Finance Review

IFRS

The Group's 2006 financial statements are the first annual statements to be prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

In previous years, the financial statements were prepared in accordance with Generally Accepted Accounting Practice in Ireland (Irish GAAP).

All previous year's comparative figures presented in these financial statements have been restated in accordance with IFRS and the impact of the restatement on the previously reported Group income statement, Group statement of recognised income and expense and Group balance sheet is set out in Note 29 to the financial statements.

RESULTS FOR THE YEAR

C&C performed strongly in the year delivering growth in reported sales revenue and operating profit before exceptional items of 8.8% and 10.9% respectively. The equivalent growth rates on a constant currency basis are 9.2% and 13.3% respectively (see Table 1 below). These results are further analysed by business sector in the Operations Review.

Comparative reporting

The foreign exchange rates that impact the results are primarily Euro/US Dollar and Euro/Sterling rates. The average effective Euro/US Dollar rate in 2006 was 1.27 compared to 1.15 in 2005. There was also a small negative movement in the Euro/ Sterling rate from 0.68 to 0.682 which was used to translate the results of the Group's Sterling denominated subsidiaries.

If the 2006 exchange rates were applied to the 2005 results, the net impact on operating profit would be €2.3 million, as shown in Table 1.

Table 1 – Comparative Results 2006 vs 2005

	Sales Revenue €m	Operating profit before exceptional items €m	Exceptional items €m	Operating profit after exceptional items €m
2005 as reported	750.4	112.4	(0.1)	112.3
Exchange effects	(2.7)	(2.3)	-	(2.3)
2005 at 2006 FX rates	747.7	110.1	(0.1)	110.0
2006 as reported	816.6	124.7	(1.4)	123.3
% change as reported	+8.8%	+10.9%	-	+9.8%
% change at constant 2006 FX rates	+9.2%	+13.3%	-	+12%

FINANCE COSTS AND TAX

Net finance costs for the year at €18.6 million represented a reduction of €2.8 million on the corresponding cost for 2005 (before exceptional finance costs). This reduction was achieved despite rising interest rates and is a result of reduced debt levels arising from strong cash flow and lower margins arising from the re-organisation of the Group's bank facilities in August 2005.

The tax charge in the year before exceptional items and adjustments in respect of prior years amounted to €10.5 million giving an effective tax rate of 10.0% which compares with a corresponding rate in 2005 of 10.4%. The low effective rate reflects the fact that taxable profits arise principally in the Republic of Ireland. The charge also includes a credit of €1.2 million in respect of the release of tax provisions made in earlier years (2005 : €1.3 million).

EARNINGS PER SHARE

Earnings per share adjusted to exclude exceptional items showed strong growth in the year as shown in Table 2. The growth was driven by a combination of operating profit growth and lower finance costs, partially offset by a higher number of shares in issue.

Table 2 – Earnings per share

	2006	2005	% change
Adjusted basic earnings per share	29.9c	25.8c	+15.9%
Adjusted diluted earnings per share	29.7c	25.7c	+15.6%

CASH FLOW

The Group generated free cash flow of €88.9 million during the year which equates to 62% of EBITDA (see Table 3).

Working capital increased by €12.7 million in the year reflecting the build up of stocks to support the growth in the cider business.

Capital expenditure amounted to €24.7 million and included the initial expenditure on the current phase of the cider capacity expansion programme which is due to be completed in 2006/07.

Reorganisation costs paid in the year, principally relate to redundancies associated with the outsourcing of snacks production in October 2005 and were offset in cash flow terms by associated property disposals.

Total dividends paid to ordinary shareholders in the year amounted to €45.2 million of which €29.9 million was paid in cash while €15.3 million (34%) was settled by the issue of new shares.

A summary cash flow statement is set out in Table 3.

Table 3 – Cash Flow Summary

	2006 €m	2005 €m
Inflows		
Operating profit *	124.7	112.4
Depreciation	19.6	20.5
EBITDA**	144.3	132.9
Outflows		
Working capital	(12.7)	(4.6)
Capital expenditure	(24.7)	(20.1)
Reorganisation costs	(10.9)	(4.6)
Property disposals	14.8	11.9
Net finance costs*	(17.6)	(22.0)
Tax paid	(8.0)	(8.2)
Other	3.7	2.7
	(55.4)	(44.9)
Free cash flow	88.9	88.0
IPO related cash flow	-	23.9
Dividends paid in cash	(29.9)	(17.7)
Reduction in net debt	**59.0**	**46.6**
Net debt at beginning of year	441.0	481.1
Non cash movement	1.1	6.3
Net debt at end of year	**383.1**	**441.0**

* before exceptional costs (re-organisation/property disposals/IPO costs)
** EBITDA: Earnings before exceptional items, interest, tax, depreciation and amortisation.

KEY LIQUIDITY INDICATORS

Strong profit growth and cash generation have resulted in a significant strengthening of the Group's financial position as measured by some key indicators shown in Table 4.

Table 4 – Key liquidity indicators

	2006 €m	2005 €m
Amounts		
Market capitalisation at year end	1,821	986
EBITDA	144.3	132.9
Net interest payable	17.5	22.0
Net debt	383.1	441.0
Ratios		
EBITDA /net interest	8.2	6.1
Net debt/EBITDA	2.6	3.3
Net debt as percentage of market capitalisation	21.0%	44.7%

RETIREMENT BENEFIT OBLIGATIONS

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

At 28 February 2006, the Retirement Benefit Obligations on an IAS 19 basis amounted to €58.9 million gross and €50.1 million net of deferred tax (2005 : €53 million gross and €45.6 million net of deferred tax).

The increase in the net liability during the year reflects a reduction of 0.25% in the discount rates used to calculate the liabilities in the main defined benefit schemes and changes to mortality assumptions, partly offset by an improvement in investment performance.

An actuarial valuation of the Group's pension schemes on an on-going funding basis as at 1 January 2006 is in the process of being completed and is expected to show a net liability of c. €20 million. This valuation differs from the IAS 19 basis primarily in the discount rate assumption used in calculating the liabilities.

FINANCIAL RISK MANAGEMENT

The financial risks that the Group is exposed to include interest rate movements and foreign currency exchange risks.

The Board sets 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 Note 27 to the financial statements.

Interest rate and debt management

The Group's debt is fully denominated in Euro and is based on floating interest rates. It is Group policy to hedge an appropriate portion of this risk and at 28 February 2006 between 50% 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.

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 US Dollar and Sterling receivables and the Group policy is to hedge an appropriate portion of this exposure for a period of up to 2 years ahead. At 28 February 2006, approximately 90% of the forecasted US Dollar and approximately 66% of the Sterling forecasted net exposures have been hedged for the following 17 months and 12 months respectively.

All interest rate swaps and currency hedges are based on forecasted exposures and meet the requirements of IAS 39 to qualify as cash flow hedges. The fair value of all outstanding hedges at 28 February 2006 as calculated by reference to current market value amounted to a net liability of €2.2 million and this has been included on the face of the balance sheet under "derivative financial assets" and "derivative financial liabilities".