

Sucralose

Our Sucralose division makes SPLENDA® Sucralose, the no-calorie sweetener. SPLENDA® Sucralose is used to sweeten over 4,000 foods and beverages globally, is used in many leading brands of reduced-calorie products, and also in pharmaceuticals. We are the exclusive supplier of sucralose to McNeil Nutritionals for its SPLENDA® No-Calorie Sweetener tabletop products sold in over 50 countries around the world.

Key performance indicators

Return on net operating assets¹

Target (longer-term)	20%
2009	26%
2008	23%
2007	31%

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 use²

Target	3.0% reduction
2008	14.9% reduction
2007	6.9% reduction
2006	12.9% 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 index³

Target	zero
2008	zero
2007	0.04
2006	0.13

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.

What we do



A brand at work

In the last year, 71% of US households, or 82 million people, purchased a product displaying the 'Sweetened with SPLENDA® Brand' logo on its packaging. The most popular product category was yoghurt, purchased by over a quarter of US households, with juice drinks the second most popular category.

Source: IRI Consumer Network™ (52 weeks ending 28 December 2008)



¹ McIntosh, Alabama being mothballed



Sales volumes grew by 6% in the year with a particularly strong performance in the UK where three of the top four grocery retailers reformulated their own-label food and beverage ranges to include SPLENDA® Sucralose.



Karl Kramer
President, Sucralose



Financial highlights

£m	Year to 31 March 2009			Year to 31 March 2008		
	Primary	Value added	Total	Primary	Value added	Total
Sales	–	169	169	–	148	148
Adjusted operating profit	–	72	72	–	66	66
Margin	–	42.6%	42.6%	–	44.6%	44.6%

Key markets

Value added food

- SPLENDA® Sucralose – Micronised
- SPLENDA® Sucralose – Granular

Value added beverage

- SPLENDA® Sucralose Liquid Concentrate
- SPLENDA® Sucralose – Granular

Value added pharmaceutical

- SPLENDA® Sucralose – Pharmaceutical Grade

Sucralose continued

Highlights

- Sales volume growth of 6% driven primarily by growth in international (non-US) markets
- Strong volume growth in Europe with significant gains in retailer own-label ranges
- A breakthrough in manufacturing yields has increased plant capacity and led to the decision to mothball the McIntosh, Alabama, facility
- Safety index achieved Group target of zero

Strategy

Our strategy is to position SPLENDA® Sucralose, a value added product, as the no-calorie sweetener of choice in no-calorie products or those involving the partial replacement of nutritive sweeteners, either as a single ingredient or in formulation with other Tate & Lyle ingredients. Our strategic alliance with McNeil Nutritionals LLC (McNeil), the owner of the SPLENDA® brand, and our ability to use that brand, give us a strong consumer presence and a distinct competitive advantage. This is enhanced by our extensive manufacturing expertise which allows us to remain the lowest cost and most environmentally responsible manufacturer of sucralose.

Markets

We sell SPLENDA® Sucralose as an ingredient to food, beverage and pharmaceutical manufacturers around the world. It is used to sweeten over 4,000 foods and beverages globally and is used in many leading brands of reduced-calorie products.

We estimate that the value of the global market for high-intensity sweeteners (HIS) reduced by 11% in the 2008 calendar year, returning to prior levels following the impact of Chinese saccharin supply issues in the 2007 calendar year which caused saccharin prices to treble. The North American market experienced a 6% value decline; price competition continues in this market from both incumbents and new entrants.

Global new product launches containing HIS in the 2009 financial year decreased by 5% compared to the prior year, although launches containing SPLENDA® Sucralose increased by 7% over the same period.

Business performance

Total sales volumes increased by 6% compared to the comparative period, with volume increase greatest in European food and beverage applications. Sales increased by 14% to £169 million (reduced by 4% in constant currency) primarily due to lower average selling prices compared to the prior year.

Adjusted operating profit increased by 9% to £72 million (reduced by 4% in constant currency), reflecting lower gross margins due to selling price reductions and changes in customer mix.

Margins at 42.6% were below the prior year. After adjusting for one-off credits, including those arising from the final settlement of deferred consideration payable to McNeil, underlying operating margins for the year were in the high 30% range.

SPLENDA® Sucralose increased its share by value of the global HIS market from 23% in the 2008 financial year to 25% in the 2009 financial year. During the year, we had a number of notable customer product launches and reformulations with SPLENDA® Sucralose, including Diet Coke and Coke Zero in China to coincide with the Beijing Olympics. Coke Zero has also been formulated to contain SPLENDA® Sucralose in Japan, Singapore, Indonesia and Thailand. In the USA, our partner McNeil launched 'SPLENDA® with Fiber', which used both SPLENDA® Sucralose and another one of our value added products, PROMITOR™ Soluble Corn Fiber.

In Europe, sales growth continues to be driven by strong sales to UK grocery retailers. Three of the top four have reformulated their own-label food and beverage ranges to include SPLENDA® Sucralose. We also negotiated a new global distribution agreement with pharmaceutical company Merck to grow sales in the pharmaceutical/over-the-counter segments.

In the last year, our sucralose manufacturing facilities have achieved significant and sustainable yield improvements of over 25% which has 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 the newer and more energy efficient fourth-generation facility in Singapore. We have recognised an impairment charge against the McIntosh assets of £97 million in the 2009 financial year. 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.

Our decision to mothball the McIntosh facility 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.

In our patent infringement case at the US International Trade Commission (ITC), the Administrative Law Judge gave his Initial Determination in the case on 22 September 2008. The judge did not find that Tate & Lyle's patents were infringed and his finding was upheld by the full six-person Commission in April 2009. We do not intend to file a notice of appeal to the ITC decision. Selling, general and administration costs were £7 million below the prior year principally due to lower legal costs arising from the ITC patent infringement case.

Looking forward

We anticipate modest growth in sales volumes in the 2010 financial year, as we further develop our close working relationships with our key customers and continue to develop European and other international markets.

After adjusting for one-off credits, underlying margins in the 2009 financial year were in the high 30 percent range. The higher cost of sales brought forward, together with costs arising from the reorganisation of the sucralose manufacturing footprint which cannot be classed as exceptional, partially offset by lower depreciation costs, will cause operating margins to be somewhat lower in the 2010 financial year.

Anticipated cash costs of £60 million associated with the decision to mothball the McIntosh, Alabama facility 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. Costs of £25 million are expected to be paid in the 2010 financial year.