9 July 2015

Associated British Foods plc
Trading update

Associated British Foods plc today issues a trading update for the 40 weeks to 20 June 2015. The Financial Conduct Authority has removed the requirement for listed companies to publish interim management statements. This trading update summarises the significant trading developments since the last market update.

Trading performance

Group revenue for the 40 weeks ended 20 June 2015 was 2% ahead of the same period last year at constant currency, and was level at actual exchange rates.

During the current financial year, against a basket of currencies, the euro has weakened significantly and the US dollar and sterling have both strengthened. Movements in currency exchange rates in the current financial year have primarily affected the translation of overseas results into sterling, the full year impact of which is still expected to be in the order of £25m if current rates persist.

Our earnings expectation for this financial year is unchanged and reflects a modest decline in adjusted earnings per share for the group for the full year.

Grocery

The performance of our grocery businesses remains on track. Twinings Ovaltine has made further profit progress since the half year. The meat business at George Weston Foods in Australia has improved as expected with lower raw material cost, higher volumes and much lower factory production costs. Allied Bakeries is successfully increasing its volumes and is rebuilding Kingsmill's presence in Tesco, although its margins remain under pressure.

Ingredients and Agriculture

The profit recovery in Ingredients is continuing and our Agriculture businesses have maintained the strong momentum of last year.

Sugar

The UK campaign in 2014/15 produced 1.45 million tonnes of sugar and benefited from a large crop, excellent factory performances and good extraction rates. The new crop for the 2015/16 season has made good progress but, with a reduction in the area under cultivation in excess of 20%, sugar production is expected to be closer to 1.0 million tonnes leading to a fall in our quota stock levels. Quota stocks are now reducing across the EU and with lower production forecasts generally across the region, further reduction is expected next year.

As quota sugar stocks reduce, EU sugar prices, as reported by the European Commission, have shown some signs of recovery, albeit moderated by continued low world sugar prices. Delivered beet costs for the 2015/16 campaign will be some 20% lower than the current year. Negotiations for the 2016/17 UK beet price are now complete which will see a further substantial cost reduction.

A decline in Illovo's operating profit is expected for their financial year ending 31 March 2016. Continued drought during the growing season in South Africa has led to a reduction in production forecasts and export markets continue to be very challenging. We continue to focus on domestic and regional sales to mitigate the effect of lower world and EU prices.

In China there has been a recovery in market prices and profitability has improved as a result. Negotiations to sell the BoCheng beet sugar factory in Heilongjiang, that was closed earlier this year, were concluded successfully at the end of May and completion is expected soon. As a result, the cost of ceasing operations in this region has reduced by £17m from the expectation at the half year, to £99m, almost all of which is a non-cash charge.

Vivergo Fuels
In May we completed the acquisition of BP's 47% interest in Vivergo Fuels Limited for a nominal consideration. Vivergo Fuels was formed in 2007 as a joint venture between ABF and BP, which had equal shares, and DuPont, to develop a world-scale wheat-fed bioethanol plant at Saltend, Hull. An exceptional, non-cash, charge of £75m has been taken in the second half as a consequence of the accounting requirements on the acquisition of BP's interest.

The bioethanol market is currently weak and we foresee that we may need to run this plant at a small loss in the short term. By employing a more flexible business model Vivergo will be better able to limit the extent of any operating losses. However, as inclusion levels in fuel gradually increase towards EU mandated targets by 2020, the European ethanol market is forecast to move from surplus to deficit which we expect to lead to a price increase over time. As an existing supplier of grain to the business through Frontier Agriculture and as the seller of distillers' grains through AB Connect, we are well placed to maximise the returns from this business. The opportunity to increase our ownership of a well-invested, cost-competitive asset on attractive terms, with a much more promising medium to long-term outlook, was therefore persuasive.

Retail
Sales at Primark in the 40 weeks of the year to date were 13% ahead of last year at constant currency, driven by an increase in selling space of 8% and by very high sales densities in stores opened in the last year. As a result of the weakening of the euro against sterling, total sales were 9% ahead of the same period last year at actual exchange rates.

Sales on a like-for-like basis in the last 16 weeks were in line with last year's very strong comparatives and continue to be held back by the impact that opening new stores in the Netherlands and Germany has had on existing stores in the region. Spain, Portugal and Ireland all performed very strongly and the UK continued to deliver a positive like-for-like performance. Our stores in France, which are excluded from the like-for-like measure, have also continued to trade very strongly.

Retail selling space has increased by 0.6 million sq ft since the beginning of the financial year and at 20 June 2015, 287 stores were trading from 10.8 million sq ft of retail selling space. Since the half year we have opened three new stores: Kaiserslauten and Braunschweig in Germany and Hasselt in Belgium. We closed our store on The Headrow in Leeds, following the success of the 81,000 sq ft store opened in the nearby Trinity shopping centre in December 2013, and we also closed two very small stores in Margate and in Naas in the Republic of Ireland. The net selling space added in the last 16 weeks was less than the same period last year which accounts for the reduction in selling space growth from 11% in the first half to 8% for the year to date.

As previously indicated, we expect to add a further 0.3 million sq ft of selling space by the end of the financial year. Preparations are well advanced for the opening of our first US store, in September 2015, at Downtown Crossing in Boston. Our European expansion will continue with the opening of up to three stores in Italy, the first of which is planned to open in early summer 2016 in a new shopping centre in Arese, northwest of Milan.

Significant investment continues to be made in our warehouse infrastructure. Our warehouse in Bethlehem, Pennsylvania is being prepared for the Boston store opening and, following expansions in Torija in northern Spain and Mönchengladbach in Germany earlier this year, we will also open a new warehouse this autumn in Bor on the western border of the Czech Republic. Next year we plan to relocate our UK warehouse capacity from Magna

Park to Islip in Northamptonshire, near to our existing warehouse at Thrapston, and there will be some dual running costs for a short period.

Primark sources much of its merchandise in dollars and as already indicated, the US dollar's strength, particularly against the euro, will have an adverse effect on margins in the new financial year. However, as anticipated, a good proportion of the impact has been successfully mitigated by our buying teams as they firm up orders for next year.

Looking ahead
As previously indicated, the impact of currency on results for the next financial year will be more significant than this year and arises from transactional currency exposures, primarily in British Sugar and Primark.

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