

TATE & LYLE PLC

USE AND NATURE OF ALTERNATIVE PERFORMANCE MEASURES – YEAR ENDED 31 MARCH 2017

The use of alternative performance measures

The Group presents a number of alternative performance measures to measure and report underlying financial performance. These measures are used by management for internal performance analysis and management considers that they provide investors with valuable additional information about the performance of the business. Many of these measures are also used in incentive compensation arrangements for employees.

Alternative performance measures reported by the Group are not defined terms under IFRS and may therefore not be comparable with similarly-titled measures reported by other companies.

Alternative performance measures derived from the Income Statement

The adjusted performance measures presented are adjusted operating profit, adjusted profit before tax and adjusted earnings per share (basic and diluted). These performance measures have been adjusted to exclude, where relevant:

- Exceptional items (excluded as they relate to events which are unlikely to recur, are outside the normal course of business and therefore merit separate disclosure in order to provide a better understanding of the Group's underlying financial performance);
- Amortisation of acquired intangible assets (costs associated with amounts recognised through acquisition accounting that impact earnings compared to organic investments);
- Net retirement benefit interest (accounting charges or credits which are not linked to the underlying performance of the business. The amounts excluded reflect the net interest cost of post-retirement benefit plans substantially closed to future accrual);
- Tax on the above items and tax items that themselves meet these definitions.

Summary of adjustments made by reporting item

Adjusted to exclude	Adjusted operating profit	Adjusted profit before tax	Adjusted earnings per share
Exceptional items	✓	✓	✓
Amortisation of acquired intangibles assets	✓	✓	✓
Net retirement benefit interest		✓	✓
Tax on the above items			✓
Tax items that themselves meet these definitions			✓

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Alternative performance measure derived from the Consolidated Statement of Cash Flows

The adjusted performance measures presented are adjusted operating cash flow and adjusted free cash flow. These performance measures are not prescribed line items within a statement of cash flows, and have been adjusted from a statement of cash flows to present an underlying view of cash generated by the business.

Other alternative performance measures used by the Group

The Group presents certain financial measures as defined in its external financial covenants as well as return on capital employed (ROCE) metrics as Key Performance Indicators. Net debt to EBITDA and interest cover are defined under the Group's financial covenants and reported on a proportionate consolidation basis. For financial covenant purposes these ratios are calculated based on the accounting standards that applied for the 2014 financial year, with new accounting standards adopted by the Group subsequent to 1 April 2014 disregarded. Net debt is calculated using average currency exchange rates. Return on capital employed is calculated based on the Group's average invested operating capital at the beginning and end of the period, being the aggregate of: goodwill and other intangible assets; property, plant and equipment; and working capital, provisions and non-debt derivatives. All ratios are calculated based on unrounded figures in £ million.

Calculation of alternative performance measures

The following table shows the reconciliation of the key alternative performance measures to the most directly comparable measures reported in accordance with IFRS for the Group's two most recent financial years:

Income statement measures:

£m unless otherwise stated	Year ended 31 March 2017			Year ended 31 March 2016		
	IFRS Reported	Adjusting items	Adjusted Reported	IFRS Reported	Adjusting items	Adjusted Reported
Continuing operations						
Sales	2 753	–	2 753	2 355	–	2 355
Operating profit	233	31	264	127	61	188
Net finance expense	(32)	7	(25)	(29)	6	(23)
Share of profit after tax of joint ventures and associates	32	–	32	28	–	28
Profit before tax	233	38	271	126	67	193
Income tax credit/(expense)	22	(71)	(49)	(5)	(27)	(32)
Non-controlling interests	–	–	–	–	–	–
Profit attributable to owners of the Company	255	(33)	222	121	40	161
Basic earnings per share	55.0p	(7.2p)	47.8p	26.1p	8.6p	34.7p
Diluted earnings per share	54.2p	(7.1p)	47.1p	25.9p	8.6p	34.5p
Effective tax rate	(9.6%)		18.2%	4.0%		16.5%

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The following table shows the reconciliation of the adjusting items in the current and comparative year:

	Year ended 31 March	
	2017 £m	2016 £m
Continuing operations		
Exceptional items in operating profit	19	50
Amortisation of acquired intangible assets	12	11
Total excluded from adjusted operating profit	31	61
Net retirement benefit interest	7	6
Total excluded from adjusted profit before tax	38	67
Tax on adjusting items	(6)	(27)
Exceptional deferred tax credits	(65)	–
Total excluded from adjusted profit attributable to owners of the Company	(33)	40

Cash flow measures:

The following table shows the reconciliation of the key cash flow alternative performance measures:

	Year ended 31 March	
	2017 £m	2016* £m
Adjusted operating profit from continuing operations	264	188
Adjusted for:		
Depreciation and adjusted amortisation	137	104
Share-based payments charge	21	9
Changes in working capital and other non-cash movements	4	24
Net retirement benefit obligations	(36)	(38)
Capital expenditure	(153)	(198)
Net interest and tax paid	(63)	(36)
Adjusted free cash flow	174	53
Add back: net interest and tax paid	63	36
Add back: net retirement cash contributions	42	40
Less: derivatives and margin call movements within changes in working capital	(6)	(5)
Adjusted operating cash flow	273	124

* Restated to reflect exclusion of operating post-retirement benefit costs.

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Other alternative performance measures:

The following table shows the calculation of certain other alternative performance measures used by the Group:

	31 March		
	2017	2016	
	£m	£m	
Calculation of Net debt to EBITDA ratio – on a financial covenant basis			
Net debt	452	434	
Further adjustments set out in financial covenants: to reflect use of average exchange rates in translating net debt	(13)	(11)	
Net debt – on a financial covenant basis	439	423	
Adjusted operating profit	264	188	
Further adjustments set out in financial covenants: to reflect proportionate consolidation	48	44	
to exclude charges for share-based payments	21	9	
to add back depreciation and adjusted amortisation	137	104	
Pre-exceptional EBITDA	470	345	
Net debt to EBITDA ratio (times)	0.9	1.2	
Calculation of interest cover ratio – on a financial covenant basis			
Adjusted operating profit	264	188	
Further adjustments set out in financial covenants: to reflect proportionate consolidation	43	38	
to exclude charges for share-based payments	21	9	
Operating profit before exceptional items and amortisation of intangible assets – on a financial covenant basis	328	235	
Adjusted net finance expense	25	23	
Further adjustments set out in financial covenants: to reflect proportionate consolidation	–	–	
Other	(1)	(1)	
Net finance expense – on a financial covenant basis	24	22	
Interest cover ratio (times)	13.9	10.7	
	31 March		
	2017	2016	2015
	£m	£m	£m
Calculation of return on capital employed			
Adjusted operating profit	264	188	
Add back amortisation on acquired intangible assets	(12)	(11)	
Profit before interest, tax and exceptional items from continuing operations for ROCE	252	177	
Goodwill and other intangible assets	401	390	340
Property, plant and equipment	1 061	926	750
Working capital, provisions and non-debt derivatives	394	323	339
Other	–	29	31
Invested operating capital of continuing operations	1 856	1 668	1 460
Average invested operating capital	1 762	1 564	
Return on capital employed (ROCE) %	14.3	11.3	