18 January 2018

Associated British Foods plc
Trading update

Associated British Foods plc today issues a trading update for the 16 weeks to 6 January 2018 summarising the significant trading developments since the last market update.

Trading outlook

Our outlook for the group is unchanged, with progress expected in adjusted operating profit and adjusted earnings for the full year.

Group revenue

Group revenue from continuing operations for the 16 weeks ended 6 January 2018 was 4% ahead of the same period last year at constant currency. Sterling has strengthened against most of our major trading currencies, other than the euro, and as a result sales from continuing operations at actual exchange rates were 3% ahead.

Other than the expected reduction in Sugar revenue, sales growth was delivered by all of our businesses and their combined revenue was 6% ahead at constant currency.

Retail

Sales at Primark were 7% ahead of those reported last year at constant currency driven by increased retail selling space. Sales were 9% ahead of last year at actual exchange rates.

The UK continued to perform well with strong like-for-like sales, a consequent strong increase in share of the total market, and trading which reflected the breadth of our consumer offering. The sales growth across Europe was held back by unseasonably warm weather in October. This was followed by good trading in the five weeks leading up to Christmas. Primark achieved record sales in the week before Christmas. Trading in the US has continued to make progress.

Operating margins in the first half are now expected to be close to those in the same period last year with better buying virtually offsetting the adverse effect of the weaker sterling / US dollar exchange rate on purchases. Stock was tightly managed again this period.

Retail selling space increased by 0.3 million sq ft since the financial year end and, at 6 January 2018, 350 stores were trading from 14.2 million sq ft which compared to 13.1 million sq ft a year ago. Five new stores were opened in the period: Bielefeld, Munster and a city centre store in Stuttgart, Germany, Charlton in the UK and Loulé in the Algarve. In addition, there were two relocations in the UK: a return to the redeveloped Westgate shopping centre in Oxford and a move to a larger store in Rotherham.

We still expect to open 1.2 million sq ft in this financial year.

Sugar

AB Sugar revenue from continuing operations was 12% behind last year at constant currency and 13% behind at actual exchange rates. A revenue and profit reduction greater than previously forecast is now expected for the full year primarily as a result of significantly lower EU sugar prices, which adversely affected our UK and Spanish businesses.

The EU sugar regime ended on 30 September 2017 resulting in the end of sales quotas and the removal of constraints on exports. Sugar production in the EU during the 2017/18 campaign is expected to be substantially higher than last year as a result of exceptionally high beet yields and increased crop area.

In the UK, higher yields and a larger crop area will lead to an increase in sugar production from 0.9 million tonnes last year to 1.38 million tonnes during the current campaign. UK sales for the year are now largely contracted but at prices below last year. In Spain, beet production is in line with expectations but the cane refinery at Guadalete will process lower volumes this year.

Sugar production at Illovo for the full financial year is expected to be over 1.7 million tonnes compared to 1.65 million tonnes last year, although local currency price increases in some markets are expected to be a little behind inflation. Our beet sugar business in China is performing well with prices in line with expectations.

The Vivergo ethanol plant was closed for routine maintenance in November, earlier than had been planned because of weak ethanol prices.

Grocery
Sales for Grocery were 4% ahead at constant currency and 1% ahead of last year at actual rates. The Twinings and Ovaltine brands both delivered good sales growth, ACH traded strongly in the US with an improved market share for Mazola, and margins at George Weston Foods in Australia were further improved. Volumes at Allied Bakeries remained strong and some progress has been made in reducing the loss for this financial year. Acetum, the Modena-based balsamic vinegar business acquired last year, has delivered sales in line with our expectations. An improvement in Grocery margin is forecast for the full year.

Agriculture
AB Agri revenue was 13% ahead of last year at constant currency, 12% ahead at actual exchange rates and profit growth is expected for the full year.

Ingredients
Sales in Ingredients were 4% ahead of last year at constant currency and 1% behind at actual exchange rates. Good progress is expected at both AB Mauri and ABF Ingredients and margin will again show improvement for the full year.

Group interest and tax rates
Lower interest rates on our borrowings in Zambia and higher rates on our US dollar and sterling deposits are now expected to reduce the group's net financial expense for the full year. The reduction in the US federal tax rate, applicable from the beginning of this calendar year, will reduce the group's effective tax rate for this financial year by some 100 basis points.

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