overseas branch based in Milan, Italy.

## **Auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

## **Directors' statement as to disclosure of information to auditors**

The directors who were members of the board at the time of approving the Directors' Report are listed on page 4. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- so far as they are each aware, there is no relevant audit information (that is, information needed by the Company's auditor in connection with the preparation of the audit report) of which the Company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to take to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the board



**GT McCallum**

*Director*

18 December 2018

Weston Centre  
10 Grosvenor Street  
London  
W1K 4QY

## Statement of Directors' Responsibilities

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 they 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 R.TWINING AND COMPANY LIMITED**

### **Opinion**

We have audited the financial statements of R. Twining and Company Limited (the "Company") for the year ended 31 August 2018 which comprise of the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance sheet and the related notes 1 to 25, 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 31 August 2018 and of its profit for the year 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.

### **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

### **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.

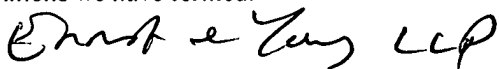
### **Auditor's responsibilities for the audit of the financial statements**

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.

### **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.



Joe Yglesia (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor

Apex Plaza  
Forbury Road  
Reading  
RG1 1YE

19 December 2018

**Income statement**  
*for the year ended 31 August 2018*

	<i>Note</i>	<b>Year ended 31 August 2018</b>	<b>Year ended 31 August 2017</b>
		<b>£000</b>	<b>£000</b>
<b>Revenue</b>	<b>3</b>	<b>233,993</b>	<b>219,278</b>
Cost of sales		(102,677)	(97,910)
<b>Gross profit</b>		<b>131,316</b>	<b>121,368</b>
Selling and Distribution costs		(32,063)	(34,516)
Administrative expenses		(26,490)	(26,696)
Other operating income		843	2,681
<b>Operating profit</b>	<b>4</b>	<b>73,606</b>	<b>62,837</b>
Interest receivable		992	513
<b>Profit on ordinary activities before taxation</b>		<b>74,598</b>	<b>63,350</b>
Tax on profit on ordinary activities	<b>6</b>	(14,604)	(12,242)
<b>Profit for the financial year</b>		<b>59,994</b>	<b>51,108</b>

All revenue and operating profit is derived from continuing activities.

There is no material difference between the Company's results as reported and on the historical cost basis. Accordingly, no note of historical cost profits and losses has been prepared.

A statement of movements in reserves is given in note 15.

The notes on pages 14 to 27 form part of these financial statements.

**Statement of comprehensive income**  
*for the year ended 31 August 2018*

	Year ended 31 August 2018	Year ended 31 August 2017
	£000	£000
Profit for the financial year	59,994	51,108
Other comprehensive (loss) / income		
Movement in cash flow hedging position	(835)	213
Deferred tax on movement in cash flow hedging position	142	(30)
	<hr/>	<hr/>
Items that are or may be subsequently reclassified to profit and loss	(693)	183
	<hr/>	<hr/>
Total comprehensive income for the year attributable to equity shareholders	59,301	51,291
	<hr/>	<hr/>

**Statement of changes in equity**  
*for the year ended 31 August 2018*

	Share capital	Share premium	Capital reserve	Share-based payment reserve	Hedge reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 31 August 2016</b>	<b>41</b>	<b>108</b>	<b>4,500</b>	<b>1,110</b>	<b>548</b>	<b>57,840</b>	<b>64,147</b>
Profit for the financial year	-	-	-	-	-	51,108	51,108
Other comprehensive income	-	-	-	-	183	-	183
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>183</b>	<b>51,108</b>	<b>51,291</b>
Share-based payment transactions	-	-	155	756	-	-	911
<b>At 31 August 2017</b>	<b>41</b>	<b>108</b>	<b>4,655</b>	<b>1,866</b>	<b>731</b>	<b>108,948</b>	<b>116,349</b>
Profit for the financial year	-	-	-	-	-	59,994	59,994
Other comprehensive loss	-	-	-	-	(693)	-	(693)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(693)</b>	<b>59,994</b>	<b>59,301</b>
Share-based payment transactions	-	-	1,014	337	-	-	1,351
<b>At 31 August 2018</b>	<b>41</b>	<b>108</b>	<b>5,669</b>	<b>2,203</b>	<b>38</b>	<b>168,942</b>	<b>177,001</b>

**Balance sheet**  
*as at 31 August 2018*

	<i>Note</i>	<b>31 August 2018</b>		<b>31 August 2017</b>	
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>					
Intangible assets	7		<b>8,967</b>		11,881
Property, plant and equipment	8		<b>25,208</b>		27,115
			<hr/>		<hr/>
			<b>34,175</b>		38,996
<b>Current assets</b>					
Stocks	10	<b>12,599</b>		12,131	
Debtors	11	<b>182,158</b>		106,770	
Cash at bank and in hand		<b>40</b>		109	
		<hr/>		<hr/>	
		<b>194,797</b>		119,010	
<b>Creditors: amounts falling due within one year</b>	12	<b>(50,495)</b>		(39,541)	
		<hr/>		<hr/>	
<b>Net current assets</b>			<b>144,302</b>		79,469
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			<b>178,477</b>		118,465
			<hr/>		<hr/>
<b>Provisions for liabilities and charges</b>	13		<b>(1,476)</b>		(2,116)
			<hr/>		<hr/>
<b>Net assets</b>			<b>177,001</b>		116,349
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital	14		<b>41</b>		41
Share premium account	15		<b>108</b>		108
Capital reserve	15		<b>5,669</b>		4,655
Share-based payment reserve	15		<b>2,203</b>		1,866
Cash flow hedge reserve	15		<b>38</b>		731
Retained earnings	15		<b>168,942</b>		108,948
			<hr/>		<hr/>
<b>Total Equity</b>			<b>177,001</b>		116,349
			<hr/>		<hr/>

The notes on pages 14 to 27 form part of these financial statements.

These financial statements were approved by the board of directors on 18 December 2018 and were signed on its behalf by:



**GT McCallum**  
*Director*

Registered number: 00525071

## Notes

*(forming part of the financial statements)*

### 1 Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of the Company for the year ended 31 August 2018 were authorised for issue by the board of directors on 18 December 2018 and the balance sheet was signed on the board's behalf by George McCallum. The Company 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 results of the Company are included in the consolidated financial statements of Associated British Foods plc which are available at Weston Centre, 10 Grosvenor Street, London, W1K 4QY. They are also available for download on the group's website at [www.abf.co.uk](http://www.abf.co.uk).

The principal accounting policies adopted by the Company are set out in note 2.

### 2 Accounting policies

#### *Basis of preparation*

The Company prepared the accounts for this period under FRS 101. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 August 2018.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) The requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based Payment, because the share-based payment arrangement concerns the instruments of another group entity;
- b) The requirements of IFRS 7 Financial instruments: Disclosures;
- c) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- d) The requirements 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 73(3) of IAS 16 Property, Plant and Equipment;
  - iii. Paragraph 118(e) of IAS 38 Intangible Assets
- e) The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- f) The requirements of IAS 7 Statement of Cash Flows;
- g) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- h) 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;
- i) The requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
- j) 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.

## **Notes (continued)**

### **Accounting policies (continued)**

#### **Revenue**

The revenue shown in the income statement 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. Sale of goods 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.

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant sales agreement (provided that it is probable that the economic benefits will flow to the Company and the account of revenue can be measured reliably).

#### **Property, plant, equipment and depreciation**

Tangible fixed assets are stated at cost less accumulated depreciation and impairment charges.

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives which are generally deemed to be no longer than:

Freehold buildings	-	50 years
Leasehold land and buildings	-	life of lease
Plant and machinery, fixtures & fittings	-	5-12 years
Motor vehicles	-	5 years
No depreciation is provided on freehold land.		

#### **Intangible assets**

Intangible assets are measured at cost less accumulated amortisation and impairment charges. Computer software is amortised on a straight-line basis over its estimated useful economic life which is deemed to be no longer than 7 years.

The carrying values of the Company's intangible assets and PPE are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

#### **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 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.

#### **Leases**

All material leases entered into by the Company are operating leases whereby substantially all the risks and rewards of ownership of an asset remain with the lessor. Rental payments are charged in the income statement on a straight-line basis over the life of the lease. When operating as a lessor the Company receives rental income for operating leases. Rental income, including the effect of lease incentives, is recognised on a straight-line basis over the lease term.

## **Notes** *(continued)*

### **Accounting policies** *(continued)*

#### **Stocks**

Inventories are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

#### **Income tax**

Income tax on profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items taken directly to equity.

Current tax is the tax expected to be payable on taxable income for the year, using tax rates enacted or substantively enacted during the period, together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill; initial recognition of assets or liabilities affecting neither accounting nor taxable profit other than those acquired in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

#### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rate prevailing at the balance sheet date. Any resulting differences are taken to the income statement.

#### **Retirement benefits**

The Company is a member of the Associated British Foods Pension Scheme which operates both a defined contribution and defined benefit pension scheme. Contributions to the defined contribution scheme are charged to the income statement as they become payable. The defined benefit scheme is a multi-employer scheme and the Company is unable to identify its share of underlying assets and liabilities on a consistent and reasonable basis. Contributions to the defined benefit scheme are therefore accounted for as if they were contributions to a defined contribution scheme.

#### **Share-based payments**

Associated British Foods plc operates a share incentive plan which allows employees to receive allocations of shares subject to the attainment of certain financial performance criteria, typically over a three-year performance period. The fair value of the shares to be awarded is recognised as an employee expense by the Company, with a corresponding increase in reserves. 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 under which the shares were allocated. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest.

#### **Research and development expenditure**

All research and development expenditure is charged to the income statement as incurred.

## **Notes** *(continued)*

### **Accounting policies** *(continued)*

#### **Derivatives**

The Company uses foreign exchange contracts to manage its economic exposure to financial risk. 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. Changes in the value of derivatives are recognised in the income statement unless they qualify for hedge accounting, when recognition of any change in fair value depends on the nature of the item being hedged.

The purpose of hedge accounting is to mitigate the impact on the Company's income statement of changes in foreign exchange prices by matching the impact of the hedged risk and the hedging instrument in the income statement. Changes in the value of derivatives used as hedges of future cash flows are recognised through other comprehensive income in the hedging reserve, with any ineffective portion recognised immediately within operating profit 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 terminated 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 relating to an underlying exposure that no longer exists are taken to the income statement.

#### **Judgements and key sources of estimation uncertainty**

On applying the accounting policies detailed on pages 14 to 17 management has made estimates in a number of areas and the actual outcome may differ from those calculated. Key sources of estimation uncertainty at the balance sheet date, with the potential for material adjustment to the carrying value of assets and liabilities within the next financial year are set out below.

#### **Revenue recognition and trade deductions**

In arriving at a value for revenue, the Company makes certain assumptions based on past performance about the volume of discounts that will apply in determining the final amount recoverable from trade debtors at the year end. These estimates are subject to change early in the following financial year.

#### **New accounting policies**

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

The three new standards with the most significant potential effect on the Company's financial statements are IFRS 9, IFRS 15 and IFRS 16. Impact assessments and implementation planning is already underway for these standards.

- IFRS 9 Financial Instruments: Classification and Measurement effective 2019 financial year
- IFRS 15 Revenue from Contracts with Customers effective 2019 financial year. Upon adoption some costs currently shown in administrative expenses will become a deduction to revenue, however profit will remain unchanged
- IFRS 16 Leases effective 2020 financial year (now endorsed by the EU)

## Notes (continued)

### 3 Analysis of revenue

	Year ended 31 August 2018	Year ended 31 August 2017
	£000	£000
<i>Revenue comprises:</i>		
Home trade (UK)	116,887	115,983
Export	88,089	83,460
Royalties	29,017	19,835
	<hr/> 233,993	<hr/> 219,278
	<hr/> <hr/>	<hr/> <hr/>

No revenue is generated from sale of services.

### 4 Operating profit

	Year ended 31 August 2018	Year ended 31 August 2017
	£000	£000
<i>Operating profit is stated after charging/(crediting):</i>		
Depreciation	3,692	3,362
Amortisation	3,465	3,351
Hire of plant and machinery – operating leases	56	103
Rentals payable under property leases	354	311
Rental income under property leases	(180)	(169)
(Profit)/loss on disposal of fixed assets	(136)	216
Research and development expenditure	819	902
Research and development expenditure credit (within other operating income)	(30)	(105)
Foreign exchange gains on operating activities	(2,310)	(2,206)
Foreign exchange losses on operating activities	2,408	2,355
Cost of stocks recognised as an expense (included in cost of sales)	96,707	91,026
Including:		
- Write down of stocks to net realisable value	-	-
- Reversals of impairments in stocks	-	-
<i>Auditor's remuneration:</i>		
Audit of these financial statements	132	131
All other services	5	5
	<hr/> 137	<hr/> 136
	<hr/> <hr/>	<hr/> <hr/>

### 5 Staff costs and directors' remuneration

The average number of persons employed by the Company (including directors) during the period, analysed by category, was as follows:

	Year ended 31 August 2018	Year ended 31 August 2017
Production	97	97
Administration	299	299
	<hr/> 396	<hr/> 396
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 5 Staff costs and directors' remuneration (continued)

The aggregate staff costs were as follows:

	Year ended 31 August 2018 £000	Year ended 31 August 2017 £000
Wages and salaries	26,557	24,612
Social security costs	3,094	2,832
Other pension costs	1,648	2,008
	<u>31,299</u>	<u>29,452</u>

Included in other pension costs are £520,770 (2017: £465,000) in respect of defined benefit schemes and £1,127,400 (2017: £1,543,000) in respect of the defined contribution scheme.

	Year ended 31 August 2018 £000	Year ended 31 August 2017 £000
Directors' emoluments		
Remuneration	1,621	1,518
Amounts receivable under long-term incentive plans	478	561
Pension contributions	6	19
	<u>2,105</u>	<u>2,098</u>

Two directors are entitled to receive shares under the Associated British Foods plc Share Incentive Plan.

The aggregate emoluments of the highest paid director were £810,087 (2017: £785,643). This director is a member of a defined benefit scheme under which the accrued pension to which he would be entitled from normal retirement date, if he were to leave at the period end, was £55,109 pa (2017: £53,508 pa).

	Number of directors 2018	2017
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	<u>2</u>	<u>2</u>

## Notes (continued)

### 6 Taxation

#### Analysis of charge

	Year ended 31 August 2018 £000	Year ended 31 August 2017 £000
<i>UK corporation tax</i>		
Current tax on income for the period	14,550	12,659
Adjustments in respect of prior periods	170	(258)
	<hr/>	<hr/>
Total current tax	14,720	12,401
<i>Deferred tax</i>		
Origination/reversal of timing differences	(137)	(68)
Adjustment in respect of previous years	6	(14)
Effect of change in tax rate	15	(77)
	<hr/>	<hr/>
	(116)	(159)
	<hr/>	<hr/>
Tax on profit on ordinary activities	14,604	12,242
	<hr/>	<hr/>
Income tax recognised directly in equity associated with movement in cash flow hedging position	(142)	30
	<hr/>	<hr/>

#### Total tax reconciliation

	Year ended 31 August 2018 £000	Year ended 31 August 2017 £000
Profit on ordinary activities before tax	74,598	63,350
	<hr/>	<hr/>
Current tax at effective rate 19.00% (2017: 19.58%)	14,174	12,404
<i>Effects of:</i>		
Effect of rate change	15	(77)
Expenses not deductible	239	187
Adjustments to tax charge in respect of previous years	176	(272)
	<hr/>	<hr/>
Total tax charge	14,604	12,242

## Notes (continued)

### 6 Taxation (continued)

	Year ended 31 August 2018 £000	Year ended 31 August 2017 £000
Deferred tax liability	(1,299)	(1,558)
<i>Made up of:</i>		
ACAs	(1,291)	(1,408)
Deferred tax on hedging reserve	(8)	(150)
<b>Movement in deferred tax provision</b>		
Brought forward	(1,558)	(1,687)
Charge to profit and loss account	117	159
Deferred tax in association with hedging reserve	142	(30)
Carried forward	<u>(1,299)</u>	<u>(1,558)</u>

#### Factors affecting future tax charges

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. 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)

### 7 Intangible assets

	<b>Computer Software £000</b>
<b>Cost</b>	
At beginning of period	23,333
Additions	769
Disposals	<u>(300)</u>
At end of period	<u>23,802</u>
<b>Accumulated amortisation</b>	
At beginning of period	11,452
Charge in the period	3,465
Disposals	<u>(82)</u>
At end of period	<u>14,835</u>
<b>Net book value</b>	
<b>At 31 August 2018</b>	<u><b>8,967</b></u>
At 31 August 2017	<u>11,881</u>

Included within the net book value of computer software is £2.5m (2017: £3.3m) relating to software licensed to ABF Twinings Beverages (Shanghai) a member of the Associated British Foods plc group.

## Notes (continued)

### 8 Property, plant and equipment

	Land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Motor vehicles £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>						
At beginning of period	4,485	30,519	5,884	1,849	154	42,891
Additions	23	622	182	340	747	1,914
Disposals	-	(2,049)	(435)	(463)	-	(2,947)
Transfers	-	19	135	-	(154)	-
At end of period	4,508	29,111	5,766	1,726	747	51,963
<b>Depreciation</b>						
At beginning of period	2,218	10,509	2,371	678	-	15,776
Charge for period	116	2,621	602	353	-	3,692
Disposals	-	(2,048)	(435)	(335)	-	(2,818)
At end of period	2,334	11,082	2,538	696	-	16,650
<b>Net book value</b>						
At 31 August 2018	2,174	18,029	3,228	1,030	747	25,208
At 31 August 2017	2,267	20,010	3,513	1,171	154	27,115

Analysis of land and buildings at net book value:

	Year ended 31 August 2018 £000	Year ended 31 August 2017 £000
Freehold	18	18
Long leasehold	2,156	2,249
	2,174	2,267

### 9 Commitments

The Company had no capital expenditure commitments (2017: £nil).

## Notes (continued)

### 10 Stocks

	Year ended 31 August 2018	Year ended 31 August 2017
	£000	£000
Raw materials and consumables	5,035	7,967
Work in progress	62	302
Finished goods and goods for resale	7,502	3,862
	<u>12,599</u>	<u>12,131</u>

### 11 Debtors

	Year ended 31 August 2018	Year ended 31 August 2017
	£000	£000
Trade debtors	25,644	24,078
Amounts owed by fellow subsidiaries	17,954	17,207
Amounts owed by parent company	135,054	60,492
Other debtors	1,424	1,543
Financial instruments	897	2,477
Prepayments and accrued income	1,185	973
	<u>182,158</u>	<u>106,770</u>

All debtors fall due in less than one year.

Financial instruments relate to forward currency derivative contracts.

### 12 Creditors

	Year ended 31 August 2018	Year ended 31 August 2017
	£000	£000
<i>Amounts falling due within one year</i>		
Trade creditors	9,445	11,629
Amounts owed to fellow subsidiaries	4,923	3,915
Other creditors	186	238
Taxes and social security	720	737
Financial instruments	853	2,365
Accruals and deferred income	10,004	8,808
UK corporation tax	24,364	11,849
	<u>50,495</u>	<u>39,541</u>

Financial instruments relate to forward currency derivative contracts.

## Notes (continued)

### 13 Provisions for liabilities and charges

	Deferred tax	Reorganisation costs	Total
	£000	£000	£000
At beginning of period	1,558	558	2,116
Utilised in the period	-	(381)	(381)
Deferred tax on hedging reserves	(142)	-	(142)
Credited to the profit and loss for the period	(117)	-	(117)
At end of period	<u>1,299</u>	<u>177</u>	<u>1,476</u>

Reorganisation costs reflect the onerous lease provision in relation to a property no longer used by the Company. The lease expires in 2022.

### 14 Called up share capital

	31 August 2018		31 August 2017	
	Number	£000	Number	£000
<i>Authorised, issued and fully paid</i>				
Ordinary shares of £1 each	<u>40,940</u>	<u>41</u>	<u>40,940</u>	<u>41</u>

### 15 Reserves

	Share premium account	Capital reserve	Share-based payment reserve	Cash flow hedge reserve	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
At 1 September 2017	108	4,655	1,866	731	108,948	116,308
Profit for the financial year	-	-	-	-	59,994	59,994
Net movements on cash flow hedges (net of tax)	-	-	-	(693)	-	(693)
Share-based payments transactions	-	1,014	337	-	-	1,351
At end of period	<u>108</u>	<u>5,669</u>	<u>2,203</u>	<u>38</u>	<u>168,942</u>	<u>176,960</u>

## 16 Cash flow hedge reserve

The hedging reserve comprises all changes in value of derivatives to the extent that they are effective cash flow hedges, net of amounts recycled from the hedging reserve on occurrence of the hedged transaction or when the hedged transaction is no longer expected to occur.

## 17 Equity share capital

The balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of the Company's ordinary equity share capital.

## 18 Capital reserve

This reserve records the value of expired LTIP share schemes (capital contribution by parent company).

The LTIP takes the form of conditional allocations of shares which are released if, and to the extent that, performance targets are satisfied, typically over a three-year performance period. Further information can be found within the Associated British Foods plc financial statements which may be obtained at the address detailed in note 24.

The fair value of the shares granted to employees under the LTIP is measured at the market price of the entity's shares, adjusted to take into account the terms and conditions upon which the shares were granted. As the performance conditions attached to the shares are not market performance related, the best estimate of fair value is considered to be market value at date of grant. No changes are subsequently made for changes in the share price after the grant date. The charge is spread over the term to vesting date.

During the year 58,983 shares (2017: 33,790) were issued to employees under the LTIP. The weighted average share price at the date of grant was £31.01 (2017: £23.21).

The Company recognised a total equity-settled share-based payment expense of £1,351,000 (2017: £911,000), with a corresponding entry in reserves.

There are 171,358 shares outstanding at the balance sheet date (2017: 150,373 shares).

## 19 Share-based payment reserve

This reserve records the value of unexpired LTIP share-based payment schemes.

## 20 Pensions

The Company is a member of the Associated British Foods Pension Scheme which provides benefits based on final pensionable pay. As the Company is unable to identify its share of the scheme's assets and liabilities on a consistent basis, as permitted by IAS 19 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 Scheme was valued at 15 September 2018 on the basis of IAS 19 *Employee Benefits* ("IAS19") by an independent qualified actuary for inclusion in the ABF group financial statements. The valuation of the Scheme above showed a surplus of £530m (2017: surplus £233m).

Full IAS 19 disclosures can be found within the annual report and accounts of the ABF group, which are available for download from the group's website at [www.abf.co.uk](http://www.abf.co.uk)

The combined contribution to the defined benefit and defined contribution sections of the Associated British Foods Pension Scheme for the year was £1,648,000 (2016: £2,008,000).

The most recent triennial funding valuation of the Scheme, using the current unit method, was carried out as at 5 April 2017 and revealed a surplus of £176m.

There was no accrual (2017: £nil) in the balance sheet representing the difference between the amount charged in the profit and loss account and the amount paid into the pension scheme.

## 21 Contingent liabilities

The Company has issued guarantees amounting to £100,000 (2017: £450,000).

The Company, together with Associated British Foods plc and certain fellow UK subsidiary undertakings, is party to a set-off arrangement in respect of its bank accounts with certain of the group's bankers.

## 22 Obligations under leases

Future minimum rentals payable under non-cancellable operating leases are as follows:

	31 August 2018		31 August 2017	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Not later than one year	354	63	311	103
After one year but not more than five years	1,161	50	1,079	72
After five years	2,548	-	2,812	-
	<u>4,063</u>	<u>113</u>	<u>4,202</u>	<u>175</u>

The future minimum sublease payments expected to be received under non-cancellable sub lease agreements at 31 August 2018 is £664k (2017: £845k)

## 23 Ultimate parent company

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 trustees of Garfield Weston Foundation are the controlling shareholders of 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](http://www.abf.co.uk).

## 24 Related party disclosures

During the year the Company did not enter into any business transactions with other group companies that were not wholly owned subsidiaries of Associated British Foods plc. As such the Company is exempt from disclosing related party transactions entered into by virtue of the exemption offered under paragraph 8(k) of FRS101.