

# External environment and risk management

Every business needs to be responsive to its competitive and regulatory environment. Understanding the issues that could have an impact on our business is vital for good risk management and long-term commercial success.

## External environment

### Competition

The starch industry, within which our food and industrial ingredients businesses compete, is concentrated around a small number of large participants who operate in many different application areas, including food, beverage, paper and pharmaceuticals. The USA accounts for over half of global starch production. Our main competitors in the USA for corn wet milling and starch-based products are Archer Daniels Midland Company (ADM), Corn Products International and Cargill. National Starch (part of Akzo Nobel N.V.) is another competitor, particularly in relation to some higher-value modified food and industrial starches, as is Penford Corporation in the North American paper starch industry. In Europe our main competitors in the starch industry are Cargill, Syral (part of Tereos) and Roquette Frères.

Competition for our European sugar business comes mainly from British Sugar (a subsidiary of Associated British Foods plc), Südzucker, Nordzucker and Tereos. The main competitors for our food ingredients businesses are Cargill, Danisco, Kerry and National Starch.

### Governmental regulation

Some of the markets in which Tate & Lyle operates are subject to significant influence from legislation or regulation. In Europe, the main regulations and legislation relevant to Tate & Lyle are the EU Sugar Regime, which affects our Sugars and Food & Industrial Ingredients, Europe businesses. More information on the impact of the reform of the EU Sugar Regime is given on pages 46 and 47. In the USA, the main regulation is the Renewable Fuel Standard programme, which requires that gasoline sold contains a minimum volume of fuel from renewable sources, and affects our Food & Industrial Ingredients, Americas business.

### Risk management

Tate & Lyle could be affected by a number of risks, which may have a material adverse effect on our reputation, operations and financial performance.

The Group's enterprise-wide risk management and reporting process helps Group management to identify, assess and mitigate risk. The process involves the identification and prioritisation of key risks, together with associated controls and plans for mitigation, through an ongoing programme of workshops, facilitated by the risk management function.

The risks identified cascade up through functional and divisional levels to the Group Executive Committee. This culminates in the identification of the Group's key business, financial, operational and compliance risks with associated action plans and controls to mitigate them where possible (and to the extent deemed appropriate after assessing the costs and benefits). Further details of the risk management process are on page 68 and the key risks and uncertainties identified as part of this process, together with some of the mitigating actions that we are taking, are listed on pages 28 to 30. The Group is exposed to a number of other risks, some of which may have a material impact on its results. It is not possible to identify or anticipate every risk that may affect the Group, some of which may not be known or may not have been assessed. Our overall success as a global business depends, in part, upon our ability to succeed in different economic, social and political environments and to manage and to mitigate these risks.

## External environment and risk management continued

### Key risks

#### Failure to act safely and to maintain the continued safe operation of our facilities could have a detrimental impact on Tate & Lyle's operations

The safety of our employees, contractors, suppliers, the communities in which we operate and the consumers of our products, is of paramount importance to Tate & Lyle. Around the world the Group is subject to laws, regulations, rules and ordinances relating to health, safety and the environment, including pollution. The Group's revenues depend on the continued operation of our various manufacturing facilities, and the consistent production of finished products that meet our customers' specifications. The operation of our plants involves many risks, including the failure or sub-standard performance of equipment, the improper installation or operation of equipment and natural disasters.

#### Mitigating actions

- We have health and safety policies and procedures in place at all our facilities and employ dedicated staff at all locations to ensure that these policies are understood, measured and embedded. The Board reviews the Group's safety performance and policies annually.
- Our commitment to environmental performance runs throughout the Group and the Board reviews our environmental performance and policy every year. We maintain environmental management systems at our production facilities and work closely with local environmental agencies to ensure we meet at least the requisite standards. We also employ specialist consultants when required.

- We ensure that product quality and safety are monitored at each stage of production, and we have thorough product safety policies and procedures in place to prevent contamination. These safety policies and procedures are carefully followed and rigorously enforced.

#### Our success depends upon our employees and the recruitment and retention of key personnel

Central to the success of Tate & Lyle is the performance, knowledge and skill-sets of our employees around the world. We recognise the need to attract, integrate and retain the talent required to fulfil our ambitions and we understand the negative impact on results that could arise from an inability to retain key knowledge and adequately plan for succession.

#### Mitigating actions

- Tate & Lyle's remuneration policies are designed to attract, retain and reward employees with the ability and experience to execute the Group's strategy.
- We have developed the 'Tate & Lyle People Strategy' to provide opportunities for our employees to develop and grow in their roles and meet new challenges as their careers progress (for more details see page 26).

#### Non-compliance with legislation can lead to financial and reputational damage

The Group is aware of the importance of complying with all applicable legislation affecting our business activities and of the potential financial impact and damage to reputation that can result from any breach.

#### Mitigating actions

- We have regulatory managers who monitor changes in legislation and develop action plans to deal with such changes. This team is supplemented by a worldwide network of external consultants who provide quarterly reports on regulatory change and how it affects the Group.
- Our legal teams maintain compliance policies in areas such as antitrust, money laundering and anti-corruption laws and provide ongoing training to employees as needed.

#### Fluctuations in prices, offtake and availability of raw materials, energy, freight and other operating inputs may affect our margins

All of our finished products are derived from renewable agricultural raw materials. All of these materials are subject to fluctuations in price due to factors such as harvest and weather conditions, crop disease, crop yields, alternative crops and by-product values. Energy usage in our production facilities represents one of our main production costs. In some cases, due to the basis for pricing in our sales contracts, or due to competitive markets, we may not be able to pass on to our customers the full amount of raw material price increases or higher energy, freight or other operating costs, which could also affect contract offtake, and this could reduce our profitability.

#### Mitigating actions

- We aim to build strategic relationships with our suppliers to ensure we have a secure supply of raw materials.

- We seek to operate a balanced portfolio of supply and tolling contracts with our customers in order to manage the balance of raw material prices and product sales prices and volume risks.
- Multiple source supply agreements are in place for key ingredient supplies.
- Raw material and energy purchasing policies govern our actions in this area and also provide security of supply.
- We use derivatives, where available, to hedge our exposure to movements in the future prices of commodities.

**Competitors may achieve significant competitive advantage through technological step change or higher service levels**

If our competitors were able to identify, develop and introduce on a commercial basis a major technological step change, such as significantly improving the efficiency of the production process and lowering costs (and thereby commoditising products) or introducing a new product with better functionality, we may not be able to introduce a comparable change. Similarly, we must ensure we at least match or exceed competitors' service and quality performance. If we cannot compete effectively with such innovation or service levels, our sales and profitability could decline.

**Mitigating actions**

- We have an internal R&D team of around 280 people who work to produce innovations in product development, applications, manufacturing technology and customer services.

**Failure to identify important consumer trends and/or counter negative perceptions of the Group's products**

We recognise the risks associated with falling behind the curve where emerging dietary trends are concerned, as well as not being fully prepared to counter unexpected and unfounded negative publicity in relation to our product offering.

**Mitigating actions**

- Our technical sales and R&D teams work closely with our customers and advisors to identify emerging trends.
- Our investment is directed towards ensuring our operations are equipped to satisfy product demand.
- Our marketing departments carry out consumer-facing research annually to ensure they are aware of consumers' needs and expectations.
- Through our R&D and regulatory teams, we ensure we are able to substantiate relevant claims relating to products as required by legislation and the needs of our customers.
- Our media relations department monitors the Group's press coverage and has action plans to deal with any negative publicity.

**We may not be able to protect our intellectual property**

Our commercial success depends, in part, on obtaining and maintaining patent protection on certain of our products and technology, and successfully defending these patents against third-party challenge or infringements. Where we choose not to prosecute patent protection, it is important that we protect our confidential information and proprietary trade secrets. Others may independently develop technologies similar to ours or independently duplicate our technologies. Our patents may expire or remain in existence for only a short period following commercialisation. This would reduce or eliminate any advantage of those patents. We may face litigation to assert claims of infringement, enforce our patents, protect our trade secrets or know-how, or determine the scope and validity of our proprietary rights or the proprietary rights of others. We may be unable to enforce our patents or intellectual property or otherwise protect our proprietary rights, which could have a material adverse effect on our business, financial condition and results of operations.

**Mitigating actions**

- Our Group legal department monitors all our patents and is supported by expert patent lawyers, and we will take action where it is deemed necessary.
- Our R&D teams operate an organised and secure process for the identification and recording of innovations, new discoveries, trade secrets and potential patentable ideas, with appropriate safeguards to ensure that the confidentiality of that information is maintained.

## External environment and risk management continued

### **Failure to manage capital expenditure and working capital during the current period of uncertainty and global economic crisis**

The Group recognises the importance of managing our finances within strictly controlled parameters, particularly when external financial conditions are uncertain and highly changeable.

#### **Mitigating actions**

- Tate & Lyle has capital expenditure procedures in place to control and monitor the allocation and spend of capital. Significant projects are approved and monitored by the Board.
- The Group's debt and working capital levels are constantly monitored and reported monthly to the Board.

### **Failure to maintain an effective system of internal financial controls could lead to financial irregularities and loss**

Without effective internal financial controls, Tate & Lyle could be exposed to financial irregularities and losses from acts which could have a significant impact on the ability of the business to operate. These range from safeguarding the assets of the business to the accuracy and reliability of our records and financial reporting.

#### **Mitigating actions**

- The Group has authorisation policies in place and ensures that key tasks are segregated to safeguard assets.
- The Group has detailed internal Finance and Capital Expenditure Manuals which set out the procedures to be followed.
- The Board monitors the financial performance of the Group via monthly reports and a regular forecasting process.
- The Chief Executive and Group Finance Director undertake detailed quarterly business and financial reviews.

### **As a public company Tate & Lyle must enunciate a clear strategic vision as well as provide accurate and timely information to the market to deliver long-term shareholder value**

The share price on the stock market is based on the expectations of a wide variety of market participants such as analysts, brokers, investment funds and other investors. Media stories or rumours can influence these expectations. Failure to maintain a clear vision of the business strategy, failure to provide accurate and timely information, failure to meet Group targets, or failure to respond in an appropriate way could lead to uncertainty and volatility in the share price and the erosion of shareholder value.

#### **Mitigating actions**

- Procedures are in place to monitor the Group's financial performance and communicate with the market via regular trading updates.
- The investor relations department, supported by external advisors, ensures that all communications are timely, clear and consistent and that they comply with regulatory and legislative requirements.

### **Exchange rate fluctuations could create earnings and balance sheet volatility**

The Group operates in many different countries and is subject to currency fluctuations arising on transactional foreign currency exposures and the translation of overseas subsidiaries' results. For example, a weakening of the US dollar and the euro against sterling would have a negative impact on the net assets and shareholders' funds reported in sterling.

#### **Mitigating actions**

- The Group internal Finance Manual sets out the procedures to be followed.
- We borrow in different foreign currencies, principally US dollars, so as to provide a partial match for the Group's major foreign currency assets.
- We have adjusted the banking covenants for the US\$1 billion Revolving Credit Facility to eliminate the distortion of foreign exchange volatility.