George Weston
Chief Executive

OUR FINANCIAL PERFORMANCE THIS YEAR MORE THAN EVER DEMONSTRATES THE RESILIENCE OF THE GROUP

This comes from the strength of our brands, the diversity of our products and markets, our geographic spread, conservative financing and an organisation design that permits fast and flexible decision-taking.

I am proud of how our people have responded to the many challenges presented by COVID-19 this year. All of our people demonstrated care, good judgement and immense hard work.

At the time of our half year we had lost two of our employees to COVID-19. Now we have lost nine. We mourn them all.

Our financial performance this year more than ever demonstrates the resilience of the group. This comes from the strength of our brands, the diversity of our products and markets, our geographic spread, conservative financing and an organisation design that permits fast and flexible decision-taking.

Group revenue reduced by 11% to £13.9bn at constant currency, with the reduction mainly seen in the third quarter driven by the total loss of sales for the three-month period in which Primark's stores were closed. The decline in adjusted operating profit was a consequence of this and at £1,024m was 30% lower than last year on an IFRS 16 pro forma basis at constant currency. So far COVID-19 has cost the group some £2bn of sales, £650m in lost profit and a cash outflow of £800m.

Our food businesses delivered an outstanding performance this year and throughout the pandemic we have provided safe, nutritious food under the most extraordinary conditions, proving the value and resilience of our supply chains. The adjusted operating profit of Grocery, Sugar, Agriculture and Ingredients combined increased by a very strong 26%, with each of these business segments growing their profits.

Sugar delivered a material increase in adjusted operating profit, driven mainly by our European businesses, with the benefit of the anticipated strong recovery in European sugar prices. British Sugar operating profit and return on capital employed improved significantly from the unacceptable levels seen over the two years after the abolition of EU sugar quotas in October 2017. Our Spanish and Chinese businesses also took some good steps forward and we have plans for further improvement to achieve acceptable returns. Illovo's performance this year was disappointing and was mainly driven by a decline in demand in the developed South African sugar market. We have now closed our Umzimkulu sugar mill in South Africa. Demand for sugar is expected to grow in all the developing markets in the region and we will increase our domestic and regional sales while benefiting from profit improvement programmes across Illovo.

Grocery delivered a strong improvement in adjusted operating profit with a 15% increase at constant currency to £437m. Over the last five years our Grocery businesses have shown considerable growth with operating margin improving over that period from 9.0% to 12.4% this year. This has been achieved through a combination of great brands, new product development and innovation, cost efficiencies and successful acquisitions. Acetum, our Italian balsamic vinegar business acquired in October 2017, and more recently Yumi's and Anthony's Goods, are all thriving. Twinings Ovaltine is the biggest profit contributor to Grocery and has long been an outstanding growth story and this year was no exception. George Weston Foods continued to make good progress and ACH had an outstanding year. Allied Bakeries delivered a substantial cost reduction this year, following the loss of a major customer. A further restructuring of our bakery and associated logistics operations is planned for next year.

Operating profit for Ingredients was well ahead, driven by AB Mauri which responded to an increase in demand, in some markets an exceptional increase, for its yeast and bakery ingredients. I am pleased that our joint venture in China with Wilmar International has now commenced operation. The combination of our technical expertise with Wilmar's extensive sales and distribution capability has great potential. ABF Ingredients continued to invest in its research and development capability and the enzymes business delivered strong growth.

Turning to Primark, the business performed well in the first half of the year, achieving further UK market share growth and a much improved sales performance in Europe. The progress in Germany was notable. However, in March we were required to close all our stores due to COVID-19 and our focus moved to managing the human and operational consequences. Mitigating the significant cash outflow was a huge task. Every area of the business was scrutinised. Discretionary spend was cut, we accessed support from the UK and European government job retention schemes, we worked with all Primark's counterparties including suppliers and landlords, and most Primark employees took a reduction in salary while the stores were closed. As a result monthly overhead costs were reduced by 50%.

Great care was taken in planning for the reopening of our estate. We prioritised measures to safeguard the health and wellbeing of everyone in store and to instil confidence in our store environment. These measures enabled customers to move freely through our stores, exploring the merchandise on display, with little hindrance whilst ensuring the maintenance of social distancing. Primark received an overwhelmingly positive response when we reopened our doors. The queues outside most of our stores on reopening days, the excitement of our customers and their comments about affordability that we both heard and read, reaffirmed the relevance and value of Primark's offering. We also opened nine new stores in the second half, including our first store in Poland.

Trading since reopening has been robust, delivering £2bn of revenue in the period until the end of the financial year. Most encouraging is that despite the disruption to our trading, UK market share data for sales in all channels shows that we have returned to at least our pre-COVID-19 level. From the time of reopening to the year end the number of transactions has improved, driven by increasing footfall.

Primark sales reflect the way that people live their lives. Sales were ahead of pre-COVID-19 levels in children's, leisure and nightwear and weak in formal menswear and travel accessories. By store, trading has varied reflecting the current circumstances of our customers including homeworking, less commuting and much less tourism. Sales at our stores in retail parks are higher than a year ago, shopping centres and regional high street stores are broadly in line with last year, and large destination city centre stores which are heavily reliant on tourism and commuters have, not surprisingly, seen a significant decline in footfall.

Since reopening the lower level of sales compared to pre-pandemic levels reflects consumer demand.

Over the coming year Primark sales will continue to reflect the broader trend in consumer demand. The autumn/winter season and the run up to Christmas is important to the retail sector. Our stores have exciting seasonal ranges which are already proving a success with our customers. However, at the time of writing, governments are increasing the restrictions on the movement of people and trading activity. In some parts of Europe and the UK this has led to a reduction in trading hours or the temporary closure of stores. In England, temporary store closures are expected from 5 November. Uncertainty during a significant trading period remains.

Over the past six months we have developed a flexible set of responses across the group and are ready to deploy these as required in response to future government restrictions.

Our businesses have completed all practical preparations should the UK exit the Brexit transition period with or without a trade deal. Primark operates largely discrete supply chains for its stores in each of the UK, US and Europe and the group's food production is largely aligned with the end market. As a result, there is relatively little group cross-border trading between the UK and the EU. Contingency plans are in place should some of our businesses experience disruption.

We have the people and the cash resources to meet the challenges ahead and we are investing for the future.

George Weston
Chief Executive

OUR PEOPLE DEMONSTRATED CARE, GOOD JUDGEMENT AND IMMENSE HARD WORK THIS YEAR

With fewer people working on site in our factories, stores and offices – due to isolation, shielding or social distancing measures – our employees worked together to find solutions, meet increased customer demand and deliver for our stakeholders in the year.

Many of our grocery businesses had to deliver unprecedented volumes as demand for household groceries increased and people found themselves eating three meals at home every day. At peak demand Allied Bakeries saw a 13% increase in bread production, sales of Patak's sauces increased by 45%, Blue Dragon meal kits by 75% and flour demand was up by 200%.

→ Read more about Grocery from page 22

375 STORES

All of Primark's 375 stores reopened over May, June and July, including the reopening of 153 stores in one day, on 15 June, in England.

→ Read more about Retail from page 54

150%

Consumer demand for yeast increased significantly across North America during COVID-19. By August AB Mauri North America had increased its production capacity by 150%.

→ Read more about Ingredients from page 48

3,000 GROWERS

British Sugar completed Europe's longest ever continuous sugar processing campaign, delivering 7.8 million tonnes of beet, in 290,000 deliveries, from more than 3,000 growers in the 208-day campaign.

→ Read more about Sugar from page 34

Following the acquisition of CowConnect, a weighing system and feeding solution business, in March 2020, AB Agri combined CowConnect with its existing nutrition and farm performance platform to create a world-leading feed management solution for the dairy industry.

→ Read more about Agriculture from page 42