Food & Industrial Ingredients, Europe

Our Food & Industrial Ingredients, Europe division has two parts, Single Ingredients and Food Systems, linked by a strong R&D network. Our Single Ingredients business includes the Eaststarch joint venture (five corn plants in Central Europe) which produces sweeteners and starches, and our corn plant in the Netherlands which produces speciality starches. Our Food Systems business makes bespoke stabilising systems.

Key performance indicators

Return on net operating assets[1]

Target (longer-term)	20%
2009	8%
2008	10%
2007	14%

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	1.2% increase
2007	1.2% reduction
2006	2.4% 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]

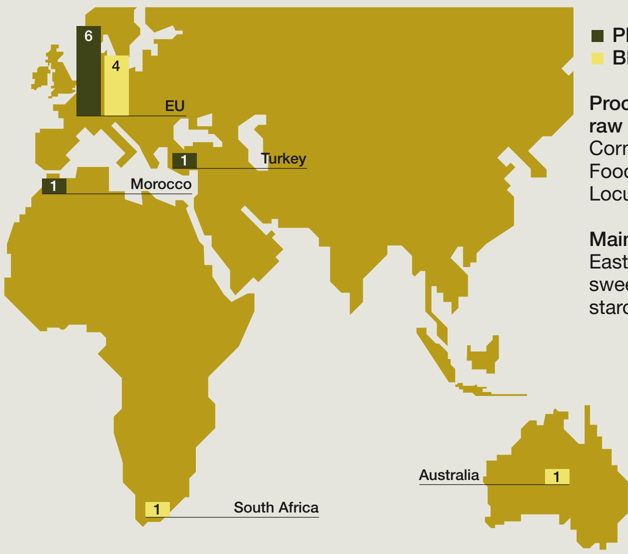
Target	zero
2008	0.42
2007	2.52
2006	1.28

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.

Combining our expertise
Through our Food Systems businesses, Hahn and Cesalpinia, we are a leading provider of stabiliser systems in Europe, particularly for packaged foods such as mayonnaise, yoghurts and ice cream. In 2008, we restructured these two businesses and our South African business into a single unit to align their activities and share knowledge.

What we do



- Plants
- Blending facilities

Processes and raw materials
Corn (maize) milling
Food systems
Locust bean gums

Main joint venture
Eaststarch: cereal sweeteners and starches

Having restructured the division during the year to focus on Single Ingredients and Food Systems, we performed well achieving a 24% increase in adjusted operating profit.

Olivier Rigaud
President, Food & Industrial Ingredients, Europe

Financial highlights

£m	Year to 31 March 2009 Primary	Value added	Total	Year to 31 March 2008 Primary	Value added	Total
Sales						
Food	170	206	376	168	155	323
Industrial	163	–	163	138	–	138
	333	206	539	306	155	461
Adjusted operating profit						
Food	27	24	51	14	21	35
Industrial	–	–	–	6	–	6
	27	24	51	20	21	41
Margin						
Food	15.9%	11.7%	13.6%	8.3%	13.5%	10.8%
Industrial	–	–	–	4.3%	–	4.3%
Total	8.1%	11.7%	9.5%	6.5%	13.5%	8.9%

Key markets

Primary food	Primary industrial	Value added single ingredients	Value added food systems
■ Isoglucose, dextrose – Sweeten food and drinks	■ Industrial starch (native, cationic, dextrins) – Gives strength and finish to paper – Adhesives for packaging – Binders for construction materials	■ Speciality sweeteners – Sweeten food and drinks – Enhance flavour	■ Stabiliser systems – Stabilise packaged food – Improve mouthfeel and texture – Act as a preservative
■ Native food starch – Provides texture and mouthfeel		■ Food starch – Provides texture and mouthfeel – Replaces fat	■ Natural/high value hydrocolloids (locust bean gum, pectin) – ‘Label-friendly’ products

Food & Industrial Ingredients, Europe continued

Highlights
Successful reshaping of the business with:

- Opening of the new Innovation Centre in Lille, France
- Expansion of grind capacity underway at the Boleraz, Slovakia plant to fulfil additional isoglucose quotas
- Commissioned expansions in our joint-venture businesses in Hungary and Bulgaria
- Construction underway of the first European polydextrose fibre facility at the Koog, the Netherlands plant
- Food Systems businesses, Cesalpinia, Hahn and South Africa merged into a single unit
- Safety record improved

Strategy
Our strategy continues to be to use the low-cost commodity base of our Single Ingredients business to improve margins and provide a platform from which to grow our value added starch-based business, and to grow our Food Systems business to increase further the contribution from value added products and solutions.

Markets
The division comprises two distinct businesses which are linked by a strong R&D network.

The Single Ingredients business is focused around our joint-venture corn wet milling plants in Eastern Europe and our wholly-owned corn wet milling plant in the Netherlands. Our joint-venture plants in Eastern Europe convert corn into a mixture of primary and valued added sweeteners and industrial starches. Our plant in the Netherlands produces speciality starches and will also produce polydextrose fibres towards the end of the 2010 financial year, positioning it well to take advantage of the consumer trend for health and wellness products. The Single Ingredients business serves many of the leading multinational branded and private label food and beverage producers.

Food Systems, consisting primarily of Hahn and Cesalpinia, is an asset-light, knowledge-based business serving medium-sized food and beverage companies across Europe, the Middle East and Asia. It produces highly functional systems formulated for customers from a combination of different ingredients.

Primary
The poor harvest in 2007 resulted in high corn costs in the first half of the 2009 financial year. A good crop in 2008, however, contributed to significantly lower net corn costs in the second half.

Volumes of isoglucose (as HFCS is called in Europe) produced within the EU are regulated via quota as part of the EU Sugar Regime. The selling price of isoglucose is linked to the price of sugar although, unlike sugar, the raw material input price is not regulated. European demand for corn-based sweeteners for use in fermentation (which is not subject to quota control) was adversely affected throughout the 2009 financial year by competition from out-of-quota sugar stocks (which act as a substitute for this purpose).

The progress of the reforms of the EU Sugar Regime are discussed later within the commentary on the Sugars division. Unlike our EU cane refineries, isoglucose producers must pay a restructuring levy during the period of the reforms, but have had their quotas increased by 60%. Producers can also surrender quota in return for restructuring aid. Restructuring levies were charged throughout the financial year to 31 March 2009 and will continue until 30 September 2009.

Industrial starch demand (for products predominantly used in the paper and packaging industries) experienced a reduction similar to that in the US of approximately 20% during the second half of the financial year. As a result, pricing for industrial starches has come under pressure.

Value added
Food ingredient demand has remained relatively stable, despite the deterioration in the economic climate. Pricing has generally proved to be robust, even during the final quarter of the 2009 financial year.

Consumers continue to focus on foods which provide nutritional benefits, although there was evidence during the final quarter of the 2009 financial year that demand for Food Systems' products and solutions was affected by customer destocking and lower levels of consumer demand. There was greater interest from customers in reformulating their existing products to address rising ingredient costs.

Business performance
Sales increased by 17% to £539 million (1% decrease in constant currency). Adjusted operating profit increased by 24% to £51 million (7% increase in constant currency). The Single Ingredients business performed well in the first full year following the disposal of five European starch plants which was completed on 1 October 2007. The business benefited from the lower cost structure achieved by relocating its head office to Slovakia. The second half year benefited from lower net corn costs after the better harvest in 2008. Good progress was also made in reorganising the Food Systems business.

Primary
Sales of primary products increased by 9% to £333 million (9% decrease in constant currency). Operating profit increased from £20 million to £27 million, an increase of 35% (18% in constant currency).

Within primary food ingredients, liquid sweetener volumes were marginally above the prior year, as higher isoglucose volumes arising from EU quota increases were partially offset by lower dextrose sales to the fermentation industry (which were adversely impacted by competition from out-of-quota sugar). Margins were significantly higher because of the lower corn input prices, particularly in the second half of the 2009 financial year. The plants with the larger isoglucose quotas have a strategic advantage as they are located in Europe's corn-growing areas of Central and Eastern Europe in what have become sugar deficit markets.

During the year, Food & Industrial Ingredients, Europe paid levies into the EU restructuring fund totalling £10 million (2008 – £8 million). Restructuring aid of £11 million (2008 – £nil million) was recognised following the surrender of the small isoglucose quotas in the Netherlands and Greece. The small Greek plant was closed in September 2008. In the six months to 30 September 2009, after which restructuring levies are removed, the division will incur £4 million in levies, and is expected to recognise income of £3 million for our share of restructuring aid for the surrender of the Romanian isoglucose quota in September 2009, following which the plant will be closed.

Primary industrial ingredients broke even, compared with an operating profit of £6 million in the prior year. Volumes were below the prior year, particularly towards the end of the financial year, where demand fell in line with the paper and packaging markets.

Value added
Value added sales increased from £155 million to £206 million, an increase of 33% (15% in constant currency). Operating profits increased by 14% to £24 million (a reduction of 3% in constant currency).

Crystalline sweetener volumes increased due to growth in the dairy and beverage markets in southern Europe. Profits from modified food starches were slightly lower due to weaker pricing during the second half of the year although volumes increased.

The Food Systems business previously comprised three separate businesses: Hahn, Cesalpinia and our blending operation in South Africa. In order to align their activities and allow knowledge and expertise to be shared more readily, we restructured these businesses into a single unit during the year. Value added profits benefited from this reorganisation, as well as a full-year contribution from Hahn (which was acquired in June 2007). The second half of the year saw pressure from the global economic downturn and changes to export markets caused by currency volatility depressing sales volumes slightly, although pricing of many key raw materials has also shown a downward trend over the same period.

Looking ahead
The outlook, particularly for the second half of the 2010 financial year, will be influenced by European cereal prices following the 2009 harvest.

An investment to double capacity at the Hungrana joint-venture facility, now one of the largest corn wet mills in Europe, came on stream as planned during 2008. This allows the plant to manufacture its increased isoglucose quota (the largest in the EU) and become an important producer of bioethanol. An expansion at the Bulgarian joint venture was also completed successfully.

Production of polydextrose, a value added soluble fibre, is being added to the value added starch facility in the Netherlands to address a market which has been developed with product processed in our sister US facilities. The Slovakian joint-venture facility is being expanded in order to supply the increased EU isoglucose quota.

Isoglucose prices will continue to be linked to EU sugar prices, and the impact on sugar selling prices of the final EU Sugar Regime reference price reduction on 1 October 2009 will be important in establishing a price level for isoglucose. We will benefit from the ending of restructuring levies on isoglucose quotas from 1 October 2009.

Industrial starch volumes are likely to remain under pressure until the recessionary impact on the paper and packaging industry starts to reverse.

Value added food ingredients are expected to remain relatively resilient and will benefit from the new polydextrose capacity in the Netherlands which will come on line towards the end of the 2010 financial year.