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

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

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

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

AB Agri acquired a small aerial survey and informatics company based in the UK.

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

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

This year’s tax charge of £257m included a charge of £292m at an effective rate of 21.3% (2017 – 22.4%) on the adjusted profit before tax. The lower effective tax rate in the year is primarily due to the reduction in the US federal corporate tax rate from 35% to 21% with effect from 1 January 2018. The current and deferred impact reduced the group’s effective tax rate by 1% in the financial year. We expect next year’s effective tax rate for the group to be similar to the current year.
The total tax charge for the year benefited from a credit of £35m (2017 – £15m) for tax relief on the amortisation on non-operating intangible assets, amortisation of fair value adjustments on acquired inventory and goodwill arising from business combinations. The credit this year included £18m on the re measurement of the group’s US goodwill deferred tax liability following the US tax reform. Last year the total tax charge included a charge of £87m arising on the disposal of businesses.

**Earnings and dividends**

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

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

**Balance sheet**

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

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

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

**Cash flow**

Net cash inflow from operating activities declined to £1,430m with a working capital outflow of £153m this year compared to last year’s inflow of £126m. Gross capital expenditure was in line with last year and amounted to £688m. Primark spent £434m of this which mainly comprised the fit-out of new and existing stores. Expenditure in the food businesses remained at a similar level to last year. £23m was realised from the sale of property, plant and equipment. The net cash outlay on acquisitions was £297m, including debt assumed, and related principally to the acquisition of Acetum. Tax paid in the year amounted to £297m, a reduction from £356m in the previous year which included £92m arising on business disposals.

**Financing**

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

**Pensions**

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

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

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

**New accounting standards**

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

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

**John Bason**

Finance Director