

# Finance review

## Results for the year

C&C is reporting an 11% decline in Revenue on a constant currency basis, an Operating loss of €59.2m and a basic loss per share of 19.4c for the financial year ended 28 February 2009. Operating profit before exceptional items is €100.4m and represents a decline of 18.3% on the prior year on a constant currency basis (18.8% on a reported basis). This translates to an adjusted diluted earnings per share for continuing operations of 25.4c, down 15% on the prior year. Overall operating margins reduced by 1.2 percentage points to 19.5%.

The performance reflects both price and volume declines together with a loss of market share in Ireland and the UK. These results are discussed in more detail and analysed by business sector in the Operations Review on pages 8 to 15.

Despite a weaker financial performance in the period under review, the Group's free cash flow, as calculated in Table 1, increased by 138% to €76.1m. The strong free cash flow generation contributed to a €30m reduction in Net debt, which at €226.2m (excluding the fair value of swap instruments of €6.3m) represents 1.9 times FY 2009 EBITDA.

As the Group has only a limited translation exposure and has a policy of hedging a large proportion of its US Dollar and Sterling exposures the sharp decline in the two currencies during 2009 did not have a significant impact on the Group's reported profits. The average hedged rates for 2008/09 were USD: Euro 1.41:1 (2008: 1.28:1) and Stg£:Euro 0.68:1 (2008: 0.68:1).

## Exceptional items

The Group posted a net charge before tax to reported profits of €155.8m in relation to a number of non-recurring items that were classified as exceptional items for reporting purposes. These items are primarily non-cash items.

During the period, the Group undertook a series of initiatives to align its business structure, asset base and management team with the current challenging operating environment. These initiatives included:-

- a reorganisation and restructuring of the Group's operations and its commercial structure in Ireland. This involved a headcount reduction of 121 people and a consolidation of its Dublin operations into one location resulting in a net charge before taxation of €12.0m.
- a review of its stock holding of apple juice. At 28 February 2009, the Group's stock holding of apple juice was deemed excessive in light of its anticipated future needs, forward purchase commitments and useful life and as a result the Group posted an impairment charge of €11.1m to its Operating profit.
- a review of the carrying value of its manufacturing facility in Clonmel. The Group has now written down the value of its property, plant & machinery by a net €130.6m comprising a gain of €5.9m arising on the re-valuation of land accounted for in the Statement of Recognised Income and Expense and a loss of €136.5m on the re-valuation of buildings and plant & machinery assets accounted for in Operating profit.

The Group also de-designated sterling hedge contracts with a nominal value of Stg£24m which are considered to be in excess of forecasted sterling exposures, the increase in fair value arising from the date of de-designation to the year-end date was accounted for within finance income and classified as exceptional on the basis of materiality and the unforeseen circumstances giving rise thereto.

On 11 September 2008, the Group announced the disposal of its wine & spirit distribution business in the Republic of Ireland to a subsidiary of DCC plc for a consideration of €11.4m realising a profit after tax of €0.2m. On 26 February 2009, the Group agreed the disposal of its wine & spirit distribution business in Northern Ireland for a consideration of circa €3.7m resulting in a profit after tax of €0.6m.

## 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 29 February 2008.

The income tax charge in the year relating to continuing activities and excluding exceptional items amounted to €10.2m giving an effective tax rate of 11.3%, which is marginally higher than the corresponding rate in 2008 of 10.8%. The bulk of the Group's taxable profits arise in the Republic of Ireland, which accounts for the low effective tax rate.

Subject to shareholder approval, the proposed final dividend of 3 cent per share will be paid on 2 September 2009 to ordinary shareholders registered at the close of business on 22 May 2009. The Group's full year dividend will therefore amount to 9 cent per share, a 66% decline on the previous year. The proposed full year dividend per share will represent a payout of 35% (2008: 84%) of the reported adjusted diluted earnings per share for the full year. A scrip dividend alternative will be available.

## Cash generation

The Group generated Free Cash Flow of €76.1 million (see Table 1) representing 63% of EBITDA compared with 21% in the prior year. The increase in Free Cash Flow principally reflects reduced capital expenditure, partially offset by a reduction in EBITDA and a special defined benefit pension scheme contribution of €20m.

The working capital cash inflow reflects the reduced level of activity in the period and includes the benefit of reduced apple juice stocks, which arose as result of the €11.1m exceptional write-off of excess apple juice stocks. The cash inflow in FY 2008 comprised a €24.4m inflow from continuing operations and an €12.2m outflow for discontinued operations.

Net proceeds received from the disposal of the wines and spirits distribution businesses amounted to €12.9m.

Total dividends paid to ordinary shareholders in the year amounted to €65.8m of which €60.2m was paid in cash while €5.6m (8.5%) was settled by the issue of new shares.

A summary cash flow statement is set out in Table 1 below.

**Table 1 – Cash flow summary**

	2009 €m	2008 €m
<b>Inflows</b>		
Operating profit <sup>(i)</sup>	100.5	130.8
Depreciation	19.4	20.3
<b>EBITDA<sup>(ii)</sup></b>	<b>119.9</b>	151.1
<b>Outflows</b>		
Working capital	20.5	12.2
Capital expenditure	(18.5)	(102.9)
Net finance costs	(11.5)	(12.6)
Tax paid	(10.7)	(9.2)
Exceptional items paid <sup>(iii)</sup>	(0.8)	(4.7)
Other	(22.8)	(1.9)
<b>Free cash flow</b>	<b>76.1</b>	32.0
Proceeds on disposal of subsidiaries	12.9	236.5
Proceeds from exercise of share options and issue of new shares under Joint Share Ownership Plan	1.8	5.9
Shares purchased under share buyback programme	-	(139.9)
Dividends paid in cash	(60.2)	(81.1)
<b>Reduction in net debt</b>	<b>30.6</b>	53.4
Net debt at beginning of year	256.2	305.4
Translation adjustment	0.3	2.1
Non cash movement	0.3	2.1
<b>Net debt at end of year<sup>(iv)</sup></b>	<b>226.2</b>	256.2

### Key liquidity indicators

The Group has a strong balance sheet, fully invested production facilities, good cash generation capabilities and a committed debt facility of €430m, of which €310m is currently drawn, which is subject to variable interest rates and is not due for renewal until May 2012.

Although the decline in EBITDA and the fall in the company share price has resulted in a reduction in some of the key performance 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. An analysis of cash, debt and derivative financial instruments including maturity profiles is set out in notes 19, 20 and 23.

Interest cover remains very comfortable with the 2008/09 EBITDA/Net interest cover of 10.4 times being nearly three times the 3.5 times minimum cover provided in the Group's banking covenants; and the Net debt/EBITDA ratio of 1.9 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 as a result of the significantly lower market capitalisation of the Group rather than an increase in net debt levels - net debt reduced by €30.0m to €226.2m at the year end.

**Table 2 – Key liquidity indicators**

	2009 €m	2008 €m
<b>Amounts</b>		
Market capitalisation at year end	297	1,408
EBITDA <sup>(ii)</sup>	119.9	151.1
Net interest paid	11.5	12.6
Net debt <sup>(iv)</sup>	226.2	256.2
<b>Ratios</b>		
EBITDA /net interest	10.4	12.0
Net debt/EBITDA	1.9	1.7
Net debt as percentage of market capitalisation	76.2%	18.2%

<sup>(i)</sup> before exceptional costs and inclusive of discontinued activities.

<sup>(ii)</sup> EBITDA: Earnings before exceptional items, interest, tax, depreciation and amortisation.

<sup>(iii)</sup> for FY 2009 comprises costs paid on the reorganisation programme of €7.1m and cash received on settlement of surplus sterling forward contracts included in FY 2008 income statement of €6.3m.

<sup>(iv)</sup> Net debt comprises cash, borrowings net of issue costs, and excludes the fair value of SWAP instruments amounting to a liability of €6.3m.

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### Retirement benefit obligations

In compliance with IFRS, the net 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 2009, the retirement benefit obligations on the IAS 19 basis amounted to €45.5m gross and €39.7m net of deferred tax (2008: €27.2m gross and €24.3m net of deferred tax).

The increase in the retirement benefit obligations deficit predominantly arises as a result of a significant fall in the valuation of assets, partly offset by gains arising from a number of active liabilities becoming deferred as result of the reduction in employee numbers following the reorganisation programme announced in November 2007; and increases in the long term bond yields which changed from 5.45% to 5.5% in relation to the Republic of Ireland scheme.

The defined benefit pension schemes were closed to all new employees from 1 April 2007 with all new employees becoming members of a defined contribution pension scheme.

### 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 23 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, as set out in note 23, at 28 February 2009 the Group has between €50m and €150m of its debt 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 €120m and existing drawn facilities not maturing until May 2012. Under the terms of the banking agreement €170m, relating to a portion of the proceeds from the disposal of the Soft drinks business, was cancelled during the year.

### 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 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 2009, approximately 75% of the forecasted US Dollar sales has been hedged for the following financial year at a rate of 1.41 while 85% of the Group's forecasted net Sterling exposure has been hedged for the first eight months of FY 2010 at a rate of 0.774 (excluding de-designated contracts) leaving the Group exposed to market rates for the remaining 4 months of the financial year.

All interest rate swaps and designated 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 2009 as calculated by reference to current market value amounted to a net asset of €3.3m (2008: €27.4m) and this has been included on the face of the balance sheet under "derivative financial assets" and "derivative financial liabilities".