Chief Executive's statement

At the start of this financial year we were staring at some very significant economic and political challenges. International currency markets were subject to extreme volatility and sterling's weakness was damaging Primark's gross margin. Supply chains were disrupted, not least by conflict in Ukraine. Inflation threatened consumer spending. And it was all but impossible to forecast how consumers in our many markets would behave.

Faced with that outlook, we made two decisions. First, that we would work hard and consistently to recover our food margins wherever we could while taking great care to look after our customer relationships. And second, that we would raise prices only selectively at Primark, with the result that the impact of input cost inflation would mean lower Primark profits. To get a sense of the scale of the challenge, we believe that inflation increased costs across the Group by some £1.7bn in this financial year. That follows higher costs of £1bn in the previous year. As always in inflationary cycles, pricing actions lag the impact of rising input costs and, as a result, some of the benefits apparent this year originated from pricing agreed last year.

Today I look back at the twelve months with enormous pride in how the Group navigated those conditions. Revenues increased significantly but what is especially pleasing is how our businesses managed inflation with both consumers and customers in a thoughtful way, without damaging our businesses or those of others in the long run. It was not an easy process, but it was a necessary one, and it was handled with care. As the financial year progressed, inflation eased and some costs began to decline from recent highs, for example in freight, fabric and energy. This is not a uniform picture and inflation remains substantial in some countries in which the Group operates. But in aggregate we believe that the need for price increases in food and Primark are now largely behind us.

So, Group revenue increased to £19.8bn, 16% higher than the previous year. Adjusted operating profit was also higher at £1,513m, an increase over the previous year of 5%. Adjusted earnings per share increased 8% to 141.8p. The fact that profits and earnings per share increased by less than revenues is a clear indication that we have more work to do to rebuild the Group margins.

Against this backdrop our Ingredients business fared very well, with significantly higher adjusted operating profit. Grocery and Sugar also increased profits, albeit more modestly. Faced with challenging markets, profits fell in Agriculture.

The effects of inflation were felt most in our Grocery businesses. We operate in many markets particularly through our international brands - Twinings, Ovaltine, Blue Dragon, Patak's, Jordans and Mazzetti – and we used local consumer insight to manage inflation without overly impacting consumer demand. For the most part our branded product lines secured price increases sufficient to recover cash margins eroded by inflation, and in places we benefited from increased demand for own-label products. Our brands are now also more on the front foot in terms of investment. For example, Twinings plans to roll out campaigns internationally in the coming year while Ovaltine is benefitting from work on product innovation with the further introduction of Ready-to-drink products. Operational delivery also featured in our progress. Mazola and Fleischmann's, our edible oils and yeast brands respectively in the US, had a very strong year with good availability of supply. In particular, I am very pleased with the improvement at Allied Bakeries while recognising we have more work to do.

In Ingredients, the step-up in performance at AB Mauri has been significant. There were a number of good performances across its many geographies due to pricing, resilient volumes and good supply chain management. In fact, many other businesses in the Group benefitted from the experience AB Mauri has gained in the past from operating for years in high inflation environments. We continue to invest in the business to increase capacity and develop new products. ABF Ingredients, our specialty ingredients business, also increased sales well. Most of its businesses are long-term growth opportunities for the Group and much of this year has been focused on stepping up investment in capacity and capability for that growth.

Agriculture had a more difficult year, as did many agriculture businesses across the world. Disease, particularly in pig and poultry, became a more common feature to manage. The imperative is to innovate using both science and technology, and we continue to invest in both AB Vista and our dairy-related businesses to this end.

The year for Sugar could have been torrid. The UK beet harvest was blighted by a sequence of weather events that resulted in one of the lowest levels of sugar production at 0.74m tonnes and this in a year when energy costs were exceptionally high. In addition, Vivergo had a poor start to the year with a perfect storm of challenged industry margins and a difficult operating environment, both of which improved as the year progressed but which resulted in a substantial trading loss for this year. Next year looks much more promising. Illovo, our African sugar business, had a good year despite severe damage to our cane business in Mozambique due to flooding and it made further progress in developing its capability to offer retail packs to local markets. It strikes me that taken as a whole our Sugar business now has more balance due in part to geographical diversification – Illovo and our Spanish sugar business, Azucarera, performed well while our UK businesses struggled somewhat – and even within British Sugar our co-products activity compensated for some of the losses from sugar.

I am delighted by Primark's navigation of what could have been a very difficult year, when volatile inflation threatened to disrupt consumer spending. In the event, the strength of the Primark offer, and our decision to pass on only part of Primark's cost increases in higher prices, stood us in good stead with our customers. Against the same period a year ago, sales reached more than £9bn, 15% higher at constant currency. Our difficult decision not to fully recover costs was fully vindicated, resulting in market share gains. The business has real confidence in its product offering both in the core proposition and in an increasingly impressive range extensions and collaborations, culminating in the collaboration with Rita Ora as the financial year ended. Margins at 8.2% were lower year-on-year, the natural consequence of our pricing decision.

We now have real momentum in our store opening programme and customer enthusiasm for new Primark stores continues. The digital programme is also building well. The roll-out of our enhanced website has been a key component of the programme, but as significant is the way we are organising and connecting our social media and digital marketing activities. Our Click + Collect trial has been extended by range and by geography, and we are adding self-checkout to our stores and automated systems to our warehousing. Last but not least, we are continuing to fit large numbers of low energy lightbulbs into our stores.

Step-up in investment

We spent more than £1 billion in capital as a Group this year. While a minority of that investment is to replace existing plant or facilities or to meet regulatory requirements, most of the investment is aimed at growth.

Among our ongoing capital projects for our food businesses is the exciting build of a new sugar factory in Tanzania, the completion of 17 decarbonisation projects across various sugar processes, completion of a new animal feed mill in Western Australia, reconstruction of a bakery for Tip Top also in Western Australia, further investment in core technology platforms for Grocery, and initiation of investment in a production facility in Nigeria for Ovaltine to serve markets across West Africa.

In Primark, capital investment was also substantial. The company made considerable progress with its store expansion programme, now back at some 1 million sq ft of retail space a year with the associated logistics investments. We are also deploying technology in our digital roll-out and in areas such as self-checkouts and automated warehousing.

More broadly we continue to invest across the Group in technology and innovation, not just in core operating systems but also increasingly in more innovative solutions for our businesses.

We continue to expect at least this level of investment in the medium term.

People

I am immensely proud of the efforts of all our people in ABF who have worked hard in difficult economic circumstances made worse in some parts of the world by particularly bad weather. We continue to work very hard indeed to build a company where everyone feels welcome and included.

In August we announced that Paul Foster, Managing Director of Mauri Australia, would succeed Stuart Grainger in November as Chief Executive of George Weston Foods following Stuart's decision to retire from the role. Stuart joined ABF in 1995 and since 2008 he has been in Australia where he has transformed our businesses. I'd like to thank Stuart for being such an effective steward of the Group's assets on the other side of the world.

ESG

As a Group we have a clear sense of our social purpose. We work hard to provide safe, nutritious and affordable food and good quality, affordable clothing to millions of customers every day. At the heart of this purpose lies a devolved business model that empowers our managers to make the right decisions. This year saw significant progress across a wide range of ESG activities and actions designed to deliver on our previously published commitments.

Of particular note were the steps taken this year to advance the decarbonisation of British Sugar. These investments, detailed later in this report under the Operating Review for ABF Sugar, are part of a broader strategy to cut Scope 1 and 2 GHG emissions at ABF Sugar by 30% by 2030. ABF Sugar accounts for some 82% of the energy used by the Group in our own operations, making its progress in decarbonisation critical to the delivery of commitments on GHG emissions. By the end of this calendar year, reduction targets for Scope 1, 2 and 3 emissions at ABF Sugar should be validated by the Science Based Targets initiative (SBTi). Primark's targets for GHG emission reductions have already been validated by the SBTi this year.

We recognise that water is a vital resource. We have carried out a high level water risk assessments for our Group operations using recognised methodologies and we are working steadily to reduce our water footprint. A significant amount of our water use occurs in crop irrigation and we are focused on improving the efficiency of this process. We have recently approved a large-scale irrigation project which could bring significant benefits.

The year has shown us the potential impact of extreme weather. Our businesses are adapting and building resilience. They are also supporting social and environmental interventions on farms globally, with management models that include certified organic production, standards to promote wildlife biodiversity, and engagement with smallholder growers in developing markets.

We understand that making progress in our supply chain, which is extensive, requires sustained and focused work over time. For that reason it is gratifying to note that the Primark Sustainable Cotton Programme celebrated its 10^{th} anniversary this year. This year alone, Primark sold more than 337 million products made from this cotton, at the end of July this year, 299,388 farmers had taken part in the training programme. This feels like very tangible progress, although there remains more to do of course.

Looking ahead

The Group is in very good shape. Its diversification, its strong positions in attractive markets, and the calibre of its management teams will stand it in good stead in the year ahead. But more than that, the operational improvements that we have made in the last 12 months, along with investment in new capacity and capabilities, should enable the Group to make very meaningful financial progress. Primark is as well placed as it has ever been, and our food businesses are as strong as ever. I look forward to this year with pleasurable anticipation.

George Weston
Chief Executive