

9 September 2013

Associated British Foods plc

Pre Close Period Trading Update

Associated British Foods plc issues the following update prior to entering the close period for its full year results, 52 weeks to 14 September 2013, which are scheduled to be announced on 5 November 2013.

The group's adjusted operating profit for the second half will be ahead of expectations delivered by a strong finish to the year from Primark. As expected, net interest expense in the second half will be well below last year's charge and the underlying tax rate for the year will be slightly lower than that used in the interim results, and last year, reflecting the further reduction in the UK corporation tax rate. Adjusted earnings per share for the full year will show good progress.

Net Debt

The cash inflow before financing will be strong again this year. This will be driven by higher profit and lower capital expenditure partly offset by higher tax and dividend payments. Despite the adverse effect of currency movements on the translation of foreign currency borrowings, year end net debt is expected to be some £0.9bn compared with £1.1bn last year.

Sugar

Revenue and adjusted operating profit for AB Sugar for the full year will be in line with management expectations.

British Sugar produced 1.14 million tonnes of sugar, lower than last year's 1.32 million tonnes as a result of poor growing conditions during 2012 which led to lower beet yields and sugar recovery. Sugar prices generally remained strong in the second half, consolidating the full year impact of last year's price increases. Looking forward to 2013/14, crop yields are expected to be slightly below average but we expect sugar production to at least achieve sales quota and to meet our bioethanol requirement. Beet costs for the forthcoming financial year were agreed in June 2012 at levels similar to those incurred in the campaign in this financial year.

In Spain, sugar beet volumes were lower than last year with a reduction in the area planted in the north in April 2012. Heavy rains in the spring led to a delay in the completion of the campaign until the second week of May. Total beet sugar production was 404,000 tonnes, down from 468,000 tonnes in the previous year. 242,000 tonnes of imported raw sugar was refined at Guadalete and a further 95,000 tonnes was co-refined at the northern beet plants.

Current negotiations with our EU customers regarding prices for the 2013/14 marketing year are proving challenging with an increasingly negative sentiment driven by the higher availability of sugar with the conversion of non-quota sugar to quota, additional tariff rate quotas for raw sugar imports and low world sugar prices.

In June 2013, the European Council of Ministers confirmed that existing quota arrangements would continue until 30 September 2017 when sugar quotas for domestic production would end. Beyond 2017 we expect to see continued pressure on European prices but, as a well invested business and one of the world's lowest cost producers, we believe we are well placed to succeed in this market. Tariffs for sugar imports into the EU are not affected.

Illovo sugar production of 1.84 million tonnes for the financial year, compared to 1.77 million tonnes last year, reflecting further recovery in the South African crop and good performances from the recently expanded facilities in Swaziland and Zambia. Prices have generally been stable although increased levels of imports into Tanzania and South Africa have brought some price pressure in these two countries. Pressure on prices across the region is expected to increase in the coming year.

In China, sugar production in the south was higher than last year at 500,000 tonnes, principally due to an increase in the planted area, and in the north was in line with last year at 277,000 tonnes. An increase in sugar supply, from high levels of imports and improved domestic production, led to lower sugar prices. As a consequence, our business sustained a significant loss in the year and has embarked upon a major cost reduction and factory efficiency programme. This included, in the first half, the decision to mothball our Baolongshan and Wangkui factories at the end of the campaign with a non-cash charge of £22m. With exceptionally high Government intervention stockholdings, the price outlook remains challenging. 2013/14 will see the last campaign for the beet factory at Chifeng ahead of the regional government's plans to redevelop the area. The related assets have been written off and a charge of £17m has been taken as a loss on closure of businesses in the income statement.

Agriculture

Agriculture has built on its strong performance in the first half and will deliver full year revenues and profit substantially ahead of last year.

Our UK feed business saw strong demand for ruminant feeds, and poultry feed volumes grew in line with increased demand from UK consumers for locally sourced products. AB Vista continued to develop feed enzymes with growth ahead of the market, particularly in North America with the success of our Quantum Blue phytase enzyme. The business also became the second largest global supplier of betaine, a functional micro-ingredient extracted from sugar beet molasses. Premier Nutrition traded well, particularly in UK poultry, and maintained its market leading position in UK starter feeds. Further progress was achieved in its developing markets in Asia, and Central and Eastern Europe.

China continued to be a challenging market, particularly in pigs and poultry. Growth was achieved in our co-products business and good raw material procurement and cost management underpinned profit delivery.

Frontier performed well in a year in which the supply of UK grain was poor and of variable quality. A higher volume of wheat imports increased the complexity and cost of the UK cereal supply chain which, together with global price volatility throughout the year, resulted in strong earnings from grain trading. A wet autumn in 2012 lowered wheat plantings thereby reducing demand for fertiliser and crop protection products. However, the cool spring and warm summer of 2013 provided good growing conditions for autumn planted crops and spring cereals creating a better harvest potential than was previously expected.

Grocery

Grocery revenues continued to improve during the second half and will be ahead of last year for the full year. Adjusted operating profit is expected to show a substantial improvement over last year with the benefit of the non-recurrence of restructuring costs in George Weston Foods in Australia and Allied Bakeries

Twining's Ovaltine will again achieve excellent sales and profit growth. Twining's maintained the momentum of the first half achieving significant full year sales growth in all of its major markets. Ovaltine made further progress in its developing markets.

At Allied Bakeries, a combination of organic volume growth and the new Co-Op supply contract, which commenced in April this year, drove an increase in market share and established Kingsmill as the number two bread brand in the UK. This market remained intensely competitive and there has been some pressure on margins.

Silver Spoon's revenue and operating profit will be below last year reflecting an especially competitive year within the UK packed sugar market. Jordans and Ryvita both had an excellent year with strong UK sales growth driven by very successful advertising campaigns, and the launch of new pack formats. AB World Foods made good progress achieving revenue growth in the UK for both of its core brands, Patak's and Blue Dragon. These brands also performed well internationally, particularly in Canada, Australia and Mexico. Westmill achieved revenue growth in its core brands: Elephant Atta, Lucky Boat noodles, Tolly Boy basmati rice and Patak's, despite continued weakness in the ethnic restaurant and take-away trade.

At ACH in the US, baking volumes recovered after a warm 2012 winter, and prices were increased to recover higher commodity costs. Flavours secured increased volumes with key customers and Foodservice made progress as restaurant trade showed some improvement. In Mexico, there has been an improvement in the overall economic environment and Capullo volumes increased following its successful relaunch in 2012.

At George Weston Foods in Australia, trading met expectations with evidence of recovery and improved profitability in the second half. The bread business achieved margin improvement through a combination of an improved product mix and price increases, despite a challenging trading environment where the major retailers are continuing to promote in-store-bakery products. Good progress was made with cost reduction programmes to offset inflationary pressures. The meat business performed in line with expectations showing a significant improvement over last year with higher volumes and factory productivity gains.

Ingredients

Revenue for the full year is expected to be ahead of last year and underlying operating profit in line. With the start-up of the new low-cost dry yeast plant in Mexico, a charge of £21m will be taken in the full year results for the cost of closing our dry yeast production in Italy.

Following the difficulties experienced by the yeast business last year, the performance by AB Mauri this year has seen some stabilisation although markets remain very competitive and raw material costs high. The new management is undertaking a review of margin improvement opportunities and particularly a number of cost reduction initiatives. There have been solid performances in HispanoAmerica, Australia, New Zealand, the UK and in the US where the impact of the failure of a major customer has been mitigated by business development elsewhere. Trading in China has improved and bakery ingredients products have made a good contribution. Performance at the new yeast factories at Yantai and in Mexico have been satisfactory.

At ABF Ingredients further growth was achieved in bakery, feed and speciality enzymes, driven by new products launched last year. The growth achieved by Enzymes since the factory in Finland was expanded in 2009 has resulted in this factory reaching full capacity, and further expansion is now being planned. The yeast extracts business in China was affected by the reduced availability and high price of sugar beet molasses with limited opportunity to improve profitability through price increases. Responding to increased demand for extruded ingredients and speciality animal feeds, a new cereal extrusions factory is being commissioned at Evansville, Indiana in the US.

In August we completed the disposal of our small US whey protein operation. Although profitable, we have not been able to develop sufficiently differentiated products and the consolidation of the dairy protein industry presented an opportunity to exit this market. A

charge of £20m will be taken as a loss on disposal of the business reflecting a profit on the disposal of the tangible assets net of a write off of the associated goodwill.

Retail

Sales at Primark for the full year are now expected to be 22% ahead of last year at actual exchange rates, which benefited from the recent strengthening of the euro, and will be 21% ahead at constant currency. This excellent result was driven by an increase in retail selling space, like-for-like sales growth which we expect to be close to 5% for the full year, and the superior sales densities in the larger new stores. Like-for-like sales growth in the first half was flattered by an exceptional start to the year with the benefit of seasonal autumnal weather in 2012 compared with an unseasonably warm autumn in 2011. In the second half, although growth was subdued during the very cold months of March and April, trading during the summer months was strong and built upon the success of the same period last year. Trading in our stores in northern continental Europe has been strong throughout the year and like-for-like growth in Spain, initially held back by the large number of new store openings, has improved.

Operating profit margin in the first half was higher than last year reflecting the benefit of lower cotton prices and lower markdowns. The strong trading over the summer also resulted in lower markdowns and the second half margin will now be in line with the first half, beating our expectations.

During this financial year we will have opened 16 new stores, including West Bromwich which is scheduled to open on 12 September, closed the smaller of our two stores in Lincoln and extended the stores in Manchester, Newcastle, Chester and Mary Street, Dublin. This added 0.8m sq ft of selling space and will bring the total to 257 stores and 9.0 million sq ft at the financial year end. We expect to add more than a million square feet of selling space in the new financial year with an extensive programme of openings in time for Christmas 2013. Our first store in France, in Marseille, will open in December.

Accounting policy change

IAS19 - Employee Benefits has been revised and will be adopted in the financial statements for the year ending September 2014. This will require the restatement, next year, of the comparative results for 2013 and is likely to result in a small reduction in earnings per share.

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