

Constellation Europe Limited

Directors' report and financial statements

Registered number 137407

For the year ended 28 February 2009

MONDAY



AVAA2DNR

A31

28/09/2009

52

COMPANIES HOUSE

Contents

Directors' report	1
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	4
Independent auditors' report to the members of Constellation Europe Limited	5
Profit and Loss Account	7
Reconciliation of movements in shareholders' funds	7
Balance Sheet	8
Notes	9

Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditor's report, for the year ended 28 February 2009.

Business Review

Principal Activities

Constellation Europe Limited is the largest wine company in the UK and one of the largest drinks companies in Europe, formed in April 2004 following the integration of Constellation Wines Europe Limited and Matthew Clark plc. Constellation Europe is a subsidiary of Constellation Brands Inc, the largest wine company in the world and a leading producer and exporter of wine from the USA, Australia and New Zealand.

The company has a strong portfolio of brands from the wine, cider, fortified wine and wine-style drinks categories. These include Hardys, Kumala, Turner Road, Nobilo and Stowells and a range of premium wine brands, along with Blackthorn cider, Stone's Ginger Wine and Babycham.

The trade and assets of two group companies, Constellation Wines Europe Limited and Western Wines Limited, were hived into the company in February 2007. The largest brands relating to the two trades are Hardys and Kumala respectively. The current and prior year results presented in these financial statements therefore include these trades.

Legal and Regulatory Environment

The company operates in a highly regulated environment. In the areas of health and safety, quality control, environmental obligations and employee welfare the company seeks to ensure that it works in an appropriate manner with the relevant regulatory bodies and encourages a proactive approach to changes in the legal environment.

Aims and Objectives

The company's objective is to grow profits and cash flow by increasing value share within our core markets, through superior products, consumer insight and expanding geographic reach.

Risk / Uncertainty

The company adopts a moderate approach to risk, taking appropriate mitigation over legal, regulatory and financial exposure. It uses a consistent documented approach in its treatment of financial risk and debtor exposure. The current year has seen increased pressure in the trading environment, combined with global market forces increasing commodity cost inputs. This has adversely affected rates of sale, as well as profit per case. The company reviews its business in response to these changes, and is well positioned to meet the challenges of economic downturn.

Measurement

The company's key performance indicators are turnover growth and gross margin. The company has a well established performance measurement system that focuses the business on these key levers of sales volume and profit growth, together with cost control and cash flow. This is linked to a detailed annual planning process as part of the strategic planning exercise.

This target setting is then directly linked to individual employee's remuneration through a variety of incentive schemes across the business that align individual responsibilities with corporate aims and objectives.

The annual budget process ensures that targets relating to business growth and development are set in conjunction with the company's long term strategic goals and objectives.

Performance

During the current year the company continued to carry on the business of the production and distribution of beverages.

The financial year ended 28 February 2009 saw sales growth of 2% (2008: 8%). Sales growth in 2008 is calculated by comparing the company's 2008 sales with the combined 2007 sales of the company, Constellation Wines Europe Limited and Western Wines Limited.

Directors' report *(continued)*

Business Review *(continued)*

Performance *(continued)*

This reflects the trade hiveovers described above. Sales growth in 2008, looking at the company in isolation, was 89%. The 2% sales growth in 2009 was below expectations for the business and reflected challenging economic times. The prior year had also marked the entry into new geographical markets, bringing high levels of sales growth.

Operating margin for the year, before exceptional items, was 0.5% (2008: 0.2%). The improvement is attributed to improved cost control, but the continued low margin remains, due to continued patterns of duty increases, and price pressure from major multiple retailers. Total operating margin, after exceptional items, was (1.3%).

Exceptional Items

Costs totalling £313,000 (2008: £nil) were incurred during the current year relating to the termination of in-house fortified wine production. This function will be outsourced to a third party producer from May 2009.

Further exceptional costs, totalling £11,803,000 (2008: £nil) arose in respect of the creation of a new production, administration and warehousing facility at Constellation Park, Avonmouth, Bristol, the closure of a production facility at Whitchurch Lane, Bristol and the exit from third party warehousing.

Trends and Developments

The company is committed to developing the wine market and building the category by gaining consumer insight, developing new products, constantly striving for quality across all product price points and adding value to our brand offering through consumer activity.

Forward Looking Information

Expectations are for the company to continue to retrench its business in 2009/10 through a series of initiatives aimed at creating consumer awareness and gaining consumer insight. The company expects the trends of annual duty increases and retailer price pressure to continue, but has created a financial mitigation strategy to respond to these risks. The company is expecting to reduce costs by improving our business processes and realising the benefits of the programme of capital expenditure undertaken during the year ended 28 February 2009.

Results and dividends

The loss for the year attributable to shareholders was £13,306,000 (2008: profit £3,761,000).

The directors do not recommend the payment of a dividend (2008: £nil).

Post balance sheet events

On 18 August 2009, the company agreed to sell a number of its wine and wine fusions trademarks, to a group company, Western Wines Holdings Limited, in exchange for an intercompany note with provisional value £15,750,000. The sale generates a gain for the company, as the trademarks had a £nil carrying value. The company will therefore pay a royalty expense to Western Wines Holdings Limited for future sales of these products.

On 19 August 2009, the company sold a £2 investment in its dormant subsidiary, Constellation Europe Brands Limited, to its direct parent company, Avalon Cellars Two Limited. On the same day, Avalon Cellars Two Limited sold the company to Constellation Europe Brands Limited, in exchange for a share issue with proceeds of £96,450,000.

Charitable contributions

Charitable contributions made by the company during the year amounted to £13,000 (2008: £19,000).

Directors' report *(continued)*

Directors and directors' interests

The following directors served during the year:

AT Colquhoun	(resigned 31 March 2008)
MT Cox	
M Troutaud	(resigned 16 December 2008)
PH Spencer	
AK McIlwain	
T Christensen	
D Klein	(resigned 3 April 2009)
D Malhotra	(appointed 31 March 2008)
H Glennie	(appointed 3 April 2009)

Disabled employees

Full and fair consideration is given to applications for employment made by disabled persons, having regard to their particular aptitude and abilities. Every effort is made to continue to employ persons who become disabled while in the company's employment. Disabled persons share equally in opportunities for training, career development and promotion.

Employee consultation

The company ensures that all employees are kept up to date with major developments and changes within the organisation via the company magazine, notice boards and departmental briefings.

Creditor payment policy

The company agrees terms and conditions for its business transactions with suppliers, payment is then made on these terms, subject to the terms and conditions being met by the supplier. The company had creditor days at 28 February 2009 of 57 days (*2008: 47 days*).

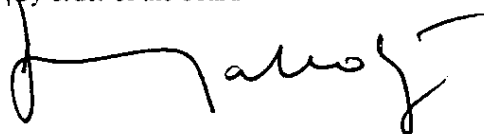
Statement of disclosure to auditors

The directors who held office at the date of approval of the directors' report confirm that so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

By order of the board



D Malhotra
Secretary

The Guildway
Old Portsmouth Road
Artington
Guildford
GU3 1LR

14 September 2009

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

100 Temple Street
Bristol
BS1 6AG
United Kingdom

Independent auditors' report to the members of Constellation Europe Limited

We have audited the financial statements of Constellation Europe Limited for the year ended 28 February 2009 which comprise the Profit and Loss Account, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of Constellation Europe Limited
(continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 28 February 2009 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

14 September 2009

Profit and Loss Account
for the year ended 28 February 2009

		Before Exceptional Items	Exceptional Items	Total	Total
	Note	2009 £000	2009 £000	2009 £000	2008 £000
Turnover	2	639,158	-	639,158	629,503
Operating costs	3	(635,983)	(11,803)	(647,786)	(628,010)
Operating (loss)/profit		3,175	(11,803)	(8,628)	1,493
Losses on the termination of an operation	4	-	(313)	(313)	-
(Loss)/profit on sale of fixed assets	7	(314)	-	(314)	2,387
(Loss)/profit on ordinary activities before finance charges		2,861	(12,116)	(9,255)	3,880
Net interest payable and similar charges	8			(4,619)	(2,579)
(Loss)/profit on ordinary activities before taxation	9			(13,874)	1,301
Tax on (loss)/profit on ordinary activities	10			568	2,460
(Loss)/profit for the year				(13,306)	3,761

There are no recognised gains and losses in either year other than the result for each year.

All operations are continuing.

Reconciliation of movements in shareholders' funds
for the year ended 28 February 2009

	Note	2009 £000	2008 £000
Profit/(loss) for the financial year		(13,306)	3,761
Equity adjustment to share based payment liability	1	2,398	1,175
Net (decrease)/increase in shareholders' funds		(10,908)	4,936
Opening shareholders' funds		107,357	102,421
Closing shareholders' funds		96,449	107,357

The notes on pages 9 to 28 form part of these financial statements.

Balance Sheet
at 28 February 2009

	Note	2009 £000	£000	2008 £000	£000
Fixed assets					
Tangible assets	11		84,239		62,968
Current assets					
Stocks	12	80,793		66,452	
Debtors	13	372,948		351,678	
Cash at bank and in hand		788		13,909	
		<u>454,529</u>		<u>432,039</u>	
Creditors: amounts falling due within one year	14	<u>(422,911)</u>		<u>(378,704)</u>	
Net current assets			<u>31,618</u>		<u>53,335</u>
Total assets less current liabilities			<u>115,857</u>		<u>116,303</u>
Creditors: amounts falling due after more than one year	15		(13,269)		(171)
Provisions for liabilities and charges	16		(6,139)		(8,775)
Net assets			<u>96,449</u>		<u>107,357</u>
Capital and reserves					
Called up share capital	17		2,872		2,872
Share premium account	18		119,288		119,288
Profit and loss account	18		(29,284)		(15,978)
Share based payments reserve	18		3,573		1,175
Equity shareholders' funds	18		<u>96,449</u>		<u>107,357</u>

The notes on pages 9 to 27 form part of these financial statements.

These financial statements were approved by the board of directors on 14 September 2009 and were signed on its behalf by:

Hele M Glennie

H Glennie
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 228A of the Companies Act 1985 because it is a wholly owned subsidiary of Constellation Brands Inc. which prepares consolidated financial statements under US Generally Accepted Accounting Practice, and which are demonstrably equivalent to EU Endorsed International Financial Reporting Standards.

The company is also, by virtue of Section 228A, exempt from the requirement of FRS 1 to present a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Turnover

Revenue from the sale of goods includes excise and import duties which the group pays as principal but excludes amounts collected on behalf of third parties, such as value added tax. Sales are recognised depending upon individual customer terms at the time of despatch, delivery or some other specified point when the risk of loss transfers. Provision is made for returns where appropriate. Sales are stated net of price discounts, allowances for customer loyalty and certain promotional activities and similar terms.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Freehold buildings	-	over 33 to 50 years
Leasehold land and building	-	length of lease
Plant, machinery and other equipment	-	over 8 to 25 years
Computer equipment	-	over 3 to 5 years
Motor vehicles	-	over 3 to 7 years

Notes (continued)

1 Accounting policies (continued)

Stocks

Stocks are valued at the lower of cost (including Customs and Excise Duty where incurred), determined on a first-in-first-out basis, and net realisable value. In the case of beverages produced by the company, cost includes direct materials and labour together with appropriate overheads incurred in bringing the product to its present location and condition. Provision is made for obsolete, slow moving or defective items where appropriate.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax have occurred at the balance sheet date. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates enacted at the balance sheet date.

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

In relation to forward currency contracts, the company has decided not to follow the optional fair value accounting rules as set out in the Companies Act. Consequently, gains and losses relating to cumulative movements on open contracts at the balance sheet date are not recognised unless they represent an onerous commitment.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Finance costs

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Notes *(continued)*

1 **Accounting policies** *(continued)*

Post-retirement benefits

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

For money purchase schemes, the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Share based payments

The company operated two schemes during the year; Constellation Brands UK Sharesave Scheme and Constellation Long Term Stock Incentive Plan. Both these plans allowed certain employees to acquire shares in the company's ultimate parent undertaking, Constellation Brands Inc (see note 22).

The fair value of options granted after 7 November 2002 and not yet vested as of 1 March 2006 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the option were granted. Constellation Brands Inc makes a recharge for the exercise price intrinsic value of share options when exercised. A liability is calculated for these amounts at the balance sheet date, using the Black-Scholes model, with a corresponding adjustment to equity.

2 **Analysis of turnover and profitability**

The whole of the turnover and profit on ordinary activities before taxation relates to the company's business of production and distribution of beverages.

All turnover and profit originates in the UK.

Notes (continued)

3 Operating costs

	Before exceptional items	Exceptional Items	Total	Total
	2009 £000	2009 £000	2009 £000	2008 £000
Change in finished goods and work in progress (note 12)	13,750	-	13,750	9,837
Raw materials, consumables and cost of sales	554,668	7,104	561,772	544,218
Staff costs (note 5)	40,452	34	40,486	38,618
Redundancy and contract termination costs	1,712	2,125	3,837	-
Depreciation (note 11)	6,653	482	7,135	11,560
Commissions to overseas	2,808	-	2,808	2,983
Selling expenses	12,201	-	12,201	11,500
Administrative expenses	3,739	2,058	5,797	9,294
	<u>635,983</u>	<u>11,803</u>	<u>647,786</u>	<u>628,010</u>

Exceptional items include accelerated depreciation of £482,000. Depreciation for the prior year includes accelerated depreciation of £2,385,000 relating to installed dispense equipment.

The exceptional items analysed above arose in respect of: the creation of a new production, administration and warehousing facility at Constellation Park, Avonmouth, Bristol; the closure of a production facility at Whitchurch Lane, Bristol; the exit from third party warehousing.

4 Exceptional items reported after operating (loss)/profit

Certain costs incurred during the current year relate to the termination of an operation, namely the outsourcing of fortified wine production to a third party. In accordance with FRS 3 'Reporting Financial Performance', these costs have been recognised separately in the profit and loss account, after the operating result and before interest. The costs total £313,000 (2008: £nil) and relate wholly to legal and professional fees.

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2009	2008
Production	383	371
Sales, marketing and distribution	338	335
Administration	276	262
	<hr/>	<hr/>
	997	968
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2009	2008
	£000	£000
Wages and salaries	35,039	33,528
Social security costs	3,840	3,767
Other pension costs	1,607	1,323
	<hr/>	<hr/>
	40,486	38,618
	<hr/>	<hr/>

6 Directors' remuneration

The remuneration of the directors was as follows:

	2009	2008
	£000	£000
Directors' emoluments	1,147	2,221
Gains made on the exercise of share options	325	228
Company contributions to money purchase pension schemes	88	91
Compensation for loss of office	482	270
	<hr/>	<hr/>
	2,042	2,810
	<hr/>	<hr/>

Group companies bore £200,000 (2008: £474,000) cost of the directors' emoluments and £28,000 (2008: £26,000) of the company contributions to money purchase schemes.

The emoluments of the highest paid director were £239,000 (2008: £370,000) and the contribution to the defined contribution pension scheme was £nil (2008: £20,000). The highest paid director made £nil (2008: £nil) gain on the exercise of share options and received £nil (2008: £nil) for compensation for loss of office. Shares and options were issued to the highest paid director under long-term incentive schemes: 6,900 shares (2008: nil) under the restricted stock awards plan, and 53,900 options (2008: 67,700) under the long term stock incentive plan.

Notes (continued)

6 Directors' remuneration (continued)

Pensions

The number of directors who were members of group pension schemes was as follows:

	Number of directors	
	2009	2008
Defined benefit schemes	4	7
Defined contribution schemes	2	1

Costs incurred during the year were wholly in relation to defined contribution schemes. All members of the group defined benefit scheme have transferred onto the defined contribution scheme (see note 21).

7 Profit on sale of fixed assets

	2009 £000	2008 £000
(Loss)/profit on sale of fixed assets (see note 11)	(314)	2,387

In the prior year, £2,366,000 related to additional sales proceeds received in respect of a 2005 disposal of land and buildings, for which a contingent asset had not been recognised in prior periods. The proceeds were recorded net of £34,000 associated costs, and were conditional upon the successful granting of planning permission to develop.

There are no taxable gains or losses arising from these sales.

Notes *(continued)*

8 Interest payable and similar charges

	2009 £000	2008 £000
Net exchange loss	1,223	1,109
Interest payable on loans and overdrafts	2,502	1,006
Unwinding of discount on provision (note 16)	379	383
Finance charge on finance leases	173	81
Interest on payment of corporation tax	342	-
	<u>4,619</u>	<u>2,579</u>

9 (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):

	2009 £000	2008 £000
Depreciation (note 11):		
- owned assets	6,880	11,307
- held under finance lease	255	253
Loss/(profit) on disposal of fixed assets (note 7)	314	(2,387)
Operating lease rentals:		
- plant and machinery	640	210
- other	6,328	3,651
	<u></u>	<u></u>

The audit fee for both years was borne by the ultimate parent company.

	2009 £000	2008 £000
Fees for the audit of the company	142	157
Fees for other services pursuant to such legislation	102	91
	<u>244</u>	<u>243</u>

Notes (continued)

10 Tax on profit/(loss) on ordinary activities

The tax credit comprises:

	2009 £000	2008 £000
Current tax		
UK corporation tax	-	176
Adjustments in respect of prior years		
- UK corporation tax	3,631	(643)
Total current tax	3,631	(467)
Deferred tax		
Origination and reversal of timing differences	(3,985)	724
Capital allowances in excess of depreciation	1,759	(2,398)
Adjustments in respect of prior periods	(1,986)	(116)
Rate change	13	(203)
Total deferred tax (note 16)	(4,199)	(1,993)
Total tax credit on profit/(loss) on ordinary activities	(568)	(2,460)

Factors affecting the tax charge for the current year

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2009 £000	2008 £000
(Loss)/profit on ordinary activities before taxation	(13,874)	1,301
Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of UK 28.17% (2008: 30%)	(3,908)	390
<i>Effects of:</i>		
Origination and reversal of timing differences	3,985	(711)
Group relief not paid for	536	-
Capital allowances in excess of depreciation	(1,759)	2,385
Non deductible expenses	1,146	(1,888)
Adjustments to tax charge in respect of previous periods	3,631	(643)
Current tax (credit)/charge for the year	3,631	(467)

Notes (continued)

11 Tangible fixed assets

	Freehold Land and Buildings	Assets in course of construction	Plant, Machinery, Fixtures and Fittings	Motor Vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	25,558	14,504	111,716	1,988	153,766
Additions	19	28,706	34,304	-	63,029
Disposals	(151)	(34,304)	(7,159)	(161)	(41,775)
At end of year	25,426	8,906	138,861	1,827	175,020
Depreciation					
At beginning of year	5,883	-	83,160	1,755	90,798
Charge for the year	561	-	6,533	41	7,135
Disposals	(42)	-	(6,952)	(158)	(7,152)
At end of year	6,402	-	82,741	1,638	90,781
Net book value					
At end of year	19,024	8,906	56,120	189	84,239
At beginning of year	19,675	14,504	28,556	233	62,968

Freehold land and buildings includes £4,239,000 (2008: £4,239,000) in respect of land.

Cumulative capitalised finance costs, included in the cost of tangible fixed assets, amount to £1,037,000 (2008: £nil). These were all capitalised during the current year. The capitalisation rate used to determine this balance is the Bank of England base rate + 1.75%, to reflect the company's borrowing rate. In 2009, this has been calculated monthly, and has varied from 2.00% to 7.00%.

Net book value of assets held under finance leases within plant and machinery as at 28 February 2009 was £230,000 (2008: £384,000). Related depreciation on assets held under finance leases as at 28 February 2009 was £629,000 (2008: £374,000).

Notes (continued)

12 Stocks

	2009 £000	2008 £000
Raw materials and consumables	8,144	7,553
Work in progress	9,356	8,468
Finished goods and goods for resale	63,293	50,431
	<u>80,793</u>	<u>66,452</u>

There is no material difference between the balance sheet value of stock and its replacement cost.

13 Debtors

	2009 £000	2008 £000
Amounts falling due within one year:		
Trade debtors	106,174	89,037
Amounts owed by group undertakings	262,540	243,143
Amounts owed by associated undertakings	356	14,918
Other debtors	30	13
Prepayments and accrued income	2,282	4,567
Deferred tax asset (see note 16)	1,566	-
	<u>372,948</u>	<u>351,678</u>

14 Creditors: amounts falling due within one year

	2009 £000	2008 £000
Bank loans and overdrafts	33,270	-
Obligations under finance leases payable within one year	197	253
Trade creditors	47,168	36,299
Corporation tax	5,644	778
Other taxes	23,059	17,410
Amounts owed to group undertakings	252,077	260,030
Amounts owed to associated undertakings	2,205	826
Other creditors	8,200	8,200
Accruals and deferred income	51,091	54,908
	<u>422,911</u>	<u>378,704</u>

Bank loans and overdrafts includes a revolving loan of £20,000,000 (2008: £nil), which matures and is repriced on a monthly basis. Interest on this loan is based on LIBOR + 2.75%. The remaining £13,270,000 (2008: £nil) relates to an overdraft which is repayable on demand.

Other creditors of £8,200,000 relate to consideration received for land and buildings still held under fixed assets since ownership has not been transferred to the buyer as at 28 February 2009.

Notes (continued)

15 Creditors: amounts falling due after more than one year

	2009 £000	2008 £000
Obligations under finance leases payable between one and five years	106	171
Reverse lease premiums	13,163	-
	<u>13,269</u>	<u>171</u>

Reverse lease premiums relate to amounts of £12,281,000 (2008: £nil) and £882,000 (2008: £nil) in respect of lease incentives received during the year and relating to leases expiring in 2028 and 2015 respectively.

16 Provisions for liabilities and charges

	2009 £000	2008 £000
Deferred tax (see note 13)	-	2,633
Provision for restructuring costs	6,139	6,142
	<u>6,139</u>	<u>8,775</u>

The balance on the deferred tax account as at 28 February 2009 represents an asset and is shown in note 10. Movement in the year represents:

	2009 £000	2008 £000
Accelerated capital allowances	4,233	4,994
Short term timing differences	(2,192)	(2,361)
Loss recognised	(3,607)	-
	<u>(1,566)</u>	<u>2,633</u>

Deferred tax (asset)/creditor falling due after one year:

	2009 £000	2008 £000
Creditor at beginning of year	2,633	4,553
Trade and asset transfers from group undertakings	-	73
Deferred tax credit (note 10)	(4,199)	(1,993)
	<u>(1,566)</u>	<u>2,633</u>
(Asset)/creditor at end of year	<u>(1,566)</u>	<u>2,633</u>

The corporation tax rate applicable to the company changed from 30% to 28% on 1 April 2008. The deferred tax balance for both years has been calculated at 28% in accordance with FRS 19 in light of when the deferred tax is expected to be realised.

There is no unprovided deferred taxation at either year end.

Notes (continued)

16 Provisions for liabilities and charges (continued)

	2009 £000	2008 £000
Provision for restructuring costs		
At beginning of year	6,142	6,253
Unwinding of discount (see note 8)	379	383
Recognised in year	119	-
Utilised during the year	(501)	(494)
At end of year	6,139	6,142

Restructuring provisions predominantly include an onerous lease provision of £5,878,000 (2008: £5,932,000) on a lease that will expire in 2026. This is discounted at a prevailing market rate.

17 Called up share capital

	2009 £000	2008 £000
Authorised		
14,604,000 ordinary shares of £1 each	14,604	14,604
Allotted, called up and fully paid		
2,872,000 ordinary shares of £1 each	2,872	2,872

Notes (continued)

18 Reconciliation of movements in reserves

	Share Capital	Share Premium Account	Profit and Loss Account	Share Based Payments Reserve	Shareholders' Funds
	£000	£000	£000	£000	£000
At beginning of year	2,872	119,288	(15,978)	1,175	107,357
Loss for the year	-	-	(13,306)	-	(13,306)
Capital contribution	-	-	-	2,398	2,398
At end of year	2,872	119,288	(29,284)	3,573	96,449

The profit and loss account reserve includes £68,811,000 (2008: £68,811,000) of goodwill arising on the acquisition of businesses taken to reserves. This goodwill is being recognised as a realised loss over a period of 20 years, the estimated useful life. £16,440,000 (2008: £19,881,000) remains unrealised.

The share based payments reserve is considered to be distributable. The capital contribution arises from the difference between the cumulative share based payment charge to date calculated in accordance with FRS 20 and the recharge liability estimated at the balance sheet as described in note 1.

19 Contingent liabilities

In relation to forward currency contracts, the company has decided not to follow the optional fair value accounting rules as set out in the Companies Act (see note 1). Had these open contracts been marked to market at the balance sheet date movements on contracts remaining open at 28 February 2009 total a cumulative loss of £9,412,000 (2008: £9,468,000).

The company has a number of leasehold properties in relation to which a year end provision has been made of £261,000 (2008: £210,000) for dilapidations. The company has no plans to extend any of these lease terms, therefore to the extent that the properties do not become vacate at the expiry date of their leases, no contingent liability exists.

Notes (continued)

20 Commitments

There were no capital commitments at either year end.

Annual commitments under non-cancellable operating leases are as follows:

	Plant and Machinery		Land and Buildings	
	2009	2008	2009	2008
	£000	£000	£000	£000
Operating leases which expire:				
- Within one year	63	-	173	-
- Between two and five years	967	181	-	860
- After five years	-	-	7,841	3,289
	<u>1,030</u>	<u>181</u>	<u>8,014</u>	<u>4,149</u>

Rent expense arising from the above operating lease agreements charged to operations amounted to £6,968,000 (2008: £3,861,000) (note 9).

The company is a member of the group VAT registration and is therefore jointly liable for the other group companies' outstanding liability of £1,817,000 (2008: £5,997,000).

21 Pensions

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company, being invested with insurance companies. The pension cost charge represents contributions payable by the company to the fund and amounted to £1,607,000 (2008: £1,278,000).

The company also participates in the Matthew Clark Pension Plan which is a funded defined benefit pension scheme. This is operated by Constellation Europe (Holdings) Limited on behalf of its subsidiary and associated companies, for the benefit of the employees of those companies. Relevant associated companies are those within the Matthew Clark Holdings Limited group, a joint venture between Constellation Brands Inc and Punch Taverns Plc. which commenced in April 2007.

In accordance with FRS 17 'Retirement benefits', the company will account for its contributions to the scheme as if it were a defined contribution scheme. The actuarial information received by Constellation Europe (Holdings) Limited does not allow for the scheme information to be analysed at employee level. It is not therefore possible to identify the company's share of the assets and liabilities in the scheme on a consistent and reasonable basis.

Contributions to the Matthew Clark Pension Plan are assessed in accordance with the advice of Punter Southall & Co., consulting actuaries. The plan was closed to future benefit accrual at 31 March 2003. Although salary linkage will remain on accrued benefits, there is no current service cost. A defined contribution arrangement was opened to all active members of the plan and for new employees from 1 April 2003.

A full actuarial valuation was carried out as at 31 December 2007 by a qualified independent actuary. The contribution made to the Plan by the company in the accounting period was £2,750,000 (2008: £2,854,000). Future contributions to the Plan have been agreed to continue at £4,000,000 per annum, towards which a contribution of £1,250,000 is payable by the Matthew Clark Holdings Limited group.

Notes (continued)

22 Share based payments

a) Sharesave scheme

Following a five-year period where no sharesave scheme was offered, a scheme was reintroduced in August 2006. The Constellation Brands UK Sharesave Scheme offers all employees the opportunity to purchase shares in Constellation Brands at a discounted price (2008: 15%) compared with the market price at the time of grant. The scheme allows employees to save between £5 and £250 a month for either 3 or 5 years. At the end of the nominated period of saving the employee may either opt to withdraw their savings with interest or use it to buy shares at the option price. The last of the previous plans was finalised in August 2006. None of the current plans is exercisable at year end.

Grant date	2009		2008	
	3 year scheme	5 year scheme	3 year scheme	5 year scheme
	29 September 2008		3 October 2007	
Share price at grant date	\$20.89		\$24.62	
Exercise price	\$21.32		\$24.07	
Offer price (at 15% discount to exercise price)	\$18.12		\$20.46	
Shares / Share equivalents under scheme	37,273	18,984	34,598	35,963
Vesting period and expected life of option	3 years	5 years	3 years	5 years
Expected volatility	29.5%	28.1%	27.2%	26.9%
Risk free rate	2.0%	2.7%	4.0%	4.2%
Expected dividends expressed as a dividend yield	0.0%	0.0%	0.0%	0.0%
Fair value of call option at 85%	\$3.87	\$5.17	\$5.19	\$6.90
Value of option at 15% of share price at grant date	\$3.13	\$3.13	\$3.69	\$3.69
Fair value of option	\$7.00	\$8.30	\$8.88	\$10.59

3 year scheme	Outstanding at 1 March 2007	Granted in year	Exercised in year	Forfeited in year	Transferred *	Outstanding at 29 February 2008
August 2006 scheme (exercise price \$20.7485)	128,142	-	-	(15,699)	51	112,494
October 2007 scheme (exercise price \$20.4595)	-	36,719	-	(2,121)	-	34,598
	128,142	36,719	-	(17,820)	51	147,092
Weighted average exercise price	\$20.75	\$20.46	-	\$20.71	\$20.75	\$20.68
Weighted average contractual life remaining						2.2 years

3 year scheme	Outstanding at 1 March 2008	Granted in year	Exercised in year	Forfeited in year	Transferred *	Outstanding at 28 February 2009
August 2006 scheme (exercise price \$20.7485)	112,494	-	-	(27,333)	(854)	84,307
October 2007 scheme (exercise price \$20.4595)	34,598	-	-	(5,346)	-	29,252
September 2008 scheme (exercise price \$18.1220)	-	37,697	-	(1,579)	1,155	37,273
	147,092	37,697	-	(34,258)	301	150,832
Weighted average exercise price	\$20.68	\$18.12	-	\$20.58	\$19.24	\$20.04
Weighted average contractual life remaining						1.2 years

Notes (continued)

22 Share based payments (continued)

a) Sharesave scheme (continued)

5 year scheme	Outstanding at 1 March 2007	Granted in year	Exercised in year	Forfeited in year	Transferred *	Outstanding at 29 February 2008
August 2006 scheme (exercise price \$25.8800)	125,418	-	-	(16,395)	294	109,317
October 2007 scheme (exercise price \$20.4595)	-	38,052	-	(2,089)	-	35,963
	125,418	38,052	-	(18,484)	294	145,280
Weighted average exercise price	\$20.75	\$20.46	-	\$20.72	\$20.75	\$20.68
Weighted average contractual life remaining						4.2 years

5 year scheme	Outstanding at 1 March 2008	Granted in year	Exercised in year	Forfeited in year	Transferred *	Outstanding at 28 February 2009
August 2006 scheme (exercise price \$25.8800)	109,317	-	-	(21,750)	(647)	86,920
October 2007 scheme (exercise price \$20.4595)	35,963	-	-	(4,904)	(398)	30,661
September 2008 scheme (exercise price \$18.1220)	-	19,859	-	(1,681)	806	18,984
	145,280	19,859	-	(28,335)	(239)	136,565
Weighted average exercise price	\$20.68	\$18.12	-	\$20.54	\$19.54	\$20.32
Weighted average contractual life remaining						3.0 years

* Net options transferred in/(out) with employees from/(to) other group companies during the year.

The group did not receive any proceeds (2008: \$nil) in respect of options exercised during the year.

Notes (continued)

22 Share based payments (continued)

b) Long term stock incentive plan

The long term stock incentive plan is a performance share plan under which shares are conditionally allocated to selected members of management.

Once vested the options grant the right to purchase shares at the market price they were at the date of grant. Exercise prices range from \$6.44 to \$27.23. The options vest after four years and expire ten years after the grant date.

Charges in respect of the grants that occurred after 7 November 2002, the start date for recognition under FRS 20, have been made to the accounts in accordance with FRS 20. Six arrangements granted before 7 November 2002 exist. The recognition and measurement principles in FRS 20 have not been applied to these grants in accordance with this standard.

	2009	2009	2009	2008	2008	2007	2007
	29 Sept	25 June	1 April	3 Oct	3 April	4 Oct	5 April
Grant date	2008	2008	2008	2007	2007	2006	2006
Share price at grant date	\$20.89	\$20.05	\$19.12	\$24.26	\$20.95	\$29.08	\$25.88
Exercise price	\$20.89	\$20.05	\$19.12	\$24.26	\$20.95	\$29.08	\$25.88
Shares / Share equivalents under scheme	18,600	30,600	557,000	90,700	650,700	18,500	325,310
Vesting period	4 years	4 years	4 years	4 years	4 years	4 years	4 years
Expected life of option	5.0 years	5.0 years	5.0 years	5.5 years	5.5 years	5.5 years	5.5 years
Expected volatility	28.1%	27.4%	27.0%	29.4%	30.3%	31.2%	31.7%
Risk free rate	2.7%	3.7%	2.7%	4.2%	4.6%	4.5%	4.8%
Expected dividends expressed as a dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Probability of ceasing employment before vesting	12%	12%	12%	10%	10%	10%	10%
Fair value of option	\$6.25	\$6.26	\$5.55	\$8.65	\$7.71	\$9.82	\$9.02

Notes (continued)

22 Share based payments (continued)

b) Long term stock incentive plan (continued)

	1 March 2007	Granted during year	Transferred in*	Exercised during year	Forfeited during year	29 February 2008
April 1999 Award (exercise price \$6.5000) ϕ	500	-	-	-	-	500
April 2000 Award (exercise price \$6.4375) ϕ	7,311	-	-	-	-	7,311
April 2001 Award (exercise price \$8.8713) ϕ	46,000	-	3,200	(22,400)	-	26,800
September 2001 Award (exercise price \$10.2500) ϕ	99,200	-	21,800	(50,000)	-	71,000
April 2002 Award (exercise price \$13.7125) ϕ	32,500	-	2,400	(2,400)	-	32,500
April 2003 Awards** (exercise price \$11.7676) ϕ	99,260	-	53,240	(48,600)	-	103,900
April 2004 Award (exercise price \$16.6300) ϕ	172,620	-	63,180	(24,800)	-	211,000
June 2004 Award (exercise price \$18.5500) ϕ	10,000	-	-	-	-	10,000
September 2004 Award (exercise price \$18.8600) ϕ	14,000	-	-	-	-	14,000
December 2004 Awards** (exercise price \$23.0200) ϕ	20,000	-	-	-	-	20,000
April 2005 Award (exercise price \$27.2350) ϕ	228,020	-	51,180	-	(25,500)	253,700
October 2005 Award (exercise price \$24.9200) ϕ	2,000	-	-	-	-	2,000
April 2006 Awards** (exercise price \$25.8800) ϕ	325,310	-	79,990	-	(55,400)	349,900
October 2006 Award (exercise price \$27.2350) ϕ	18,500	-	12,500	-	-	31,000
April 2007 Awards** (exercise price \$20.9500) ϕ	-	677,200	900	-	(27,400)	650,700
October 2007 Awards*** (exercise price \$24.2600) ϕ	-	90,700	-	-	-	90,700
	1,075,221	767,900	288,390	(148,200)	(108,300)	1,875,011
Weighted average exercise price	\$20.51	\$21.20	\$20.06	\$11.66	\$24.91	\$21.20
Weighted average contractual life remaining						7.6 years

	1 March 2008	Granted during year	Transferred in*	Exercised during year	Forfeited during year	28 February 2009
April 1999 Award (exercise price \$6.5000) ϕ	500	-	-	-	-	500
April 2000 Award (exercise price \$6.4375) ϕ	7,311	-	-	-	-	7,311
April 2001 Award (exercise price \$8.8713) ϕ	26,800	-	-	-	(3,200)	23,600
September 2001 Award (exercise price \$10.2500) ϕ	71,000	-	-	(26,000)	-	45,000
April 2002 Award (exercise price \$13.7125) ϕ	32,500	-	-	(4,800)	(2,400)	25,300
April 2003 Awards** (exercise price \$11.7676) ϕ	103,900	-	-	(68,600)	(600)	34,700
April 2004 Award (exercise price \$16.6300) ϕ	211,000	-	-	(98,600)	(3,600)	108,800
June 2004 Award (exercise price \$18.5500) ϕ	10,000	-	-	-	-	10,000
September 2004 Award (exercise price \$18.8600) ϕ	14,000	-	-	-	-	14,000
December 2004 Awards** (exercise price \$23.0200) ϕ	20,000	-	-	-	-	20,000
April 2005 Award (exercise price \$27.2350) ϕ	253,700	-	-	-	(16,300)	237,400
October 2005 Award (exercise price \$24.9200) ϕ	2,000	-	-	-	-	2,000
April 2006 Awards** (exercise price \$25.8800) ϕ	349,900	-	-	-	(44,800)	305,100
October 2006 Award (exercise price \$27.2350) ϕ	31,000	-	-	-	-	31,000
April 2007 Awards** (exercise price \$20.9500) ϕ	650,700	-	-	(5,350)	(73,200)	572,150
October 2007 Awards*** (exercise price \$24.2600) ϕ	90,700	-	-	-	(3,300)	87,400
April 2008 Award (exercise price \$19.1200) ϕ	-	639,700	-	-	(82,700)	557,000
June 2008 Award (exercise price \$20.0500) ϕ	-	35,600	-	-	(5,000)	30,600
September 2008 Award (exercise price \$20.8900) ϕ	-	18,600	-	-	-	18,600
	1,875,011	639,900	-	(203,350)	(235,100)	2,130,461
Weighted average exercise price	\$21.20	\$19.22	-	\$14.21	\$21.38	\$21.22
Weighted average contractual life remaining						7.5 years

* Net options transferred in/(out) with employees from/(to) other group companies during the year

** Summary of awards in month

*** Summary of awards in June 2007/October 2007/January 2008

Shares issued under awards marked ϕ are partially or fully exercisable at year end.

For all awards, shares become exercisable on a straight line and annual basis over the vesting period.

Notes (continued)

22 Share based payments (continued)

b) Long term stock incentive plan (continued)

Constellation Brands Inc received proceeds of \$2,890,000 (2008: \$1,730,000) in respect of the 203,350 options (2008: 148,200) exercised during the year: \$nil (2008: \$nil) was credited to share capital.

The options were exercised throughout the year at prices between \$10.25 and \$20.79 (2008: \$20.48 and \$25.04).

The weighted average share price at date of exercise was \$21.33 (2008: \$22.23).

c) Restricted stock awards

Commencing in June 2008, restricted stock awards have been granted to selected members of management. The shares awarded vest over 46 months. The shares do not expire, as full share ownership transfers to the employee upon vesting.

	2009 25 June 2008			
Grant date				
Share price at grant date				\$20.05
Share price at year end				\$13.05
Shares / Share equivalents under scheme				34,700
Vesting period and expected life of option				46 months
Fair value of award				\$13.05

	1 March 2008	Granted during year	Forfeited during year	28 February 2009
June 2008 Award	-	42,800	(8,100)	34,700
	-	42,800	(8,100)	34,700

d) Employee expenses

The employee expense included in the profit and loss account can be analysed as follows:

	2009 £000	2008 £000
June 2008 restricted stock awards	170	-
September 2008 share options	7	-
June 2008 share options	20	-
April 2008 share options	439	-
January 2008 share options	20	3
October 2007 share options	57	21
June 2007 share options	23	13
April 2007 share options	562	474
October 2006 share options	43	38
April 2006 share options	501	452
Options from prior years	-	(5)
Adjustment for increase in forfeiture rate	(42)	-
2008 Sharesave Plan – 3 year	33	-
2008 Sharesave Plan – 5 year	14	-
2007 Sharesave Plan – 3 year	62	27
2007 Sharesave Plan – 5 year	47	24
2006 Sharesave Plan – 3 year	214	248
2006 Sharesave Plan – 5 year	186	196
	<u>2,356</u>	<u>1,491</u>

Notes (continued)

23 Related party transactions

During the year the group sold goods and services to associated undertakings as summarised below, and in the ordinary course of business.

	Goods 2009 £000	Services 2009 £000	Goods 2008 £000	Services 2008 £000
Matthew Clark Wholesale Limited	186,658	3,753	164,363	3,289
Forth Wines Limited	2,000	288	1,910	-
The Wine Studio Limited	72	-	27	-
	<u>188,730</u>	<u>4,041</u>	<u>166,300</u>	<u>3,289</u>

Amounts owed by and to associated undertakings are disclosed in notes 13 and 14.

24 Post Balance Sheet Events

On 18 August 2009, the company agreed to sell a number of its wine and wine fusions trademarks, to a group company, Western Wines Holdings Limited, in exchange for an intercompany note with provisional value £15,750,000. The sale generates a gain for the company, as the trademarks had a £nil carrying value. The company will therefore pay a royalty expense to Western Wines Holdings Limited for future sales of these products.

On 19 August 2009, the company sold a £2 investment in its dormant subsidiary, Constellation Europe Brands Limited, to its direct parent company, Avalon Cellars Two Limited. On the same day, Avalon Cellars Two Limited sold the company to Constellation Europe Brands Limited, in exchange for a share issue with proceeds of £96,450,000.

25 Ultimate parent undertaking

The directors regard Constellation Brands Inc., a company incorporated in the United States of America, as the ultimate parent company. Constellation Brands Inc. is the parent company of the largest group of which the company is a member. Copies of the financial statements are available from the Investor Center, Constellation Brands Inc., 207 High Point Drive, Building 100, Victor, NY 14564, USA.