Chief Executive's review

Tate & Lyle delivered a sound set of results underpinned by continuing growth from core value added food ingredients.

Iain Ferguson CBE

Overview

Overall, Tate & Lyle delivered a sound set of results. Sales for the year ended 31 March 2009 were £3,553 million, 24% higher (8% in constant currency) than the prior year. Adjusted profit before tax was £247 million, 2% lower (18% in constant currency) than the prior year. Profit before tax, after exceptional items and amortisation of acquired intangible assets, decreased by 38% (47% in constant currency) to £113 million. Adjusted diluted earnings per share of 38.0p were 10% higher (8% decrease in constant currency), benefiting from a lower effective tax rate of 27.3% (2008 – 33.2%).

Exchange translation increased adjusted profit before tax by £49 million compared to the prior year. The strengthening of the US dollar contributed 83% of this increase, although it also reduced the competitiveness of products from our US ingredients business in overseas markets, particularly Mexico and South America.

Following a breakthrough in sucralose manufacturing yields, we have taken the decision to mothball our McIntosh, Alabama facility and produce all of our sucralose from the newer and more efficient fourth-generation facility in Singapore. We have recognised an exceptional charge of £97 million in the 2009 financial year reflecting the impairment of the carrying value of our McIntosh plant. Anticipated cash costs of £60 million associated with this decision will be paid over three years and recognised as an exceptional charge in the year ending 31 March 2010. These cash costs are expected to have a three year payback resulting from the reduced operating costs of having a single plant. The McIntosh facility will retain a core group of employees and, if needed, can be restarted and begin manufacturing sucralose within a few months.

Net debt increased by £190 million to £1,231 million. Before the effects of exchange, net debt decreased by £188 million. The impact of exchange movements during the year, which increased debt by £378 million, was due principally to the weakness of sterling against the US dollar.

A well-financed business

Tate & Lyle is a well-financed business with an inherent ability to generate strong cash flows. In the year ended 31 March 2009, the final year of our four-year major capital investment programme, our total operations generated £245 million (2008 – absorbed £160 million) of cash after the payment of dividends. Net debt at 31 March 2009 of £1,231 million was £188 million lower than net debt at 31 March 2008 before the effects of exchange. A number of projects have been established to reduce debt further and we are pleased with their progress to date.

The key performance indicators (KPIs) of our financial strength, the ratio of net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) and interest cover, remain within our internal targets.

At 31 March 2009 the net debt to EBITDA ratio was 2.4 times (2008 – 2.5 times)[1], compared to our internal target of 2.5 times or less and comfortably within our bank covenants. Interest cover on total operations at 31 March 2009 was 6.1 times (2008 – 7.8 times), again ahead of our internal target of above 5.0 times and well ahead of our bank covenants.

Return on net operating assets reduced to 12.7% from 15.5% in the prior year. This reduction was principally due to the lower returns from our EU sugar business, reduced profits from industrial starches and the investment in our new corn wet mill in Fort Dodge, Iowa, which was not commissioned during the financial year.

We continue to have a conservative debt maturity profile. The Group's undrawn committed bank facilities at 31 March 2009 were US$752 million (£524 million) and, additionally, cash resources were £434 million. Average gross debt maturity at 31 March 2009 was 4.8 years. Our next major refinancing is due in June 2011 when the US$300 million 144A bond matures.

A solid platform for growth

Our four-year major capital investment programme to support long-term growth in our business was essentially completed during the year.

The expansion of our corn wet mill in Sagamore, Indiana, to increase capacity for a variety of value added starches used by customers in dairy, beverages, snacks and dressings, was commissioned in the 2008 financial year and is performing in line with our expectations. Value added food production has been a key area of strategic focus and investment for Tate & Lyle over the past four years, so it is pleasing to report that adjusted operating profit from core value added food ingredients across the business in the year to 31 March 2009 increased by 20% (3% in constant currency) to £107 million (2008 – £89 million). In March 2009 the second tranche of equipment required to meet design capacity at our corn wet mill in Loudon, Tennessee was installed. At the same time, the opportunity was taken to re-engineer the plant's manufacturing footprint to provide additional flexibility to swing capacity between key product lines. Also in March 2009, the new biomass boiler at our London sugar cane refinery was mechanically completed and commissioning work is currently underway.

In April 2009, in light of the continuing short-term severe pressure on ethanol margins, we announced our decision to postpone final completion of the construction and start-up of the new corn wet mill at Fort Dodge, Iowa until market conditions improve. Construction activities at the plant had been progressing satisfactorily and the facility is about 95% complete. We are keeping the situation under review. We continue to believe that the US government's commitment to bio-fuels through the Renewable Fuel Standard (RFS) underpins the future viability of the US ethanol industry.

Our investment programme has established a solid platform for future growth. While the current economic environment has led utilisation rates to be somewhat below our original expectations, our enhanced asset base leaves us well positioned to benefit as market conditions improve. Within this, the flexibility we have built into our US plant network (to switch between finished products) gives us added protection against the impact of lower utilisation rates.

Taking decisive actions to maximise cash flow

To sustain the health of our business in the face of challenging and unpredictable market conditions, we have taken a number of decisive actions to maximise cash flow and defend our profitability. We have accelerated existing cost reduction projects, launched new cost reduction projects and taken a number of tough decisions to ensure our cost base is appropriate in light of the new economic realities. Actions taken to date include initiatives to reduce working capital, a pay freeze at all levels, plant shutdowns, a wide-ranging review of discretionary expenditure and headcount reductions across the business. Management of capital expenditure is a key area of focus, and we will restrict expenditure to below the depreciation charge in the year ending 31 March 2010.

Benefiting from a breakthrough in sucralose manufacturing yields

In the last year, our sucralose manufacturing facilities have achieved significant and sustainable yield improvements of over 25% which have had the effect of significantly increasing production capacity. Consequently, we have taken the decision to mothball our McIntosh, Alabama facility, and produce all our sucralose from our newer and more efficient fourth generation facility in Singapore. The McIntosh facility will retain a core group of employees and, if needed, can be re-started and begin manufacturing sucralose within a few months.

The McIntosh facility has played a key role in establishing the prominent position of sucralose in the global high-intensity sweetener market. The expansions of the facility from 2004 were critical for the development of sucralose as we had to move swiftly to meet the surge in customer demand that created the platform for its subsequent success.

Our decision to mothball the McIntosh facility, made possible by the breakthrough in manufacturing yield achieved over the last 12 months will ensure that we remain the most efficient and lowest cost producer of sucralose in the market. This action will have no impact on our customers as, due to the yield increases and our ability to maintain high levels of safety stocks, the Singapore facility has more than enough capacity to meet current market needs. Our SPLENDA® Sucralose business continues to perform well and we remain confident of its long-term future. The financial impacts arising from our decision to mothball the McIntosh plant are set out in the Overview section above and the Exceptional items section on page 12.

1 In prior years, net debt for covenant calculation was translated at year-end exchange rates while EBITDA from continuing operations was translated at average exchange rates. So that the ratio reflects the underlying economic conditions, an amendment was unanimously agreed with the participants in the US$1 billion Revolving Credit Facility that net debt and EBITDA be both calculated on average exchange rates. Under the previous calculation, net debt/EBITDA would have been 2.9 times (2008 – 2.6 times).

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Vision
To create the world's leading renewable ingredients business.

Strategy
To build a stronger value added business on a low-cost commodity base.

Key performance indicators

Tate & Lyle's Board and executive management (see pages 60 to 62) monitor a range of financial and non-financial performance indicators, reported on a periodic basis, to measure the Group's performance over time. Annual targets are set for base key performance indicators (KPIs) in line with the Company's strategic objectives.

Interest cover[1]

Target	min 5.0 times
2009	6.1 times
2008	7.8 times
2007	8.4 times

1 Measured by financial year on total operations

Description. This is the Group's total operating profit before exceptional items and amortisation divided by net finance expense, as defined in our bank covenants. Or, the number of times the profit of the Group exceeds interest payments made to service its debt.

Comment. Our interest cover remains above our target.

Net debt to EBITDA multiple[1]

Target	max 2.5 times
2009	2.4 times
2008	2.5 times
2007	1.9 times

1 Measured by financial year on continuing operations and translating net debt at the same average exchange rates as EBITDA

Description. This is the number of times the Group's net borrowing exceeds its trading cash flow. EBITDA is earnings before exceptional items, interest, tax, depreciation and total amortisation.

Comment. We are within our target and comfortably within that of our bank covenants.

Return on net operating assets[1]

Target (longer-term)	20.0%
2009	12.7%
2008	15.5%
2007	18.9%

1 Measured by financial year on total operations

Description. This is the Group's total profit before interest, tax and exceptional items divided by the average net operating assets.

Comment. We are below both our initial target of a Group return on net operating assets (RONOA) of 15%, and our longer-term target of a RONOA of 20%.

Energy use[1]

Target	3.0% reduction
2008	zero
2007	1.3% reduction
2006	1.2% reduction

1 Measured by calendar year

Description. Energy use is our most significant environmental impact. Our businesses have a target to reduce energy consumption on a per unit basis by 3% each year.

Comment. Our 3% target is becoming increasingly challenging as value added products typically use more energy than our traditional products. Further information on the Group's energy use can be found on pages 73 to 74.

Safety index[1]

Target	zero
2008	1.16
2007	2.08
2006	2.41

1 Measured by calendar year

Description. Our safety index compares safety performance across the Group and is a weighted average of injuries sustained in the workplace, with severe accidents having greater impact. The lower the index, the better the performance.

Comment. Employee safety showed good progress in 2008 with a 44.2% improvement on 2007. Further information can be found on pages 70 to 72.

Information on the RONOA, energy use and safety performance of each business division can be found on pages 36 to 51.

Business drivers
We focus on five areas to deliver our strategy.

Operate efficiently and safely
To be the lowest-cost, most efficient producer in all our markets, with safe conditions at our sites for everyone.
We continually work to improve our operational efficiency through our expertise in high-volume process management, our focus on technical and manufacturing excellence, and efficiently using services like logistics and utilities.

Serve our customers
To deliver excellent customer service, be the partner of choice in our customers' innovation processes and help them develop successful consumer products.
Our cross-functional teams work with customers to provide consumer and customer insights and to support new product innovation opportunities.

Grow the contribution from value added products
This is a key driver of our strategy.
Value added ingredients utilise technology or intellectual property enabling our customers to produce distinctive products and Tate & Lyle to obtain a price premium and/or sustainable higher margins.

Invest in technology and people
To invest in developing innovative solutions that meet our customers' product challenges, and in developing our people so we have the right skills at all levels to grow our business.
We complement our R&D skills through start-up investments and collaborations with the external research community.

Invest in acquisitions and partnerships
To grow our business by acquisition or by forming joint ventures and partnerships.
We continually evaluate acquisition opportunities that enable us to enter new markets or add products, technologies and knowledge more efficiently than we could organically. Alliances and joint ventures can also be an efficient way to do this and to lower our cost of investing in new areas and markets.

Overview of divisional business performance
The Group's adjusted profit before tax was 2% lower (18% in constant currency) than the prior year. Adjusted operating profit from core value added food ingredients increased by 20% (3% in constant currency), but this was more than offset by lower profits from our EU sugar business, industrial starches and US ethanol. Energy costs at £208 million were 34% higher (17% in constant currency).

Operating profits at Food & Industrial Ingredients, Americas was £181 million, a reduction of 3% from the prior year (19% in constant currency). Sales and profits from value added food ingredients were resilient. Performance in primary food ingredients was above the prior year due to improved margins and a good performance by citric acid. However, operating profits from both primary and value added industrial starches, primarily used by the paper and board industries, were significantly lower than the prior year due to reduced sales volumes during the second half of the year as both domestic and export demand deteriorated rapidly. Export markets were adversely affected by the strengthening US dollar. The contribution from ethanol was also significantly below the prior year due to lower unit margins as we operated in a difficult industry environment. We have taken a number of actions to manage our capacity in the face of these impacts.

At Food & Industrial Ingredients, Europe, operating profits increased by 24% to £51 million (7% in constant currency). Within Single Ingredients, margins for both value added and primary products benefited from lower corn costs during the second half of the year. Demand for food ingredients proved more resilient in Central and Eastern Europe, where the majority of our Single Ingredients capacity is located.

Operating profits from Food Systems were higher than the prior year, and benefited from a full year contribution from G. C. HAHN & Co (Hahn), which was acquired in June 2007.

Sugars operating profits were significantly lower than the comparative period, reducing by 64% (66% in constant currency) to £12 million.

Although improved balance between supply and demand within the EU sugar market began to return during the second half, the year as a whole was characterised by oversupply of refined sugar in the EU and an extremely competitive UK market. Margins are expected to improve following the final institutional price change on 1 October 2009. The competitive advantages of our London and Lisbon refineries will become increasingly apparent as the market returns to balance. The molasses business had an outstanding year as both volumes and margins benefited from high world cereal prices.

Sales of SPLENDA® Sucralose of £169 million were 14% above the prior year (4% reduction in constant currency). Operating profits increased by 9% to £72 million (reduced by 4% in constant currency) compared to the prior year. We achieved solid volume growth in international markets, particularly Europe where there were significant gains in retailer own-label ranges. In the USA, McNeil Nutritionals launched 'SPLENDA® with Fiber' formulated with SPLENDA® Sucralose and our PROMITOR™ Soluble Corn Fiber.

A reshaped business
Over the past few years, we have taken a number of steps to reshape our business in line with our strategy to build a stronger value added business on a low-cost commodity base. A key part of this reshaping process has been to remove substantial risks by exiting markets where we could not manage to an acceptable level our exposure to raw material and commodity pricing volatility and regulation. In the 2008 financial year we exited European wheat and Canadian and Mexican sugar, and in the 2009 financial year we sold our International Sugar Trading business to Bunge. This sale was announced on 2 July 2008 and completed as scheduled on 31 March 2009. The financial impacts arising from this sale are set out in the Discontinued operations section on page 53.

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The Food Systems businesses which we acquired over the past four years to strengthen our value added offering (Cesalpinia Foods in 2005, Custom Ingredients in 2006, and Hahn in 2007) continue to perform well, and ahead of our expectations.

The simplified organisational structure we implemented last year, consisting of four distinct business divisions each reporting into the Chief Executive, is working well. We are confident that our de-layered organisational structure, led by a strong management team, is well placed to meet successfully the current challenging market conditions.

Our people

The difficult economic climate places people and organisations under notable pressure. We remain committed to taking the tough decisions needed to manage our cost base through this difficult time. However, we remain conscious of the need to continue to develop and invest in our people to ensure that the foundations of our business are protected, and we are well positioned to benefit when market conditions improve.

Individual responsibility and accountability are critical in times like these and we have made sure all our staff are aware of the need to meet our key priorities of defending our short-term profitability, optimising cash flow, reducing costs and continuing to serve our customers. The professionalism and commitment shown by our people to embrace these priorities and to take necessary tough decisions is impressive.

Exceptional items

Exceptional items totalling a net charge of £119 million have been recognised in continuing operations in the 2009 financial year. We have recognised a charge of £97 million in the 2009 financial year reflecting the impairment of the carrying value of our McIntosh, Alabama plant following the decision to mothball this facility and produce all our sucralose at our Singapore facility. This decision, made possible by the significant increase in manufacturing yields over the last 12 months, will ensure that we remain the most efficient and lowest cost producer of sucralose. Anticipated cash costs of £60 million associated with this decision will be paid over three years and recognised as an exceptional charge in the year ending 31 March 2010. These cash costs are expected to have a three year payback resulting from the reduced operating costs of having a single plant. Should future demand require it, we can bring the McIntosh plant back into production within a few months.

As reported in our pre-close trading update of 2 April 2009, we are in dispute with a supplier over performance and suitability of ethanol dehydration equipment at our Loudon, Tennessee and Fort Dodge, Iowa plants. We have provided an exceptional charge of £24 million associated with this issue.

We have reviewed the carrying value of many of the Group's assets given the changes to the economic environments in which we operate. The review of our sugar refining operation in Israel indicated an impairment charge of £9 million which has also been recognised in the year.

During March 2009, we received the first tranche of a settlement from the Mexican government following a dispute over a tax on soft drinks containing high fructose corn syrup between 2002 and 2006. We have since received the second tranche. Our share of the total settlement is £11 million, and this amount has been recognised as an exceptional gain in the 2009 financial year.

Central costs

Central costs decreased from £31 million in the 2008 financial year to £18 million in the 2009 financial year. This was due to several factors: underlying costs reduced by £4 million compared to the prior year; one-off credits of £6 million in the 2009 financial year arose principally from the termination of a property lease; and redundancy and other one-off costs totalling £4 million, following the simplification of the Group's organisational structure, were recognised in the prior year. Central costs in the 2010 financial year are expected to be broadly in line with underlying costs in the 2009 financial year.

A good safety performance

Tate & Lyle maintains no priority higher than safety. We measure and report our safety performance in calendar years. In 2008, our Group employee safety index improved by 44.2% and our Group contractor safety index by 28.6%. While the performance of our employees and contractors in 2008 is very encouraging, our target remains a safety index of zero for all our operations and we will continue to work towards that goal in the year ahead.

Conclusion

Market conditions over the past few months have proved challenging, but our focus on the food and beverage sector, which comprises over 70% of our total sales, gives us a measure of resilience, although not immunity, to the economic downturn. In times like these, the actions we must take to sustain the health of our business are clear. We are optimising cash flow and actively managing our cost base, while maintaining a keen focus on serving our customers. We are making good progress in the delivery of these priorities.

Iain Ferguson CBE
Chief Executive *27 May 2009*