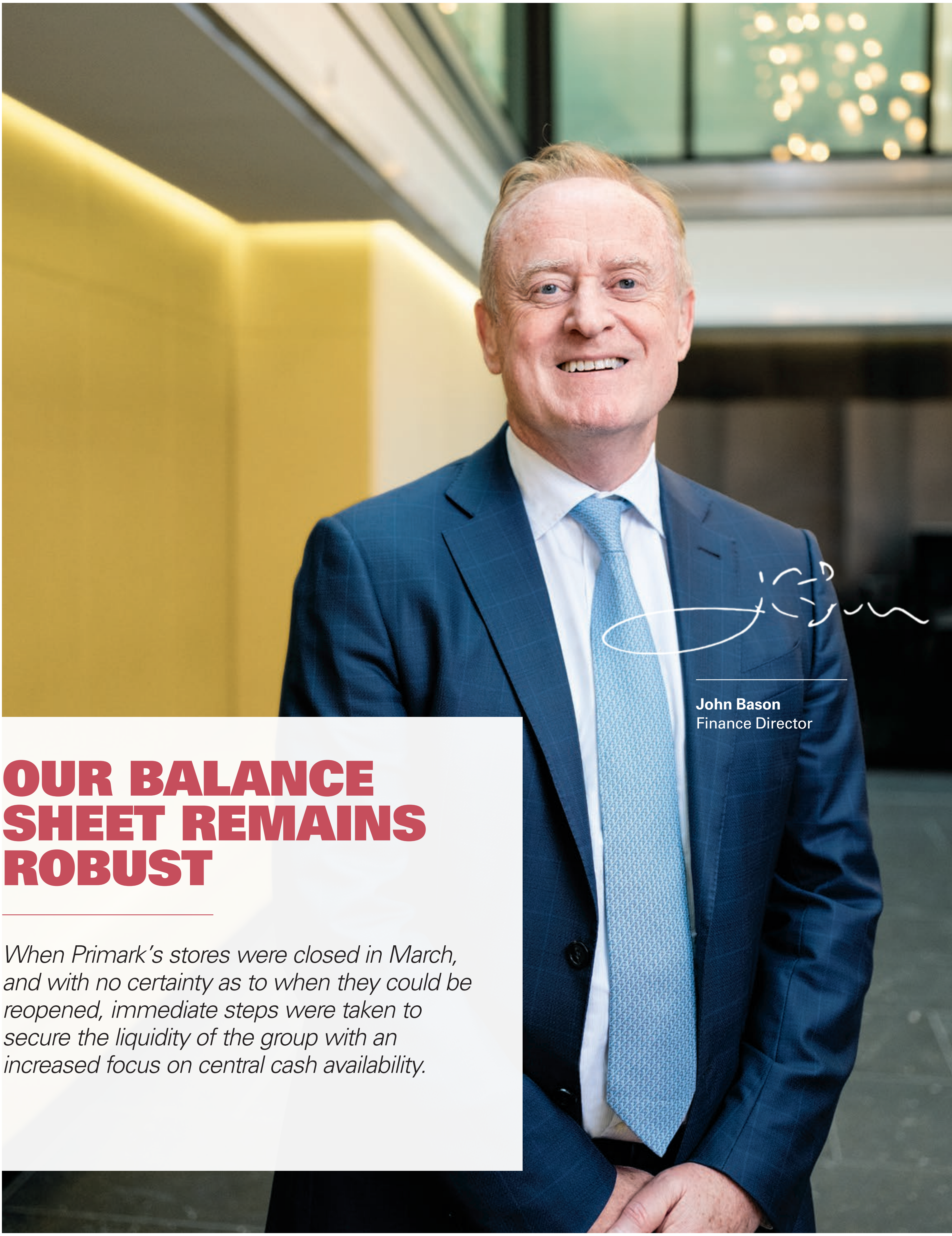

John Bason
Finance Director

OUR BALANCE SHEET REMAINS ROBUST

When Primark's stores were closed in March, and with no certainty as to when they could be reopened, immediate steps were taken to secure the liquidity of the group with an increased focus on central cash availability.

Group performance
Group revenue reduced by 12% on a reported basis to £13.9bn mainly as a result of the total loss of sales for the period in which Primark's stores were closed. On a reported basis adjusted operating profit was 28% lower at £1,024m. These financial statements adopt IFRS 16 *Leases* in the current year and under our chosen transition option the prior year has not been restated. Adjusted operating profit for last year on an IFRS 16 proforma basis would have been £61m higher than the £1,421m reported. Comparative adjusted operating profit for the business segments on an IFRS 16 pro forma basis is set out in the operating review. In calculating adjusted operating profit, the amortisation charge on non-operating intangibles, profits or 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 includes exceptional items of £156m. £116m relates to a one-time non-cash asset write-down of Primark stores. At the half year we recognised an exceptional charge of £284m as a provision against the carrying value of Primark's inventory. At the time of the announcement, the dates for the reopening of Primark stores were not known and over half of the provision related to stock which was on display in the closed stores. The earlier reopening of the stores and subsequent successful trading of the spring/summer inventory avoided the need for this provision. At the year end a markdown provision of £22m was created for inventory stored on our behalf by suppliers for longer than usual as a result of the pandemic. In the light of the beet volumes contracted by Azucarera in the second crop year after reducing the beet price, we have revised our financial forecasts for this business. This has resulted in a one-time non-cash write-off of goodwill of £23m as an exceptional charge. Insurance proceeds of £30m more than offset the £25m costs of the closure of our Speedibake Wakefield factory following the fire in February.

On an unadjusted basis, statutory operating profit was 37% lower than last year at £810m.

The strengthening of sterling this year against some of our trading currencies has resulted in a loss on translation of £16m. The transactional effect in the movement in the US dollar on Primark's largely dollar-denominated purchases was negligible. Next year, based on the current US dollar exchange rates, we expect a positive effect on the Primark margin in our second half.

Net finance expense increased this year due to the inclusion of lease interest of £84m following the adoption of IFRS 16. The reduction in other financial income reflected the reduction in the surplus of our defined benefit pension schemes between the 2018 and 2019 year ends. Losses on the disposal of three small businesses amounted to £14m and profits less losses on sale of non-current assets were £18m.

Statutory profit before tax on a reported basis was down 42% to £686m. On our adjusted basis profit before tax was down by 35% to £914m.

Acquisitions and disposals
AB World Foods acquired the Al'Fez brand, AB Agri acquired small farm data and technology businesses in Denmark and Northern Ireland and Ingredients acquired Larodan for a combined consideration of £19m.

Following regulatory approval the AB Mauri joint venture in China with Wilmar International commenced operations just after the year end.

The three small businesses disposed of this year were the Australian cake business, Jasol New Zealand and a small bakery in Wuhan, China. Total proceeds were £2m.

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 £263m at an effective rate of 28.8% (2019 – 21.5%). The increase in the effective tax rate was a result of the much lower Primark profits in the UK and Ireland. Based on corporation tax rates at the time of writing, we expect next year's effective tax rate to decrease from this level to some 25% as Primark's profitability is expected to recover.

The total tax charge for the year of £221m benefited from a credit of £42m (2019 – £25m) for tax relief on the amortisation on 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 £455m and the weighted average number of shares in issue during the year, which is used to calculate earnings per share, was 790 million (2019 – 790 million). Given the decline in operating profits and exceptional items charged this year, earnings per ordinary share were 48% lower than last year at 57.6p. Adjusted earnings per share, which provides a more consistent measure of trading performance, declined by 41% from 137.5p to 81.1p.

No interim dividend was paid this year. As stated in the Chairman's statement the dividend consideration was based on Primark's trading experience this year and, at the time of writing, the increasing restrictions in a number of Primark's major markets. On balance the Board has elected not to propose a final dividend for the year.

Balance sheet
The adoption of IFRS 16 *Leases* at 15 September 2019 resulted in the recognition of £3.2bn of non-current right-of-use assets and £3.7bn of lease liabilities, together with a reduction in other liabilities of £0.3bn. The following commentary reflects balance sheet movements in the year excluding those arising on the adoption of IFRS 16.

Non-current assets of £10.9bn were £0.5bn lower than last year. This was driven by a decrease in the investment in property, plant and equipment, right-of-use assets and intangible assets with depreciation, amortisation and impairments higher than capital expenditure and acquisitions made in the year. There was also a reduction in employee benefits assets as the surplus in the UK defined benefit pension scheme declined.

Working capital at the year end was lower than last year. Working capital in the food businesses was much lower than last year as a result of strong demand for our products in the second half. Primark's working capital was also lower with goods for the autumn/winter season ordered later than usual this year.

Net cash at the year end excluding lease liabilities was £1.56bn compared with net cash at the end of last year of £936m reflecting the strong operating cash flow in the year. Net debt including lease liabilities was £2.1bn compared with £2.7bn at the date of transition to IFRS 16.

The group's net assets are broadly unchanged at £9.4bn. 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 lower this year at 9.5% compared with 13.8% last year on an IFRS pro forma basis, driven by the reduction in Primark's profit.

Cash flow
Net cash inflow from operating activities increased from £1,509m to £1,753m. The removal of some £300m of lease payments from this measure, following the adoption of IFRS 16, and the reduction in working capital described above more than offset the lower operating profit. Capital expenditure reduced by £115m compared to the prior year with some projects delayed by the restrictions arising from COVID-19. £30m was realised from the sale of property, plant and equipment. The net cash outlay on acquisitions and disposals was £14m.

Tax paid in the year amounted to £254m (2019 – £269m). The impact this year of the acceleration of the phasing of quarterly payments to HMRC, such that all of the tax due for a year is payable in that year, was more than offset by the lower tax payable as a result of the reduction in the group's profit.

Financing and liquidity
The financing of the group is managed by a central treasury department.

When Primark's stores were closed in March, and with no certainty as to when they could be reopened, management action was taken immediately to secure the liquidity of the group and the focus on central cash availability was increased. The group's Revolving Credit Facility (RCF) was drawn down to protect against the possibility of a banking liquidity crisis. We considered it to be prudent to seek a waiver for the RCF covenant test for February 2021 from our relationship banks and this was confirmed on 8 April. Access was granted to the Bank of England Covid Corporate Financing Facility (CCFF) on 15 April. Our Interim Results Announcement on 21 April confirmed the adoption of the going concern basis in preparing the condensed consolidated interim financial statements.

In August a two-year extension to the RCF was agreed, extending its maturity to July 2023, and the facility was repaid in full. The waiver of the RCF covenant test for February 2021 remains in place. The CCFF was not utilised during the financial year. We do not intend to use it and as a result will allow our eligibility to lapse on 31 December 2020.

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. This excludes the CCFF which we expect to expire shortly. At the year end, £0.4bn 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 £2.0bn at the year end of which available central cash on hand amounted to £1.6bn.

Pensions
The group's defined benefit pension schemes were in deficit by £66m at the year end compared with a surplus last year of £33m. The UK scheme, which accounts for 91% of the group's gross pension assets, was in surplus by £94m (2019 – £220m). The reduction in the UK pension surplus was driven by the decline in long-term UK bond yields during the year. These yields increased the value of the defined benefit obligations for accounting purposes and so decreased the UK pension surplus. The pension deficit for the group will result in an interest expense next year compared to an interest income this year, and this is reported in other financial income.

These accounts reflect the triennial valuation of the UK scheme undertaken at 5 April 2017 which determined a surplus of £176m on a funding basis. As a result there was no requirement to agree a recovery plan with the trustees. The latest triennial valuation at 5 April 2020 has not yet been finalised but we expect this valuation to lead to a moderate deficit.

The charge for the year for the group's defined contribution schemes, which was equal to the contributions made, amounted to £79m (2019 – £80m). This compared with the cash contribution to the defined benefit schemes of £37m (2019 – £50m).

New accounting standards

The accounting policies applied during this financial year, and details of the impact of adoption of new accounting standards in future financial years, are set out in the Significant accounting policies.

The following accounting standards were adopted during the year and had no significant impact on the group other than IFRS 16 *Leases*:

- IFRS 16 *Leases*
- IFRIC 23 *Uncertainty over income Tax Treatments*
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *Annual Improvements to IFRS 2015-2017*

The group adopted IFRS 16 *Leases* this year, which is the most significant accounting change for our group for many years. It has affected many aspects of the group's financial statements, including operating profit, earnings per share and net debt, as well as return on capital employed.

The vast majority of the lease liabilities relate to Primark's leasehold store estate. The effect on our food businesses, where many of our properties are owned under freeholds, is much less significant.

We transitioned using the 'modified retrospective' approach, under which the comparative period is not restated. The effects of adopting IFRS 16 at our transition date of 15 September 2019 and the 2019 results on an IFRS 16 pro forma basis are set out in the Significant accounting policies.

We recognised lease liabilities at transition of £3.7bn and right-of-use assets of £3.2bn.

The pro forma effect on group and Primark metrics for 2019 was as follows:

- The balance sheet at transition would have shown net debt including lease liabilities of £2.7bn.
- Adjusted operating profit in 2019 would have increased by £61m, with rental expense replaced by depreciation of right-of-use assets.
- Interest expense in 2019 would have increased by £82m of interest charged on lease liabilities.
- Adjusted profit before tax in 2019 would have reduced by £21m.
- Adjusted earnings per share would have reduced by 2% from 137.5p to 135.4p.
- Primark's margin would have increased from 11.7% to 12.4% due to higher adjusted operating profit, with store rental expense replaced with a depreciation charge on right-of-use assets.
- Primark's return on capital employed would have decreased from 29% to 15%, as right-of-use assets are now included in capital employed.

There is no change to overall net cash flows and while this is a significant change in financial reporting, our business model remains unchanged and our balance sheet remains robust.

John Bason
Finance Director