

12 September 2011

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 17 September 2011, which are scheduled to be announced on 8 November 2011.

The group's adjusted operating profit for the second half will be in line with expectations. Net interest expense in the second half will, as previously advised, be higher than last year as a result of the higher level of average net borrowings. Last year's finance charge for the group's defined benefit pension schemes will be replaced this year with finance income as a consequence of an increase in the market value of pension scheme assets at the end of last year. The underlying tax rate for the year will be lower than last year, and some 2% lower than that used in the interim results, reflecting the further reduction in the UK corporation tax rate and the mix of profits in different tax jurisdictions. As previously indicated, adjusted earnings for the full year are expected to be similar to last year's very strong result which benefited from 53 weeks trading.

Investment and capital expenditure

The higher level of expenditure on new stores for Primark has continued as planned. Substantial capital investment was also made elsewhere in the group. A number of major projects were completed or are near completion. The major factory expansion and construction of the new power co-generation plant in Swaziland are complete, commissioning of the new meat factory in Australia is almost finished and the Vivergo bioethanol plant in Hull is scheduled to begin operation next spring. Construction of new yeast plants in Mexico and Shandong province in China commenced in the second half, and expansion of dry yeast capacity at Xinjiang in China and at Casteggio in Italy continued.

Net Debt

This year's higher level of capital expenditure and increased working capital, from substantially higher commodity costs, resulted in a higher level of net debt throughout the year. At the year end net debt is expected to be some £1.2bn.

Sugar

Sugar revenues made further progress in the second half driven by strong improvements in both China and Spain more than offsetting the absence of export sales from the UK and lower sales in South Africa. Profit for the full year will be well ahead of last year, and better than expected, with the benefit of these revenue increases and higher prices.

In the EU, the profits of our UK business will reflect the impact of the crop shortfall, as a result of the frost damage sustained during the severe weather last winter, after some recovery through price increases. Production was just below 1.0 million tonnes of sugar with the shortfall against contracted quantities being made up by a combination of destocking, additional in-house refining in Spain and securing supplementary supplies from third parties at higher cost. In Iberia, Azucarera delivered a much improved performance. Beet campaigns in both the north and south of Spain progressed well and output totalled 410,000 tonnes of beet sugar against a quota of 378,000 tonnes. In addition, the Guadalete refinery substantially increased its output, processing 248,000 tonnes of cane sugar against 145,000 tonnes in the previous year.

At Illovo, profit in the second half will be ahead of last year. Local and regional prices have risen in response to world market pressures and export prices to the EU have improved. Production in our financial year is expected to be 1.6 million tonnes, down from 1.8 million tonnes last year, driven by the drought affected South African crop. In Zambia, the new season is progressing well with the expanded factory performing at capacity.

Building on last year's improvement, revenues and profits of our Chinese businesses were substantially ahead reflecting both higher prices and volumes. Beet sugar production doubled to 210,000 tonnes with the benefit of the ongoing and intensive work with growers to improve mechanisation, fertiliser and chemical usage, irrigation and harvesting practices. In the south, sugar production was held back at 415,000 tonnes by unfavourable weather conditions which reduced the sucrose levels in the cane.

Following delays caused by contractor performance issues, construction activity has recommenced at Vivergo's bioethanol plant in Hull. The project is expected to complete in spring 2012.

Agriculture

Revenues were ahead in all sectors, driven by commodity price increases in UK feed and strong growth in feed enzymes, speciality feeds and nutrition. Together with an excellent performance from Frontier, AB Agri will deliver a record operating profit for the full year.

UK feed revenues and profit both grew, benefiting from our long-term relationships with major customers, despite a difficult year for the UK livestock industry. At Premier Nutrition, sales of pig starter feeds and premixes continued to grow strongly particularly in Eastern Europe and Russia. AB Vista achieved strong revenue growth and significant market share gains in feed enzymes.

At Frontier, volatile wheat prices throughout the year created exceptional grain trading opportunities with record volumes purchased and traded. High crop prices underpinned good farm profitability resulting in strong growth in fertilizer and seed sales and increased usage by farmers of crop protection products.

Grocery

Grocery revenues and profit for the full year are expected to be ahead of last year. Twinings Ovaltine and our UK grocery businesses performed well and profit also benefited from a lower charge for restructuring. However, the trading performance at George Weston Foods in Australia has been much weaker than previously expected.

Twinings Ovaltine maintained the momentum of the first half achieving strong sales growth in tea in both the US and the UK, and from Ovaltine in Thailand and developing markets. Improvements were made in tea product quality and packaging, facilitated by recent investment in new production lines. Significant investment to upgrade tea production in Andover, which supplies the UK market, is under way and the new tea plant in Poland is now fully operational supplying international markets.

In the UK, Allied Bakeries traded well with success for Kingsmill bakery snacks and rolls, and strong growth in the 50/50 range. The brand was supported by a strong advertising and marketing programme. Margins tightened with the higher level of promotional expenditure and only partial recovery of higher wheat costs being possible in an extremely competitive market. Silver Spoon had a successful year despite significant cost inflation. Granulated sugar for domestic use continued to decline but was offset by further growth in caster and icing sugars for home baking and strong growth from Allinson. Westmill's performance was weak, affected by declines in the Chinese and Indian restaurant trade in the UK and strong price-based competition in branded rice. AB World Foods made good progress in a

competitive trading environment and recovered higher commodity costs through price increases. Blue Dragon was relaunched in the year with new products and packaging and Patak's continued to grow, particularly in its international trade. Jordans Ryvita had a very strong year with good sales growth across the range, both in the UK and internationally, and a substantial improvement in margin. Growth was achieved by a combination of successful advertising and the launch of new products.

At ACH in the US and Mexico price increases were implemented in the first half to recover higher commodity costs, particularly in vegetable oil and spices. Commodity costs continued to rise and, with consumers increasingly looking for value, further price increases became difficult to realise and margins were compressed in the second half. Stratas made good progress in streamlining its operations and reducing overheads with a resultant improvement in profit.

In Australia, difficult trading conditions for George Weston Foods led to lower revenues and substantially lower operating profit than last year. Baking margins were reduced by a much higher level of consumer promotion and a switch to lower margin, private-label bread and in-store bakery. The meat business made some progress in its underlying trading but this was offset by higher costs relating to the commissioning of the new factory at Castlemaine, Victoria. The old plant in Melbourne closed in August.

Ingredients

The yeast and bakery ingredients business of AB Mauri maintained the rate of revenue growth achieved in the first half but operating profit in the second half will be sharply lower.

The European yeast market has been extremely competitive and margins have suffered from an inability to recover fully raw material cost increases. Some weakness in the bakery industry in North America led to lower sales of wet yeast and higher-margin technical bakery ingredients, and full recovery of higher input costs was consequently challenging. In China, raw material costs rose as molasses, which were in short supply, were supplemented with higher cost corn syrup.

Our performance in Latin America was encouraging, benefitting from strong economic growth and continued development across a broadened range of products. Significant raw material cost pressure was successfully offset by price increases. Bakery ingredients had another year of strong revenue growth, particularly in the UK, with an expanded product range. Considerable progress was made in building relationships with key global customers, and technical innovation continued to drive new product development enabling us to maintain technology leadership in key markets.

At ABF Ingredients, sales of feed, bakery and speciality enzymes made good progress driven by the successful introduction of new products. Commissioning costs of the new yeast extracts factory in Harbin, China were higher than forecast but the factory is now fully operational and plant efficiency is improving. Yeast extract margins continued to be held back by high molasses costs.

Retail

Sales at Primark will again be well ahead of last year and are expected to be up 13% compared to last year when adjusted for 52 weeks' trading, driven by an increase in retail selling space and further like-for-like sales growth. We delivered a 3% like-for-like increase in the first half and expect to achieve 3% for the full year with some growth in the UK and Ireland, despite weaker consumer demand in the second half, and continental Europe strongly ahead. At the time of our interim results, we expected operating margins to be lower in the second half reflecting higher input prices and the full effect of the absorption of the UK VAT increase. There has been a higher level of discounting than is normal towards the end

of the summer season on the UK high street and operating margin is expected to be a little lower than forecast as a result. The recent softening of cotton prices is expected to be reflected in lower input costs in calendar year 2012.

Store expansion in this financial year has been very strong with 19 stores and 0.7m sq ft of selling space added. Seven new stores have been opened to date in the second half: La Coruna in Spain; two in Portugal at Forum Sintra south of Lisbon and Portimao on the Algarve; and four in the UK in Scunthorpe, Ilford, Kings Lynn and Stockport. Before the financial year end we will open a 46,000 sq ft store in the new Westfield Stratford City shopping centre, next to the 2012 Olympic park, and a 52,000 sq ft store in Dortmund in Germany. This will bring the total number of stores to 223 by the year end and, having also completed a number of store extensions, we will be trading from 7.2 million sq ft of selling space.

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