20 Derivative financial instruments (continued)

Cash flow hedges

The Group employs forward foreign exchange contracts and commodity pricing contracts to hedge cash flow risk associated with forecast transactions. The notional principal amounts of the outstanding forward foreign exchange contracts are as follows:

	31 March	
	2009 £m	2008 £m
Euro	**(50)**	(70)
US dollar	**2**	(23)
Sterling	**69**	77
Singapore dollar	**22**	18
Other	**(13)**	(20)

Gains and losses recognised in the hedging reserve in equity (Note 26) on forward foreign exchange and commodity pricing contracts as of 31 March 2009 will be released to the income statement at various dates up to 30 months from the balance sheet date.

In addition, the Group hedges the interest cost of certain of its borrowings through the use of interest rate swaps. Gains and losses recognised in the hedging reserve in equity on interest rate swaps as of 31 March 2009 will be released to the income statement at various dates up to the maturity of the underlying borrowings. The notional principal amount of the outstanding interest rate swaps is £142 million (2008 – £122 million).

Fair value hedges

The Group employs currency and interest rate swap contracts to hedge the currency and interest rate risks associated with its borrowings. The notional principal amounts of the outstanding interest rate and currency swap contracts applied in fair value hedging relationships as of 31 March 2009 were £227 million and £200 million respectively (2008 – £164 million and £200 million respectively).

Net investment hedges

The Group employs currency swap contracts to hedge the currency risk associated with its net investments in subsidiaries located primarily in the USA and Europe. The notional principal amounts of the outstanding currency swap contracts applied in net investment hedging relationships as of 31 March 2009 were £250 million (31 March 2008 – £200 million). The fair value loss of £48 million (2008 – £17 million loss) on translation of the currency swap contracts to pounds sterling at the balance sheet date was recognised in the translation reserve in shareholders' equity (Note 26).

In addition, of the Group's borrowings, a total of £860 million (2008 – £756 million) is designated as hedges of the net investments in overseas subsidiaries.

Interest rate derivatives held for trading

Interest rate caps and some of the Group's interest rate swap contracts hedge the Group's exposure to interest rate risk, but do not qualify for hedge accounting. The notional amounts of the outstanding interest rate caps and interest rate swap contracts not designated within hedge relationships as of 31 March 2009 were £109 million and £244 million, respectively (2008 – £83 million and £191 million).

Trading contracts

Commodity pricing contracts held for trading relate to the Group's commodity trading activities which are undertaken for the purposes of supporting underlying operations.

21 Financial risk factors

Management of financial risk

The main financial risks faced by the Group are credit risk, liquidity risk, and market risks, which include interest rate risk, foreign exchange risk and certain commodity price risks. The Board regularly reviews these risks and approves written policies covering the use of financial instruments to manage these risks and set overall risk limits.

The Group Finance Director retains the overall responsibility and management of financial risk for the Group. Most of the Group's financing, interest rate and foreign exchange risk are managed through the Group treasury company, Tate & Lyle International Finance PLC, whose operations are controlled by its board. The treasury company is chaired by the Group Finance Director and has other board members who are independent of the treasury function. The board of Tate & Lyle International Finance PLC approves policies and procedures setting out permissible funding and hedging instruments, and a system of authorities for the approval of transactions and exposures within the limits approved by the Board of Tate & Lyle PLC.

Group interest rate and currency exposures are concentrated either in the treasury company or in appropriate holding companies through market-related transactions with Group subsidiaries. These positions are managed by the treasury company within its authorised limits.

Commodity price risks are managed through divisional commodity trading functions in the USA and Europe, whose operations are controlled by the divisional Executive Committee. The committee meets on a periodic basis and is responsible for ratifying general strategy and overseeing performance on a monthly basis. Commodity price contracts are categorised as being held either for trading or for hedging price exposures. Commodity contracts held for trading within the Group are limited, confined only to tightly controlled areas within the sugar and corn pricing areas.

21 Financial risk factors (continued)

The derivative financial instruments approved by the Board of Tate & Lyle PLC to manage financial risks include swaps, both interest rate and currency, swaptions, caps, forward rate agreements, financial and commodity forward contracts and options, and commodity futures.

Market risks

Foreign exchange management

Tate & Lyle operates internationally and is exposed to foreign exchange risks arising from commercial transactions (transaction exposure), and from recognised assets, liabilities and investments in overseas operations (translation exposure).

Transaction exposure

The Group's policy requires subsidiaries to hedge transactional currency exposures against their functional currency once the transaction is committed or highly probable, mainly through the use of forward foreign exchange contracts.

The amounts deferred in equity from derivative financial instruments designated as cash flow hedges are released to the income statement and offset against the movement in underlying transactions only when the forecast transactions affect the income statement.

Translation exposure

The Group manages the foreign exchange exposure to net investments in overseas operations, particularly in the United States and Europe, by maintaining a percentage of net debt in US dollars and euros to mitigate the effect of these risks. This is achieved by borrowing principally in US dollars and euros, which provide a partial match for the Group's major foreign currency assets. A weakening of the US dollar and euro against sterling would result in exchange gains on net debt denominated in these currencies which would be offset against the losses on the underlying foreign currency assets. At the year end, net debt amounting to £1,231 million (2008 – £1,041 million) was held in the following currencies: net borrowings of US dollars 77% (2008 – 81%), euro 20% (2008 – 21%), pounds sterling 3% (2008 – net deposits of 4%) and net deposits of other currencies 0% (2008 – net borrowings of 2%). The Group's interest cost through the income statement is impacted by changes in the relevant exchange rates.

The following table, as required by IFRS7, illustrates only the Group's sensitivity to the fluctuation of the major currencies on its financial assets and liabilities, as defined and set out in Note 19.

	31 March 2009		31 March 2008	
	Income statement –/+£m	**Equity –/+£m**	Income statement –/+£m	Equity –/+£m
Sterling/US dollar 5% change	**1**	**40**	1	35
Sterling/euro 5% change	**1**	**13**	2	14

The Group also manages its foreign exchange exposure to net investments in overseas operations through the use of currency swap contracts. The amount deferred in equity from derivative financial instruments designated as net investment hedges is offset against the foreign currency translation effect of the net investment in overseas operations, and is released to the income statement upon disposal of those investments.

Interest rate management

The Group has an exposure to interest rate risk, arising principally from changes in US dollar, sterling and euro interest rates. This risk is managed by fixing or capping portions of debt using interest rate derivatives to achieve a target level of fixed/ floating rate net debt, which aims to optimise net finance expense and reduce volatility in reported earnings. The Group's policy is that between 30% and 75% of Group net debt (excluding the Group's share of joint venture net debt) is fixed or capped (excluding out-of-the-money caps) for more than one year and that no interest rates are fixed for more than 12 years. At 31 March 2009, the longest term of any fixed rate debt held by the Group was until June 2016 (2008 – same). The proportion of net debt (excluding the Group's share of joint venture net debt) that was fixed or capped for more than one year was 55% (2008 – 62%).

If the interest rates applicable to the Group's floating rate debt rise/fall from the levels at the end of March 2009 by an average of 100 basis points over the year to 31 March 2010, Group profit before tax will reduce/increase by approximately £4 million (2008 – £4 million) respectively. The floating rate interest payments on £142 million of the Group's borrowings are hedged and designated under cash flow hedge relationships.

Movements in interest rates will impact the fair value of the Group's fixed and capped rate debt. If the interest rates applicable to the Group's fixed and capped rate debt were to rise by 1% from the levels at 31 March 2009, the fair value of the debt would reduce by approximately £31 million (2008 – £27 million). If interest rates were to fall by 1% from the levels at 31 March 2009, the fair value of the debt would increase by approximately £38 million (2008 – £29 million).

Price risk management

Tate & Lyle participates mainly in four markets: food and beverage; industrial ingredients; pharmaceutical and personal care; and animal feed. Food and beverage and industrial ingredients are the most significant. All ingredients are produced from renewable crops, predominantly corn (maize) and sugar cane.

21 Financial risk factors (continued)

Tate & Lyle is exposed to movements in the future prices of commodities in those domestic and international markets where the Group buys and sells corn, sugar and energy for production. Commodity futures, forwards and options are used where available to hedge inventories and the costs of raw materials for unpriced and prospective contracts not covered by forward product sales. In most cases, these hedging contracts mature within one year and are either traded on recognised exchanges or over the counter.

The table below illustrates the sensitivity of the Group's commodity pricing contracts as of 31 March to the price movement of commodities.

	31 March 2009		31 March 2008	
	Income statement –/+£m	**Equity –/+£m**	Income statement –/+£m	Equity –/+£m
Corn 30% change	**2**	**1**	4	3
Sugar 20% change	**1**	**–**	1	–

The majority of the Group commodity pricing contracts are held for trading and changes in mark-to-market values of these contracts are taken directly into the income statement. Amounts deferred in equity from commodity pricing contracts designated as cash flow hedges are released to the income statement and offset against the movement in underlying transactions when they occur.

Credit risk management

Counterparty credit risk arises from the placing of deposits and entering into derivative financial instrument contracts with banks and financial institutions, as well as credit exposures inherent within the Group's outstanding receivables.

The Group manages credit risk by entering into financial instrument contracts only with highly credit-rated authorised counterparties which are reviewed and approved annually by the Board.

The Group has Board approved maximum counterparty exposure limits for specified banks and financial institutions based on the long-term credit ratings of Standard & Poor's and Moody's (typically single A long-term credit ratings or higher). Trading limits assigned to commercial customers are based on ratings from Dun & Bradstreet and Credit Risk Monitor. In cases where published financial ratings are not available or inconclusive, credit application, reference checking, and obtaining of customers' confidential financial information such as liquidity and turnover ratio, are required to evaluate customer's credit worthiness.

Counterparties' positions are monitored on a regular basis to ensure that they are within the approved limits and there are no significant concentrations of credit risks.

The Group considers its maximum exposure to credit risk as follows:

	31 March 2009 £m	31 March 2008 £m
Cash and cash equivalents	**434**	165
Trade and other receivables	**687**	623
Derivative financial instruments – assets	**247**	311
Available-for-sale financial assets	**39**	15

The Group's trade receivables are short term in nature and largely comprise amounts receivable from consumers and business customers. Included in trade receivables are amounts received of £98 million (2008 – £50 million) in respect of securitised receivables, which are also included in current borrowings. Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large, unrelated and internationally dispersed.

Liquidity risk management

The Group manages its exposure to liquidity risk and ensures maximum flexibility in meeting changing business needs, by maintaining access to a wide range of funding sources, including capital markets and bank borrowings. Capital market issues outstanding at 31 March 2009 include the US$300 million 6.125% 144A bond maturing in 2011, the £200 million 6.50% bond maturing in 2012, the US$500 million 5.00% 144A bond maturing in 2014 and the US$250 million 6.625% 144A bond maturing in 2016.

The Group ensures that it has sufficient undrawn committed bank facilities to provide liquidity back-up to cover its funding requirements for the foreseeable future. The Group has committed bank facilities of US$1,130 million of which US$85 million mature in September 2009, US$45 million mature in November 2009 and US$1 billion mature in 2012. These facilities are unsecured and contain common financial covenants for Tate & Lyle and its subsidiary companies that the pre-exceptional and amortisation interest cover ratio should not be less than 2.5 times and the multiple of net debt to EBITDA, as defined in our financial covenants, should not be greater than 4.0 times. The Group has amended the definition of the net debt to EBITDA covenant in the US$1 billion Revolving Credit Facility to eliminate the distortion of foreign exchange volatility, so that net debt is translated at the same average exchange rates used to translate EBITDA.

The Group monitors compliance against all its financial obligations and it is Group policy to manage the consolidated balance sheet so as to operate well within these covenanted restrictions at all times. The majority of the Group's borrowings are raised through the Group treasury company, Tate & Lyle International Finance PLC, and are then on-lent to the business units on an arms-length basis.

21 Financial risk factors (continued)

Current Group policy is to ensure that, after subtracting the total of undrawn committed facilities, no more than 10% of gross debt matures within 12 months and no more than 35% has a maturity within two and a half years. At 31 March 2009, after subtracting total undrawn committed facilities, there was no debt maturing within two and a half years (2008 – none and none). The average maturity of the Group's gross debt was 4.8 years (2008 – 5.8 years). At the year end the Group held cash and cash equivalents of £434 million (2008 – £165 million) and had committed facilities of £788 million (2008 – £559 million) of which £524 million (2008 – £438 million) were undrawn. These resources are maintained to provide liquidity back-up and to meet the projected maximum cash outflow from debt repayment, capital expenditure and seasonal working capital needs foreseen for at least a year into the future at any one time.

The table below analyses the Group's financial liabilities and derivative assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Liquidity analysis	31 March 2009 <1 year £m	1-5 years £m	> 5 years £m
Borrowings including finance leases	**(525)**	**(483)**	**(598)**
Interest on borrowings	**(61)**	**(183)**	**(81)**
Trade and other payables	**(516)**	**–**	**–**
Derivative contracts – receipts	**521**	**306**	**–**
Derivative contracts – payments	**(505)**	**(351)**	**–**
Commodity contracts	**(232)**	**(9)**	**–**

Of the £525 million borrowings with maturities of less than one year £255 million relates to the draw down of committed facilities under the Revolving Credit Facility which matures in 2012.

	31 March 2008 <1 year £m	1-5 years £m	> 5 years £m
Borrowings including finance leases	(234)	(409)	(424)
Interest on borrowings	(48)	(167)	(86)
Trade and other payables	(467)	–	–
Derivative contracts – receipts	388	156	39
Derivative contracts – payments	(393)	(134)	(39)
Commodity contracts	(265)	(85)	–

Included in borrowings are £2,394,000 of 6.5% cumulative preference shares. Only one year's worth of interest payable on these cumulative preference shares is included in the less than one year category above.

Interest on borrowings is calculated based on borrowings held at year end without taking into account future issues. Floating-rate interest is calculated using forward interest rates derived from interest rate yield curves as at year end.

Derivative contracts include currency swaps, forward exchange contracts, interest rate swaps, and interest rate caps. All commodity pricing contracts such as options and futures are shown separately under commodity contracts.

Commodity contracts include only net settled commodity derivative contracts and gross settled commodity purchase contracts with negative fair values. Purchase contracts outflows represent actual contractual cashflows under the purchase contracts and not their fair values. Cash outflows from the purchase contracts are offset by cash inflows received from sale contracts; however, these inflows are not included as part of this analysis.

Financial liabilities denominated in currencies other than pounds sterling are converted to pounds sterling using year end exchange rates.

Capital risk management

The Group's primary objectives in managing its capital are to safeguard the business as a going concern; to maintain sufficient financial flexibility to undertake its investment plans; to retain as a minimum an investment grade credit rating which enables consistent access to debt capital markets, and to optimise capital structure in order to reduce the cost of capital. The Group's financial profile and level of financial risk is assessed on a regular basis in the light of changes to the economic conditions, business environment, to the Group's business profile and the risk characteristics of its businesses.

Tate & Lyle has contractual relationships with Moody's and Standard and Poor's (S&P) for the provision of credit ratings, and it is the Group's policy to keep them informed of all major developments. In February 2009, S&P downgraded Tate & Lyle's long-term credit rating from BBB (negative outlook) to BBB– (negative outlook) and, in April 2009 Moody's downgraded the Group's long-term credit rating from Baa2 (negative outlook) to Baa3 (stable outlook). We are committed to maintaining investment grade credit ratings.

21 Financial risk factors (continued)

The Board of Tate & Lyle PLC has set two ongoing key performance indicators (KPIs) to measure the Group's financial strength. The target levels for these financial KPIs are that the ratio of net debt/EBITDA should not exceed 2.5 times and interest cover should exceed 5 times. These ratios are calculated on the same basis as the external financial covenants noted above. The ratios for these KPIs for the financial years ended 31 March 2009 and 31 March 2008 are:

	31 March	
	2009	2008
Net debt/EBITDA	**2.4**	2.5
Interest cover	**6.1**	7.8

22 Inventories

	31 March	
	2009 £m	2008 £m
Raw materials and consumables	**227**	287
Work in progress	**24**	21
Finished goods	**287**	254
Total	**538**	562

Finished goods inventories of £1 million (2008 – £1 million) are carried at realisable value, this being lower than cost. Inventories of £99 million (2008 – £213 million) are carried at market value.

23 Trade and other receivables

	31 March	
	2009 £m	2008 £m
Non-current trade and other receivables		
Trade receivables	**1**	5
Prepayments and accrued income	**1**	–
Other receivables	**3**	6
Total	**5**	11

	31 March	
	2009 £m	2008 £m
Current trade and other receivables		
Trade receivables	**564**	483
Less: provision for impairment of receivables	**(21)**	(9)
Trade receivables – net	**543**	474
Prepayments and accrued income	**40**	63
Government grants receivable	**12**	60
Other receivables	**128**	78
Total	**723**	675

The fair values of the non-current trade and other receivables are not materially different from their carrying values. The fair values of the current trade and other receivables are equivalent to their carrying values due to being short-term in nature.