

# Finance review

## Results for the year

C&C is reporting Operating Profit of €109.6 million and Basic Earnings per Share of 73.1 cent. Before exceptional items, Operating Profit amounted to €125.2 million, reflecting a decline of 37.3% on the previous period. This decline reflects a reduction in sales volumes in the Group's Cider division; increased marketing investment; and costs associated with the increased cider manufacturing capacity. These results are discussed in more detail and analysed by business sector in the Operations Review on pages 8 to 13.

As the Group has only a limited translation exposure and has a policy of hedging a large proportion of its Sterling and US Dollar net exposures, the sharp decline in the two currencies during 2007/08 did not have a material impact on the Group's reported operating profits. The average hedged rates for 2007/08 were Stg£:euro 0.68:1 (2007: 0.69:1) and USD:euro 1.28:1 (2007: 1.26:1).

## Exceptional items

The Group posted a net credit after tax of €131.6 million in relation to a number of non-recurring items that were classified as exceptional items for reporting purposes. These comprised:-

### Disposal of Soft drinks

On 29 August 2007, the Group completed the disposal of its Soft drinks business and related assets to Britvic plc, for a consideration of €246.6 million giving rise to an exceptional gain after tax of €137.4 million.

### Reorganisation and cost reduction programme

In November 2007, the Group announced a reorganisation and cost reduction programme resulting in a head count reduction of 150 people across the Group at an estimated cost of €15.6 million before taxation.

### Foreign exchange gain

A shortfall in expected Sterling revenues resulted in surplus Sterling forward contracts for 2007/08 and 2008/09, which were effectively cancelled during the financial year, giving rise to a gain of €9.1 million.

## Finance costs, income tax and shareholder returns

The interest rate payable on debt, with the benefit of hedging, averaged 4% for the year, which was in line with the average interest rate achieved for the year ended 28 February 2007.

As a result of the improvement in the Group's credit standing and the favourable conditions pertaining at the time in the syndicated bank lending market, the Group decided to refinance its bank facility during May 2007. The new debt facility is a committed €600 million revolving loan agreement, which is denominated in euro, subject to variable Euribor interest rates and is repayable on the fifth anniversary of the date of the agreement. The unamortised issue costs relating to the previous debt agreement of €1.9 million were written off to the income statement resulting in an increase of 2.7% to net financing costs before exceptional items.

The income tax charge in the year relating to continuing activities amounted to €11.9 million giving an effective tax rate of 10.8%, which compares with a corresponding rate in 2007 of 11.3%. The bulk of the Group's taxable profits arise in the Republic of Ireland, which accounts for the lower effective tax rate.

Subject to shareholder approval, the proposed final dividend of 15 cent per share will be paid on 16 July 2008 to ordinary shareholders registered at the close of business on 23 May 2008. The Group's full year dividend will therefore amount to 27 cent per share, which is unchanged on the prior year. A scrip dividend alternative will be available. The dividend payout represents 84% of profit before tax.

The Group invested €139.9 million in an on-market share buyback programme during the course of the year. The company purchased 17.7 million shares at an average price of €7.84. All shares acquired have been cancelled.

## Retirement benefit obligations

In compliance with IFRS, the net assets and actuarial liabilities of the various defined benefit pension schemes operated by Group companies, computed in accordance with IAS 19, have been included on the face of the Group balance sheet under retirement benefit obligations.

At 29 February 2008, the retirement benefit obligations on the IAS 19 basis amounted to €27.2 million gross and €24.3 million net of deferred tax (2007: €51.5 million gross and €42.8 million net of deferred tax).

The reduction in the retirement benefit obligations deficit predominantly arises as a result of the transferring of defined benefit pension obligations to Britvic plc on the disposal of the Soft drinks business. The positive effect of the increase in bond rates on the valuation of liabilities was offset by lower than expected returns on pension scheme assets and a revision in mortality assumptions, reflecting improved mortality rates.

During the year, the existing defined benefit pension schemes were closed to all new employees and a new hybrid pension arrangement containing both defined benefit and defined contribution elements was introduced with Union approval.

Table 1 – Cash flow summary

	2008	2007
	€m	€m
<b>Inflows</b>		
Operating profit <sup>(i)</sup>	130.8	216.4
Depreciation	20.3	21.4
EBITDA <sup>(i)</sup>	151.1	237.8
<b>Outflows</b>		
Working capital	12.2	(47.3)
Capital expenditure	(102.9)	(93.4)
Property disposals	-	14.0
Net finance costs	(12.6)	(13.9)
Tax paid	(9.2)	(24.4)
Exceptional items paid <sup>(iii)</sup>	(4.7)	-
Other	(1.9)	(1.7)
<b>Free cash flow</b>	<b>32.0</b>	<b>71.1</b>
Proceeds on disposal of subsidiaries	236.5	59.8
Proceeds from exercise of share options	5.9	2.0
Shares purchased under share buyback programme	(139.9)	-
Dividends paid in cash	(81.1)	(54.7)
<b>Reduction in net debt</b>	<b>53.4</b>	<b>78.2</b>
Net debt at beginning of year	305.4	383.1
Translation adjustment	2.1	-
Non cash movement	2.1	0.5
<b>Net debt at end of year</b>	<b>256.2</b>	<b>305.4</b>

- (i) EBITDA: Earnings before exceptional items, interest, tax, depreciation and amortisation
- (ii) Operating profit includes both continuing and discontinued operations and excludes exceptional items
- (iii) Exceptional items paid comprises costs paid on the reorganisation programme and cash received on settlement of a portion of the surplus Sterling forward contracts

### Cash generation

The Group generated Free Cash Flow before the disposal of the Soft drinks business of €32 million representing 21% of EBITDA<sup>(i)</sup> compared with 30% in the prior year. This decrease reflects the decline in Operating Profit, and an increase in net capital expenditure, partially offset by a reduction in working capital. A summary cash flow statement is set out in Table 1.

The cash inflow from working capital (excluding exceptional items) comprises a €24.4 million inflow from continuing operations and an €12.2 million outflow from discontinued operations. The inflow from continuing operations reflects the reduced

level of activity in the year. The outcome includes a significant reduction in finished goods stocks partially offset by an increase in the levels of apple juice stock.

Capital expenditure for the year was €102.9 million. This expenditure included a €97 million investment in the expansion of cider manufacturing capacity in Clonmel, which came on stream in May 2007. Following the expansion, the Group reviewed the expected useful life of production plant and machinery in light of the high specification of equipment installed and the forecast utilisation levels. The useful economic life of the majority

of the plant was increased from 10 to 13 years and the economic life of storage tanks was increased from 20 to 30 years. The effect of these changes on current and future profits is disclosed in note 12 to these financial statements.

Net proceeds from the disposal of the soft drinks business amounted to €236.5 million.

Total dividends declared to ordinary shareholders in the year amounted to €87.3 million of which €81.1 million was paid in cash while €6.2 million (7%) was settled by the issue of new shares.

# Finance review

## continued

### Key liquidity indicators

Although the fall in EBITDA has resulted in a reduction in some of the key liquidity indicators used to measure the financial position of the Group as shown in Table 2 below, the Group remains in a very strong position in relation to both its interest cover and Net debt/EBITDA ratios.

Interest cover remains very comfortable with the 2007/08 EBITDA/Net interest ratio of 11.9 times being more than three times the 3.5 times minimum provided in the Group's banking covenants; and the Net debt/EBITDA ratio of 1.7 times being significantly lower than the 3.5 maximum level specified in the aforementioned banking covenants.

The increased net debt to market capitalisation ratio is principally as a result of the significantly lower market capitalisation of the Group. Net debt reduced by €49.2 million to €256.2 million at the year end.

**Table 2 – Key liquidity indicators**

	2008	2007
	€m	€m
<b>Amounts</b>		
Market capitalisation at year end	<b>1,408</b>	3,820
EBITDA*	<b>151.1</b>	237.8
Net interest paid	<b>12.6</b>	13.9
Net debt	<b>256.2</b>	305.4
<b>Ratios</b>		
EBITDA /net interest	<b>12.0</b>	17.1
Net debt/EBITDA	<b>1.7</b>	1.3
Net debt as percentage of market capitalisation	<b>18.2%</b>	8.0%

\*EBITDA is before exceptional items

### Financial risk management

The financial risks that the Group is exposed to include interest rate movements and foreign currency exchange risks. The Board of Directors set the treasury policies and objectives of the Group, the implementation of which is monitored by the Audit Committee. Details of both the policies and control procedures to manage the financial risks involved are set out in detail in note 22 to the financial statements.

### Interest rate and debt management

The Group's debt is denominated in euro and is based on floating Euribor interest rates. It is Group policy to hedge an appropriate portion of this risk and at 29 February 2008 between 30% and 60% of forecasted net debt for the next 4 years had effectively been converted to fixed rates through the use of interest rate swap agreements.

The Group finished the year in a very strong financial position with undrawn committed facilities available to the Group amounting to €310 million and existing drawn facilities not maturing until May 2012. Under the terms of the banking agreement approximately €180 million, relating to the proceeds from disposals of the Soft drinks business, will be repaid and cancelled unless these proceeds are invested before the end of August 2008, twelve months from the date of disposal.

Also, with the cider capital expansion programme completed, capital expenditure is expected to be low for a number of years which will have a positive impact on free cash flow.

### Currency risk management

The Group has only a limited balance sheet translation exposure to fluctuations in exchange rates as the bulk of its net assets as well as its entire borrowings are denominated in euro. It is Group policy not to hedge this translation exposure. Currency transaction exposures arise mainly on Sterling and US Dollar revenue and the Group policy is to hedge an appropriate portion of this exposure for a period of up to 2 years ahead.

At 29 February 2008, approximately 95% of the forecasted net Sterling and approximately 86% of the forecasted US Dollar exposures have been hedged for the following 16 and 12 months respectively. This substantially insulates C&C from the adverse effect of the deterioration in the Sterling/Euro and USD/Euro exchange rates for the 2008/09 financial year.

The Group seeks to apply the cashflow hedge accounting model in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* to all interest rate swaps and forward currency contracts. The fair value of all outstanding derivatives at 29 February 2008 as calculated by reference to current market value amounted to a net asset of €27.4 million (2007: €1.8 million) and this has been included on the face of the balance sheet under "derivative financial assets" and "derivative financial liabilities". See note 22 of the financial statements for further details.