Tate & Lyle PLC

EU sugar sector reform - potential impact

23 June 2005

Tate & Lyle issues an update following the publication by the Commission of the European Communities on 22 June 2005 of the ‘Proposal for a Council Regulation on the common organisation of the markets in the sugar sector’ together with other proposals (“the Proposals”).

Tate & Lyle considers the current Proposals to be seriously inequitable and will be seeking a fairer and more satisfactory outcome in the next few months. However, Tate & Lyle believes that it is in the best interest of all stakeholders to provide its best estimate of the potential impact on Tate & Lyle were the Proposals to be enacted in their current form.

As detailed below, the first year in which the full effect is expected to be felt is the financial year to March 2009 when the potential impact arising purely from changes to the institutional framework is estimated as a reduction in the operating results of around £85 million.

However, by the financial year to March 2009 Tate & Lyle’s targeted improvement in operating results from value added products would at least offset the anticipated adverse effect estimated above for currently proposed changes in the EU sugar regime. Tate & Lyle has successfully grown the profitability from the value added component of its business over a period of years, achieving a contribution of 49% of profit before tax, amortisation and exceptional items from 18% of sales in the year to 31 March 2005.

Reform of the EU sugar regime is scheduled to take place on 1 July 2006, in the Tate & Lyle financial year to March 2007, and therefore no impact is expected in the current financial year to March 2006. The financial years to March 2007 and March 2008 are expected to be transition years and the potential impact arising purely from changes to the institutional framework is estimated as a reduction in the operating results of around £20 million and £60 million, respectively. The targeted improvement in operating results from value added products by those years is also expected to at least offset the anticipated adverse effect of currently proposed changes in the regime.

There remain a number of uncertainties and there are three points that should be particularly noted:

- The Proposals remain subject to negotiation and probable further amendment at the Council of Ministers, a process that is expected to last until at least November 2005. The Proposals will also be presented to the European Parliament. Tate & Lyle will be lobbying vigorously with the Commission, national governments and authorities during this period to seek a more equitable outcome for its businesses and raw sugar suppliers.

- The potential impacts that are therefore being quantified above exclude the possible effect of market forces across the range of industries that are likely to be impacted by the Proposals. It is not possible to quantify this as the interactions and inter-dependencies among affected industries are complex. In particular, an important aspect would be any impact on current commercial premia above the reference price for sugar in domestic markets. The potential impacts have therefore been quantified purely from changes to the institutional framework, being principally changes to sugar and isoglucose quotas, the reference price for sugar (previously the intervention price), changes to the price for sugar beets and raw cane sugar, and the application of two funding mechanisms - the restructuring fund (which would be used to compensate beet producers, isoglucose and inulin manufacturers that elect to surrender quota) and a production levy (primarily to be used to fund export subsidies).

- The potential impacts exclude the benefit of mitigating actions that Tate & Lyle will undertake to respond to actual structural and commercial change.

In comparison to the White Paper of July 2004 ("the White Paper"), the Proposals in their current form would have a greater impact on Tate & Lyle's businesses, primarily because of a deeper reduction to the reference price for sugar and the disproportionate and discriminatory reduction in cane refining margins. The following areas would be impacted by the Proposals:

- Food & Industrial Ingredients Europe produces isoglucose and other products which compete with and are typically priced at a discount to sugar, where the raw material (wheat and corn) prices are not linked to that of sugar. The reduction in the sugar price now envisaged in the Proposals would have a significant impact on this business. Food & Industrial Ingredients Europe would have to contribute to both the restructuring fund and the production levy and these costs would also impact upon profitability. Despite the partial compensation of increased isoglucose quotas, the most significant part of the impacts on Tate & Lyle, quantified above, would be felt in Food & Industrial Ingredients Europe. This could be partially mitigated if isoglucose quotas were freely transferable across borders;

- The cane sugar refineries in London and Portugal would suffer reduced margins as reductions in sugar selling prices would not be fully offset by reductions in input raw sugar prices. Tate & Lyle's major concern with the Proposals is that margins for cane refiners would be reduced to a greater extent than beet producers such that the competitive imbalance between beet and cane producers would be further widened. This is inconsistent with the Commission's stated undertaking to ensure that the refining of sugar is carried out "under the fairest possible conditions of competition". The impact of the Proposals on this business and our raw sugar suppliers would be significant. Tate & Lyle does, however, welcome the security of raw sugar supply through to September 2009 contained in the Proposals, and will be seeking to extend this period;

- Eastern Sugar, the beet joint venture in East and Central Europe, would also see reductions in sugar selling prices and in input raw material prices. Overall we would expect only a small change in the results from Eastern Sugar; and

- The Proposals address the issue of continuation of supply of raw materials at world market prices for the chemical and pharmaceutical industries, and so returns at the citric acid plant in Selby would not be expected to be impacted materially.

Iain Ferguson, Chief Executive, said, “We are deeply concerned about the inequitable nature of the proposals and in particular the disproportionate and discriminatory reduction in cane refining margins. However, it should be borne in mind that the publication of these Proposals on 22nd June is an important step in a process that is expected to continue until at least November this year and the indications are that the final legislation is highly likely to be different in some aspects. As always we are dependent upon the Commission and the Council of Ministers to ensure fair treatment of cane refiners and raw sugar suppliers and to address the needs of the cereal sweetener sector. You can be sure that we will be vigorously representing our position with a view to obtaining a more equitable outcome for our businesses, our raw sugar suppliers and our people.

“When we have certainty over the final outcome of the regime reform we will be in a position to begin the process of consulting with the workforce of the affected businesses and to finalise our plans to mitigate the impact on our various businesses. We will make a further announcement on developments following publication of the final proposals, which is expected to occur in November 2005.

“We are encouraged that the 2008 mid-term review of price and quota levels envisaged in the White Paper has been removed and that the Proposals provide that the new arrangements would apply until end September 2015. This would give an extended period of stability after the Proposals have been finalised.

“These reform proposals underscore the importance of the successful implementation of our strategy, which remains on track, to grow the value added component of our business. These include our range of functional starches, SPLENDA® Sucralose, Bio-3G™ and Aquasta™ – none of which will be impacted by the changes in the sugar regime. It is anticipated that in each of the financial years to March 2007, 2008 and 2009 the targeted improvement in operating results from value added products, will at least offset the adverse effects we anticipate from currently proposed changes to the institutional framework of the EU sugar regime.”

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