Food & Industrial Ingredients, Americas

Our largest division, Food & Industrial Ingredients, Americas represented 57% of our adjusted operating profit this year. From large-scale, efficient plants mainly in the US corn belt, this division produces both primary ingredients and, with our R&D expertise, value added ingredients for the food and beverage, industrial, animal feed and pharmaceutical markets.

Key performance indicators

Return on net operating assets[1]

Target (longer-term)	**20%**
2009	18%
2008	23%
2007	25%

1 Measured by financial year on continuing operations

Description. This is the division's profit before interest, tax and exceptional items divided by the average net operating assets. The Group's initial target is to achieve a return on net operating assets of 15%, with a longer-term target of 20%.

Energy use[2]

Target	**3.0% reduction**
2008	1.3% increase
2007	4.0% increase
2006	1.3% reduction

2 Measured by calendar year

Description. Our businesses have a target to reduce energy consumption on a per unit basis by 3% each year. The figures above show the percentage movement in the division's energy index each year. More details on the Group's energy use are on page 73.

Safety index[3]

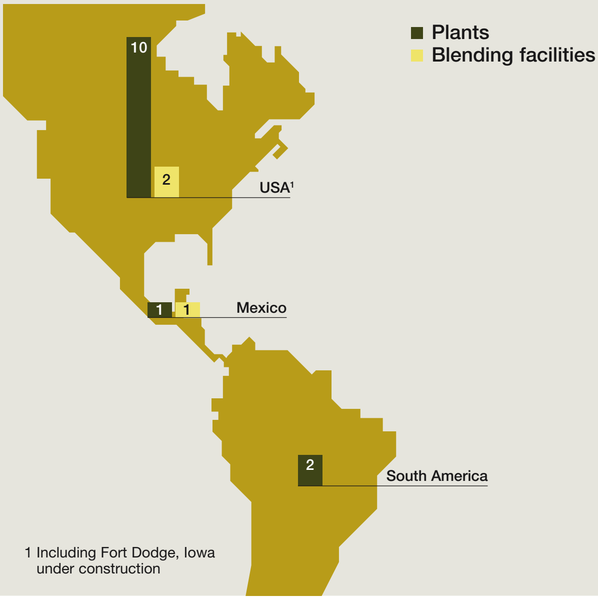
Target	**zero**
2008	1.26
2007	2.88
2006	5.39

3 Measured by calendar year

Description. Our safety index compares safety performance across the division and is a weighted average of injuries sustained in the workplace, with more severe incidents having greater impact. The lower the index, the better the performance. More details are on page 71.

PROMITOR™ Dietary Fibers
Our new range of PROMITOR™ Dietary Fibers, launched in 2008, allows our customers to deliver the goodness of fibre in mainstream food and beverage products without compromising their great taste. Our range currently includes soluble corn fibre and resistant starch.

What we do



1 Including Fort Dodge, Iowa under construction

Processes and raw materials
Corn (maize) milling
Cereal sweetener, sugar, or molasses fermentation

Main joint ventures
Almex:
Cereal sweeteners and starches

DuPont Tate & Lyle BioProducts:
Bio-PDO™

Sucromiles:
Citric acid and alco-chemicals

While our food and beverage business has been relatively resilient to the economic downturn, demand for industrial starches and ethanol margins have come under severe pressure.

Matt Wineinger
President, Food & Industrial Ingredients, Americas

Financial highlights

£m	Year to 31 March 2009 Primary	Value added	Total	Year to 31 March 2008 Primary	Value added	Total
Sales						
Food	878	369	1 247	651	293	944
Industrial	393	157	550	309	133	442
	1 271	526	1 797	960	426	1 386
Adjusted operating profit						
Food	95	83	178	76	68	144
Industrial	3	–	3	42	–	42
	98	83	181	118	68	186
Margin						
Food	10.8%	22.5%	14.3%	11.7%	23.2%	15.3%
Industrial	0.8%	–	0.5%	13.6%	–	9.5%
Total	7.7%	15.8%	10.1%	12.3%	16.0%	13.4%

Key markets

Primary food	Primary industrial	Value added food	Value added industrial
■ High fructose corn syrup, dextrose, corn syrup – Sweeten food and beverages	■ Native industrial starch – Gives strength and finish to paper and card	■ Speciality sweeteners – Sweeten food and beverages	■ Ethylated and cationic starch – Gives strength and finish to paper and card
■ Native food starch – Provides texture and mouthfeel	■ Ethanol – Oxygenates motor vehicle fuels	■ Value added food starch – Provides texture and mouthfeel – Health and wellness	■ Bio-PDO™ – Used in applications from plastics and textiles to de-icing fluid
■ Citric acid – Adds acidic or sour taste to food			

Food & Industrial Ingredients, Americas
continued

Highlights

- Launch of PROMITOR™ Soluble Corn Fiber
- Expansion at Sagamore, Indiana complete; expansion at Loudon, Tennessee being commissioned
- New plant at Fort Dodge, Iowa largely complete, final construction postponed due to ethanol market conditions
- Safety record improved

Strategy

Our strategy continues to be to use our low-cost commodity base to provide a platform from which to grow our value added business. Our success lies in operating efficient, low-cost manufacturing facilities while developing more profitable business in value added ingredients, with the flexibility to change our product offering in line with customer demand.

Markets

We sell ingredients made from corn and related services into four markets: food and beverage (our largest market), industrial, animal feed (where we sell the by-products produced from our processes) and pharmaceuticals. We sell both primary and value added products into all these markets, with the exception of animal feed into which we sell primary products only.

Primary

Corn prices in the USA saw an unprecedented spike in the 2008 calendar year, reaching almost US$8 per bushel in July. Prices have since retreated to approximately half this level, although they remain above historic trend. Oil prices also peaked in July 2008 at almost US$150 per barrel, but fell rapidly to below US$40 per barrel during the second half of the 2008 calendar year.

These dramatic changes in oil and corn prices inverted the economics of ethanol, making it less attractive to gasoline blenders, and the ethanol market became significantly oversupplied from the final quarter of the 2008 calendar year. Supply in the 2009 calendar year continues to exceed the mandated demand contained in the Renewable Fuel Standard (RFS), particularly as effective demand in the year has been reduced by carry forward provisions contained in the RFS. The consequent collapse of ethanol margins drove a number of recently constructed dry-mill ethanol producers into bankruptcy proceedings. Market commentators continue to express their belief in the viability of the US ethanol industry, underpinned by the RFS.

Domestic US demand for nutritive sweeteners in the 2008 calendar year continued its long-term trend of reduction. Duty free access into Mexico for US high fructose corn syrup (HFCS) was granted under the provisions of NAFTA from the beginning of the 2008 calendar year. However, exports have been constrained by the sudden weakening of the Mexican peso half-way through our 2009 financial year and relatively low sugar prices in the Mexican market.

Demand for industrial starches, which are primarily used in the manufacture of paper and packaging, fell between 20% and 25%, in line with the demand for the products in which they are used. This sharp decline was not only the impact of recessionary pressures in the US but also due to the significant strengthening of the US dollar which severely reduced the sales of the US paper and packaging industry as it became less able to compete in its export markets.

Corn by-product values peaked during the third quarter of the 2008 calendar year. However, the subsequent fall in corn and soy prices resulted in corresponding price declines for corn gluten feed and meal, and corn oil. Additionally, the competitive impact of the supply of distillers' dry grains produced by the rapidly expanded number of dry mill ethanol producers increased the supply of ingredients to the animal feed industry at the same time as US livestock numbers reduced.

Value added

Demand for value added food ingredients was relatively resilient despite the economic downturn experienced during the second half of the financial year. Markets for value added industrial ingredients deteriorated during the second half of the financial year as demand fell in line with significant reductions in paper and packaging production.

Business performance

Sales of £1,797 million were 30% above the prior year (9% at constant currency). The increase in constant currency was driven by the recovery of higher corn input costs and increased by-product values. Adjusted operating profit decreased by 3% (19% in constant currency) from £186 million to £181 million.

Primary

Sales increased by 32% to £1,271 million (12% in constant currency). Operating profits reduced by £20 million to £98 million, a reduction of 17% (31% in constant currency).

Primary food sales were 35% higher than the prior year (16% in constant currency), and operating profits were 25% higher (3% in constant currency). Although sweetener volumes were marginally below the level of the prior year, primary sweetener profits increased due to the modest pricing increases achieved in the 2008 calendar year pricing round. Primary food starch volumes and unit margins were both slightly above the prior year. By-product income was above the prior year, as the business benefited from strong refined corn oil selling prices during the second half of the 2008 calendar year and the by-products which are sold into animal feed increased broadly in line with corn and soya prices which hit unparalleled peaks during the summer of 2008. Profits at Almex, our Mexican cereal sweeteners and starches joint venture, were broadly in line with the prior year.

Our citric acid business performed well and delivered solid profit improvement over the prior year. Fundamentals have become more positive during the financial year, with a tightening in global supply. The International Trade Commission (ITC), in its final determination, has imposed anti-dumping duties on Chinese citric acid imports entering the USA. We realised a profit of £4 million from selling land in Mexico owned by our citric acid joint venture which ceased production in 2003.

Primary industrial sales (comprising ethanol and native industrial starches) of £393 million were 27% above the prior year (4% in constant currency). However, operating profits of £3 million were 93% below (93% in constant currency) the total of £42 million achieved in the prior year. We recognised losses from ethanol, due to significantly lower unit margins particularly during the second half of the financial year and additional costs associated with the commissioning of the Loudon, Tennessee capacity expansion, with a combined effect of £28 million.

Primary industrial starch volumes were 9% below the prior year, although unit margins were marginally higher. Volumes during the first half of the 2009 financial year benefited from additional demand following floods in Iowa, which affected production at competitor plants. Volumes during the second half fell to levels appreciably below the comparative period as demand from the paper and packaging industries reduced significantly.

Value added

Value added ingredients sales increased by 23% to £526 million (4% in constant currency). Operating profits increased by 22% to £83 million (4% in constant currency).

Food volumes were below the prior year, due principally to a reduction in value added sweetener sales, but pricing improved over the prior year to a level which more than covered input cost increases. Profits in local currency at our US Food Systems business, Custom Ingredients, were in line with the prior year.

Value added industrial ingredients broke even, in line with the prior year. Sales volumes during the second half of the 2009 financial year were adversely impacted by lower levels of US domestic and export demand, leading to volumes well below the comparative period. This impact was offset by firmer pricing compared with the prior year which more than covered higher corn prices. The Bio-PDO™ loss in the year was smaller than the prior year.

Looking ahead

With the capacity expansion for value added food ingredients at Sagamore, Indiana complete and the expansion at Loudon, Tennessee being commissioned to produce ethanol, value added ingredients and substrate for the Bio-PDO™ plant, we now have an asset base from which to develop our business in the future. Food and beverage ingredient volumes have been reasonably resilient in the face of the economic downturn, and we expect this to continue.

Construction activities at the new corn wet mill at Fort Dodge, Iowa, which is designed to produce industrial starches and ethanol, had been progressing satisfactorily and are 95% complete. However, we have decided to postpone final construction and start-up of this plant until ethanol market conditions improve. With a number of dry mill ethanol producers operating within Chapter 11 bankruptcy, and reduced consumption of US gasoline, ethanol margins are likely to remain under pressure in the short term. We continue to believe that the RFS will underpin profitability in this industry over the medium to long term.

In the near term, the actual level of customer demand and net corn costs will be key factors in determining our performance. In the second half of the 2010 financial year, our performance will also be influenced by the timing of the recovery in ethanol margins and the outcome of the 2010 calendar year US sweetener pricing round. Industrial starches have fallen in line with paper and packaging production and we would expect some recovery as and when the major economies emerge from the current recession. However, the competitiveness of the US paper and board industry will be dependent also on any further change in the relative strength of the US dollar against currencies of major export markets.