Investment, development and action

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To some extent the latter led to the former but much of our work originated in our own perception that we needed to reshape some businesses within the Group and to sharpen their performance in pursuit of growth. And to this end investment, always a feature of ABF's long-term growth strategy, has been accompanied this year by some restructuring, some deal-making, and some management change. So there is plenty for me to set out in this year's Report.

To begin with the external context. Last year I thought at the time that it may be unwise to note as I did that we had a return to "something like normality" in our markets and supply chains. Inevitably that comment has been ringing in my ears this year as we saw consumer confidence battered in many markets by political uncertainty, constant predictions of economic damage caused by on-off tariff negotiations, and political conflict. Running through these unhelpful political trends have been the threads of inflation, particularly in food prices, and in the UK at least fewer job vacancies and a corresponding greater insecurity about employment. None of this supports consumer spending.

The Group's businesses have in general traded resiliently despite these conditions. And there is much to be positive about in our operational performance, our investments and our innovation.

But these macroeconomic and political headwinds exposed some weakness in a small number of Group businesses and contributed undoubtedly to our lower year on year sales and profits. Sugar in particular had a difficult year, due to sugar prices being lower for longer than we anticipated, and due to ongoing losses at Vivergo, our bioethanol plant on Humberside in the UK.

So, Group revenue was £19.5bn, 1% lower than the previous year on a constant currency basis. Adjusted operating profit was £1,734m, down by 12% on the previous year. Adjusted earnings per share fell by 11% to 174.9p, and gross investment was £1,244m. The decline in revenue and profit was largely due to Sugar's travails. Taking all the issues into account and examining our reaction to them, I am just about satisfied with the Group's financial performance. But no more than satisfied. And looking ahead, we need improvements.

At the half year I identified areas of self-help that needed prioritising: an end to the Vivergo losses, running at some £3m a month; a reduction in loss-making production capacity at Azucarera, our Spanish sugar business; and a solution to address losses at Allied Bakeries, our UK bread business. In the second half of the financial year we made progress on all three of these issues.

To summarise that progress, we announced the closure of Vivergo and production has since stopped following the UK government's frustrating decision to favour overseas supply rather than domestic production; we reduced loss-making beet processing capacity at Azucarera in Spain; and we announced an agreement to acquire Hovis Group Limited subject to regulatory approval, with a view to creating a UK baked goods business that will be sustainable and profitable.

But we have more to do across the Group to improve the profitability of our businesses and we remain focused on delivering both growth in sales and further improvements to profitability as soon as possible.

Primark is no exception to these objectives. In many respects the company had a very good year and the operating model is undoubtedly as effective as ever in providing clothing that is great value for money to customers in Europe, the US and now also in the Gulf. But we understand that we must be as focused as ever on remaining not just relevant to our customers but also on being their very best option on excitement, on price, on choice, on availability, on store environment, and increasingly on digital communication. These are the characteristics that are fundamental to Primark's customer proposition. Our markets are as competitive as they have ever been and we are investing and innovating in a highly focused manner to ensure that customers choose Primark as the brand that is on their side.

Our core operating principle remains that we continue to offer the lowest prices to consumers in each of our markets. In the era of rapidly rising input costs we accepted as others did that we needed to raise prices to cover inflation, an adjustment that ended last year. It was an exercise that we carried out with great care and selectivity, designed to preserve our price advantage. This year we began the work of ensuring that our customers continue to know and understand the terrific value of our offer, a self-evident but important aim given the fragility of consumer spending in all our markets.

We started with our "Never Basic" campaign, visible both in store and on digital channels, which focused on clothing of outstanding quality at entry level prices. We are now running a "Major Finds" campaign that features terrific product and unbelievable prices for limited periods. More generally, our product offer is stronger than ever, with womenswear in particular now performing really well alongside menswear and kidswear – all three being the basic building blocks of a successful fashion and clothing retailer.

Our store-led model is key to our relationship with the customer. It gives customers immediate access to our latest fashions as well as wardrobe staples and this access is now more attractive than ever as a result of being twinned with our stock checker facility on the Primark website and the growing use of Click & Collect now available in all GB stores with plans for the latter's extension to the continent under way. We are also improving the in-store environment further, with 34 store refurbishments completed this year and more to come across the estate as needed.

Digital communication with customers continues to become more sophisticated. Traffic to our website grew 24% in the year, another strong year-on-year increase. This in turn drives footfall to store. We are testing and learning with paid media with good returns so far. Our social media was strong, as usual, and our use of CRM continues to develop.

And we recently launched the Primark app in Italy and Ireland with a view to rolling it out elsewhere once we have explored its potential in these trial markets. At the other end of Primark's operational architecture, we have outsourced some support activities and continue to invest heavily in automation and digitalisation to improve efficiency and product availability. All these measures support our customer relationships.

Looking to new customers, Primark's potential for expansion remains vast. Our new store opening programme is on track to deliver 4% to 5% sales growth this year. We now have 33 stores in the US, having opened six in the year including in Texas and Tennessee. The year ahead will see that total rise sharply. We also plan to open stores in our growth markets in Europe and, potentially very significantly, we are now present in the Gulf through a franchise agreement, the first store having opened in October this year with another two to come shortly. This new franchise model opens significant opportunities for growth.

Primark's future, based as it is on its unbeatable prices and its outstanding value, is as bright as ever.

In Grocery our international brands had a good year. Twinings continued to develop its wellness teas portfolio which is very on-trend with consumers. Ovaltine sales grew well although volumes were down somewhat due to price increases needed to offset surging cocoa prices, which we very much hope is now behind us. The prospects for Ovaltine remain bright in markets such as Brazil and Nigeria, and our new production site in Nigeria will be up and running in the year ahead, giving us a local bridgehead into African markets. Summing up, in beverages the headwinds of recent years have abated and as a consequence we expect a return to good growth in profits.

Grocery sales in the US were much as expected, while in Australia we benefitted from the acquisition in 2024 of The Artisanal Group which makes high quality baked goods: working successfully alongside Tip Top, it is a good example of how a bread business can be sustainable, profitable and deserving of investment.

In the UK we have been struggling to make Allied Bakeries into that sort of business. It is no secret in the bread industry that there has been a significant decline in UK demand for packaged sliced bread and that the economics of bread production are particularly challenging. The loss of scale in the distribution network that serves major retailers with daily delivery of bread and baked goods makes the operating model of bread businesses very challenging indeed. This has resulted in Allied Bakeries' financial performance deteriorating over many years despite our best efforts.

So we announced in August that we will acquire Hovis Group Limited subject to regulatory approval. We are now working with the regulator to support its examination of this transaction. We believe that the combined business will be better placed to compete effectively and to establish a stable platform for product innovation in the segments of the UK bakery category that are growing as a result of changing consumer tastes and needs. This will include improvement in existing products and expansion into new product ranges. All this should provide greater choice for consumers, increase efficiencies for customers and create value for our shareholders.

Our Ingredients businesses had a much more straightforward year with stable sales and nicely improved profitability. AB Mauri, our yeast and bakery ingredients business, remains a very resilient business with good and local routes to market around the world and an effective programme of product innovation. ABFI, our specialty ingredients portfolio, also had a good year in most of its businesses and it continues to innovate and commercialise effectively. In a world in which there are ever more mouths to feed, and what we put in those mouths needs to be ever more considered, Ingredients is well placed to prosper and grow.

I believe that Sugar is well placed to prosper and grow too, once we have worked through this year's difficulties and taken action to ensure that this improvement is indeed realised. Much of the current problem lies at the door of stubbornly low sugar prices in Europe which impacted our profitability in that region. The commodity cycle that applies in sugar will restore pricing to more sensible levels in time and our outlook statement reflects that. But we are also addressing performance where needed. Last year we closed our China North business and mothballed our Mozambican business, the latter being disposed of this year. We are in the process of addressing loss-making overcapacity in Spain. And in the UK we have stopped production at Vivergo, our bioethanol plant on Humberside, as I mentioned above.

To dwell on Vivergo for a moment. The decision to close this plant was particularly frustrating, with the UK government squarely responsible for it. If Vivergo had been located on the continent, it would have been profitable. But the UK government's regulatory regime gave competitive advantage to US suppliers. The Government then compounded this problem by giving those US suppliers tariff-free access to the UK as a last-minute sweetener for the US-UK trade deal.

Vivergo made a substantial contribution to the UK economy. It was also recipient of much investment by this Group, a UK domiciled company. Vivergo produced up to 420 million litres of bioethanol annually from over 1 million tonnes of feed wheat, sourced from thousands of farms – mostly across Yorkshire and Northern Lincolnshire.

It was the UK's largest single production site for animal feed, supplying up to 420,000 tonnes of high-protein feed to more than 800 farms nationwide. And it was employer to more than 160 highly skilled people, with its wider supply chain supporting 4,000 jobs across the Humber region. Looking ahead, it had a very promising future in biofuels including sustainable aviation fuel, that would have brought income and opportunity to Humberside more generally.

So the decision to close Vivergo was very painful indeed, not least because of the impact on local people. But our government's regulatory rules, and crucially its decision to hand the UK bioethanol market in its entirety to US suppliers as part of the US-UK trade deal, made Vivergo's medium-term economics impossible. The Board and I cannot expect shareholders to support loss-making businesses where there is no realistically feasible plan to restore profitability. But accountability for this decision lies in Westminster.

Lastly, to Agriculture. With a small decline in sales and bigger drop in profit, Agriculture was held back by its joint venture business Frontier that is generally a first class business specialising in grain trading and crop inputs, both of which suffered this year from exceptional weather conditions disrupting farms. Looking through that disruption, we remain on track to develop more tech-orientated services particularly for dairy farms. Longer term, we believe nation states will prioritise food production for security of supply and our businesses will play a pivotal part in supporting that goal.

ESG

We made good progress in our ESG activities this year and intend to continue to invest, not least because the financial returns on offer continue to be attractive to us. One of the advantages open to a global group of businesses is that there is no shortage of opportunity. The close coordination between our finance and our corporate responsibility teams enables us to select these projects, execute on them and report on their returns with confidence.

Much of this work is defined and enacted by our businesses at local level of course. But we also have Group priorities defined by materiality considerations and these are as follows: human and labour rights in Primark's supply chain; decarbonisation at British Sugar; human and labour rights in the Twinings supply chain; employee accommodation and living standards at our sugar businesses in Africa; and understanding our wider Scope 3 GHG emissions across our businesses.

There are two highlights for me to make among many. First, the decarbonisation at British Sugar continued to make good progress not least with the company's elimination of coal usage in its combined heat and power (CHP) plants and animal feed combustion operations by fuel switching investments. These efforts have contributed substantially to lowering its Scope 1 emissions. Second, Primark has begun the complex and painstaking task of addressing its Scope 3 GHG emissions. Having mapped these emissions, the company is reporting a 4% reduction this year compared to 2024 through improvements to the efficiency of supplier factories. This work has the potential to bring substantial financial as well as environmental benefits to suppliers and to the world.

Investment

Investment is at the heart of the Group's operating model. It drives renewal and growth, relevance and returns and our broader investment projects are in that sense chosen in a similar manner to the ESG opportunities that I outlined above. This year sees the completion, or near-completion, of some big multi-year food projects that will underpin our position in key markets for years to come.

Among them are our bakery in Western Australia that will serve townships for very many miles around it, our mill in Tanzania that will supply that country's growing demand for sugar, and our fresh yeast plant in India to supply that population's growing demand for baked goods. We have authorised these investments having considered the long-term growth that comes with growing populations and demand for our products.

Primark also had its share of investment, particularly in new store fit-outs, in automation for warehousing, in refurbishments and self-checkouts for our existing stores, and for technology systems designed to extend our digital capabilities. Primark is likely to see investment increase as a proportion of the Group total given the pace of its expansion in newer markets and its hunger for technology to better serve existing markets. This investment can only be good for growth.

People

Our people remain our most important asset and I thank them for their contribution. Annie Murphy, our designated Non-Executive Director for workforce engagement, reports in this document what she has seen and experienced in her first months in this role and I was pleased to read the positivity in her account. We value our culture immensely, including high standards of integrity and acting responsibly.

Sadly, I also have to note the departure of Paul Marchant as Primark Chief Executive in March this year. Paul's resignation and the circumstances that led to it were a great disappointment to me. As you would expect, we are conducting a selection process for Paul's successor. Meantime Eoin Tonge is acting as interim Chief Executive, and Joana Edwards is acting as Interim Group Finance Director. Both individuals are filling these roles very effectively. We are aware of course that making permanent appointments to these crucial posts remains a priority.

Looking ahead

Summing up, this was a year of intense strategic and operational activity within ABF. Most of our businesses delivered robust financial results while navigating a challenging external backdrop.

Looking ahead, we are confident in the Group outlook for both 2026 and beyond. Our strong balance sheet underpins disciplined investment as we continue building brands and businesses that will deliver growth over the long term.

George Weston
Chief Executive