14 January 2016

Associated British Foods plc
Trading update

Associated British Foods plc today issues a trading update for the 16 weeks to 2 January 2016 summarising the significant trading developments since the last market update.

Group revenue

Group revenue for the 16 weeks ended 2 January 2016 was 3% ahead of the same period last year at constant currency, and was 2% behind at actual exchange rates.

Retail

Sales at Primark were 7% ahead of last year at constant currency in line with the increase in retail selling space over the year. As a result of the weakening of the euro against sterling, total sales were 3% ahead of the same period last year at actual exchange rates. The like-for-like sales performance in the first seven weeks of the financial year was strong, benefiting from comparison with a weaker performance in the prior year when the autumn was unseasonably warm. In the following nine weeks, like-for-like sales were weaker as a result of warmer and wetter weather across Europe, leading up to and over the Christmas period. As expected, the impact on like-for-like sales of new store openings in northern continental Europe was much reduced, and total sales in this region were well ahead of last year.

As expected, operating profit margin in the period was lower than last year, as a result of the stronger US dollar. However, the margin reduction was lower than initially envisaged as a result of both an excellent performance from our buying teams and a lower level of markdowns arising from a well-managed stock position.

Retail selling space has increased by 0.4 million sq ft since the financial year end and at 2 January 2016, 299 stores were trading from 11.5 million sq ft of retail selling space. We opened six new stores in the period including a flagship, 133,000 sq ft store on Gran Via in central Madrid in October and our second store in the US at the King of Prussia mall in Pennsylvania. We expect to open a further six stores in the US later this calendar year. In addition, in calendar 2017, we now expect to open a 70,000 sq ft store in the American Dream shopping mall in New Jersey. Our plans are well advanced for the opening of our first store in Italy, at Arese north-west of Milan, early this summer and we will also add a store in a mall north of Florence by the summer of 2017. We now expect the increase in selling space for the current financial year to be some 1.4 million sq ft with a later phasing of handover of two US stores.

Our new 1.1 million sq ft UK warehouse in Islip, Northamptonshire is currently under construction and will open by summer 2016, with migration of operations from Magna Park taking place over the following months. Our warehouse in Roosendaal, Netherlands is also under construction and will open later in the year.

Sugar

2015/16 is forecast to be the first year of global sugar deficit for five years which has resulted in some improvement in world prices. A tightening of EU and Chinese stock levels has strengthened prices in those markets although, with most EU contracts for the current year already agreed, there will be no material impact on the profitability of our European sugar operations until next year.

AB Sugar continues to make good progress with its Performance Improvement Programme which is expected to yield further significant gains in the coming year.

The UK crop for the 2015/16 season has made good progress. After the record crop of 1.45 million tonnes last year, a smaller area was contracted for cultivation this year. With a return to more typical beet yields, this will see sugar production just short of 1.0 million tonnes. Operating performance has remained very strong across all sites with the campaign expected to be complete by early February.

The northern Spanish campaign at Azucarera has started well and total beet sugar production is currently expected to be 440,000 tonnes, 10% ahead of last year. Additionally, 25,000 tonnes will be produced from the refining of cane raws at the northern beet factories.

Operational performance at our two beet factories at Zhangbei and Qianqi in north China has been strong, with a record beet supply to both plants. In the south, production levels are lower due to a combination of a smaller area assigned to the cane crop, excessive rain affecting cane maturity and poor sugar content within the cane.

Illovo's total production is expected to be slightly lower than last year with volumes affected by exceptional and sustained drought in South Africa, and hydro-electric power outages restricting cane irrigation in Zambia. Although currency devaluation in the region has made local market conditions challenging, some of the effect has been mitigated by domestic price increases.

The Vivergo bioethanol plant has focused on maintaining an efficient and consistent operating performance which, combined with improving bioethanol prices, has led to some improvement in the outlook for the business this year.

Grocery

Grocery has made further margin progress. Twinings Ovaltine achieved strong sales growth in Australia and an improvement in Thailand. Trading at George Weston Foods in Australia was much improved continuing the momentum of last year with a much better performance from the Don KRC meat business. Allied Bakeries achieved a substantial increase in sales volumes although pricing and margins remain challenging.

Agriculture and Ingredients

Revenue in our agriculture businesses was affected by lower sugar beet feed volumes and the continuation of lower commodity prices.

Ingredients has made further substantial profit progress this year, following last year's strong performances at AB Mauri and our speciality ingredients businesses.

Currency

Sterling has continued to be stronger than last year against most of our major trading currencies with the notable exception of the US dollar. The major effect of this will be evidenced in the operating profit margin at Primark and in holding back profit improvement at British Sugar both of which have been well highlighted. Our estimate of the translation impact on adjusted operating profit for the full year is a reduction of some £25m.

Trading outlook

The underlying trading outlook for the group is unchanged.

Investment in expansion opportunities will continue, most notably for Primark, and there is increasing evidence that our expectation of stability in sugar profit ahead of EU quota removal in 2017 will be realised. There is no material change to our view on the likely net impact on the translation of our overseas results and also on the transactional exposures. We therefore continue to expect currency pressures to lead to a modest decline in adjusted operating profit and adjusted earnings for the group for the full year.

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