Group Chief Financial Officer's Review

RESULTS FOR THE YEAR

C&C is reporting net revenue of €548.2 million, operating profit(i) of €86.1 million, adjusted diluted EPS(ii) of 22.0 cent and FCF(vi) of 70.5%. On a constant currency basis net revenue decreased 4.9% and operating profit(i) decreased 7.0%.

Jonathan Solesbury
Group Chief Financial Officer

The Group revenue decline of 4.9%[iii] was largely attributable to the discontinuation of certain wholesale accounts in Ireland under the terms of our new revised distribution arrangements with AB InBev. These accounts had generated €15 million of revenues in FY2017, accounting for approximately half of the year-on-year revenue decline. The balance of the decline was due to a loss of distribution points in the draught on-trade in Ireland and reduced lower margin own-label and agency volumes. In contrast, the performance of our branded and wholesale businesses in Great Britain were markedly positive.

Operating profit[i] for the Group at €86.1 million was down 7.0% on a constant currency basis. This was due to the commercial factors noted above, in addition to a 40bps decline in operating margin as result of negative channel and packaging mix, as well as increased marketing investment in Ireland.

Adjusted diluted EPS[ii] of 22.0c was down 5.2%[iii] on FY2017. Adjusted diluted EPS also reflected the impact of the share buyback activity in both this and the prior financial year.

The key financial performance indicators are set out on page 23.

ACCOUNTING POLICIES

As required by European Union (EU) law, the Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC); applicable Irish law and the Listing Rules of the Irish Stock Exchange and the UK Listing Authority. Details of the basis of preparation and the significant accounting policies are outlined on pages 127 to 139.

Prior year reclassification

In anticipation of the implementation of IFRS 15 *Revenue from Contracts with Customers* from 1 March 2018, management has begun examining the accounting for revenue for certain arrangements. In respect of certain of the Group's arrangements with third parties entered into in order to utilise excess capacity, management has determined that income from such arrangements, previously netted from operating costs, should more appropriately be recorded gross, as revenue.

Accordingly, management have changed the classification of such income in the Income Statement for the year ended 28 February 2018. In the current year, the amount recorded that would have been netted from operating costs was €36.5m and accordingly, in the prior year Income Statement line items have been restated as follows: gross revenue has increased by €42.7m, excise duties have increased by €5.7m, and net sales revenue and operating costs have increased by €37.0m. Applicable notes have accordingly also been adjusted. The restatement has no impact on net income or net assets for the prior year.

FINANCE COSTS, INCOME TAX AND SHAREHOLDER RETURNS

Net finance cost was €8.1 million for the year (FY2017: €7.8 million), with the increase on prior year due to the higher utilisation of the banking facilities. Net finance costs also included the unwinding of a discount on provisions charge of €0.3 million (FY2017: €0.8 million).

The income tax charge in the year was €11.3 million. This excludes the credit in relation to exceptional items and represents an effective tax rate of 14.3%, representing a decrease of 0.6 percentage points on the prior year. The Group is established in Ireland and as a result it benefits from the 12.5% tax rate on profits generated in Ireland. The effective tax rate is higher than the standard corporate tax rate of 12.5% for the Group as a result of a higher proportion of profits subject to taxation coming from outside of Ireland.

Subject to shareholder approval, the proposed final dividend of 9.37 cent per share will be paid on 13 July 2018 to ordinary shareholders registered at the close of business on 25 May 2018. The Group's full year dividend will therefore amount to 14.58 cent per share, a 1.7% increase on the previous year. The proposed full year dividend per share will represent a pay-out of 66.3% (FY2017: 60.2%) of the full year reported adjusted diluted earnings per share.[ii] This increase in both the dividend per share and payout ratio reflects our confidence in the cash generation capability of the business and the underlying stability of core earnings.

A scrip dividend alternative will be available. Total dividends paid to ordinary shareholders in FY2018 amounted to €45.0 million, of which €40.6 million was paid in cash and €4.4 million or 9.8% (FY2017: 18.8%) was settled by the issue of new shares.

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In addition to increased dividends, we invested €33.1 million (including commission and related costs) in market share buybacks, purchasing 9.49 million of our own shares at an average price of €3.44. Our stockbrokers, Investec and Davy, conducted the share buyback programme. All shares acquired during the current financial year were subsequently cancelled.

Exceptional items

Costs of €7.0 million on a before tax basis were charged in FY2018 which, due to their nature and materiality, were classified as exceptional items for reporting purposes. In the opinion of the Board, this presentation provides a more useful analysis of the underlying performance of the Group.

The main items which were classified as exceptional include:-

(a) Restructuring costs

Restructuring costs of €1.9m were incurred in the current financial year (FY2017: €12.7m) primarily relating to severance costs of €1.5m arising from the change in the distribution arrangements with AB InBev in England and Wales, as well as other restructuring initiatives in our strategy and export divisions within the Group. Other costs of €0.4m primarily relate to the closure of a warehousing facility.

(b) Revaluation/impairment of property, plant & equipment

In the current financial year, as part of our accounting policy where we externally revalue fixed assets on a triennial basis, we engaged external valuation experts to value the land and buildings and plant and machinery at the Group's Clonmel (Tipperary) and Wellpark (Glasgow) sites, along with depots in Dublin, Cork and Galway. Using the valuation methodologies, this resulted in a net revaluation loss of €5.0m accounted for in the Income Statement and a gain of €3.4m accounted for within Other Comprehensive Income.

(c) Acquisition related expenditure

In the current financial year, the Group incurred professional fees of €0.1 million (FY2017: €0.9 million) associated with the assessment and consideration of strategic opportunities by the Group during the year.

BALANCE SHEET STRENGTH, DEBT MANAGEMENT AND CASH FLOW GENERATION

Balance sheet strength provides the Group with the financial flexibility to pursue its strategic objectives. It is our policy to ensure that a medium/long-term debt funding structure is in place to provide us with the financial capacity to promote the future development of the business and to achieve its strategic objectives.

The Group has a €450 million multi-currency five year syndicated revolving loan facility. The facility agreement provides for a further €100 million in the form of an uncommitted accordion facility and permits the Group to have additional indebtedness to a maximum of €150 million, giving the Group debt capacity of €700 million.

The debt facility matures on 22 December 2019. The Group is currently in the process of conducting an exercise to renew the existing facility in advance of this date.

At 28 February 2018 net debt[(iv)] was €237.6 million, representing a net debt[(iv)]:EBITDA[(v)] ratio of 2.37:1, well within our bank convenants of 3.5:1.

Cash generation

Management reviews the Group's cash generating performance by measuring the conversion of EBITDA[(v)] to Free Cash Flow[(vi)] as we consider that this metric best highlights the underlying cash generating performance of the continuing business.

The Group's performance during the year resulted in an EBITDA[(v)] to Free Cash Flow[(vi)] conversion ratio pre-exceptional costs of 70.5%. A reconciliation of EBITDA[(v)] to operating profit/(loss) is set out below.

A summary cash flow statement is set out in Table 2 on page 49.

Table 1 – Reconciliation of EBITDA[(v)] to Operating profit/(loss)[(i)]

	2018 €m	2017 €m
Operating profit/(loss)	**79.1**	(55.1)
Exceptional items	**7.0**	150.1
Operating profit before exceptional items	**86.1**	95.0
Amortisation and depreciation charge	**14.3**	15.0
Adjusted EBITDA[(v)]	**100.4**	110.0

Table 2 – Cash flow summary

	2018 €m	2017 €m
Adjusted EBITDA(v)	**100.4**	110.0
Working capital	**(8.3)**	0.6
Advances to customers	**0.6**	(12.4)
Net finance costs	**(6.4)**	(6.5)
Tax paid	**(5.9)**	(6.9)
Pension contributions paid	**(1.2)**	(3.4)
Capital expenditure	**(14.0)**	(22.7)
Disposal proceeds property plant & equipment	**3.7**	6.9
Exceptional disposal proceeds property plant & equipment	**-**	18.7
Exceptional items paid	**(4.8)**	(22.7)
Other*	**1.9**	(7.3)
Free cash flow(vi)	**66.0**	54.3
Free cash flow conversion ratio	**65.7%**	49.4%
Free cash flow(vi)	**66.0**	54.3
— *Exceptional cash outflow*	**4.8**	22.7
— *Exceptional cash inflows*	**-**	(18.7)
— *Exceptional cash net outflow*	**4.8**	4.0
Free cash flow excluding exceptional cash outflow	**70.8**	58.3
Free cash flow conversion ratio excluding exceptional cash outflow	**70.5%**	53.0%
Reconciliation to Group Condensed Cash Flow Statement		
Free cash flow(vi)	**66.0**	54.3
Net proceeds from exercise of share options/equity Interests	**2.0**	0.8
Shares purchased under share buyback programme	**(33.1)**	(23.2)
Drawdown of debt	**86.8**	138.7
Repayment of debt	**(61.2)**	(134.0)
Acquisition of business	**(10.3)**	-
Net cash outflow re acquisition of equity accounted investments	**(44.2)**	(1.5)
Dividends paid	**(40.6)**	(34.9)
Net increase in cash	**(34.6)**	0.2

* Other relates to share options add back, pensions credited to operating profit and net profit on disposal of property, plant & equipment.

Notes to the Group Chief Financial Officer's Review

(i) Before exceptional items of €7.0m on a before tax basis.

(ii) Adjusted basic/diluted earnings per share ('EPS') excludes exceptional items. Please also see note 9 of the financial statements.

(iii) FY2017 comparative adjusted for constant currency (FY2017 translated at FY2018 F/X rates) as outlined on page 51.

(iv) Net debt comprises borrowings (net of issue costs) less cash.

(v) Adjusted EBITDA is earnings before exceptional items, finance income, finance expense, tax, depreciation, amortisation charges and equity accounted investments' profit after tax. A reconciliation of the Group's operating (loss)/ profit to EBITDA is set out on page 48.

(vi) Free Cash Flow ('FCF') is a non GAAP measure that comprises cash flow from operating activities net of capital investment cash outflows which form part of investing activities. FCF highlights the underlying cash generating performance of the ongoing business. A reconciliation of FCF to net movement in cash per the Group's Cash Flow Statement is set out above.

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RETIREMENT BENEFITS

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(R) *Employee Benefits*, are included on the face of the Balance Sheet as retirement benefits.

We previously finalised the actuarial valuations of the defined benefit schemes in FY2016. As a result of these updated valuations, new funding arrangements were put in place. For the staff defined benefit pension scheme, these arrangements committed the Group to funding contributions at 22% of pensionable salaries per annum to meet the cost of future service benefits for active members in addition to a lump sum deficit funding contribution of €1.2 million per annum until the next valuation date. There is no funding requirement with respect to the Group's Executive defined benefit pension scheme in 2018. The 2014 actuarial valuation of the NI defined benefit pension scheme confirmed it was in surplus and the scheme remains in surplus. The funding requirement will be reviewed again as part of the next triennial valuation which is currently ongoing.

There are 4 active members in the NI scheme and 57 active members (less than 10% of total membership) in the ROI schemes.

At 28 February 2018, the retirement benefits computed in accordance with IAS 19(R) *Employee Benefits* amounted to a net surplus of €1.0 million gross of deferred tax (€3.8 million deficit with respect to the ROI schemes and a €4.8 million surplus with respect to the NI scheme) and a deficit of €0.1 million net of deferred tax (FY2017: deficit of €17.8 million gross and deficit of €15.9 million net of deferred tax).

The movement in the deficit is as follows:

	€m
Deficit at 1 March 2018	**17.8**
Employer contributions paid	**(1.2)**
Actuarial gain	**(16.8)**
Credit to the Income Statement	**(1.0)**
FX adjustment on retranslation	**0.2**
Net surplus at 28 February 2018	**(1.0)**

The decrease in the deficit from €17.8 million to a surplus of €1.0 million is primarily driven by the actuarial gain of €16.8 million, there are two main reasons being: 1) a reduction in the future improvement assumption rates in line with the latest findings of the research arm of the Institute and Faculty of Actuaries, the Continuous Mortality Investigation (CMI), and; 2) a gain due to the change in financial assumptions resulting from higher discount rates as set by corporate bond yields, which is marginally offset by an increase in future inflation expectations. All other significant assumptions applied in the measurement of pension obligations at 28 February 2018 are broadly consistent with those as applied at 28 February 2017.

FINANCIAL RISK MANAGEMENT

The main financial market risks facing the Group continue to include foreign currency exchange rate risk, commodity price fluctuations, interest rate risk and creditworthiness risk in relation to its counterparties.

The Board of Directors set the treasury policies and objectives of the Group, the implementation of which are monitored by the Audit Committee. There has been no significant change during the financial year to the Board's approach to the management of these risks. Details of both the policies and control procedures adopted to manage these financial risks are set out in detail in note 22 to the financial statements.

Currency risk management

The reporting currency and the currency used for all planning and budgetary purposes is Euro. However, as the Group transacts in foreign currencies and consolidates the results of non-Euro reporting foreign operations, it is exposed to both transaction and translation currency risk.

Currency transaction exposures primarily arise on the Sterling, US, Canadian and Australian Dollar denominated sales of our Euro subsidiaries. We seek to minimise this exposure, when economically viable to do so, by maximising the value of subsidiary foreign currency input costs and creating a natural hedge. When the remaining net exposure is material, we manage it by hedging an appropriate portion for a period of up to two years ahead. Forward foreign currency contracts may be used to manage this risk in a non-speculative manner when the Group's net exposure exceeds certain limits as set out in the Group's treasury policy. There were no outstanding forward foreign currency contracts as at the year end date.

The average rate for the translation of results from Sterling currency operations was €1:£0.881 (year ended 28 February 2017: €1:£0.8342) and from US Dollar operations was €1:$1.1567 (year ended 28 February 2017: €1:$1.1011).

Comparisons for revenue, net revenue and operating profit for each of the Group's reporting segments are shown at constant exchange rates for transactions by subsidiary undertakings in currencies other than their functional currency and for translation in relation to the Group's Sterling and US Dollar denominated subsidiaries by restating the prior year at current year average rates.

Applying the realised FY2018 foreign currency rates to the reported FY2017 revenue, net revenue and operating profit are shown below.

Table 3–Constant currency comparatives

	Year ended 28 February 2017 €m	FX transaction €m	FX translation €m	Year ended 28 February 2017 adjusted comparative €m
Revenue				
Ireland	345.0	-	(3.5)	341.5
Great Britain	465.4	-	(24.7)	440.7
— *Previously Scotland*	*311.4*	-	*(16.5)*	*294.9*
— *Previously C&C Brands*	*154.0*	-	*(8.2)*	*145.8*
International	50.4	(0.2)	(1.3)	48.9
— *Previously North America*	*26.6*	-	*(1.3)*	*25.3*
— *Previously Export*	*23.8*	*(0.2)*	-	*23.6*
Total	**860.8**	**(0.2)**	**(29.5)**	**831.1**
Net revenue				
Ireland	245.4	-	(2.9)	242.5
Great Britain	302.3	-	(16.0)	286.3
— *Previously Scotland*	*213.0*	-	*(11.3)*	*201.7*
— *Previously C&C Brands*	*89.3*	-	*(4.7)*	*84.6*
International	48.8	(0.2)	(1.2)	47.4
— *Previously North America*	*25.1*	-	*(1.2)*	*23.9*
— *Previously Export*	*23.7*	*(0.2)*	-	*23.5*
Total	**596.5**	**(0.2)**	**(20.1)**	**576.2**
Operating profit				
Ireland	48.6	0.1	(0.7)	48.0
Great Britain	39.9	0.2	(2.1)	38.0
— *Previously Scotland*	*32.6*	*0.1*	*(1.7)*	*31.0*
— *Previously C&C Brands*	*7.3*	*0.1*	*(0.4)*	*7.0*
International	6.5	0.1	-	6.6
— *Previously North America*	*0.7*	-	-	*0.7*
— *Previously Export*	*5.8*	*0.1*	-	*5.9*
Total	**95.0**	**0.4**	**(2.8)**	**92.6**

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COMMODITY PRICE AND OTHER RISK MANAGEMENT

The Group is exposed to commodity price fluctuations, and manages this risk, where economically viable, by entering into fixed price supply contracts with suppliers. We do not directly enter into commodity hedge contracts. The cost of production is also sensitive to variability in the price of energy, primarily gas and electricity. Our policy is to fix the cost of a certain level of energy requirement through fixed price contractual arrangements directly with its energy suppliers.

The Group seeks to mitigate risks in relation to the continuity of supply of key raw materials and ingredients by developing trade relationships with key suppliers. We have over 60 long-term apple supply contracts with farmers in the west of England and have an agreement with malt farmers in Scotland for the supply of barley.

In addition, the Group enters into insurance arrangements to cover certain insurable risks where external insurance is considered by management to be an economic means of mitigating these risks.

Jonathan Solesbury
Group Chief Financial Officer