24 February 2014

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 interim results to 1 March 2014 which are scheduled to be announced on 23 April 2014.

Adjusted operating profit for the first half is expected to be in line with last year. A much lower profit from Sugar will be offset by another excellent performance from Primark and encouraging results from Grocery and Ingredients. Net financing costs in the first half will benefit from the repayment, last July, of British Sugar's 10¾% debenture, a strong cash flow, and lower net debt throughout the period. Together with a further reduction in the underlying tax rate at the half year, adjusted earnings for the first half will be firmly ahead of last year.

Sterling is continuing to strengthen against our major trading currencies and this will have a more significant negative effect on the translation of overseas results into sterling in the second half. Nevertheless, with a better than expected trading performance from the non-sugar businesses and lower financing costs, we continue to expect adjusted earnings per share for the financial year to be similar to 2013.

The adoption of IAS19 Employee Benefits revised will result in a minor restatement of previously reported results. The details are contained in a table at the end of this statement.

Cash flow and funding

Operating cash flow in the first half will be further improved driven by a good working capital performance, particularly at Primark where effective inventory management and strong trading have resulted in lower stock holding levels. Capital expenditure has been higher than last year with lower expenditure in the food businesses being more than offset by higher investment at Primark. Net debt at the half year is expected to be £0.9bn, some £0.4bn lower than at the same stage last year.

Sugar

Revenue and profit from Sugar in the first half will be substantially lower than last year. A reduction in EU sugar prices, ahead of regime reform in 2017, has been signalled for some time, although the speed with which the market is adjusting has been faster than anticipated. The world sugar price has also fallen to what we believe to be an unsustainably low level, putting further pressure on industry revenues and margins. This will be reflected in AB Sugar's results, particularly in China. First half sales volumes for Spain, Illovo and China will be lower than last year.

The UK campaign is now virtually complete. Good growing conditions through the mild winter resulted in the crop continuing to grow into the new year, with good beet quality and high sugar content. All factories have operated well and sugar production is now estimated at 1.3 million tonnes compared with 1.15 million tonnes last year. Production volumes at the Vivergo bioethanol plant in Hull have increased steadily in recent months. However, both over-supply in the EU and lower seasonal demand have led to a reduction in bioethanol prices.

In Spain, the northern campaign was delayed to maximise beet development from the reduced area under cultivation in the 2013 crop year and, although the campaign commenced well, adverse weather in recent weeks has resulted in challenging harvest conditions. Sugar production volumes are expected to be lower than last year. As in the UK, profit will also be adversely affected by the lower prices.

Illovo's revenues have been weaker with lower domestic volumes in Zambia and Swaziland, competition from low cost imports reducing prices in Tanzania and South Africa, and lower EU pricing affecting Least-Developed Country exports. The Malawian kwacha has continued to decline against both the rand and sterling since last financial year end.

All five factories in south China made a good start to their campaign with sugar content and extraction both ahead of last year compensating for the smaller area under cultivation. Total sugar production is expected to be in line with last year. Production in the north has been seriously reduced by flooding in Heilongjiang and, with fewer factories in operation following last year's rationalisation, volumes are expected to be much lower year-on-year. The campaigns at Qianqi and Zhangbei were both excellent with good factory throughput and higher sugar content in the beet. Significant overhead and efficiency improvements have been achieved in both regions resulting in a net improvement in performance.

Agriculture

Revenue and operating profit in the first half are expected to be similar to last year at both constant currency and actual rates. Lower UK feed volumes have been offset by growth in China, and a strong performance at AB Vista where Quantum Blue in South America and Econase in Asia were the main contributors. Successful commissioning of an animal feed enzyme granulation line at the extrusions plant in Evansville, Indiana, was completed in the period. Frontier traded at similar levels to last year with good sales of crop inputs and fertilisers.

Grocery

Revenue in the first half is expected to be ahead of last year at constant currency, but just below at actual rates. However, margins and profit will be much improved.

Twinings Ovaltine has again performed well with strong sales growth for tea in the US and the UK, and improved margins driven by higher volumes and factory efficiencies. Allied Bakeries made progress in the highly competitive UK bread market and volumes and margins will be ahead of last year. A new bread plant was commissioned at West Bromwich as we approach the end of a major capital investment programme in our UK bakeries. This programme delivers less waste, better control of our processes and consistently high quality bread. Sales at Silver Spoon will be lower than last year as a result of lost contracts and reduced UK sugar pricing, but the profit impact has been partially mitigated by overhead cost reduction.

Sales in local currency will be ahead at George Weston Foods in Australia, driven by higher bread prices and increased meat volumes. These businesses both made progress with cost reduction initiatives and Don KRC achieved further yield improvements and efficiencies at its Castlemaine factory. Revenue and profit at ACH is expected to be ahead of last year with higher corn oil volumes and margins.

Ingredients

Revenue in the first half is expected to be ahead of last year at constant currency but slightly lower at actual rates. Profit from continuing operations will be well ahead of last year's break-even result, with the absence of restructuring costs and early signs of improvement in yeast and bakery ingredients.

Whilst AB Mauri's markets remain competitive, particularly in Asia, a number of new initiatives are starting to yield positive results. Cost inflation in South America has either been recovered through pricing or offset by cost reduction. Revenue and profit in North America will be ahead of last year driven by higher volumes and continued investment in people, processes, and business development. The new yeast factory in Mexico is now operational enabling further expansion of distribution throughout North and Central America.

In January we completed the acquisition of a small bakery ingredients business in Western Europe which complements our existing operations in the region. The integration of these two businesses will broaden our product range and strengthen our presence in a number of key markets.

At ABF Ingredients, the new extrusions factory at Evansville in the US has been successfully commissioned, products have been approved by key customers and the factory is fully operational. Closure of the yeast extracts plant in China was completed with a number of contracts successfully transferred to our Hamburg facility.

Retail

Sales at Primark in the first half have been very strong and are expected to be 13% ahead of the same period last year at constant currency and, with the benefit of a stronger euro in this period, 14% ahead at actual rates. This has been driven by 4% like-for-like sales growth, an increase in retail selling space and superior sales densities in the larger new stores. Like-for-like sales in the first eight weeks of the financial year were held back by unseasonably warm weather and strong comparatives in the previous year, but the rest of the period saw excellent trading including the Christmas period. New store openings have added 8% more selling space since the last half year.

Operating profit margin is now expected to be higher than in the same period last year, benefiting from warehouse and distribution efficiencies and lower freight rates. Christmas trading was strong in both years.

Retail selling space has increased by 0.6 million sq ft since the financial year end and, at 1 March 2014, 269 stores will be trading from 9.6 million sq ft. We have opened 16 new stores in the period including our first two stores in France: Marseille which began trading from 63,000 sq ft on 16 December 2013, and Dijon which began trading from 44,000 sq ft on 3 February, both of which have traded strongly to date. In Spain we opened six new stores and closed the smaller of our two stores in La Coruña and Zaragoza, bringing the total there to 39. Three further stores were added in the UK, including Crawley where we relocated to a larger site, and we also closed our small store in Leytonstone. Two new stores were added in the Netherlands and one each in Germany, Austria and Portugal, all of which have traded exceptionally well.

We expect to add a further 0.5 million sq ft of selling space in this financial year, bringing the net additions for the year to 1.1 million sq ft which is substantially more than the 0.8 million achieved in 2013. The additional stores will include a further three in France, located in shopping centres in the suburbs of Paris; two additional German stores, our second in Berlin and one in Cologne; three new UK stores including a relocation in Cardiff; and we will also relocate our Plenilunio store, our first in Spain, to a location twice its size. As we opened no stores in the second half of last year, these openings will accelerate the 8% selling space growth achieved in the first half. Capital expenditure for the full year is planned to be ahead of last year.

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Note to editors:

The results for the year ended 14 September 2013 and the interim results for the 24 weeks ended 2 March 2013 will be restated with effect from 15 September 2013, upon adoption of IAS19 *Employee Benefits* Revised. The impact of this restatement on the income statement is summarised below:

	24 weeks ended 2 March 2013		**Year ended 14 September 2013**	
	restated	previously reported	restated	previously reported
Adjusted operating profit (£m)	493	496	1,180	1,185
Adjusted profit before tax (£m)	448	452	1,088	1,096
Adjusted earnings (£m)	328	331	775	781
Adjusted earnings per share (p)	41.5	41.9	98.1	98.9