Group Chief Financial Officer's Review

Results For The Year

C&C is reporting net revenue of €1,574.9 million, operating profit(i) of €104.5 million, adjusted diluted EPS(ii) of 26.6 cent and FCF(iii) of 80.8%(i).

The Group's net revenue of €1,574.9 million has substantially increased due to the acquisition of Matthew Clark and Bibendum in April 2018. Excluding Matthew Clark and Bibendum, and on a constant currency(iv) basis, net revenue was up 3.2% on prior year at €564.4million (2018: €546.7million).

Operating profit(i) for the Group at €104.5 million was up 21.5% on a constant currency(iv) basis, again impacted by the acquisition of Matthew Clark and Bibendum. On a like for like comparative basis, operating profit was up 3.3%(iv).

Adjusted diluted EPS(ii) of 26.6 cent was up 20.9% on FY2018. Basic EPS was 23.4 cent down 9.3% on the prior year as the prior year benefitted from the recognition of €13.3m negative goodwill re the finalisation of the acquisition accounting re Admiral Taverns as noted below.

The key financial performance indicators are set out on page 12.

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 93 to 105. The Group has adopted IFRS 9 and IFRS 15 in the current financial year. There was no material impact on the Group's results as a result of transitioning to IFRS 9 and IFRS 15. In accordance with the requirements of IFRS 15, new disclosures outlining the disaggregation of revenue by primary geographic markets and principal activities are included in note 1 to the Consolidated Financial Statements. The Group will adopt IFRS 16 from 1 March 2019 and the expected impact from same is disclosed on page 95.

Finance Costs, Income Tax and Shareholder Returns

Net finance cost was €15.6 million for the year (FY2018: €8.1 million). The increase on the prior year was due to higher levels of borrowings on average during the year, following the acquisition of Matthew Clark and Bibendum; the new funding margin being marginally more expensive than our previous facility reflecting changes in reference base rates and increased interest expense on the receivables purchase programme following the inclusion of the Matthew Clark and Bibendum receivables into the Group's programme. Net finance costs also included €0.3m with respect to the ineffective portion of cash flow hedges (FY2018: €nil) and the unwinding of a discount on provisions charge of €0.3 million (FY2018: €0.3 million).

The income tax charge in the year was €10.8 million. This excludes the credit in relation to exceptional items and the share of equity accounted investments' tax charge and represents an effective tax rate of 12.1%(v) reflecting a decrease of 2.4 percentage points on the prior year, primarily as a result of the release of a historic provision in respect of a potential exposure that was concluded during the year with no outlay. Excluding the impact of the provision release, the Group's effective tax rate would have been 14.3%(v). The Group is established in Ireland and as a result it benefits from the 12.5% corporate tax rate on profits generated in Ireland. Excluding the impact of the current year provision release, the effective tax rate is higher than the standard corporate tax rate of 12.5% for the Group mainly as a result of a higher proportion of profits subject to taxation coming from outside of Ireland. The Group's effective tax rate is subject to a number of factors, such as local and international tax reform including the OECD's Base Erosion and Project Shifting project "BEPS", EU directives and initiatives and the consequences of Brexit. In any given financial year the effective tax rate reflects a variety of factors that may not be present in subsequent financial years and may be affected by changes in profit mix, challenges brought by tax authorities, amendments in tax law, guidance and related interpretations.

Subject to shareholder approval, the proposed final dividend of 9.98 cent per share will be paid on 19 July 2019 to ordinary shareholders registered at the close of business on 31 May 2019. The Group's full year dividend will therefore amount to 15.31 cent per share, a 5% increase on the previous year. The proposed full year dividend per share will represent a pay-out of 57.6% (FY2018: 66.3%) of the full year reported adjusted diluted earnings per share(ii). The return to mid-single digit growth in dividend is a signal of our confidence in the continued earnings momentum, our underlying cash flow performance and our ability to meet our de-leveraging targets.

A scrip dividend alternative will be available. Total dividends to ordinary shareholders in FY2019 amounted to €45.5 million, of which €36.0 million was paid in cash, €9.2 million or 20.2% (FY2018: 9.8%) was settled by the issue of new shares and €0.3million (FY 2018: €nil) was accrued with respect to LTIP 2015 dividend entitlements.

In addition to increased dividends, we invested €1.9 million (including commission and related costs) in market share buybacks, to minimise the dilutive impact of scrip dividends, purchasing 576,716 of our own shares at an average price of €3.18. Our stockbrokers, Davy, conducted the share buyback programme. All shares acquired during the current financial year were subsequently cancelled.

Exceptional items

Exceptional items of €11.1 million on a before tax basis were charged in FY2019 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.

(a) Restructuring costs

Restructuring costs of €5.3 million were incurred in the current financial year (2018: €1.9 million) primarily relating to severance costs arising from the acquisition and subsequent integration of Matthew Clark and Bibendum and the previously acquired Orchard Pig into the Group, of €3.4 million and €0.5 million respectively. Other restructuring initiatives across the Group in the current financial year resulted in a further charge of €1.4 million.

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

In the current financial year the Group took the decision to impair an element of its IT system of €0.4 million, which had become redundant following a system upgrade.

(c) Acquisition related expenditure

The Group incurred €2.1m of acquisition and integration related costs, primarily with respect to professional fees associated with the acquisition and subsequent integration of Matthew Clark and Bibendum into the Group.

(d) Share of equity accounted investments exceptional items

Property within Admiral Taverns are valued at fair value on the Balance Sheet, the result of the fair value exercise at 28 February 2019 resulted in a revaluation loss (the Group's share of this loss equated to €3.3 million) accounted for in the Income statement and a gain (the Group's share of this gain equated to €7.1 million) accounted for within Other Comprehensive Income.

Finalisation of the Group's share of assets acquired following the December 2017 investment in Admiral Taverns resulted in the recognition of an increased investment of €13.3 million and the recognition of negative goodwill. This measurement period adjustment was reflected in the prior period in line with accounting standards.

Balance Sheet Strength, Debt Management and Cashflow 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.

In July 2018, the Group amended and updated its committed €450 million multi-currency five year syndicated revolving loan facility and executed a three year Euro term loan. The Euro term loan and multi-currency revolving facilities agreement provides for a further €100 million in the form of an uncommitted accordion facility and permits the Group to avail of further financial indebtedness, excluding working capital and guarantee facilities, to a maximum value of €200 million, subject to agreeing the terms and conditions with the lenders. Consequently the Group is permitted under the terms of the agreement, to have debt capacity of €900 million. The Group had total debt of €450.6 million drawn at 28 February 2019, including £25.0 million of non-bank borrowings.

At 28 February 2019 net debt(vi) was €301.6 million, representing a net debt(vi):EBITDA(vii) ratio of 2.51x. Net debt(v) to EBITDA(vii) as defined under our banking covenants was 2.55x, well within our bank covenant of 3.75x.

Cash generation

Management reviews the Group's cash generating performance by measuring the conversion of EBITDA(vii) to Free Cash Flow(iii) 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(vii) to Free Cash Flow(iii) conversion ratio pre-exceptional costs of 80.8%. The Group's year end cash position benefited from the Group's receivables purchase programme which contributed €152.6 million (2018:€63.5 million) to year end cash. A reconciliation of EBITDA(vii) to operating profit(i) is set out below.

A summary cash flow statement is set out in Table 2 on page 30.

Group Chief Financial Officer's Review
(continued)

Table 1 – Reconciliation of EBITDA(vii) to Operating profit (i)

	2019 €m	2018 €m
Operating profit	**96.7**	79.1
Exceptional items	**7.8**	7.0
Operating profit before exceptional items	**104.5**	86.1
Amortisation and depreciation charge	**15.5**	14.3
Adjusted EBITDA(vii)	**120.0**	100.4

Table 2 – Cash flow summary

	2019 €m	2018 €m
Adjusted EBITDA(vii)	**120.0**	100.4
Working capital	**19.9**	(8.3)
Advances to customers	**(0.9)**	0.6
Net finance costs	**(12.5)**	(6.4)
Tax paid	**(8.6)**	(5.9)
Pension contributions paid	**(0.2)**	(1.2)
Tangible/intangible IT expenditure	**(22.1)**	(14.0)
Disposal proceeds property plant & equipment	**0.1**	3.7
Exceptional items paid	**(5.9)**	(4.8)
Other*	**1.2**	1.9
Free cash flow(iii)	**91.0**	66.0
Free cash flow conversion ratio	**75.8%**	65.7%
Free cash flow(iii)	**91.0**	66.0
Exceptional cash outflow	**5.9**	4.8
Free cash flow excluding exceptional cash outflow	**96.9**	70.8
Free cash flow conversion ratio excluding exceptional cash outflow	**80.8%**	70.5%
Reconciliation to Group Condensed Cash Flow Statement		
Free cash flow(iii)	**91.0**	66.0
Net proceeds from exercise of share options/equity Interests	**-**	2.0
Shares purchased under share buyback programme	**(1.9)**	(33.1)
Drawdown of debt	**736.0**	86.8
Repayment of debt	**(786.2)**	(61.2)
Prepaid issue costs	**(5.0)**	-
Acquisition of subsidiaries	**-**	(10.3)
Cash outflow re acquisition of equity accounted investments	**-**	(44.2)
Dividends paid	**(36.0)**	(40.6)
Net decrease in cash	**(2.1)**	(34.6)

* Other relates to share options add back, exceptional items non-cash add back pensions debited to operating profit and net profit on disposal of property, plant & equipment.

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.

Independent actuarial valuations of the defined benefit pension schemes are carried out on a triennial basis using the attained age method. The most recent actuarial valuations of the ROI defined benefit pension schemes were carried out with an effective date of 1 January 2018 while the date of the most recent actuarial valuation of the NI defined benefit pension scheme was 31 December 2017. As a result of these updated valuations the Group has committed to contributions of 27.5% of pensionable salaries for the Group's staff defined benefit scheme. There is no funding requirement with respect to the Group's Executive defined benefit pension scheme or the Group's NI defined benefit pension scheme, both of which are in surplus. The Group has an unconditional right to these surpluses when the scheme concludes.

There are 3 active members in the NI scheme and 57 active members (less than 10% of total membership) in the ROI staff defined benefit pension scheme and no active members in the executive defined benefit pension scheme.

At 28 February 2019, the retirement benefits computed in accordance with IAS 19(R) *Employee Benefits* amounted to a net deficit of €3.2 million gross of deferred tax (€12.2 million deficit with respect to the Group's staff defined benefit pension scheme, €3.5 million surplus with respect to the Group's Executive defined benefit pension scheme and a €5.5 million surplus with respect to the Group's NI defined benefit pension scheme) and a net deficit of €4.1 million net of deferred tax (FY2018: net surplus of €1.0 million gross and net deficit of €0.1 million net of deferred tax).

The movement from an opening net surplus to a closing net deficit gross of deferred tax is as follows:

	€m
Net surplus at 1 March 2018	1.0
Employer contributions paid	0.2
Charge to Other Comprehensive Income	(3.6)
Charge to the Income Statement	(0.9)
FX adjustment on retranslation	0.1
Net deficit at 28 February 2019	(3.2)

The decrease in the surplus of €1.0 million to a deficit of €3.2 million is primarily due to an actuarial loss of €3.6 million. The actuarial loss was driven by the reduction in the discount rates used to value the pension benefit obligation. The impact of the reduction in discount rates was partially offset by other actuarial gains such as the lower than expected benefit inflation experienced over the year and, to a lesser extent, changes to assumptions regarding future pensionable salary growth (ROI Staff) and future rates of mortality improvements (NI). All other assumptions used to value the pension benefit obligation are consistent with those used as at 28 February 2018.

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 Consolidated 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 and Euro purchases in our newly acquired Matthew Clark and Bibendum business. We seek to minimise this exposure, when economically viable to do so, by maximising the value of subsidiary foreign currency input costs to offset our sales exposure and by maximising the value of subsidiary foreign currency revenue to offset our payables exposure, 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 are 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. In the current financial year, the Group hedged a portion its Euro payables exposure in Matthew Clark and Bibendum. At 28 February 2019 the Group has hedges to the value of €48.7 million in place at an average exchange rate of 1.115 GBP/EUR. The hedges are based on forecasted exposures and meet the requirements of IFRS 9 *Financial Instruments*. The fair value

Group Chief Financial Officer's Review
(continued)

of outstanding hedges, as calculated by reference to the current market value resulted in a net liability at 28 February 2019 of €2.0 million. A degree of ineffectiveness in our hedged position at year end, due to changes in our forecasted exposure, resulted in the recognition of €0.3 million in the Income Statement, within Finance costs.

The average rate for the translation of results from Sterling currency operations was €1:£0.8841 (year ended 28 February 2018: €1:£0.881) and from US Dollar operations was €1:$1.1664 (year ended 28 February 2018: €1:$1.1567).

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 FY2019 foreign currency rates to the reported FY2018 revenue, net revenue and operating profit[(i)(iv)] as shown below.

Table 3 – Constant currency comparatives

	Year ended 28 February 2018 €m	FX transaction €m	FX translation €m	Year ended 28 February 2018 €m
Revenue				
Ireland	312.1	-	(0.2)	311.9
Great Britain	459.8	-	(1.6)	458.2
International	41.6	(0.1)	(0.2)	41.3
Total	**813.5**	**(0.1)**	**(2.0)**	**811.4**
Net revenue				
Ireland	215.0	-	(0.2)	214.8
Great Britain	292.7	-	(1.0)	291.7
International	40.5	(0.1)	(0.2)	40.2
Total	**548.2**	**(0.1)**	**(1.4)**	**546.7**
Operating profit				
Ireland	40.1	-	-	40.1
Great Britain	39.5	-	(0.1)	39.4
International	6.5	-	-	6.5
Total	**86.1**	**-**	**(0.1)**	**86.0**

Notes to the Group Chief Financial Officer's Review

(i) Before exceptional items on a before tax and equity accounted investments' exceptional items basis.
(ii) Adjusted basic/diluted earnings per share ('EPS') excludes exceptional items. Please also see note 9 of the financial statements.
(iii) Free Cash Flow ('FCF') that comprises cash flow from operating activities net of tangible and intangible cash outflows which form part of investing activities. FCF highlights the underlying cash generating performance of the ongoing business. FCF benefits from the Group's purchase receivables programme which contributed €152.6m (2018:€63.5m) inflow in the period. A reconciliation of FCF to net movement in cash per the Group's Cash Flow Statement is set out above.
(iv) FY2018 comparative adjusted for constant currency (FY2018 translated at FY2019 F/X rates).
(v) Effective tax rate is calculated on the Group's Profit before tax, excluding exceptional items and excluding the share of equity accounted investments' profit after tax.
(vi) Net debt comprises borrowings (net of issue costs) less cash.
(vii) 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 profit to EBITDA is set out on page 30.

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 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