Financial review

Group performance

Group revenue was in line with last year on a reported basis at £13.9bn. On a reported basis adjusted operating profit of £1,011m was 1% lower than last financial year. In calculating adjusted operating profit, the amortisation charge on non-operating intangibles, profits less losses on disposal of non-current assets, transaction costs, amortisation of acquired inventory fair value adjustments and exceptional items are excluded from statutory operating profit.

The income statement this year included a net charge for exceptional items of £151m. This mainly comprised the impairment of certain plant and equipment in our sugar business. In Spain, our current view for yield and sugar content from beet sugar and lower margins due to the expected increase in future raw refining volumes, resulted in a non-cash exceptional charge of €136m to write-down the net asset value of this business. Given the ongoing trading challenges in some of our smaller sugar businesses, following a review of our projections for the forecast evolution of beet area and yields, we have made a non-cash adjustment of £21m to the relevant net asset values as an exceptional charge this year. An inventory charge of £21m in Primark was taken at the half year which related to the clearance from our stores before reopening after lockdown of certain seasonal items on display and which could not be sold before the end of the season. This provision was used during the second half of the year. Prior year exceptional items included a mark-down provision of £22m for potential damage to Primark inventory stored on our behalf by suppliers for longer than usual as a result of the pandemic. Minimal damage was found and the majority of the provision was released this year.

On an unadjusted basis, statutory operating profit was in line with last year at £808m.

The strengthening of sterling this year against some of our trading currencies resulted in a loss on translation of £36m.

Net finance expense decreased this year due to the repayment of £25m of private placement debt and no RCF interest charges following the repayment of the facility at the end of the last financial year. Profits on the sale and closure of businesses amounted to £20m and profits less losses on sale of non-current assets were £4m.

Statutory profit before tax on a reported basis was up 6% to £725m. On our adjusted basis profit before tax was down by 1% to £908m.

Acquisitions and disposals

In May 2021, the Group's Ingredients business acquired DR Healthcare España, a Spanish enzymes producer for a total consideration of £14m.

During the period the Group contributed £43m to the bakery ingredients joint venture in China with Wilmar International. These businesses were classified as a disposal group and held for sale at the previous year end. In August 2021, the Group agreed the sale, subject to regulatory approval, of a further factory in China to this joint venture and a non-cash reversal of £10m for the impairment of these assets has been included in profit on sale and closure of business.

Closure provisions of £3m relating to disposals made in previous years which are no longer required were released to sale and closure of business in Ingredients and Grocery, both in Asia Pacific.

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.

This year's tax charge on the adjusted profit before tax was £255m at an effective rate of 28.1% (2020 – 28.8%). Based on current tax rates at the time of writing and 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.

Looking ahead beyond next year, we anticipate upward pressure on the effective tax rate due to the impact of corporation tax increases, notably the increase enacted in the UK, and the proposed increase recently announced in Ireland. We continue to monitor developments in other jurisdictions and also in respect of the OECD's BEPS 2.0 proposals.

The total tax charge for the year of £227m benefited from a credit of £27m (2020 - £42m) for tax relief on the amortisation of non-operating intangible assets, amortisation of acquired inventory fair value adjustments, profits on disposal of non-current assets, losses on disposal of businesses and exceptional items.

Earnings and dividends

Earnings attributable to equity shareholders in the current year were £478m and the weighted average number of shares in issue during the year, which is used to calculate earnings per share, was 790 million (2020 – 790 million). Given the marginal decline in operating profits and the reduction in the adjusted effective tax rate from 28.8% to 28.1%, earnings per ordinary share were 5% higher than last year at 60.5p. Adjusted earnings per share, which provides a more consistent measure of trading performance, declined by 1% from 81.1p to 80.1p.

We decided not to declare an interim dividend nor propose a final dividend relating to the last financial year. This was due to the impact of COVID-19 on the Group's cash flow driven by the duration and number of Primark store closures. This year the Board declared an interim dividend of 6.2 pence per share (2020: nil) which was paid on 9 July 2021 to shareholders registered at the close of business on 4 June 2021.

For the full year, the Board has proposed a final dividend of 20.5p per share giving a full year dividend of 26.7p per share. Further, the Board has declared the payment of a special dividend, to be paid as a second interim dividend, of 13.8p 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.

Total dividends for the 2021 financial year would therefore be 40.5p per share at a total cost of £320m.

Balance sheet

Non-current assets of £10.8bn were £0.1bn lower than last year. This was driven by a decrease in the investment in property, plant and equipment and right-of-use assets with depreciation, amortisation and impairments higher than capital expenditure and acquisitions made in the year. This was mostly offset by an increase in employee benefits assets as the surplus in the UK defined benefit pension scheme improved significantly.

Working capital at the year end was marginally higher than last year.

Net cash at the year end excluding lease liabilities was £1.9bn compared with net cash at the end of last year of £1.6bn reflecting the strong operating cash flow in the year. Net debt including lease liabilities was £1.4bn compared with £2.1bn last year.

The Group's net assets of £10bn were £0.6bn higher than last year. 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 higher this year at 9.8% compared with 9.5% last year.

Cash flow

Net cash inflow from operating activities decreased from £1,753m last year to £1,413m this year mainly as a result of the increase in the change in working capital compared to the prior year. Capital expenditure increased by £5m compared to the prior year and £21m was realised from the sale of property, plant and equipment. The net cash outlay on acquisitions and disposals was £23m.

Tax paid in the year amounted to £298m (2020 - £254m). The increase in tax paid was primarily due to the state aid payment of £23m and tax top up payments made due to strong final quarter results at the end of 2020.

Financing and liquidity

The financing of the Group is managed by a central treasury department.

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

The Board has approved a financial leverage policy for the Group. In the ordinary course, 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, it will be prepared to see leverage above that level for a short period of time.

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 reflected the strength of each of the Group's businesses, their diversity, and ABF's strong credit metrics underpinned by a conservative financial policy.

At the year end, the Group had total committed borrowing facilities amounting to £1.5bn, comprising £1.1bn provided under the RCF, £0.3bn of US private placement notes, maturing between 2021 and 2024, and £0.1bn of local committed facilities in Africa. At the year end, £0.3bn was drawn down under the private placement notes and local committed facilities. The Group also had access to £0.5bn of uncommitted credit lines under which £0.1bn was drawn at the year end.

Cash and cash equivalents totalled £2.3bn at the year end, of which centrally available cash on hand was £1.9bn.

The Group holds substantial net cash bank balances, which reduce its net debt, which include lease liabilities, and most importantly ensure that it has sufficient liquidity to meet unforeseen requirements.

Pensions

The Group's defined benefit pension schemes were in surplus by £493m at the year end compared with a deficit last year of £66m. The UK scheme, which accounts for 91% of the Group's gross pension assets, was in surplus by £633m (2020 - £94m). The increase in the UK pension surplus was driven by large asset gains on the pension assets, whereas the defined benefit obligations increased marginally driven by adverse changes in inflation assumptions. The pension surplus for the Group will result in an increased interest income compared to last year, and this will be reported in other financial income.

The last triennial valuation of the UK scheme was undertaken at 5 April 2020 which determined a deficit of £302m. This valuation was performed just after the first COVID-19 measures were introduced. Although we were required to agree a recovery plan with the trustees, in the light of the subsequent asset performance, we do not currently expect to make any payments.

The charge for the year for the Group's defined contribution schemes, which was equal to the contributions made, amounted to £81m (2020 - £79m). This compared with the cash contribution to the defined benefit schemes of £42m (2020 - £37m).

New accounting policies

The following accounting standards and amendments were adopted during the year and had no significant impact on the Group:

- Amendments to IFRS 3 *Definition of a Business*
- Amendments to IAS 1 and IAS 8 *Definition of Material*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 1*
- Amendments to *References to the Conceptual Framework in IFRS Standards*

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