CHIEF EXECUTIVE'S REVIEW

Highlights

- Speciality Food Ingredients sales up 4% (up 4% in constant currency) at £983 million with adjusted operating profit in line with the prior year (up 1% in constant currency) at £213 million:
  - Continued strong growth in Asia and Latin America
  - Acquisition of Biovelop, and in China, the formation of Tate & Lyle Howbetter and agreement to acquire Winway Biotechnology
- Bulk Ingredients adjusted operating profit 5% lower (4% lower in constant currency) at £172 million due to soft beverage season and unusually cold and prolonged winter in the US
- Adjusted profit before tax 2% lower (flat in constant currency) at £322 million
- Balance sheet remains strong with reduction in net debt of £126 million to £353 million (2013 – £479 million)
- Final dividend of 19.8p proposed making a total dividend of 27.6p (2013 – 26.2p) up 5.3% on prior year
- Successful deployment of upgraded IS/IT platform across Europe with US and Singapore on track for the summer
- Board approval of capital investment of £100 million over the next two years in Speciality Food Ingredients to expand capacity for existing and pipeline products

Javed Ahmed

Changes in constant currency are calculated by retranslating comparative period results at current period exchange rates.

Full-year performance

During the year, we continued to make steady progress in executing our strategy. The delivery of profit growth in starch-based speciality ingredients and Food Systems, along with another year of strong growth in emerging markets, was offset by the impact of the cold spring in the US last year followed by the recent severe and prolonged winter, and an increasingly competitive market for SPLENDA® Sucralose.

Sales for the year were £3,147 million (2013 – £3,256 million), 3% lower than the prior year (3% in constant currency) with sales in Speciality Food Ingredients up 4% (4% in constant currency) to £983 million (2013 – £947 million) and 6% lower in Bulk Ingredients (6% in constant currency) at £2,164 million. Adjusted operating profit was 2% lower (1% in constant currency) at £349 million (2013 – £356 million) with adjusted operating profit in Speciality Food Ingredients in line with the prior year at £213 million (up 1% in constant currency) and 5% lower (4% in constant currency) in Bulk Ingredients at £172 million (2013 – £182 million). Adjusted profit before tax was 2% lower (flat in constant currency), at £322 million (2013 – £327 million), and adjusted diluted earnings per share were 2% lower (flat in constant currency) at 55.7p (2013 – 56.6p).

Financial management and balance sheet

Our average quarterly cash conversion cycle improved by three days to 39 days (2013 – 42 days) largely driven by a decrease in working capital due to lower finished goods inventories and lower corn prices.

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 well within our internal thresholds. At 31 March 2014, the net debt to EBITDA ratio was 0.8 times (2013 – 1.0 times), against our internal threshold of 2.0 times and interest cover on total operations was 11.6 times (2013 – 11.1 times), again comfortably ahead of our minimum threshold of 5.0 times.

Net debt of £353 million at 31 March 2014 was lower than at the end of last year (2013 – £479 million), reflecting the reduction in working capital and a decrease in the value of dollar denominated debt as a result of the weakening of the US dollar against sterling.

We continue to generate a good level of return on our assets with return on capital employed of 19.2% (2013 – 19.7%).

CHIEF EXECUTIVE'S REVIEW | CONTINUED

Safety

As already set out in the Chairman's Statement on page 4, I am saddened to report that the performance of the Group this year has been completely overshadowed by three fatal accidents. As a result of these tragic events, working with the Chairman, the Board and the Corporate Responsibility Committee, we are taking a fresh look at our overall safety approach and procedures, not limited to the specific areas related to these accidents.

I know I speak for all of my colleagues across the Group when I say that we are determined to continue to improve our safety programme so as to keep all those that work at or visit our sites safe at all times.

Strategy and business update

Growth in Speciality Food Ingredients

Since May 2010, we have made steady progress executing our strategy and growing Speciality Food Ingredients, having delivered average annual volume growth of 5% and compound annual operating profit growth of 7% during that period. Excluding SPLENDA® Sucralose, where an increasingly competitive environment held back growth of the division as a whole, we have delivered a strong performance across the rest of Speciality Food Ingredients, with compound annual profit growth of 12% during the same four-year period.

This growth has been achieved by rigorously following through on the key priorities we set out in May 2010, when we outlined a path to grow our Speciality Food Ingredients division by: diversifying our business geographically through building our presence in faster growing, emerging markets and hence reducing our reliance on developed markets; broadening our product portfolio through the development of a world-class innovation capability; and forming stronger relationships with our customers through much greater collaboration with them.

Over the past year we have made further progress in each of these areas.

Entering new markets

We delivered another strong performance in Asia Pacific and Latin America with double-digit volume growth during the period, as we continued to leverage the strength of our brand, our ingredients portfolio and our applications expertise in these regions. Our successful expansion into the emerging markets, which now represent 19% of Speciality Food Ingredients sales, is a result of the investments we have made in building strong local teams and infrastructure, which have been key enablers in forming direct and higher quality relationships with regional food and beverage customers.

During the year, we opened an applications and technical service laboratory in Singapore (the new hub of our Asia Pacific operations), and established a sales office in Japan.

We have also strengthened our presence through acquisition. In October 2013, we acquired a 51% equity interest in Jiangsu Howbetter Food Co., Ltd, a leading Food Systems business in China. By combining Tate & Lyle's global blending capabilities and extensive recipe expertise with Howbetter's strong local expertise and infrastructure, Tate & Lyle Howbetter provides us with an excellent platform from which to accelerate the growth of our Food Systems business in China.

In March 2014, we announced the signing of an agreement to acquire Winway Biotechnology (Winway), a leading producer of polydextrose fibre in China. Winway will provide us with our third global polydextrose facility complementing our existing facilities in the Netherlands and the US. The acquisition, which is subject to government approval (expected in the next few months), will allow us to further accelerate the growth of our speciality fibres business in Asia Pacific and to expand our health and wellness offering globally.

Innovation

Our Innovation and Commercial Development group (ICD) launched five new products during the year including PULPIZ® Pulp Extender, a speciality food starch that replaces tomato pulp in a range of applications. ICD also continued to play a key role in the commercialisation of our recently launched ingredients, particularly our salt reduction ingredient SODA-LO® Salt Microspheres and our stevia-based, no-calorie, natural sweetener TASTEVA® Stevia Sweetener. During the year, a number of customers launched products incorporating these ingredients and we continued to work closely with customers on formulation, product prototyping and testing to convert the increasing number of customer projects in the pipeline into sales.

Our innovation pipeline remains strong with a total of 35 products at various stages of development including ten in the final stages, some of which we plan to launch over the next 12 to 18 months. The pipeline is well balanced with a number of line extensions, next generation and breakthrough projects across our sweeteners, texturants, health and wellness and bulk ingredients platforms.

Our global marketing team is an integral part of the innovation and commercialisation process. In addition to developing clear value propositions and positioning for our ingredients, this team is also developing consumer-focused strategies for specific applications in the beverage, 'clean label', convenience and dairy categories.

At the start of the year, we acquired Biovelop, an early-stage manufacturer of oat beta glucan which added a 'clean label', speciality fibre with strong EFSA[1] health claims to our existing corn-based fibre-portfolio. During the year, high levels of customer interest in PromOat® Beta Glucan has helped to build a strong pipeline. Work to expand capacity at our plant in Kimstad, Sweden has begun and we expect this will come on line in the current financial year.

Focus on the customer

As reported at our half-year results, we have made significant progress in increasing customer collaboration by leveraging our global Commercial and Food Innovation Centre in Chicago and our enhanced network of applications laboratories around the world. During the year, we commissioned an independent analysis to understand better our customers' views of our developing innovation capabilities. This showed a marked improvement in the way we are perceived by those customers who interact with us at our Innovation Centre in Chicago, with around two-thirds of those stating that we were 'exceeding their expectations'. This has not only led to us developing stronger customer relationships but also to winning new business with both existing and new customers.

SPLENDA® Sucralose

As announced in February 2014, the competitive environment for sucralose intensified during the final quarter, driven by an increase in capacity in China and a significant overhang of unsold Chinese sucralose. Against this backdrop, we renewed a number of customer contracts for SPLENDA® Sucralose, including some on a multi-year basis, and as a result we experienced an increase in the rate of price decline in SPLENDA® Sucralose in the final quarter. As previously announced, with these contracts in place and based on current market dynamics, we expect average prices in the 2015 financial year to be around 15% lower than the 2014 financial year.

1 EFSA – European Food Safety Authority.

Notwithstanding the competitive market environment and the headwind of lower prices, we continue to see good long-term volume growth opportunities in the global market for sucralose driven by a number of factors:

- Given rising rates of obesity and diabetes globally, increased consumer focus on health and wellness is continuing to drive food and beverage manufacturers to reduce or replace sugar content in their products. The imposition of taxes by governments on food and beverage products with high levels of sugar or calories is also creating opportunities and increasing demand for sucralose;
- Sucralose continues to be the high intensity sweetener of choice because the combination of its superior taste profile and heat stability that enable it to be incorporated in a wide range of food, beverage and other applications. This provides an opportunity for sucralose to continue to replace other high intensity sweeteners that have already been incorporated into low calorie products in the market as well as replacing sugar. In calendar year 2013, 6,373[2] new products were launched globally incorporating sucralose, a 54% increase over the prior year (2012 – 4,142 launches) compared with 3,633[2] for aspartame (up 4% on 2013) and 2,860[2] for stevia (up 56% on 2013) where we also have a strong offering through TASTEVA® Stevia Sweetener. As a result, sucralose's value share of the global high intensity sweetener market continues to grow, standing at 35% for calendar year 2013;
- We also see good growth potential in the tabletop market where we now have full freedom to operate worldwide.

While we expect the global market for sucralose to remain competitive, our priority remains to increase volumes by both growing and taking a greater share of the global market for sucralose, by leveraging our unparalleled applications and formulations expertise and providing our customers with the highest standards of quality, traceability and reliability in the industry. Specifically, our focus over the next year will be to continue to renew existing customer contracts, aggressively pursue new business opportunities globally (including those relating to the substitution of other artificial high intensity sweeteners given the increasing price competitiveness of SPLENDA® Sucralose) and drive further cost savings and efficiencies through our two large-scale continuous production facilities in the US and Singapore.

Investing in a platform for long-term growth

In order to support continued growth in the Speciality Food Ingredients division, the Board has approved, in line with our disciplined capital process, capital investment of £100 million over the next two years. This investment will be used to expand capacity at our speciality plants in Europe and the US and our recently acquired oat beta glucan business, support the growth in new products expected to be launched in the next 12 to 18 months and deliver cost reduction initiatives. As a result, we expect the ratio of capital expenditure to depreciation to increase in the next financial year to approach 2.0 times, with an average payback on these projects of 3.5 years.

Earlier this month, we successfully deployed the upgraded global IS/IT system across our European operations and we remain on track to implement the system in the US and Singapore by the end of summer. While we expect the total investment in the IS/IT platform and global Shared Service Centre to be towards the top of the £120 – 135 million range we disclosed in May 2013, we are starting to see the benefits from this investment, in particular within procurement and shared services, and continue to target a three-year cash payback from completion of the implementation.

During the year, we incurred £46 million of costs on the rollout of the common IS/IT platform, taking the total costs to 31 March 2014 on the global Shared Service Centre and IS/IT platform to £124 million, of which £77 million was capital expenditure. As a result of bringing the IS/IT system into operation across the business, we expect our depreciation and amortisation charge to increase by £5 million in financial year 2015 and a further £4 million the year after.

Conclusion

The transformation of Tate & Lyle remains firmly on track and our strategy of becoming a leading global provider of speciality food ingredients will continue to create long-term value for our shareholders.

Excluding SPLENDA® Sucralose, Speciality Food Ingredients has grown strongly over the last four years and well ahead of the wider market, underpinned by the good progress we have made in emerging markets, innovation and working more closely with our customers.

While we are operating in an intensely competitive, dynamic market for sucralose, we continue to see good volume growth opportunities and are well placed to secure this growth.

Following the implementations of our global IS/IT platform over the summer, we will have completed virtually all the business transformation initiatives we set out to deliver four years ago.

We have strengthened our financial position, which provides us with the resources to invest in the business and the flexibility to make acquisitions where we see high quality opportunities to accelerate organic growth.

Since 2010, we have built a more robust, more global and higher-quality business that is capable of generating sustained growth over the long term. I would like to thank all of our employees across Tate & Lyle for their continued hard work and dedication over the last year and look forward to working alongside them in continuing to deliver our objectives over the next financial year and beyond.

Key performance indicators (KPIs)

Our KPIs for the year ended 31 March 2014 are detailed on pages 18 and 19.

Outlook

In Speciality Food Ingredients, we expect to deliver volume growth across all major product categories but a lower profit contribution from SPLENDA® Sucralose is expected to offset a good performance elsewhere in the division. Profits in this division are expected to be more evenly weighted between the first and second halves than the previous financial year.

In Bulk Ingredients, we now anticipate a slower start in the US in our first quarter associated with the prolonged and severe winter, combined with lower European sugar prices in our second half, to outweigh a better performance across other product categories.

Overall, and before the impact of currency movements[3], while we expect the Group's performance for the full year to be slightly lower than the comparative period, we are well placed to deliver growth in the longer term.

Javed Ahmed
Chief Executive
28 May 2014

2 Source: Innova Market Insights.

3 The estimated annual movement in operating profit and profit before tax caused by a one cent movement in the US dollar is £1.7 million and £1.6 million respectively.