

### Farewell to John Bason

Usually we say our thank yous at the end of updates on events of the year. That can make them seem like an afterthought and I don't want to run the risk.

These are the 23rd and last full year report and accounts for a year during which John Bason has been our Finance Director. He will step down in April next year.

Sometimes when you announce someone's departure their authority drains away and sometimes their interest also. If you thought that was a risk with John, then you really don't know him. He is an extraordinary and unignorable bundle of energy, enthusiasm and passion. Those alone would have made him an outstanding steward of this company, but they are only the start.

Diversified companies need two things in particular from their finance department. First, they need rock solid, accurate and timely financial reporting. John has always ensured ABF has that. The finance systems, and the culture of accurate, unvarnished reporting of numbers exist because John always knew that we had to have both.

But secondly a diversified company must have at its centre people who can exercise good judgement around capital allocation. There is a capital discipline which John created and which we all employ and which is now embedded in ABF's DNA. But processes are no substitute for just getting decisions right and John's judgement has always been masterful. Many thousands of requests for capital have come across his desk and he has made precious few mistakes assessing them.

But finally all companies also need the finance director to work well with the chief executive. John has been a wonderful co-conspirator who has given me precious counsel, thoughtful reflection, constant support and the occasional clip around the ear, throughout my time as chief executive and I will always be in his debt.



## Operating review

Last year I stated how proud I was of the Group's response to the many challenges presented by COVID-19. This year has continued to be challenging with continuing reverberations from the pandemic, significant economic uncertainty, accelerating inflationary pressures and the terrible conflict in Ukraine. Once again our people demonstrated care, good judgement, operational resilience and immense hard work in rising to these challenges.

Our financial performance this year clearly demonstrates the strength of the Group and its ability to bounce back. We delivered substantial increases in sales and adjusted operating profit year-on-year. This outturn comes from the strength of our brands, the diversity of our products and markets, our geographic spread, conservative financing and an organisational design that permits fast and flexible decision-taking.

Revenue for the Group of £17bn was 22% ahead of last year both at actual exchange rates and at constant currency. In our Food businesses, higher revenues reflect price actions and some volume increases, especially in Ingredients. In Primark, the much higher revenues reflect the ending of COVID-related restrictions and the resumption of more normal customer behaviour.

Our Food businesses delivered another resilient performance this year.

AB Sugar traded well this year with revenues 18% ahead of last year at constant currency driven by higher sugar and co-product prices, especially for bioethanol. Adjusted operating profit increased to £162m this year, a strong performance given that these results included the costs of recommissioning Vivergo, our bioethanol plant in Hull. We should expect a high level of variability in the operating results for Vivergo given that its profitability is reliant on prices in a number of discrete commodity markets and there has indeed been a high level of variability in these markets over the last year. At Illovo, sugar production was held back by unseasonal weather including severe flooding. Against the consequential background of difficult operational challenges, Illovo pushed ahead and made major progress with its programme to produce retail packs for its domestic markets in high quality stand-alone facilities located in-country. These facilities are key to supporting Illovo's strategy of developing its domestic retail sugar businesses.

Grocery revenues were 3% ahead of last year at constant currency but operating profit margin declined. The planning, negotiation and implementation of pricing with the retailers inevitably results in a delay in the recovery of input cost inflation. In some categories, price realisation has been limited by competitor actions. Our actions to tackle the losses in Allied Bakeries, our UK baking business, have been undermined this year by the scale of cost inflation in all aspects of its operations including in gas, wheat and logistics. Although progress has been delayed, we are working on solutions beyond pricing.

AB Agri had a good year, with sales well ahead of last year, with higher selling prices, and adjusted operating profit was also well ahead. Our joint venture Frontier was created 17 years ago, has developed consistently over that time and I am delighted that this financial year was a record. The performance was driven by both strong grain trading and high demand for crop protection products. We acquired Greencoat, a UK-based animal supplement and care business which included the widely recognised equine supplement brand, NAF, in July and we expect these products to support the AB Agri expansion in international markets for animal nutrition and technology.

In Ingredients, the businesses in ABF Ingredients performed very strongly this year, with volume growth, from both winning new business and post-pandemic customer volume recoveries, and strong price execution. All of the businesses have developed strongly with every expectation that we will take advantage of many opportunities ahead. The acquisition of Fytexia this year brings another high-quality ingredient business to our portfolio. The profit at AB Mauri declined this financial year as a result of lower retail yeast volumes from their elevated COVID levels and with some lag in pricing recovery. We have long seen the potential to build on our position in the fast-growing Indian market. Initial work has now commenced on building a fresh yeast facility in Uttar Pradesh, which will expand our capacity to meet domestic demand.

This year saw the appointment of new Chief Executives to two of our businesses: Paul Kenward, formerly Managing Director of British Sugar, became Group Chief Executive of AB Sugar, succeeding Dr Mark Carr who is retiring after 18 years and Olav Silden, who joined from Selecta Group BV where he was Chief Commercial Officer with responsibility for many beverage brands, succeeded Bob Tavener as Chief Executive of Twinings Ovaltine.

At Primark, total sales and adjusted operating profit increased significantly compared to prior year. Trading was strong in the UK and the Republic of Ireland. In Continental Europe trading remained below pre-pandemic levels driven by different factors in each market. Consumer confidence was generally weaker and market data for some markets indicate that the total apparel market was still well below pre-COVID levels. Trade was affected by the exceptionally hot summer months and with colder weather we have seen many markets improve. In Germany we are considering the repositioning of Primark to increase sales densities and make the business sustainably profitable. These accounts include an exceptional charge of £206m which is a non-cash one-time writedown of property, plant and equipment and right-of-use for our German assets. Looking ahead to this new financial year we expect to make significant progress in Primark's digital development with the launch of our new enhanced website in all our markets along with the UK launch of our trial Click and Collect service. Having rebuilt the new store pipeline during the last financial year, we expect to open a net 1 million sq ft of retail selling space this next financial year. We have demonstrated that our US store model is profitable and believe that the opportunity ahead is substantial; we expect nearly to double our retail selling space in this new financial year. John Bason will take up his new role at Primark next May and I know that he will provide additional experience and expertise to Primark's decision-making in business-critical areas.

Adjusted operating profit of £1,435m was significantly ahead of last year, 42%, in line with our expectations. For the full year the weakening of sterling against our major currencies has led to a translation gain of some £15m. The statutory operating profit for the year at £1,178m was 46% ahead of the prior year, and was stated after the exceptional charge of £206m for the impairment of Primark German assets, which compares to a £151m net exceptional charge in the prior year.

This year benefitted from higher interest income compared to last year and other financial income was higher driven by a further increase in the surplus in the Group's UK defined benefit pension scheme. As expected, the Group's full year effective tax rate declined from 28.1% last financial year to 22.2% this year. As a result, adjusted earnings per share increased by 64% from 80.1p to 131.1p per share. Basic earnings per share were 88.6p, an increase of 46% on the reported 60.5p per share last year.

There was a cash outflow for the Group this year mainly due to an increase in working capital of some £750m. The increase in working capital was driven by the timing of receipt of Primark autumn/winter inventory of £440m in total around both financial year end dates, the effect of inflation across our businesses and, where necessary, some planned higher levels of inventory to mitigate potential supply chain disruption.

As a result, net cash before lease liabilities at the financial year end was £1.5bn, a reduction on £1.9bn at the end of the last financial year.

The Group remains financially strong with good cash generation and substantial liquidity and we are announcing this year a share buyback programme of £500m.

## ESG

We have made considerable progress in understanding the environmental factors most material to our businesses. Our focus is to deliver on our 2030 commitment to reduce greenhouse gas emissions and we intend to achieve net zero by 2050 or potentially sooner. Some 54% of the Group's total energy needs are already met from renewable sources, mostly from bio-mass by-products from our Sugar and Agriculture businesses.

Our Sugar businesses produce by-products that act as critical feedstock for important industries. We have a clearly identified pipeline of capital projects, all of them delivering above our required return on capital employed, and which will deliver the 30% reduction commitment in carbon emissions for Sugar by 2030.

Our businesses play a crucial role in providing products to help other companies and customers reduce their own emissions. For example, AB Enzymes has recently launched cold cellulase products which enable cotton production to take place at lower water temperatures and enzymes for the detergent industry, which enable consumers to wash at lower temperatures and reduce their electricity usage.

We have incorporated in our annual report our reporting on the Task Force on Climate-related Financial Disclosures framework (TCFD). We have engaged with the spirit as well as the letter of the scenario planning that is central to TCFD. More broadly our understanding of the opportunities and risks ahead has been enhanced by an improvement in our data collection and analysis. We conducted a comprehensive risk assessment across the Group's supply chains which led to a focus on the most material risks: AB Sugar, Primark and Twinings. Taking into account different scenarios for climate change, we believe that the risks to the Group are not material to 2030. In doing this work we recognised that the main consequence of climate change for us will be that we will be affected by a pattern of more frequent and more extreme weather conditions. The effects of cyclones and severe flooding in Illovo, and the flooding in the eastern part of Australia, are examples of such events and our businesses are inevitably already building on their capabilities to deal with the consequences of these. Over the period to 2030 there is more confidence in the climate change models and hence the outcomes. Not surprisingly the variability of outcomes for longer-term scenarios to 2050 is much greater, and so we use the 2050 data to check our sense of direction. Our actions are focused on the period to 2030. The benefit we have seen from developing the long-term scenarios, however, is that they have added impetus to, and provided focus for, our businesses' strategic plans.

Our social commitments remain as important as ever to us. We believe firmly in the pursuit of a "just transition" that balances action to protect the planet with a concern for the welfare of our employees and the people in our value chain. Partnership with suppliers becomes more important than ever in the face of geopolitical uncertainty and economic volatility and enables us to plan much more effectively for disruption.

## Outlook

As we look ahead, we expect further significant input cost inflation, and ongoing high volatility inevitably has made forecasting more difficult.

We expect the aggregate profit of our Food businesses to be ahead of the 2021/22 financial year. Adjusted operating profit is expected to be well ahead in AB Sugar, and broadly in line in AB Agri and Ingredients. We expect some further margin erosion in Grocery with significant additional inflation in input costs which should be recovered through pricing in the course of the year. Investment in our Grocery brands will increase with higher marketing spend.

We expect Primark sales growth to be driven by the price increases implemented for autumn/winter this year and those already planned for spring/summer next year and the increase in retail selling space. Input cost inflation is expected to be significant, with inflation in raw material and energy costs and in labour rates, alongside higher purchasing costs which have resulted from the strengthening of the US dollar against sterling and the euro. Given a context of a likely reduction in consumer disposable income we have decided this year not to implement further price increases on the autumn/winter and spring/summer ranges beyond those already implemented and planned. We believe this decision is in the best interests of Primark, supporting our core proposition of everyday affordability and price leadership and supporting market share growth over the longer term. We expect Primark's adjusted operating profit margin for next year to be lower than 8% but looking further ahead, we remain focused on returning to an adjusted operating profit margin of some 10% as commodity prices moderate and consumer confidence improves.

Finance income is expected to increase reflecting higher interest rates on our net bank balances. Other financial income will increase substantially as a result of the further increase in the surplus in the Group's defined benefit pension schemes. We expect an increase in the effective tax rate to around 25%, driven by an adverse change in the profit mix of the Group and higher UK corporation tax rates.

Our outlook remains unchanged. For the full year, we continue to expect significant growth in sales for the Group, and adjusted operating profit and adjusted earnings per share to be lower than the financial year just closed.

**George Weston**  
Chief Executive