Other financial information

Central costs

Central costs, which include head office, treasury and reinsurance activities, decreased by £13 million to £18 million. This decrease reflects a £4 million reduction in underlying head office costs. There were also one-off credits totalling £6 million (including a gain of £3 million on curtailment of a property lease) in 2009 compared with one-off redundancy costs in 2008 of £4 million arising from the simplification of the Group's organisational structure.

Energy costs

Energy costs for the year were £208 million (2008 – £155 million), an increase of 34% (17% in constant currency). Higher prices accounted for most of the underlying increase. We have covered approximately 70% of our estimated energy needs for the 2010 financial year at prices broadly in line with levels in the 2009 financial year.

Exceptional items from continuing operations

£m	**2009**	2008
Write-off of equipment	**(24)**	–
Settlement with Mexican government	**11**	–
Impairment charges	**(106)**	–
Restructuring costs	**–**	(30)
Citric/astaxanthin impairment and closure	**–**	(12)
Orsan impairment	**–**	(17)
Exceptional items	**(119)**	(59)

Exceptional items within our continuing operations during the year totalled a net charge of £119 million.

The mothballing of our McIntosh, Alabama sucralose facility gave rise to an impairment charge of £97 million in the year ended 31 March 2009. Anticipated cash costs of £60 million associated with the decision to mothball McIntosh will be paid over three years and recognised as an exceptional charge in the year ending 31 March 2010. Costs of £25 million are expected to be paid in the 2010 financial year.

Within our Food & Industrial Ingredients, Americas division, we incurred an exceptional charge of £24 million in relation to a dispute with a supplier over the performance and suitability of ethanol dehydration equipment and recognised a credit of £11 million representing our share of the £22 million settlement of the NAFTA case against the Mexican government in relation to the sales tax imposed on soft drinks containing imported high fructose corn syrup (HFCS).

Within the Sugars division, a review of the carrying value of our sugar refinery in Israel resulted in an impairment of £9 million which has also been recognised in the year.

Exceptional items from continuing operations in the 2008 financial year comprised restructuring and relocation charges in respect of our remaining Food & Industrial Ingredients, Europe operations amounting to £30 million; impairment charges in respect of our citric acid business of £12 million; and of our monosodium glutamate business in China (Orsan) of £17 million. Our effective ownership of Orsan was 41% and, as a result, the impact on profit attributable to shareholders was a charge of £7 million.

Net finance expense

The net finance expense from continuing operations increased from £42 million to £51 million. The exchange impact within interest accounted for an increase of £7 million compared with the prior year. We recognised a charge within interest expense in the current year relating to post-retirement benefit plans of £3 million (compared with a credit of £4 million in the prior year). At constant currency, we benefited from lower average interest rates compared to the prior year.

Interest cost is expected to be somewhat higher in the 2010 financial year due to slightly higher levels of average net debt; an increase of £12 million in charges related to post-retirement benefit plans; and the suspension of interest capitalisation in respect of the Fort Dodge, Iowa plant while final completion is postponed.

The effective interest rate in the year on total operations, calculated as net finance expense divided by average net debt, was 4.3% (2008 – 4.9%). Interest cover for total operations was 6.1 times (2008 – 7.8 times).

Taxation

The taxation charge from continuing operations before exceptional items and amortisation of acquired intangible assets was £68 million (2008 – £84 million). The effective rate of tax on adjusted profit was 27.3% (2008 – 33.2%). The decrease was due mainly to changes in the geographical origin of profits, especially lower levels of profits in the USA, to which the tax rate is particularly sensitive, and the implementation of our internal financing plan.

If the mix in the geographical origin of profits in the year to 31 March 2010 is similar to those in the six months to 31 March 2009, the tax rate is expected to fall to below 25%.

Discontinued operations

Discontinued operations comprise our former International Sugar Trading business, residual activities in Eastern Sugar, our former sugar businesses in Canada and Mexico and the five starch plants we disposed of in Europe. Sales from discontinued operations for the year amounted to £852 million (2008 – £951 million).

The operating loss from discontinued operations totalled £21 million (2008 – profit of £96 million), comprising a profit of £1 million before exceptional items (2008 – profit of £36 million) and exceptional losses of £22 million (2008 – profits of £60 million).

Exceptional items for the year totalling a charge of £22 million arose from the disposal of our International Sugar Trading business. A small number of minority interests related to the International Sugar Trading business were not included in the sale and are being addressed separately in accordance with the related shareholders' agreements. The sale of the International Sugar Trading business and the anticipated disposal of the minority interests are together unlikely to generate a material profit or loss on disposal. The sale of these minority interests is expected to occur in the 2010 financial year; the appropriate fair value gains have been recognised in the 2009 financial year through the statement of recognised income and expense. Exceptional items from discontinued operations in the prior year amounted to a profit of £60 million and comprised gains and losses from our former sugar processing businesses and the European starch plants.

The loss from discontinued operations after taxation for the year was £24 million (2008 – profit of £81 million).

Earnings per share

Adjusted diluted earnings per share from continuing operations were 38.0p (2008 – 34.6p), an increase of 10% (decrease of 8% in constant currency). On the same basis, basic earnings per share were higher by 9% (8% lower in constant currency) at 38.2p (2008 – 35.0p).

Total basic earnings per share were 14.2p (2008 – 40.9p), 65% lower than the prior year. Total diluted earnings per share were 14.1p (2008 – 40.4p), also down 65% from the prior year.

Dividend

The Board is recommending a maintained final dividend of 16.1p making a full year dividend of 22.9p per share, an increase of 1.3% over the prior year. In reaching this decision, the Board was mindful of the need to at least maintain the Company's investment-grade credit ratings.

The proposed final dividend of 16.1p (2008 – 16.1p) will be due and payable on 31 July 2009 to all shareholders on the Register of Members at 3 July 2009.

An interim dividend of 6.8p (2008 – 6.5p) was paid on 9 January 2009. Adjusted dividend cover based on total operations was 1.7 times (2008 – 1.8 times) and for continuing operations was 1.7 times (2008 – 1.5 times). The dividend was covered 1.5 times by free cash flow.

At the Annual General Meeting on 23 July 2009, shareholders will be asked to approve the issuing of scrip dividends, where shareholders can elect to accept newly issued shares in place of a cash dividend. If approved, scrip dividends could be offered for the first time for the year ending 31 March 2010.

Cash flow

£m	**2009**	2008
Adjusted operating profit	**298**	295
Depreciation/amortisation	**117**	103
Working capital and other movements	**31**	(159)
Share-based payments	**5**	7
Operating cash flow	**451**	246
Capital expenditure	**(224)**	(264)
Operating cash flow less capital expenditure	**227**	(18)

£m	**2009**	2008
Food & Industrial Ingredients, Americas	**293**	195
Food & Industrial Ingredients, Europe	**102**	(45)
Sugars	**10**	109
Sucralose	**70**	62
Central	**(24)**	(75)
Operating cash flow	**451**	246
Food & Industrial Ingredients, Americas capital expenditure	**(158)**	(150)
Other capital expenditure	**(66)**	(114)
Operating cash flow less capital expenditure	**227**	(18)

Operating cash flow from continuing operations amounted to £451 million, an increase of over £200 million compared with the prior year. The improvement was driven principally by improvements in working capital, particularly in the second half of the year.

The adverse effects of margin calls of about £70 million, primarily against future corn purchases in the USA, were more than compensated for by the decreases in inventory (principally in the USA) and receivables amounting to £190 million.

Other financial information
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There were outflows from provisions of £75 million, primarily from pension payments of £31 million and the payment of exceptional restructuring and redundancy costs in respect of the European starch plants. The operating cash flows in the prior year also benefited from the receipt of transitional aid of £74 million for the EU sugar operations which is being recognised in income up to September 2010.

Net interest paid totalled £56 million (2008 – £34 million).

Income tax paid from continuing operations was £17 million (2008 – £75 million); the lower level was driven in part by refunds relating to prior years totalling about £35 million in the UK and the USA.

Capital expenditure remained at similar levels to 2008 as capacity expansion projects and the construction of the new plant at Fort Dodge, Iowa, continued. These projects are now largely completed. Capital expenditure was 2.0 times depreciation in the year. In the year ending 31 March 2010, capital expenditure will be held below the depreciation charge.

Free cash inflow (representing cash generated from continuing operations less interest, taxation and capital expenditure) totalled £154 million (2008 – outflow of £127 million).

Cash generation from discontinued operations in the year amounted to £206 million (2008 – outflow of £108 million). The disposal and cessation of our International Sugar Trading activities realised cash of £57 million; there will be additional cash flows from these activities in the 2010 financial year as we settle retained creditor balances and run off the contractual arrangements not transferred to Bunge. In the 2010 financial year, we anticipate cash outflows to Bunge will be approximately £29 million. In addition, the Eastern Sugar restructuring funds were received this year, with our share being £53 million.

Equity dividends were £104 million (2008 – £105 million). In total, we paid a net of £160 million (2008 – £139 million) to providers of finance in the form of dividends and interest. We recognised a net inflow of £3 million relating to employees exercising share options during the year (2008 – £8 million).

Net cash generated (defined as cash from operating activities, investing activities and share issues, less shares repurchased and dividends) amounted to £245 million compared with absorption of cash in 2008 of £160 million.

Net debt

Despite the strong cash generation in the year, net debt increased from £1,041 million to £1,231 million due to the effects of exchange (£378 million) and other non-cash movements (£57 million). The Group's debt is primarily denominated in US dollars and euros to match the underlying currencies of the operational cash flows and net assets and, therefore, as sterling has weakened against the US dollar and the euro, net debt reported in sterling has increased.

During the year, net debt peaked at £1,530 million in December 2008 (in the prior year, it peaked at £1,041 million in March 2008). The average net debt was £1,230 million, an increase of £385 million from £845 million in the prior year.

Net assets and return on net operating assets

	As at 31 March		Return on net operating assets %	
£m	**2009**	2008	**2009**	2008
Net operating assets				
Food & Industrial Ingredients, Americas	**1 186**	836	**18**	23
Food & Industrial Ingredients, Europe	**530**	489	**8**	10
Sugars	**335**	304	**4**	11
Sucralose	**243**	275	**26**	23
Central	**65**	43	**–**	–
Total net operating assets	**2 359**	1 947	**13**	16
Other	**(115)**	44		
	2 244	1 991		
Net debt	**(1 231)**	(1 041)		
Net assets	**1 013**	950		

Net assets at 31 March 2009 were £1,013 million (2008 – £950 million). This increase was driven by retained profits of £70 million, exchange effects (net of hedging effects) of £139 million and gains on available for sale investments of £24 million, offset by post-retirement benefit actuarial losses of £40 million, cash flow hedge losses of £25 million and dividends of £104 million. Net current assets were marginally higher at £510 million. Return on net operating assets was 12.7% (2008 – 15.5%).

Shareholders' equity

During the year, 0.1 million shares were issued and 1.4 million shares were released from treasury for a total consideration of £3 million. No shares were repurchased during the year. At 31 March 2009, there were 460.0 million shares in issue of which 1.3 million were held in treasury.

Funding and liquidity management

We manage our exposure to liquidity risk and ensure 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.

We ensure that we have sufficient undrawn committed bank facilities to provide liquidity back-up to cover our funding requirements for the foreseeable future. We have 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 October 2012. These facilities are unsecured and contain common financial covenants for Tate & Lyle and our subsidiary companies that: pre-exceptional and amortisation interest cover ratio based on total Group operations should not be less than 2.5 times; and the multiple of net debt to EBITDA, as defined in our bank covenants, should not be greater than 4.0 times. Interest cover fell to 6.1 times (2008 – 7.8 times).

The effects of exchange rate changes are felt more gradually in earnings, which are translated using average rates, than in debt, which is translated at the closing exchange rates. To eliminate the distortion this would otherwise cause, and to reflect more accurately the underlying economic conditions, net debt and EBITDA are now both calculated using average exchange rates. On this basis, the ratio of the year end was 2.4 times (2008 – 2.5 times). An amendment was unanimously agreed with the participants in the US$1 billion Revolving Credit Facility to change the calculation of this ratio to use average exchange rates to translate net debt. Under the previous covenant calculation, the ratio of net debt to EBITDA would have been 2.9 times (2008 – 2.6 times).

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

Current 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 the year end, after subtracting total undrawn committed facilities, there was no debt maturing within 12 months or within two and a half years (2008 – none and none). The average maturity of our gross debt was approximately five years (2008 – approximately six years). At the year end we held cash and cash equivalents of £434 million (2008 – £165 million) and committed facilities of £788 million (2008 – £559 million) of which £524 million (2008 – £438 million) were undrawn. We maintain these resources 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.

Capital risk management

Our primary objectives in managing capital are to safeguard the business as a going concern; to maintain sufficient financial flexibility to undertake our investment plans; at least maintain as a minimum an investment-grade credit rating which enables consistent access to debt capital markets; and to optimise our 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 economic conditions; business environment; our business profile; and the risk characteristics of our 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 our 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). 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.

Other financial information
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As part of the Board's monitoring of performance, it has set two ongoing key performance indicators (KPIs) to measure the Group's financial strength. The basis for these ratios is the same as the external debt covenants, except that the ratio of net debt to EBITDA should not exceed 2.5 times, and that interest cover should exceed 5 times.

Off balance sheet arrangements

In the ordinary course of business, to manage our operations and financing, we enter into certain performance guarantees and commitments for capital and other expenditure.

The aggregate amount of indemnities and other performance guarantees, on which no material loss has arisen, including those related to joint ventures and associates, was £97 million at 31 March 2009 (2008 – £43 million).

We aim to optimise financing costs in respect of all financing transactions. Where it is economically beneficial, we choose to operate leases rather than purchase assets. Leases of property, plant and equipment where the lessor assumes substantially all the risks and rewards of ownership are treated as operating leases, with annual rentals charged to the income statement over the term of the lease. Commitments under operating leases to pay rentals in future years totalled £237 million (2008 – £228 million) and related primarily to railcar leases in the USA. Rental charges for the year ended 31 March 2009 in respect of continuing operations were £27 million (2008 – £21 million).

Post-retirement benefits

We maintain pension plans for our employees throughout the world. Some of these arrangements are defined-benefit pension schemes. In the USA, we also provide medical and life assurance benefits as part of the retirement package. Further details are set out in Note 31 to the financial statements. At 31 March 2009, there was a net deficit in respect of these arrangements of £211 million (2008 – £91 million). The increase in the deficit was driven by an exchange loss of £63 million, and a reduction in assets of £247 million, partly offset by a reduction in benefit obligations of £176 million. The liabilities under these arrangements are valued using actuarial assumptions under IAS19 'Employee Benefits'. There are alternative methods of valuation, such as discontinuance (in the event of an employer's insolvency) or buyout. Such methods depend on a range of different assumptions and, in the case of buyouts, market quotations are based on the individual scheme's circumstances.

The service charge is forecast to reduce slightly from £14 million to £12 million in the 2010 financial year, whilst the net interest cost is expected to increase by £12 million to £15 million.

Financial risk controls

Management of financial risk

Our main financial risks are credit, liquidity, and market risks. These latter include interest rate risk, currency risk and certain commodity price risks. We also face certain non-financial or non-quantifiable risks; these are set out on pages 27 to 30. The Board sets overall risk limits, and regularly reviews financial risks and approves written policies concerning the use of financial instruments to manage them.

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

Commodity price risks are managed through divisional commodity trading functions in Europe and the USA, whose operations are controlled by the divisional Executive Committee. The committee meets periodically, is responsible for ratifying general strategy and oversees 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 operations.

The derivative financial instruments we use 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.

Interest rate risk

We are exposed to interest rate changes, arising principally from changes in borrowing rates in US dollars, sterling and euros. We manage this risk 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. Our 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 rate fixings are undertaken 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. 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 our floating-rate debt rise from the levels at the end of March 2009 by an average of 100 basis points over the year to 31 March 2010, with all other variables held constant, this would reduce Group operating profit before tax by approximately £4 million (2008 – £4 million).

Foreign exchange risk

We have significant investment in overseas operations, particularly in the USA and Europe. Earnings, cash flows and shareholders' equity are therefore exposed to foreign exchange risks.

We require our subsidiaries to hedge transactional currency exposures against their functional currency once they are committed or highly probable, mainly through the use of forward foreign exchange contracts.

Our accounting policy is to translate profits of overseas companies using average exchange rates. We do not hedge exposures arising from profit translation. As a result, in any particular financial year, currency fluctuations may have a significant impact on our financial results. In particular, a strengthening or weakening of the US dollar against sterling will have a favourable or adverse effect respectively on the Group's reported results.

We manage foreign exchange translation exposure on net investments in overseas operations, particularly in the USA 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 was held in the following currencies: net borrowings of US dollars 77% (2008 – 81%), euros 20% (2008 – 21%), sterling 3% (2008 – deposits of 4%) and other currency deposits of 0% (2008 – borrowings of 2%).

The following table illustrates our sensitivity to the fluctuation of the major currencies in which we transact business. Sensitivity is calculated on financial assets and liabilities as at 31 March 2009, denominated in non-functional currencies for all operating units within the Group.

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

Counterparty credit risk

Counterparty credit risk arises from placing deposits and entering into derivative financial instruments with banks and other financial institutions, as well as credit exposures in outstanding trade receivables.

We manage this risk by placing deposits and entering into financial instruments only with highly credit-rated authorised counterparties which are reviewed and approved regularly by the Board. The Board approves maximum counterparty exposure limits for specified banks and financial institutions based on long-term credit ratings (typically A-/A3 or higher) of S&P and Moody's. We monitor counterparties' positions regularly to ensure that they are within the approved limits and that there are no significant concentrations of credit risks.

Other financial information
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Price risk
We use derivatives to hedge movements in the future prices of commodities in those domestic and international markets in which we buy and sell sugar, corn and energy for production. We use commodity futures and options to hedge inventories and the costs of raw materials for unpriced and prospective contracts not covered by forward product sales. The options and futures hedging contracts generally mature within one year and are either traded on recognised exchanges or over the counter.

Use and fair value of financial instruments
In the normal course of business we use both derivative and non-derivative financial instruments.

The fair value of Group net borrowings at the year end was £1,332 million against a book value of £1,231 million (2008 – fair value £1,106 million; book value £1,041 million).

Derivative financial instruments used to manage the interest rate and currency of borrowings had a fair value of £13 million liability (2008 – £12 million asset). The main types of instrument used are interest rate swaps, interest rate options (caps or floors) and cross-currency interest rate swaps.

The fair value of other derivative financial instruments hedging future currency and commodity transactions was £36 million liability (2008 – £7 million liability). When managing currency exposure, we use spot and forward purchases and sales, and options.

The fair value of derivative financial instruments held for trading was £44 million liability (2008 – £9 million asset) arising in our commodity trading operations.

Fair value estimation
The fair value of derivative financial instruments is based on the market price of comparable instruments at the balance sheet date if they are publicly traded. The fair value of the forward currency contracts has been determined based on market forward exchange rates at the balance sheet date. The fair values of short-term deposits, receivables, payables, loans and overdrafts with a maturity of less than one year are assumed to approximate their book values. The fair values of bonds, bank and other loans, including finance lease liabilities due in more than one year, are estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments, adjusted for the fair valuation effects of currency and interest rate risk exposures, where those instruments form part of related hedging relationship agreements, financial and commodity forward contracts and options, and commodity futures. The value of certain items of merchandisable agricultural commodities that are included in inventories are based on market prices.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the 'What we do' and 'How we performed' sections on pages 13 to 58. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the same sections on pages 52 to 58. In addition, Note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As set out in the sections and note referenced above, the market conditions of the areas in which the Group operates have been, and are likely to continue to be, challenging. However, with some 70% of revenues from food and beverage ingredients, the Group has a measure of resilience (although not immunity) to the economic downturn. In addition, the Group has access to considerable financial resources through its facilities as described in Note 21 to the financial statements. In making their assessment of the going concern basis, the directors have reviewed the maturities of these facilities, the headroom available from them and the Group's ability to meet the covenant requirements of certain of them. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.