STRATEGIC REPORT

Strategy and Business Model

GROUP STRATEGY
Our long-term strategy is to build a sustainable international cider-led, multi-beverage business through a combination of organic growth and selective acquisitions.

THE MEDIUM-TERM STRATEGIC GOALS FOR THE GROUP ARE:

- to maintain strong brand market combinations in core geographies through brand and customer investment, by leveraging our brand-led wholesale platforms and developing our high margin premium brand portfolio
- to grow our international business through investment in brands and through the development of strategic alliances
- to make strategic investments and acquisitions that fuel profitable and sustainable growth and, in the absence of opportunities that complement our strategy or deliver the right risk-return profile, to return cash to shareholders

thus enhancing future earnings growth and maximising shareholder value. We seek to generate high free cash conversion and maintain a sound and efficient balance sheet.

BUSINESS MODEL

Revenue Generation and Earnings Growth

- In our core geographies of Ireland and Scotland, we seek revenue generation through a full-service brand-led wholesale model predominantly focused on brands and customers. In the rest of Great Britain we focus on cider market share expansion and development of a premium LAD portfolio. Internationally we focus on volume growth.
- We seek to make brand innovations at low cost and exploit niche and premium markets.
- We seek earnings growth through revenue generation, cost control and margin improvement.

Cash Generation

- Our core businesses are strongly cash generative. We therefore focus on cash. We critically review the value for money of all brand and capital investment. Our current emphasis is on investment at the customer interface to drive revenue. Group management relentlessly drive to reduce costs – in production, distribution and commercial overheads.

Engagement

- We engage with our workforce and incentivise them to ensure alignment with shareholders.
- Local management are incentivised with financial targets relevant to their local business unit.
- Where necessary, we are prepared to buy in expertise on a margin-sharing basis.

Strategic Capital

- We seek local expansion in our core territories. Potential acquisitions must complement our business and meet our strategic objectives.
- We are prepared to make larger transformational acquisitions, and we are ready to seize opportunities as they arise due to the strength of our balance sheet.
- We will make disposals where they will enhance shareholder value.
- In the absence of capital investment opportunities we will return surplus cash to our shareholders.

Social Responsibility

- Throughout the Group we seek to operate compliantly with the law and as good corporate citizens.

STRATEGIC REPORT

Strategy Achievements and Priorities

STRATEGIC ACHIEVEMENTS IN FY2016

Objective 1	**During FY2016**
To maintain strong brand market combinations in core geographies through brand and customer investment, by leveraging our brand-led wholesale platforms and developing our high margin premium brand portfolio	• we completed the integration of Wallaces Express to create a brand-led wholesale offering in Scotland • we completed the integration of the Gleeson business in Ireland and refreshed the Irish senior management team • we continued to invest in our premium brands, notably Bulmers, Tennent's and Magners • we supported our on-trade customers with €16.7m of new loan investment in Scotland and Ireland • we developed our emerging portfolio including Heverlee, Menabrea, Chaplin & Cork's and Drygate with 4% of our net revenue generated by new products • we transitioned to a lower cost operating model in C&C Brands with a sharper portfolio focus
Objective 2	**During FY2016**
To grow our international business through investment in brands and through the development of strategic alliances	• we entered into an exclusive long-term partnership arrangement with Pabst Brewing Company for the sale and distribution of our cider brands within the US • we delivered our first shipments of product into Africa • we built platforms for future growth in Australasia with new distribution agreements in Thailand and New Zealand • we leveraged distributor relationships and brand strength to deliver growth in Europe as well as appointing new distributors in France and Germany and expanding our footprint into Eastern Europe • we have a strong pipeline of new distribution opportunities for FY2017
Objective 3	**During FY2016**
To make strategic investments and acquisitions that fuel profitable and sustainable growth and, in the absence of opportunities that complement our strategy or deliver the right risk-return profile, to return cash to shareholders	• we returned a total of €115m of cash to shareholders through dividends and share buybacks, which was in excess of trading cashflow • we delivered flat net debt through robust balance sheet management • we increased our full year dividend per share by 18.7% per share

STRATEGIC PRIORITIES FOR FY2017

Core Objective

Our core strategic objective is to deliver earnings growth	• in FY2017 the focus will be on existing businesses and developing international partnerships • with our balance sheet strength and high cash conversion, we are well positioned to take advantage of opportunities as they arise

Strategic Priorities

Existing businesses	• to strengthen core brands and develop a portfolio of differentiated premium brands to capitalise on niche, craft and specialist opportunities • to leverage integrated brand-led wholesale platforms in Ireland and Scotland to drive revenue growth and reduce costs • to deliver volume growth and maintain earnings in the C&C Brands business through brand investment and sales execution • to grow international volumes and earnings through distribution partnerships
Cash conversion	• to maintain the strong cash conversion characteristics of the business • to maintain an appropriately leveraged balance sheet which provides flexibility to take advantage of consolidation opportunities • to return value to shareholders in the absence of strategic opportunities
Corporate responsibility	• targeting further sustainability improvements across the Group • focusing our social responsibility agenda on engagement in the community • achieving a continuous improvement in workforce health and safety

Key Performance Indicators

FOR FY2016 AND FY2017

Strategic Priority	KPI	Definition (see also financial definitions on pages 185 and 186)
To enhance earnings growth	**Operating Profit**	Operating profit (before exceptional items)
	Operating Margin	Operating profit (before exceptional items), as a percentage of net revenue
To enhance earnings growth	**Adjusted diluted earnings per share**	Attributable earnings before exceptional items divided by the average number of shares in issue as adjusted for the dilutive impact of equity share awards
To generate strong cash flows	**Free Cash Flow and**	Free Cash Flow is a non GAAP measure that comprises cash flow from operating activities net of capital investment cash outflows which form part of investing activities
	Free Cash Flow Conversion Ratio	The conversion ratio is the ratio of free cash flow as a percentage of EBITDA before exceptional items
To ensure the appropriate level of financial gearing and profits to service debt	**Net debt: EBITDA**	The ratio of net debt (Net debt comprises borrowings (net of issue costs) less cash) to Adjusted EBITDA
To deliver sustainable shareholder returns	**Progressive dividend/return to shareholders**	Total dividend per share paid and proposed in respect of the financial year in question
	Dividend Payout Ratio	Dividend Payout Ratio is Dividend/Adjusted diluted EPS
To achieve the highest standards of environmental management	**Reduction in CO_2 emissions**	Tonnes of CO_2 emissions[1]
To achieve the highest standards of environmental management	**Waste recycling**	Tonnes of waste sent to landfill[2]
To ensure safe and healthy working conditions	**Workplace safety accident rate**	The number of injuries that resulted in lost-work days, per 100,000 hours working time in production facilities[2]

[1] Clonmel, Wellpark and Vermont in FY2014 and FY2015. FY2015 and FY2016 includes the new cidery in Vermont and the new brewery at Clonmel. FY2016 also includes the Gleeson and Wallaces Express businesses.
[2] Clonmel, Wellpark and Shepton

FY2016 performance		FY2017 Focus	Links to other Disclosures
FY2014 FY2015 FY2016	€126.7m €115.0m €103.2m	To seek continuing growth, through revenue enhancement, acquisition synergies and cost control	Group CFO Review page 38
FY2014 FY2015 FY2016	20.4% 16.8% 15.6%		
FY2014 FY2015 FY2016	29.5c 27.2c 24.2c	To achieve adjusted diluted EPS growth in real terms	Group CFO Review page 38
FY2014 FY2015 FY2016	€61.6m €82.3m €113.4m	To generate improved operating cash flows	Group CFO Review page 41
FY2014 FY2015 FY2016	40.9% 58.8% 92.5%		Group CFO Review page 41
FY2014 FY2015 FY2016	0.99x 1.13x 1.33x	This ratio will be held consistent with free cash flow conversion and returns to shareholders	Group CFO Review page 40
FY2014 FY2015 FY2016	10.0c 11.50c 13.65c	The Group will continue to seek to enhance shareholder returns	Chairman's Statement page 9
FY2014 FY2015 FY2016	33.9% 42.3% 56.4%		
FY2014 FY2015 FY2016	36,618t 37,955t 45,071t	To achieve best practice across the Group, including acquired businesses	Corporate Responsibility Report page 50
FY2014 FY2015 FY2016	113t 27t 24t	To achieve best practice across the Group, including acquired businesses	Corporate Responsibility Report page 50
FY2014 FY2015 FY2016	1.6 0.68 0.42	To achieve best practice across the Group, including acquired businesses	Corporate Responsibility Report page 52

Principal Risks And Uncertainties

Under Irish company law (Statutory Instrument 116/2005 European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005), the Group and the Company are required to give a description of the principal risks and uncertainties which they face.

The principal risks and uncertainties faced by the Group are set out below. The Group considers that currently the most significant risks to its results and operations over the short-term are (a) strategic failures, (b) the potential for consumer preferences to change in our core geographies, and (c) failure to attract and retain high-performing employees.

Risks and Uncertainties	Mitigation
RISKS AND UNCERTAINTIES RELATING TO STRATEGIC GOALS	
• The Group's strategy is to focus upon earnings growth through organic growth, acquisitions and joint ventures and entry into new markets. These opportunities may not materialise or deliver the benefits or synergies expected and may present new management risks and social and compliance risks.	The Group seeks to mitigate these risks through due diligence, careful investment and continuing monitoring and management post-acquisition.
RISKS AND UNCERTAINTIES RELATING TO REVENUE AND PROFITS	
• Consumers may shift away from larger brands towards more localised, premium and niche products.	Through diversification, innovation and strategic partnerships, we are developing our product portfolio to enhance our offering of niche and premium products to satisfy changing consumer requirements.
• Seasonal fluctuations in demand, especially an unseasonably bad summer in Ireland could materially affect demand for the Group's cider products.	The Group seeks to mitigate this risk through geographical and brand diversification.
• Consumer preference may change in our core geographies, new competing brands may be launched and competitors may increase their marketing or change their pricing policies.	The Group has a programme of brand investment, innovation and product diversification to maintain and enhance the relevance of its products in the market. The Group also operates a brand-led model in both geographies with a comprehensive range to meet consumer needs.
• The GB off-trade and increasingly the GB on-trade continues to be highly competitive, driven by consumer pressure, customer buying power and the launch of heavily-invested competing products.	The Group seeks to mitigate the impact on volumes and margins through developing a focused portfolio approach, innovation, strategic partnerships, the introduction of brand propositions that are in tune with shifting consumer and customer needs and through seeking cost efficiencies.
• Customers, particularly in the on-trade where the Group has exposure through advances to customers, may experience financial difficulties.	The Group monitors the level of its exposure carefully.

Risks and Uncertainties	Mitigation
RISKS AND UNCERTAINTIES RELATING TO COSTS AND PRODUCTION	
• Input costs may be subject to volatility and inflation and the continuity of supply of raw materials may be affected by the weather and other factors.	The Group seeks to mitigate some of these risks through long-term or fixed price supply agreements. The Group does not seek to hedge its exposure to commodity prices by entering into derivative financial instruments.
• Circumstances such as the loss of a production or storage facility or disruptions to its supply chains or critical IT systems may interrupt the supply of the Group's products.	The Group seeks to mitigate the operational impact of such an event by the availability of multiple production facilities, fire safety standards and disaster recovery protocols, and the financial impact of such an event through business interruption and other insurances.
FINANCIAL RISKS AND UNCERTAINTIES	
• The Group's reporting currency is the Euro but it transacts in foreign currencies and consolidates the results of non-Euro reporting foreign operations. Fluctuations in value between the Euro and these currencies including, in the case of Sterling, resulting from the heightened risk of the UK leaving the European Union, may affect the Group's revenues, costs and operating profits.	The Group seeks to mitigate currency risks, where appropriate, through hedging and structured financial contracts to hedge a portion of its foreign currency transaction exposure. It has not entered into structured financial contracts to hedge its translation exposure on its foreign acquisitions.
• The solvency of the Group's defined benefit pension schemes may be affected by a fall in the value of their investments, market and interest rate volatility and other economic and demographic factors. Each of these factors may require the Group to increase its contribution levels.	The Group seeks to mitigate this risk by continuous monitoring, taking professional advice on the optimisation of asset returns within agreed acceptable risk tolerances and implementing liability-management initiatives such as an enhanced transfer value exercise which the Group conducted in FY2016 in relation to its Irish defined benefit pension schemes.
FISCAL, REGULATORY AND POLITICAL RISKS AND UNCERTAINTIES	
• The Group may be adversely affected by changes in excise duty or taxation on cider and beer in Ireland, the UK, the US and other territories.	The Group seeks to mitigate this risk by playing an active role in industry bodies and engaging with governmental tax and regulatory authorities. In Ireland, we engage with the Government in relation to excise duty reductions in support of domestic producers. In the UK, the Group is a board member of the National Association of Cider Makers and a steering committee member of the all-party Parliamentary beer group. In the US, we are active in the United States Association of Cider Makers, which recently has worked to have legislation passed in Washington that implements a revised definition for cider in the US allowing higher carbonation more aligned to European levels.
• The Group may be adversely affected by changes in government regulations affecting alcohol pricing, sponsorship or advertising, and product types.	Within the context of supporting responsible drinking initiatives, the Group supports the work of its trade associations to present the industry's case to government.
• In June 2016 a referendum on UK membership of the European Union is to be held. At the date of this report the outcome cannot be predicted. The economic implications for the Group of a vote in favour of the UK leaving the European Union cannot yet be quantified, but are likely to be mixed. A lengthy period of uncertainty would be unhelpful for forward investment.	The Group is carefully monitoring the debate on relevant issues and will monitor its strategy accordingly.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Risks and Uncertainties	Mitigation
LIABILITY-RELATED RISKS AND UNCERTAINTIES	
• The Group's operations are subject to extensive regulation, including stringent environmental, health and safety and food safety laws and regulations and competition law. Legislative non-compliance or adverse ethical practices could lead to prosecutions and damage to the reputation of the Group and its brands.	The Group has in place a permanent legal and compliance monitoring and training function and an extensive programme of corporate responsibility.
• The Group is vulnerable to contamination of its products or base raw materials, whether accidental, natural or malicious. Contamination could result in a recall of the Group's products, damage to brand image and civil or criminal liability.	The Group has established protocols and procedures for incident management and product recall and mitigates the financial impact by appropriate insurance cover.
• Fraud, corruption and theft against the Group whether by employees, business partners or third parties are risks, particularly as the Group develops internationally.	The Group maintains appropriate internal controls and procedures to guard against economic crime and imposes appropriate monitoring and controls on subsidiary management.
EMPLOYMENT-RELATED RISKS AND UNCERTAINTIES	
• The Group's continued success is dependent on the skills and experience of its executive Directors and other high-performing personnel, including those in newly acquired businesses, and could be affected by their loss or the inability to recruit or retain them.	The Group seeks to mitigate this risk through appropriate remuneration policies and succession planning.
• Whilst relations with employees are generally good, work stoppages or other industrial action could have a material adverse effect on the Group.	The Group seeks to ensure good employee relations through engagement and dialogue.