GROUP FINANCIAL RESULTS

"Our robust balance sheet provides us with a solid platform allowing us to invest a further £100 million in Speciality Food Ingredients growth over the next two years."

Tim Lodge

Highlights

- Strong free cash flow generation of £227 million
- Balance sheet remains strong with £126 million reduction in net debt to £353 million
- Investment of £100 million over the next two years in expansion and cost reduction projects within Speciality Food Ingredients
- Additional steps taken to reduce pension risk including buy-in of liabilities of the Amylum UK Pension Scheme

Sales from continuing operations of £3,147 million (2013 – £3,256 million) were 3% lower than the prior year (3% in constant currency). Sales in Speciality Food Ingredients increased by 4% (4% in constant currency) to £983 million (2013 – £947 million), with sales volumes increasing by 4%. Sales in Bulk Ingredients decreased by 6% (6% in constant currency) to £2,164 million (2013 – £2,309 million), with volumes 1% lower.

Adjusted operating profit decreased by 2% (1% in constant currency) to £349 million (2013 – £356 million). In Speciality Food Ingredients, adjusted operating profit was in line (up 1% in constant currency) with the prior year at £213 million (2013 – £213 million). Bulk Ingredients adjusted operating profit decreased by 5% (4% in constant currency) to £172 million (2013 – £182 million).

Adjusted net finance expense (excluding net retirement benefit interest) decreased from £29 million to £27 million, largely driven by the repayment of our £100 million bond in June 2012 and lower interest rates on our floating rate debt.

Both adjusted profit before tax and adjusted diluted earnings per share decreased by 2% (flat in constant currency) to £322 million (2013 – £327 million) and 55.7p (2013 – 56.6p) respectively.

On a statutory basis, profit before tax from continuing operations decreased by 4% (down 2% in constant currency) to £290 million (2013 – £301 million) and profit for the year from total operations was in line at £273 million (2013 – £273 million), with the current period benefiting from an exceptional income tax credit of £28 million following the favourable resolution of outstanding tax matters in Spain.

Basis of preparation

At the beginning of the year, the Group adopted IAS 19 (Revised 2011) 'Employee Benefits' which introduced a change to the way the Group accounts for defined benefit pension plans. The change modifies the basis on which the financing charge is calculated by applying the discount rate to the net defined benefit obligation and requires the recognition of scheme administration costs within operating profit. Comparative information for 2013 has been restated on a consistent basis and an explanation and analysis of the effect of the changes is presented in Note 43.

For the year ended 31 March 2014, the new requirements increased statutory net finance costs by £8 million (31 March 2013 – £6 million) and reduced operating profit by £2 million (31 March 2013 – £2 million).

With the exception of the changes arising from the adoption of IAS 19 (Revised 2011) the Group's principal accounting policies are unchanged compared with the year ended 31 March 2013.

Adjusted performance measures

We report adjusted performance measures because they provide both management and investors with valuable additional information on the performance of the business. The following items are excluded from these adjusted measures:

- exceptional items (Note 7)
- amortisation of intangible assets acquired through business combinations (Note 15)
- net retirement benefit interest (Note 30)
- tax on adjusting items
- results of discontinued operations (Note 12).

This adjusted information is used internally for analysing the performance of the business. A reconciliation of reported and adjusted information is included in Note 42.

Impact of changes in exchange rates

In comparison to the prior year, the Group's reported financial performance was adversely affected by currency translation. A weakening of the average US dollar exchange rate against sterling was only partially offset by the strengthening of other currencies, which has slightly reduced profits. The movement in period-end exchange rates, particularly the weaker US dollar, led to a reduction in net debt as a result of the translation of dollar-denominated debt.

Summary of financial results

Year ended 31 March	2014 £m	2013 Restated[1] £m	Change (reported) %	Change (constant currency) %
Continuing operations				
Sales	**3 147**	3 256	-3%	-3%
Adjusted operating profit	**349**	356	-2%	-1%
Adjusted net finance expense	**(27)**	(29)		
Adjusted profit before tax	**322**	327	-2%	0%
Exceptional items	**(14)**	(12)		
Amortisation of acquired intangible assets	**(10)**	(10)		
Net retirement benefit interest	**(8)**	(4)		
Profit before tax	**290**	301	-4%	-2%
Income tax expense	**(45)**	(46)		
Profit for the year from continuing operations	**245**	255	-4%	-2%
Profit for the year from discontinued operations	**28**	18		
Profit for the year	**273**	273	0%	2%
Earnings per share – continuing operations				
Basic	**52.8p**	54.9p		
Diluted	**52.1p**	53.8p	-3%	-2%
Adjusted earnings per share – continuing operations				
Basic	**56.5p**	57.7p		
Diluted	**55.7p**	56.6p	-2%	0%
Dividends per share				
Interim paid	**7.8p**	7.4p	5.4%	
Final proposed	**19.8p**	18.8p	5.3%	
	27.6p	26.2p	5.3%	
Net debt				
At 31 March	**353**	479	26.3%	

1 Restated for the adoption of IAS 19 (Revised 2011) 'Employee Benefits'.

The average and closing exchange rates used to translate reported results were as follows:

	Average rates		Closing rates	
	2014	2013	**2014**	2013
US dollar:sterling	**1.59**	1.57	**1.67**	1.52
Euro:sterling	**1.19**	1.24	**1.21**	1.18

Central costs

Central costs, which include head office, treasury and reinsurance activities, decreased by £3 million to £36 million, largely as a result of lower staff-related costs.

Energy costs

Energy costs were higher than the prior year at £177 million (2013 – £170 million), as a result of the increased price of energy used in many regions, in particular the US, which more than offset positive variances relating to efficiency and input mix. We have covered approximately 66% of our estimated energy needs for financial year 2015, albeit at higher prices than in financial year 2014 which we will look to mitigate through further efficiencies.

Exceptional items from continuing operations

	Year ended 31 March 2014 £m	2013 £m
Business transformation costs	**(14)**	(20)
Gain on disposal of joint venture – Sucromiles	**–**	8
Net exceptional charge	**(14)**	(12)

During the year ended 31 March 2014, an exceptional charge of £14 million (see Note 7) was recognised in continuing operations, relating to business transformation costs, specifically the implementation of the common global IS/IT platform. This compares to a net exceptional charge in the comparative year of £12 million, with £20 million of business transformation costs partially offset by a credit of £8 million from the disposal of our share in Sucromiles SA, our former Colombian citric-acid joint venture.

The tax impact of net exceptional items within continuing operations was a £9 million credit (2013 – £5 million credit).

ADDITIONAL FINANCIAL INFORMATION

Net finance expense

After excluding net retirement benefit interest, net finance expense from continuing operations decreased to £27 million (2013 – £29 million) with a reduction in underlying net interest expense driven by the repayment of our £100 million bond in June 2012 and lower interest rates on our floating rate debt.

Taxation

Our tax policy is to manage our obligations in compliance with all relevant tax laws, disclosure requirements and regulations. We seek to ensure that our approach to tax and the tax payments we make in all territories in which we have operations are fully consistent with local requirements, taking into account available tax incentives and allowances, and are aligned with the Group's wider business strategy.

We seek to develop good, open working relationships with tax authorities and to engage with them proactively, recognising that tax legislation can be complex and may be subject to differing interpretations. In instances where this might arise, we seek to engage with the relevant tax authorities in open discussion of any such differences as early as possible to remove uncertainty and obtain resolution.

Tate & Lyle's tax strategy and the management of tax risk is primarily the responsibility of the Chief Financial Officer and the Vice President, Group Tax and is reviewed by the Board and the Audit Committee to ensure responsible tax practices are maintained across the Group's businesses.

Our tax rate is sensitive to the geographic mix of profits and reflects a combination of higher rates in certain jurisdictions such as the US, nil effective rates in Singapore (due to pioneer status which we were granted in 2008 to reflect our investment in innovative technology) and the UK, and rates that lie somewhere in between, for example, in certain East European countries.

Our UK earnings are now relatively small following the sale of our sugars and molasses businesses. Less than 1% of total Group sales (2014 – £22 million) are derived from our UK operations which are offset by our corporate costs, primarily the interest we pay on our borrowings. As a result, we pay no corporation tax in the UK. We do, however, pay and collect other taxes in the UK, including payroll taxes, VAT and business rates. Our total tax contribution to the UK Exchequer was in excess of £21 million during the year ended 31 March 2014.

The effective tax rate on adjusted profit of 18.5% (2013 – 18.0%) includes tax credits in relation to prior year adjustments in the US. As a result of these tax benefits in financial year 2014, and our expectation of further changes in the geographic mix of profits, we anticipate the effective tax rate will be higher in financial year 2015 at a little over 20%.

Discontinued operations and legacy issues

During the year, the Group recognised a profit from discontinued operations of £28 million which wholly comprised a non-cash exceptional income tax credit arising from the favourable resolution of outstanding tax matters associated with the starch facilities which formed part of the Group's former Food & Industrial Ingredients, Europe segment.

During the prior year, the Group recognised a profit of £18 million from discontinued operations which comprised: an exceptional gain of £26 million on the completion of the sale of its Vietnam Sugar operations, its remaining Israel Sugar assets and other assets, all of which related to the Group's former Sugars segment; partially offset by an operating loss of £8 million that was incurred by these businesses.

Earnings per share

Adjusted diluted earnings per share from continuing operations at 55.7p (2013 – 56.6p) were 2% lower (flat in constant currency). Adjusted basic earnings per share from continuing operations decreased by 2% (down 1% in constant currency) to 56.5p. Total basic earnings per share were flat at 58.8p (2013 – 58.6p) with the discontinued operations result reflecting the one-off benefit from the aforementioned £28 million exceptional tax credit.

Dividend

The Board is recommending a 5.3% increase in the final dividend to 19.8p (2013 – 18.8p) per share making a full year dividend of 27.6p (2013 – 26.2p) per share, up 5.3% on the prior year. Subject to shareholder approval, the proposed final dividend will be due and payable on 1 August 2014 to all shareholders on the Register of Members on 27 June 2014. In addition to the cash dividend option, shareholders will continue to be offered a Dividend Reinvestment Plan (DRIP) alternative.

Assets

Gross assets of £2,527 million at 31 March 2014 were £260 million lower than the prior year principally driven by a weakening of the US dollar which reduced the sterling value of assets and a reduction in working capital. Net assets increased by £14 million to £1,050 million with profits generated in the year being largely offset by dividend payments, foreign exchange losses on the translation of overseas subsidiaries, the post-tax effect of retirement benefits and share repurchases.

Retirement benefits

We maintain pension plans for our employees in a number of countries. Some of these arrangements are defined benefit pension schemes and, although we have now closed the main UK scheme and US salaried scheme to future accrual, certain obligations remain. In the US, we also provide medical benefits as part of the retirement package.

During the year, we took further steps to reduce our pension risk. In September, the trustees of the Amylum UK Pension Scheme agreed a buy-in of the liabilities of the scheme. In addition, the assets and liabilities of the defined benefit pension plan in the Netherlands were transferred to a new collective defined contribution plan and the defined benefit plan was closed to future accrual. This transfer was treated as a settlement on which the Group recognised a gain of £4 million.

The net deficit on our retirement benefit plans decreased by £45 million to £220 million (2013 – £265 million). The net deficit on the Group's pension plans decreased by £19 million to £166 million (2013 – £185 million), with an increase in the underlying deficit more than offset by employer's contributions of £43 million and favourable currency movements. The liabilities associated with unfunded retirement medical plans in the US decreased by £26 million to £54 million (2013 – £80 million), principally due to a favourable claims experience, an increase in the applicable discount rate and favourable currency movements.

Net debt

Net debt was lower than the prior year at £353 million (2013 – £479 million). Free cash flow from continuing businesses of £227 million was partially offset by dividend payments of £124 million and the repurchase of £29 million of ordinary shares to satisfy the Group's share option schemes. There was a favourable exchange rate impact on net debt of £35 million principally as a result of the weakening of the US dollar against sterling. The Group's $500 million 5% bond matures in November 2014 and has therefore been reclassified from non-current to current borrowings.

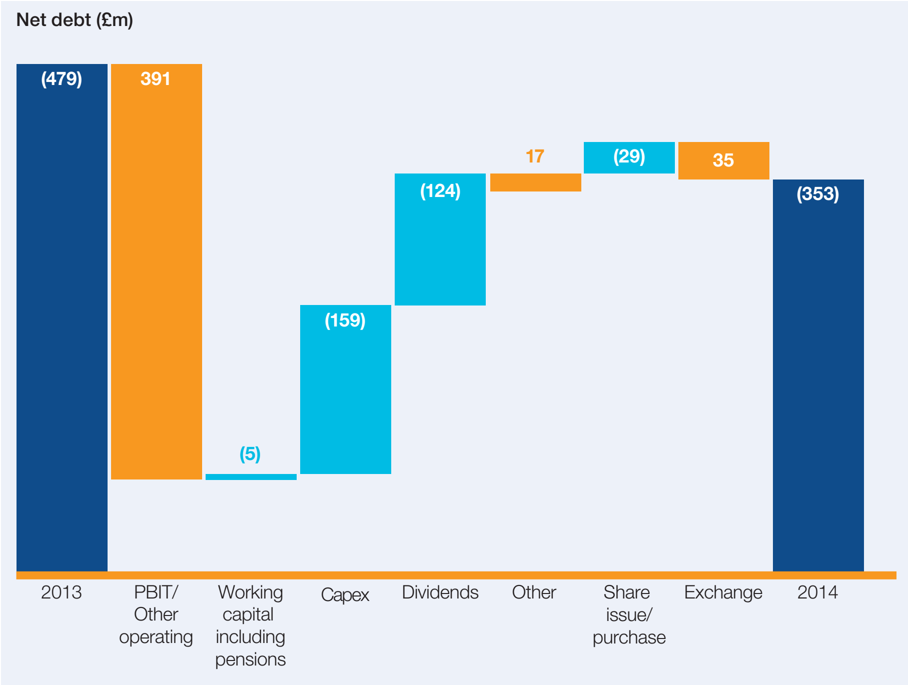
During the year, net debt peaked at £497 million in April 2013. The average net debt was £372 million, a reduction of £61 million from £433 million in the prior year.

Cash flow

Operating cash flow from continuing operations was £440 million (2013 – £297 million). An inflow within working capital of £38 million was mainly driven by lower finished goods inventories and lower corn prices in the US. The cash flow impact of the Group's retirement benefit plans amounted to £43 million (2013 – £42 million).

Year ended 31 March	2014 £m	2013 £m
Adjusted operating profit from continuing operations	**349**	356
Depreciation/amortisation	**108**	98
Share based payments	**8**	13
Other non-cash items	**(6)**	–
Working capital before retirement benefits and exceptional cash items	**38**	(107)
Net retirement benefit obligations	**(43)**	(42)
Cash expenditure on exceptional items	**(14)**	(21)
Operating cash flow	**440**	297
Capital expenditure	**(159)**	(134)
Operating cash flow less capital expenditure	**281**	163
Net interest and tax paid	**(54)**	(53)
Free cash flow	**227**	110

Capital expenditure of £159 million, including a £45 million investment in intangible assets, was 1.5 times the depreciation and amortisation charge of £108 million and, as in the prior year, includes expenditure on our business transformation initiatives and, in particular, the implementation of the global IS/IT system. We expect the ratio of capital expenditure to depreciation/amortisation in the financial year 2015 to approach 2.0 times reflecting an additional £100 million of capital investment over the next two years in our Speciality Food Ingredients division.



Net interest paid decreased by £4 million to £31 million principally as a result of the repayment of our £100 million bond in June 2012 and lower interest rates on our floating rate debt. Net income tax payments were £23 million (2013 – £18 million).

Free cash inflow (representing cash generated from continuing operations after working capital, interest, taxation and capital expenditure) at £227 million was £117 million higher than the prior year largely as a result of the working capital inflow of £38 million during the period (2013 – outflow of £107 million).

During the year we spent £29 million on the repurchase of ordinary shares to satisfy share option schemes. Parent company cash dividends paid were £124 million, £7 million higher than the prior year.

Financial risk factors

Our key financial risk factors are market risks, such as foreign exchange, transaction and translation exposures, and credit and liquidity risks. Please refer to Note 21 of the Financial Statements for a discussion of these risk factors.

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 £1 million at 31 March 2014 (2013 – £2 million). We aim to optimise financing costs in respect of all financing transactions. Where it is economically beneficial, we choose to lease rather than purchase assets. Leases for 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 £174 million (2013 – £189 million) and related primarily to railcar leases in the USA. Rental charges for the year ended 31 March 2014 in respect of continuing operations were £17 million (2013 – £19 million).

ADDITIONAL FINANCIAL INFORMATION | CONTINUED

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 £387 million against a book value of £353 million (2013 – fair value £529 million; book value £479 million). Derivative financial instruments used to manage the interest rate and currency of borrowings had a fair value of £29 million asset (2013 – £38 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 £1 million asset (2013 – £nil). When managing currency exposure, we use spot and forward purchases and sales, and options. The fair value of other derivative financial instruments accounted for as held for trading was a £20 million asset (2013 – £21 million asset).

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 was 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 values 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 this Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the same sections. 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 affected, and are likely to continue to be affected, by large movements in input prices. However, with some 70% of revenues from food and beverage ingredients, the Group has a measure of resilience (although not immunity) to economic challenges. 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.

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.