

Chief Executive's Review

Group Performance

The 2004 financial year saw a satisfactory performance overall in a challenging environment, despite the effects of exchange rate translation and rising raw material costs in the second half of the year. Group profit before tax, exceptional items and goodwill amortisation of £227 million (£384 million) was similar to the prior year (2003 – £228 million, \$385 million). Group profit before tax after exceptional items and goodwill amortisation was £224 million (\$379 million) (2003 – £187 million, \$316 million).

Net debt has reduced to £388 million (\$656 million) at March 31, 2004 from £471 million (\$796 million) at March 31, 2003. The net debt to EBITDA (earnings before exceptional items and before interest, tax, depreciation and goodwill amortisation) multiple has improved from 1.4 times to 1.2 times and gearing (net borrowings as a percentage of net assets) has reduced from 45% to 38%.

Group Targets

The Group set itself a number of targets and has made further progress against most of these in the year to March 31, 2004.

- Our minimum target for interest cover has been exceeded with cover at 9.3 times.
- We have met our interim target for the overall Group Return on Net Operating Assets (RONOA) to be at least 15%. We achieved 15.1%, up from 14.2% in the year to March 31, 2003. Our secondary target remains for RONOA to reach 20%.
- We have grown the contribution of value added and consumer branded products as a percentage of Group profit before interest, exceptional items and goodwill amortisation to 54%, exceeding our target of 50%.
- We have successfully completed the delivery of benefits from the Amylum integration programme with gross benefits this financial year achieving our target of £50 million (\$85 million).
- All businesses have been set a target on both economic and environmental grounds to reduce energy consumption on a per unit basis by 3% per year. Overall, in the 2003 calendar year, the Group narrowly failed to achieve the target, with an actual reduction of 2.3%.

Performance of Main Businesses

Staley performed better than expected. Food ingredients and industrial starches improved from higher volumes and increased gross margins. The contribution from value added products reached the highest level yet recorded. Sweetener margins were flat. Ethanol margins were higher than in the previous year. Partially offsetting these gains, costs were higher and the weak dollar reduced earnings on translation.

During the 2004 pricing round and subsequently, corn prices have been volatile and have generally increased. In the 2004 calendar year we succeeded in recovering the increase in net corn costs but, if current prices persist, we will require a significant uplift in 2005 selling prices to maintain margins, despite the mitigating impact of better by-product prices.

Decisive management action has seen the citric acid product line return to profit. The closure of our Mexican plant and the conversion of part of our UK plant to astaxanthin

together with competitors' actions on capacity resulted in a better balance of supply and demand. As a consequence we achieved selling price increases in our 2004 contracts.

Higher raw material prices and increased processing costs at Amylum, caused by the high protein content of the wheat, in the second half-year offset the good performance in the first half. Sweetener volumes increased and growth in the value added product range was achieved, but starch volumes were flat. As a result of a drought in the summer of 2003, both wheat and corn prices peaked in December 2003 with increases of over 40%. Amylum was unable to recover all of this cost increase from customers in the 2004 calendar pricing round and therefore gross margins in the 2005 financial year will be lower. This was exacerbated by weaker prices for the by-product, vital wheat gluten.

The results from Amylum are below the Group's average and our return on investment in this division is unacceptable for the long term. We are undertaking a review of all aspects of Amylum's activities. Preliminary findings show that the current operations of the business are fundamentally viable but that opportunities exist for selective investment to optimise production and improve returns. A leading position in sweeteners provides an excellent platform from which to grow value added products.

Eaststarch, Amylum's joint venture operations in Central and Eastern Europe, also saw raw material prices increase due to the drought. Overall results were lower than the strong performance of 2003.

The three-year Amylum integration programme achieved the target of £50 million (\$85 million) annual benefits and costs, at a total of £30 million (\$51 million), were well below the £50 million (\$85 million) indicated at the start of the programme.

Profits in our European Union (EU) sugar operations were better than the prior year and these businesses again provided strong cash flow. There has been no news or greater clarity on progress on the renewal of the sugar regime (due on July 1, 2006) since the announcement of our interim results in November 2003. Our expectation remains that structural change is likely to be spread over a long time frame: evolution rather than revolution.

Redpath in Canada performed well albeit, as expected, below 2003 which was an exceptional year.

Performance of Other Businesses

Eastern Sugar, our European sugar beet business, continued to be impacted by the collapse of the sugar regime in the Czech Republic and remained loss making, although at a lower level than in the prior year.

No resolution has been achieved in the North American Free Trade Agreement dispute on access for high fructose corn syrup (HFCS) into Mexico and the Mexican tax on drinks containing HFCS remains in place. As a consequence, our starch business, Almex, made a lower profit than in the comparative period, whilst our sugar operation, Occidente, achieved increased profits as a result of better selling prices.

Nghe An Tate & Lyle, our cane sugar factory in Vietnam, operated well with higher volumes more than offsetting weaker selling prices. As expected, profits from sugar trading have reduced following the strong performance in 2003.

The contribution from sucralose was higher than had been expected as a result of the realignment of the sucralose business with McNeil Nutritionals (a division of McNeil-PPC, Inc., a Johnson & Johnson company) completed in April 2004 and detailed below. The 2004 results include a total of £9 million (\$15 million) in respect of licence fees. This is because recognition of the final instalment of £3 million (\$5 million) has been brought forward from the 2005 year. In the year to March 31, 2005 the results for the sucralose business will be reported in the Americas segment.

Sucralose Realignment

Growing the contribution from value added and consumer branded products is a key element of our strategy and the sucralose ingredients business will be a major contributor. Sucralose is an exciting growth opportunity, ideally placed to meet consumer demand for reduced calorie options in many categories including soft drinks, dairy and confectionery.

The total cash cost including capitalised expenses on the sucralose realignment of \$137 million (£74 million) remains subject to working capital adjustments. Payment occurred after the March 2004 year-end. The pro forma profit before tax for the year to December 2003 was \$33 million (£17 million) but we expect, as previously announced, significant one-off costs in the first year of operation. Even after these costs, we expect the return on this investment to exceed the Group's cost of capital in the year to March 2005.

We look forward to offering this impressive product alongside our existing range of food ingredients and sweeteners, improving the depth of our product coverage and positioning us uniquely to meet our ingredient customers' growing formulation needs.

Safety

Tate & Lyle is committed to providing safe and healthy conditions for its employees and visitors. Our target is continuous improvement to reduce recordable injury and lost time accident rates to zero in every plant.

We measure and report our safety performance in calendar years and, for 2003, 70% of reporting locations improved or equalled their 2002 safety performance. The Group Safety Index decreased by 14% (to its lowest level since we began recording) and the Recordable Injury Rate (injury requiring treatment beyond first aid) decreased by 7%.

Whilst these trends are encouraging, I am sorry to report that a fatal accident involving a contractor occurred at our Thames refinery in the UK on March 2, 2004 (and is not included in the above statistics which are for the calendar year 2003). This is a stark reminder to us all that, even in the most safety conscious environment, serious incidents can still occur and safety remains a daily concern.

Obesity and Health

The obesity and health issue is of major concern to us all. Tate & Lyle is committed to working together with our partners across the food chain to ensure that people have the knowledge, information and the range of foods they need to make choices that maintain a healthy lifestyle. If we ignore or shirk this challenge we will lose the trust of our consumers.

Tate & Lyle is participating in a range of initiatives to address these issues at an employee, community and industry level. In addition, we already have many products that are helping broaden the range of foods our customers offer. These include not just sucralose, a no calorie sweetener, but, for example, a range of fat replacing ingredients that are helping our customers provide their customers with new choices.

Community Involvement

Tate & Lyle's long-running community programme involves partnering with other organisations to deliver on a shared objective: to help establish strong, safe and healthy communities by investing time and resources into focused projects that directly address local needs. For example, in 2003, over two thousand primary school children took part in a safety scheme at our Thames refinery, run in conjunction with the Metropolitan Police.

Many of these partnerships have been successfully operating for a number of years and continue to gain enthusiastic support from employees. Besides being good corporate behaviour, this programme also improves relationships with our employees, both by enhancing their own local community and by making Tate & Lyle a company for which they are proud to work.

The community involvement policy is reviewed annually by the Board. The programmes are managed locally.

Conclusion

In my first full year with the Group I have been encouraged to find a significant range of opportunities available to our business and in our industry generally. I have also been impressed with the technical ability of our employees and their enthusiasm to accelerate the drive for efficiency and growth. The recent sucralose realignment and the new joint venture with DuPont clearly illustrate the opportunities that are open to us to extend the value added component of our business and create value for shareholders.

The Group has the inherent strengths of being efficient, low cost, cash generative and safety conscious. We also have issues to address, such as those we face in Amylum this year, but have both the commitment and the resources to tackle and resolve them, as we have demonstrated in our citric acid business. We have already indicated that the 2005 financial year will be challenging for Amylum. Given a return to normal weather and harvest patterns, this should only have a short term impact on our overall growth objectives.

I am certain that we have a sound platform from which to build a prosperous future.

Iain Ferguson
Chief Executive