Chairman's statement

The economic effects of the measures taken by governments to restrict the COVID-19 pandemic were evident in the financial results for our last financial year and in the results for this financial year. The Board recognises that a Group of our scale and significance has responsibilities to many stakeholders. I want to say thank you once again to every employee for their hard work and determination in these difficult times.

Sales and profit for the Group this financial year were again below pre-COVID levels and this was driven by the results for Primark, where a third of its available trading days were lost as a result of store closures due to the public health measures taken in our major markets. The Primark management and operational teams demonstrated agility in responding to both the fast changing and wide range of trading restrictions applied to our stores over the year. The strength of Primark's sales after the reopening of all our stores in the spring demonstrated the relevance and appeal of our value-for-money offering. Growth in our food businesses continued this year with a combined increase in revenue of 5% and increase in adjusted operating profit of 10% this financial year, at constant currency.

Importantly, during this difficult trading year, we maintained our focus on building for the future.

In Grocery, we continued to build our brands with a number of new product introductions and wider international distribution. We made significant progress with the expansion of Twinings in Wellness teas, Ovaltine growth in China, Brazil and Switzerland, the overseas development of Patak's and Mazzetti and the continuing development of Yumi's in Australia. In Ingredients, we made major steps to build our development capability and opened new technology development centres for our bakery ingredients and enzyme businesses. Our yeast joint venture with Wilmar International in China became operational this year, progress was made on building a major new yeast facility and we expect strong growth from this business in the future.

We invested £721m in our businesses this year. We made good progress with a number of major capital projects: work to recommission the Vivergo bioethanol plant in the UK; a major new animal feed mill in Western Australia; and a number of capacity increases including bakery production in Australia and yeast production in Brazil. In Primark, we continued to increase retail selling space with the opening of 15 new stores and developed our presence in the important US and Central European markets. We made progress in the development and implementation of new inventory management and point of sale systems across the store estate. The expansion of our state-of-the art warehouse in Roosendaal in the Netherlands was completed.

Our Responsibility and ESG

Our Company was founded with a conviction that acting responsibly and with integrity is the only way to build and manage a business over the long term. The belief that companies do well when they act well is deeply ingrained in all of us, from the Board and the leadership team, across all our businesses and at all levels of our workforce. We have a clear sense of our social purpose. We exist to provide safe, nutritious and affordable food and to provide quality, affordable clothing to hundreds of millions of customers worldwide.

We have a strong belief in our duty to respect the dignity of everyone who works for us, both within our workforce and in our supply chains. We have a firm commitment to operating under the highest standards of corporate citizenship, acting as a good and supportive neighbour to the communities around us while recognising our wider obligations to society as a whole. Our 2021 Responsibility Update details the actions we continue to take to invest in our people, support society, strengthen supply chains and respect our environment. To see how we make a difference, please download this update, at www.abf.co.uk/responsibility.

This year we have extensively engaged with our investors on the key ESG factors for the Group and our strategy and governance in relation to these. We provided an in-depth review of Primark's processes to provide assurance of its supplier practices and of Primark's sustainability strategy, Primark Cares, designed to reduce its impact on the environment and to improve the lives of people in its supply chain. A new customer campaign was launched in September to highlight Primark's commitment to make more sustainable fashion affordable for all. The March and September presentations are available on our website. A further briefing is due to be held in early 2022 and will focus on the environmental factors that are most material for the Group.

Results

Revenue for the Group of £13.9bn was in line with last year at actual exchange rates and was 1% ahead at constant currency. All our food businesses delivered growth and in aggregate sales were 5% ahead of last year at constant currency. Primark sales in both years were impacted by trading restrictions and store closures as a result of government measures taken to contain the spread of COVID-19. The periods of closure were longer this year compared to the last financial year and sales declined by 5% at constant currency as a result.

Adjusted operating profit this year of £1,011m was broadly in line with last financial year. For the full year the strengthening of sterling against our major currencies has led to a translation loss of some £36m. The adjusted operating profit for Grocery, Sugar, Agriculture and Ingredients combined increased by a strong 10% at constant currency. Primark operating profit margin improved this year with an adjusted operating profit of £415m, before repayment of job retention scheme monies of £94m, which compared to £362m last financial year.

The charge for net finance expense and other financial income declined to £103m following the repayment of £25m of the private placement debt and there were no RCF interest charges since the facility was not drawn down this year. This was another year where a lower proportion of the Group's profit was generated in the UK and Ireland because of the lower Primark profitability and the Group's adjusted effective tax rate was therefore again elevated, at 28.1%, a small decrease from 28.8% last year.

The Group's net cash before lease liabilities of £1.9bn this year compared to £1.6bn at the same time last year even after another year in which the pandemic adversely impacted Primark's trading. This outturn reflects the strong cash generating capability of the Group and good working capital management.

The statutory operating profit for the year at £808m was broadly in line with last year. It is stated after a net exceptional non-cash charge of £151m this year which mainly comprises impairments of £141m in property, plant and equipment at our Spanish Sugar business, Azucarera, and other Sugar businesses, and was marginally lower than the £156m net exceptional charge last year. Basic earnings per share were 60.5p, an increase from the reported 57.6p last year.

Board

We welcomed Dame Heather Rabbatts as a non-executive director of the Company with effect from 1 March 2021. Heather brings a wealth of experience having held a number of executive and non-executive roles across local government, infrastructure, media and sports. She was the first woman to join the board of the Football Association. She continues to work in film and sports and is a non-executive director of Kier Group plc.

Dividends

The Board decided not to pay any dividends relating to the 2020 financial year. This was due to the uncertainty of cash flow for the Group as a result of the economic impact of COVID-19 on our businesses, especially driven by the unknown duration and extent of Primark store closures. The scale of this uncertainty was demonstrated by the cash outflow of some £800m experienced in the period March to May 2020. Uncertainty was particularly acute in April and November 2020 when the Board considered the payment of an interim and then a final dividend for the 2020 financial year.

Although uncertainty remained at the 2021 half year, it was substantially lower as a result of the extensive roll-out of vaccinations, and so the Board decided to declare an interim dividend. The dividend of 6.2p per share was based on the proforma adjusted earnings per share in the first half of 18.5p which was net of a £79.4m charge for the job retention scheme repayments in respect of that period.

All our stores are now open, and are mostly free of trading restrictions, and the food businesses are trading well. The uncertainty around future cash flows is considerably lower than a year ago although the possibility of further trading restrictions cannot be ruled out. Our net cash before lease liabilities was £1.9bn at the year end. The Board is proposing a final dividend of 20.5p per share which together with the interim dividend of 6.2p per share makes a total of 26.7p per share for the year, which is three times covered by the adjusted earnings per share of 80.1p for the year, in line with previous practice. The Board intends to continue to have regard to a cover of three times for regular dividends in the ordinary course.

The Board is pleased by the recovery in trading across the Group's activities and the highly effective management of cash and reduction in financial leverage. As a sign of our confidence, the Board is also declaring a special dividend of 13.8p per share, to be paid as a second interim dividend at the same time as the payment of the final dividend. We determined the amount of this special dividend such that, taken with the final dividend proposed for the 2021 financial year, the aggregate equates to the final dividend of 34.3p per share paid in respect of the 2019 financial year which was our highest ever final dividend and was based on the Group's pre-COVID profitability. Total dividends for the year are 40.5p per share.

The payment date for the 2021 final dividend and second interim dividend will be 14 January 2022 to shareholders on the register on 17 December 2021.

A strong capital base

The Board's treasury policies are in place to maintain a strong capital base and manage the Group's balance sheet and liquidity to ensure long-term financial stability. These policies are the basis for investor, creditor and market confidence and enable the successful development of the business.

The financial leverage policy is that, in the ordinary course of business, the Board prefers to see the Group's ratio of net debt including lease liabilities:Adjusted EBITDA to be well under 1.5 times at each half year and year end reporting date. In exceptional circumstances, the Board will be prepared to see leverage above that level for a short period of time. At the end of this financial year, the financial leverage ratio was 0.7 times. The Group also holds substantial net cash balances which ensure that it has sufficient liquidity to meet unforeseen requirements and at this financial year end net cash balances, before lease liabilities, amounted to £1.9bn.

The events of the last two years have clearly demonstrated the importance of having sufficient financial resources and the credit strength to meet the operational challenges faced by our businesses, and in particular Primark. We are pleased that S&P Global announced that they had assigned to the Group an 'A' grade long-term issuer credit rating, with a stable outlook, which reflects the strength of each of the Group's businesses, their diversity and ABF's strong credit metrics underpinned by a conservative financial policy.

Capital allocation policy

Our priority is always to invest in our businesses, both organically and by acquisition, at an appropriate pace and wherever attractive returns on capital can be generated. We see considerable opportunities to do this, both over the short and the medium term, and across all our businesses. Nevertheless, the ability to invest our capital is inevitably subject to the timing of opportunities and practical limits as to the amount that can be invested within a given timeframe. As a result, the Board may from time to time conclude that it has surplus cash and capital. In making this assessment, the Board will be mindful that financial leverage consistently below 1.0 times and substantial net cash balances at both half and full year ends may indicate such a surplus position.

Surplus capital may be returned to shareholders by special dividend or share buy-backs.

It is not possible to anticipate every possible set of circumstances and this policy must be subject to the Board's discretion. Currently, uncertainty remains over the possible reintroduction of trading restrictions related to COVID-19 and the decision to declare a special dividend at the indicated level is made with this in mind.

Thank you to our employees

At the end of another challenging year I am proud of how our people have continued to respond to the many challenges presented by COVID-19, whilst at the same time taking action and seizing opportunities for our future. The strength of our culture shone through and our operating model of devolved decision making to each business and market enabled us to respond very quickly and appropriately to local challenges. The responses this year were again a testament to the dedication, skills and ingenuity of our people. I will never be able to thank all of them enough for their extraordinary efforts during this time.

Outlook

The lower Group profit in the last two financial years compared to the 2019 financial year was driven by the extensive closure of Primark stores. All of our stores are now open and are mostly free of trading restrictions. There has been an extensive roll-out of vaccinations against COVID-19 in all of the markets where Primark operates and customers have returned to our stores in large numbers. Absent the reimposition of significant restrictions, we expect Primark trading to continue to improve and for sales to increase by at least the estimated £2bn of sales lost due to store closures last financial year. Primark will continue to expand its selling space next year, with the most stores being added in two of our key markets, Italy and Spain. The expected significant increase in sales should lead to a sharp improvement in Primark's adjusted operating margin, recovering to above 10%. Primark is not immune to the challenges of supply chain, raw material cost and labour rate inflation. However, we currently expect the impact of these to be broadly mitigated by the transaction currency gain arising from the weaker US dollar, improved store labour efficiency and lower operating costs.

We are seeing significant cost increases in energy, logistics and commodities in addition to the impact of widely reported port congestion and road freight limitations. Our businesses are working to offset the impact of these through cost savings. Where necessary, our food businesses will also implement price increases.

With the recovery in Primark's profitability, we expect the Group's effective tax rate to fall next year to a level closer to pre-COVID rates.

We will continue to invest in building the capacity and capabilities of all our businesses. We expect the improvement in Group profitability to deliver another year of strong cash generation.

Taking these factors into account, we expect significant progress, at both the half and full year, in adjusted operating profit and adjusted earnings per share for the Group.

Michael McLintock
Chairman