Sugars

Our Sugars division is the largest cane sugar refiner in the EU. It has well-known brands such as Tate & Lyle Sugars and Lyle's Golden Syrup in the UK; Sidul and Sores in Portugal; and Melli in Vietnam. It also distributes molasses, a by-product of cane sugar processing, throughout the world.

Key performance indicators

Return on net operating assets[1]

Target (longer-term)	**20%**
2009	4%
2008	11%
2007	12%

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	zero
2007	zero
2006	3.4% 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]

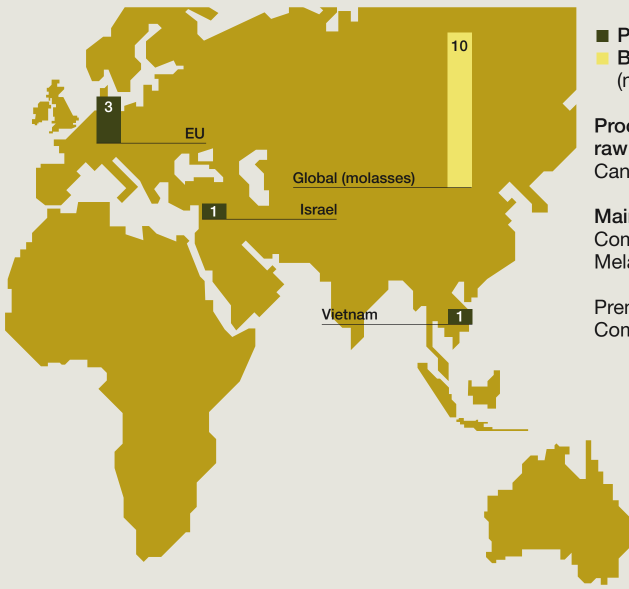
Target	**zero**
2008	2.04
2007	2.86
2006	2.35

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.

An iconic brand
In 2008, in celebration of Lyle's Golden Syrup's 125th anniversary, the iconic tin, with its Victorian design, went gold. We also introduced new non-drip caps for our range of convenient plastic Lyle's Golden Syrup Pouring bottles and Lyle's Squeezy Syrup.

What we do



- Plants
- Blending facilities (molasses)

Processes and raw materials
Cane sugar refining

Main joint ventures
Compania de Melazas: molasses

Premier Molasses Company: molasses

It has been a difficult year, but as we near the end of the EU Sugar Regime restructuring period, we see increasing evidence of equilibrium returning to the EU sugar market.

Ian Bacon
Chief Executive, Sugars

Financial highlights

£m	Primary	Value added	Total	Primary	Value added	Total
			Year to 31 March 2009			Year to 31 March 2008
Sales						
Products	711	68	779	596	73	669
Molasses	269	–	269	203	–	203
	980	68	1 048	799	73	872
Adjusted operating (loss)/profit						
Products	(11)	5	(6)	15	5	20
Molasses	18	–	18	13	–	13
	7	5	12	28	5	33
Margin						
Products	(1.5)%	7.4%	(0.8)%	2.5%	6.8%	3.0%
Molasses	6.7%	–	6.7%	6.4%	–	6.4%
Total	0.7%	7.4%	1.1%	3.5%	6.8%	3.8%

Key markets

Primary products	Value added products	Molasses
■ Granulated and liquid sugars – Sweeten food and drinks	■ Tate & Lyle branded sugars, including Fairtrade (UK)	■ Molasses distribution – Animal feed ingredient – Food ingredient – Industrial ingredient
	■ Lyle's Golden Syrup (UK)	
	■ Sidul/Sores branded sugars (Portugal)	
	■ Melli branded sugar (Vietnam)	

Sugars
continued

Highlights
- Reform of EU Sugar Regime has been successfully implemented and is nearing completion
- Disposal of International Sugar Trading business to Bunge
- Excellent performance from molasses business
- Switch to Fairtrade for all UK retail sugars by end of the 2009 calendar year progressing well
- Safety record improved

Strategy
In our EU sugar refining business our strategy continues to be to adapt to the new market environment created by the reform of the EU Sugar Regime. This means ensuring that we have a low-cost refining base; that we are in the right markets; and that we are the most attractive destination for raw cane sugar suppliers. For our molasses and Vietnam businesses, our objective is to maintain our leading position in these markets.

Markets
The markets for sugar and isoglucose within the EU are regulated through a framework of provisions (the EU Sugar Regime) as part of the Common Agricultural Policy. Historically, the EU Sugar Regime has principally provided support for the production and processing of sugar beet. Import duties have protected EU prices for sugar at levels well above world market prices, and export refunds have been used to dispose of surplus production. Production levels have been controlled through quotas held by individual member states.

In November 2005, the EU introduced changes to the EU Sugar Regime with the intention of reducing the total quantity of sugar produced within the EU and, at the same time, reducing the EU minimum price structures by 36%.

The EU market is coming to the end of the restructuring process agreed in November 2005. The EU Commission's expectation that six million tonnes of sweetener quota would be surrendered has been substantially met, and the Commissioner for Agriculture and Rural Development has declared the reform process a success. The actual timing of the quota surrender was later than initially expected, and the market has therefore been characterised by surplus stocks, albeit reducing, throughout the 2009 financial year, which has led to continued pressure on prices and refining margins.

There are clear signs of improving market conditions resulting from the completion of the voluntary quota surrender from October 2009. This is particularly true of markets in areas where quota surrender has been greatest relative to domestic market size, such as the Iberian peninsula. October 2009 is the final point of the formal restructuring process, when both the last voluntary quota surrender and final institutional price cut are implemented.

The reforms markedly increase the volume of raw and refined cane sugar that will need to be imported into the EU with cane sugar imports set to nearly double, which we see as positive for EU cane refining prospects.

In the molasses market, demand has benefited from the high prices of alternative raw materials that can be used in the animal feed sector. This kept molasses prices strong and margins good, particularly in the early part of the year.

Our biggest market is food and beverage, with many of our customers being large, international branded food and beverage businesses. We sell mostly granulated and liquid sugars (primary products) and speciality sugar products and syrups (value added). We also sell branded (value added) products directly to retail customers. In the UK our brands are Tate & Lyle Fairtrade Granulated Sugars, other Tate & Lyle speciality sugars, and Lyle's Golden Syrup; in Portugal, Sores and Sidul; and in Vietnam, Melli. Through our molasses business we also supply products into industrial and animal feed markets.

Business performance
Sales increased by 20% to £1,048 million (13% in constant currency). Volumes of sugar processed in the EU were 6% ahead of the prior year. Higher prices reflected the changes to destination markets.

Adjusted operating profit fell by 64% (66% in constant currency) to £12 million reflecting the surplus for most of the year in the EU sugar market, a highly competitive UK retail market and record energy prices. We recognised £17 million of transitional aid in the year (2008 – £17 million). Selling, general and administration costs within our European refining business reduced by £5 million compared with the prior year, due to reductions in staff, site and marketing costs.

Our Vietnamese cane sugar business, Nghe An Tate & Lyle, performed broadly in line with the prior year.

Our refinery in Israel made a small loss as it was commissioned. An impairment charge of £9 million was taken against these assets in the 2009 financial year.

Primary
Operating profit reduced to £7 million from £28 million in the prior year. Surplus sugar stocks in Northern Europe and an extremely competitive UK market depressed refining margins at our UK sugar business. Energy costs at our UK refinery more than doubled year-on-year, and added £11 million to our cost base, reflecting the impact of significantly higher gas prices.

However, capacity expansion at our Lisbon refinery enabled us to achieve a 20% increase in volumes from this plant and improve profits compared with the prior year, with notable growth in the Spanish industrial market.

Our molasses storage and distribution business had another exceptional year. Demand and pricing benefited from exceptionally high prices in alternative ingredients into animal nutrition.

Value added
Operating profit was flat at £5 million. EU retail volumes were below the prior year due to volume losses in the UK grocery channel. Pricing was broadly in line with the prior year.

We are pleased with the consumer response to our commitment to move all of our UK retail products to Fairtrade by the end of the 2009 calendar year.

Looking ahead
We see increasing evidence of equilibrium returning to EU sugar markets. We therefore expect our European sugar business to benefit from stronger refining margins after the October 2009 final price change under the reform of the EU Sugar Regime.

Although it is unclear exactly how the market will evolve once reform is complete, we continue to believe that the cane-only refining model, based at deep water ports, which we operate at both our refineries, will provide the cost structure and operational flexibility necessary to compete effectively in the EU market.

Negotiations remain on track for raw sugar supply under the new regulatory arrangements effective from 1 October 2009.

The commissioning of the biomass boiler at our London refinery, along with the new raw sugar unloading cranes, will improve the UK refinery's cost structure and provide important protection from energy price and demurrage risks. Our capacity expansion at Lisbon is providing a platform from which to grow our business in the Iberian peninsula.

With cereal prices reducing to levels closer to historic trend, and reduced volumes of molasses being traded on world markets, we expect the performance of the molasses business in the year ending 31 March 2010 to be below the exceptional levels achieved in the last two years.

In our Vietnamese sugar business, the current crop is suffering from grassy green shoot disease, which has reduced the sugar cane available from our growers and will depress profits in the 2010 financial year.