Group Chief Executive Officer's Review

OVERVIEW

FY2017 has been a period of significant activity for the Group. While trading remained tough, we invested in and delivered volume growth across our core brands; completed a major rationalisation of our production foot print; drove efficiencies across the business; continued to grow our Premium portfolio and export business; and secured an important new long term distribution arrangement with AB InBev. After this year of consolidation, we are in materially better shape to meet the ongoing challenges and opportunities within our industry.

GROUP FINANCIAL PERFORMANCE

After a challenging FY2016, the Group's key markets and trading performance was stable over the course of this year. We returned our three key brands to volume growth of +2.6% (FY2016: -6.4%), successfully completed a major rationalisation programme and continued to grow our Premium portfolio and Export business. Revenue from our key brands was €242 million (FY2016: €247 million[i]) with the benefit of volume growth offset by competitive pricing and mix pressures, particularly for Magners. Total revenue for the Group was €559m down -6.9%[i] reflecting weakness in our wholesale, own label and US activity. The Group returned to operating profit growth in the second half of the year on a constant currency basis, benefiting from an improving trading performance and the cost savings arising from our site rationalisation programme. Full year Group operating profits[iii] of €95 million (FY2016: €95 million[i]) were flat year-on-year on a constant currency basis. The devaluation of sterling following the UK's vote to leave the European Union had a negative (€7.8m) impact on reported Group operating profits year-on-year. Adjusted diluted earnings per share was 23.8c (FY2016: 21.9c) up 8.7%.

We continued to invest in our brands and our manufacturing capabilities, with an up-weighted marketing campaign for Magners and a new PET line at our cidery in Clonmel. Even with these investments, the balance sheet remains strong, ending the year at 1.55x Net Debt[vi]/EBITDA[ii]. Our preference remains to invest in the business and adjacent assets but in the absence of value accretive deals during the year, we returned €66 million capital to shareholders through share buybacks and increased dividend. The buyback activity reduced our weighted average number of shares by 6.9% during the year.

SECTOR BACKDROP

Globally, cider remains a relatively small but fast growing category, a key beneficiary of shifting consumer tastes towards sweeter, natural, gluten free products and authentic, local brands. Global cider volume growth is running at 5% per annum[xiii].

The global beverages space is in a period of profound structural change, both in terms of evolving consumer tastes around the world and the corporate landscape addressing this market. In developed markets, the consumer is shifting away from global, homogeneous brands in favour of local brands with provenance, taste and quality. Increased consumer experimentation is fuelling a proliferation of craft brands, offering more established brewers an opportunity to premiumise their portfolios. We are well-placed to capitalise on these trends through our authentic 'Local Champion' brands–Tennent's, Bulmers and Magners–and our growing Premium portfolio. The return of inflation in the UK, whilst putting a squeeze on disposable incomes, is presenting a firmer pricing environment for the first time in many years.

The corporate sector remains in a consolidation phase. With the completion of the SAB Miller/AB InBev global merger during the year, the focus has shifted towards anti-trust divestitures attracting the Asian brewers and other new bidders into European beverages as well as smaller, inter-regional combinations that can ally high quality brand assets with strong market positions.

STRATEGY

The Group is well placed to benefit from the evolving trends in our sector and our strategy in domestic and international markets remains unchanged. In Scotland and Ireland, we combine leading local brands with unrivalled production and distribution capabilities. These strong brand/geographic combinations provide the platform from which we can deliver long term value from our key brand assets as well as build out our portfolio through targeted brand investment, product innovation, agency wins and acquisitions.

Internationally, given our size and scale, our model is to partner with local brewers and distributors. In Magners we have one of the truly international cider assets currently sold in over 50 countries and growing in territories as diverse as Russia, Spain and Thailand. The export potential of Magners is based on solid domestic foundations.

The clear momentum behind the Magners brand in the UK, provided the right foundations for entering into a new distribution partnership with AB InBev.

The brand is the Number 2 in apple cider and gaining share in the UK, the world's largest cider market. It is a testament to the quality of the Magners brand and the interest in the international cider opportunity that we have attracted some of the world's leading brewers and distributors to the Magners stable. Our range of partners now incorporates Thai Bev, San Miguel, Pabst Brewing Company and, as of December 2016, AB InBev who are handling the sales and marketing of Magners and our other cider brands in Great Britain, alongside their leading beer portfolio.

KEY BRANDS

During the year, we up-weighted investment in our key brand assets of Magners, Bulmers and Tennent's, returning them to volume growth in their key markets. Direct brand marketing across these three key brands rose to 9.5% (FY2016: 8.4%) of net sales value, with a further 4.0% (FY2016: 3.4%) invested in new founts.

Magners

In Spring/Summer 2016 we re-launched and re-positioned the Magners Original brand in the UK with new packaging and a comprehensive marketing campaign under the "Hold True" tag line. Our activity spanned across TV, Radio, Social Media and Experiential. Brand volumes responded positively, up 11% in the UK for the year in a cider market that was (0.5%)[vii] lower. After a period of intense competitor activity in recent years, the cider category showed evidence of rationalisation with Magners emerging as one of the clear winners. Having consolidated our position within the apple cider category in FY2017, we launched Magners Dark Fruit in April 2017, appealing to consumers' desire for variety and innovation in the flavoured cider segment.

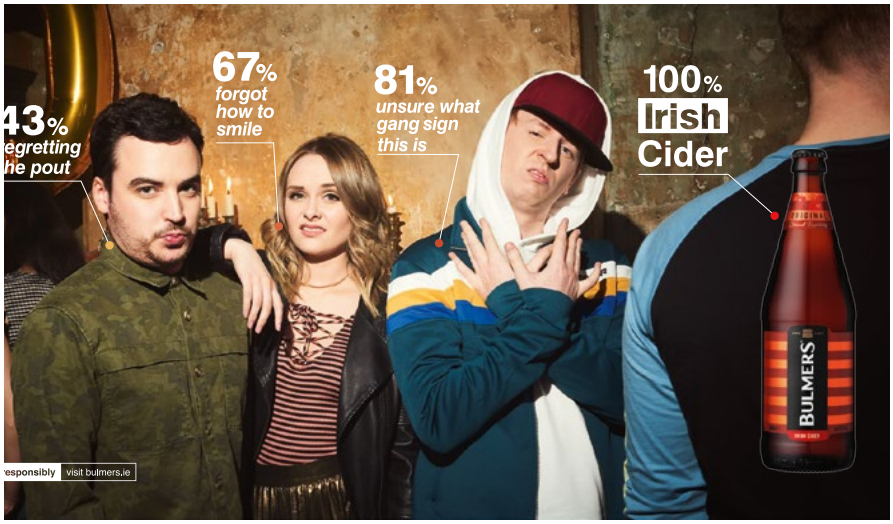
The clear momentum behind the Magners brand in the UK, provided the right foundations for entering into a new distribution partnership with AB InBev. The cider relationship with AB InBev covers our portfolio in Great Britain as of 1 March 2017. Whilst it is still early days in the expanded relationship, we are confident that Magners will continue to grow volume and value within their strong beer portfolio and distribution infrastructure.

Internationally, Magners saw continued strong growth in Europe (+12%), opened new markets in Africa and Asia and returned to growth toward the end of the fourth quarter in the US. Globally, Magners brand volume growth was +7.5% for the year (FY2016: -6%).

Bulmers

Bulmers returned to volume growth in Ireland, up +3% for the year (FY2016: -13%). in a LAD market that grew +2%[viii]. Cider is experiencing growth well-ahead of the overall market with volumes +6%[viii], boosted by better summer weather and product innovation. Against this market backdrop we are investing in both new product development and a re-enforcement of the core brand equity. In March 2017, we launched Outcider from Bulmers, a new sweeter tasting cider targeting a more youthful audience. We also are up-weighting our marketing investment behind the Bulmers brand with the new "100% Irish" advertising campaign, supported by refreshed livery and packaging. Competitor activity continues to target Bulmers taps in high volume city centre bars with a resultant loss of share in the smaller draught segment, but Bulmers remains in a very positive position, enjoying a 62% share of the category (FY2016: 65%)[viii]. The incremental investment this year gives us reason to be confident in the brand taking its fair share of the resurgent interest in cider.

Group Chief Executive Officer's Review
(continued)



Premium now accounts for 2% of our own brand volume, 3% of own brand revenue and is starting to make a meaningful contribution to bottom-line given the premium price points and attractive margins.

Tennent's
In Scotland, the trends in LAD improved following the prior year difficulties when tighter drink driving legislation reduced on trade consumption. Scottish beer volumes were flat[vii] versus a GB beer market that was -1%[vii]. Global Tennent's volumes were level year-on-year and up +0.4% in the Independent Free Trade (IFT) channel in Scotland. The Tennent's brand affinity scores remain 13% ahead of its nearest rival[ix] and it remains very much at the heart of our brand-led wholesale model. Our margin in Tennent's improved through the year after a weak start and a more inflationary environment provides opportunity for further progress in FY2018. Tennent's also enjoyed double-digit volume growth in our export markets and is becoming an increasingly important contributor to our international story.

GROWING PREMIUM AND CRAFT PORTFOLIO

The Group made further progress during the year in growing and developing our portfolio of Premium and Craft beers and ciders. The portfolio (which includes Chaplin & Cork's, Heverlee, Menabrea and Pabst as well as our local craft businesses Five Lamps, Dowds Lane, Drygate and Whitewater) grew volume by 60%. Premium now accounts for 2% of our own brand volume, 3% of own brand revenue and is starting to make a meaningful contribution to bottom-line given the premium price points and attractive margins. Our ambition is to grow this portfolio to 5% of Group branded volumes over the medium term through a combination of in-house product development, new agency wins and partnering with leading local craft brewers. In Ireland & Scotland this Premium and Craft portfolio complements our leading brands, providing our on-trade and off-trade customers with the breadth of variety and choice demanded by modern consumers. Equally, these fledgling brands benefit from being part of the Group's unrivalled distribution footprint. This distribution reach provides not only broad market access but the customer proximity and feedback that is vital to the development of young exciting brands.

Heverlee, our premium Belgian lager, reached the milestone of 20,000 HL per annum across the UK and Ireland. It is the No.1 imported beer in Northern Ireland[viii] and the second fastest growing premium beer in Scotland. Menabrea, our Italian premium lager, continued its growth in Ireland and Scotland and achieved major UK-wide listings in both the national grocery and casual dining segments. We also launched the iconic US beer brand Pabst Blue Ribbon in the UK, focused initially on the student and Millennials market.

INTERNATIONAL GROWTH

The Group enjoyed another year of progress in its international business, albeit enforced distributor changes in Australia and India held back overall export volume growth during the year to +3.9% (FY2016: +14.8%).

The global growth opportunity in cider is well documented and underpinned by its fresh, natural image and its sweeter, "easy to drink" taste. This combination is attracting new consumers to the category, including younger and female drinkers, and in markets without a strong cider tradition. Global cider volumes are estimated to have increased by +5.8% CAGR[xiii] between 2010–2015 and are forecast to grow at +4.7% CAGR[xiii] over the subsequent 5 years. This year the International team delivered a strong performance in the more established markets of Western Europe, with volumes +14% in the region.

The Tennent's brand performed well in export, increasing volume by +17%.

It now accounts for c.30% of the Group's international division. The performance reflects sustained growth in established territories such as Italy and South Korea and a promising first year for South Africa.

Our export model of manufacturing in Ireland and Scotland and partnering with high quality local distribution partners remains unchanged. Positioning as a premium import at premium prices helps preserve 20%+ operating margins in export markets. During the year, new distributor relationships in Asia and Africa helped seed these markets with the Magners brand, albeit at a scale currently limited in terms of Group volume.

OPERATIONAL EFFICIENCY AND COST REDUCTION

We made important changes to our production and distribution footprint during the year as part of our ongoing commitment to operational efficiency. We closed our plant at Borrisoleigh in Ireland and sold our cidery and bottling operations at Shepton Mallet in England for €19m. The activities at both sites were transferred to our Clonmel site. We worked hard with affected employees and were pleased to be able to offer the majority continuing employment both within and outside the Group. However, some redundancies were unavoidable and it is a credit to the hard-work and professionalism of all colleagues involved that the transition was completed by December 2016 with minimal disruption to production and client service. Overall headcount reduced by 282 in the year. These changes were essential for the Group, improving our utilisation rates at our key sites to mid-70's percent and ensuring the cost competitiveness of our products. Manufactured volumes per head are up 24% in the year.

The site rationalisation programme and our new distribution agreement with AB InBev will enable us to increase over time the proportion of direct supply to customers and reduce our footprint of distribution centres in the UK by the end of FY2018. Together with the Group-wide overhead reduction activity the site rationalisation savings helped to successfully deliver the €15m of cost reductions announced in March 2016.

The cost savings facilitated incremental investment in marketing and price support to further strengthen our core brand domestic positions.

Our production site at Clonmel, Co. Tipperary in Ireland is now amongst the most flexible and well-invested manufacturing and packaging facilities in Europe. It is the centre for all our cider production for Bulmers and Magners and our portfolio of premium and secondary cider brands. We also brew our Irish beer brands on-site and manufacture our Finches soft drinks range and Tipperary Water. Following the investment of €17m in a new PET line during the year, Clonmel now has the full range of multi-beverage packaging capabilities with keg, bottle, can and plastic lines. The Tennent's Brewery at Wellpark in Glasgow remains the home of the Group's beer production in the UK. Again utilisation and efficiency measures were enhanced during the year. It is a testament to the quality and efficiency of our brewing operations at Wellpark that we secured increased contract manufacturing and packaging volumes from AB InBev under a new 5-year deal and also from a number of third parties. Our US operations completed the move to new manufacturing facilities in Vermont. Given the continued declines in the cider category in the US a programme is underway to attract additional contract manufacturing and packaging volumes.

Having completed the extensive rationalisation programme with minimal disruption, we now look forward to a period of operational stability where we can enjoy the benefits from our well invested, efficient and flexible manufacturing sites. Our streamlined operational set-up should ensure we are well positioned to innovate, land new business, compete on price where necessary and guarantee the quality of our multi-beverage range.

WHOLESALE DISTRIBUTION AND AGENCY

In common with other brewers, the Group complements its branded business with third-party drinks wholesaling, own-label and agency distribution in its key domestic territories of Ireland and Scotland.

This wholesale and agency activity supports our branded businesses by broadening the portfolio of drinks we can offer to our on and off-trade customers and deepens our level of understanding and engagement with the trade. Wholesale and agency also leverage the Group's existing procurement, sales, marketing and distribution infrastructure to provide incremental revenue and profit through overhead absorption.

Our principal agency business is the AB InBev beer portfolio which we distribute in Ireland and Scotland (excluding Budweiser in the Republic of Ireland). AB InBev's range of world beers includes Beck's, Stella Artois, Budweiser, Bud Light and Corona and is highly complementary to our Magners, Bulmers and Tennent's brands and our emerging Premium and craft portfolio.

Trading in our wholesale and own-label businesses was disappointing during the year, particularly in the first half. Wholesaling is highly competitive, price sensitive and in both Ireland and Scotland we lost both volume and accounts. Wholesale and own label volume was down 194kHL (or 14%) in the year and revenue declined by €23m (or 10%). Approximately half the drop is due to the loss of some very low margin own-label contracts in Ireland and in the UK, following on from the closure of Shepton Mallet. We are working through the challenges and complexities of running fully integrated brand-led wholesale businesses and the increased focus improved performance in the second half of the year. Significant new client wins in Scotland helped stabilise volume and customer numbers by the year end, giving increased confidence for the year ahead.

Despite the complexities and the challenges to date, we remain fully convinced that brand-led wholesale models are right for C&C in Scotland and Ireland. Our ambition remains to be the pre-eminent brand-led wholesaler in Scotland and Ireland with unrivalled range, enhanced customer service and geographic coverage. We aim to be the supplier of choice to the licensed on and off-trade. We have lost more business than we would have liked in the past few years but believe we now have the stability and trading strategies in place to regain share over time.

Group Chief Executive Officer's Review
(continued)

The AB InBev beers performed well for C&C during the year with Corona once again proving to be the star performer. The extended AB InBev distribution partnership signed in December 2016 reaffirms our long-term distribution rights to their current and future beer portfolio. As part of this agreement, we traded some of the value we derive from distributing their beer brands in Ireland and Scotland for value we will derive from AB InBev distributing our cider brands in the UK. The reciprocal commercial arrangement should work well for both parties, playing to each other's mutual strengths across the territories and the complementary nature of the joint portfolio. The five year extension of brewing arrangements for AB InBev brands in our Glasgow site further cements the relationship.

STRONG BALANCE SHEET AND CAPITAL ALLOCATION

Our balance sheet remains in robust health with a net debt[vi] to EBITDA[ii] ratio of 1.55x at the year end. The Group finished the year with a net debt[vi] position of €171 million (FY2016: €163 million) marginally ahead of last year. This is after returning €66 million in dividends and share buybacks, increased net capex (excluding exceptionals) of €16 million (including €17 million on the new PET line at Clonmel) and investing an additional €12 million in our trade-lending books in Northern Ireland. The latter follows a drive to raise awareness amongst our target accounts of the Group's lending product, particularly in geographic areas where we are currently under-represented. The trade lending model is popular across the trade in Scotland and Ireland. It provides publicans with relatively cheap and accessible finance and, for the brewer, the distribution secured helps deliver attractive returns, consumer visibility and traction for existing and developing brands. Our returns hurdle for trade loans is 15% RoIC. Actual returns have been comfortably above this level in recent years.

With trade lending and capex at such elevated levels during the year, free cashflow conversion (pre-exceptionals) at 53% (FY2016: 103%) of EBITDA[ii] was below our recent trends. With these items returning to more normalised levels next year we expect a swift return to our long term guidance range of 60–70%. Working capital was a €1m inflow slightly behind the previous years underlying position due to a partial stock build in Ireland over the year end to support our new packaging and product launch activity in March 2017. As highlighted at our Capital Markets Day in March 2016, working capital and cash conversion in FY2016 benefited from a €24m receivables securitisation agreement and €16m of other one-off working capital initiatives. While there were no corresponding initiatives in FY2017, we will explore further options through the current financial year to optimise balance sheet efficiency and release cash for the benefit of shareholders. The Group's overall cash position benefited from the sale in the year of the Shepton Mallet site and bottling line in the year for c.€19m, as part of our site rationalisation programme. These cash receipts are treated as exceptional and are excluded from the above cash conversion analysis.

Ultimately, the Group's balance sheet and cash generation profile provide the firepower needed to invest in our brands and assets and the flexibility to acquire assets or return capital as appropriate. Looking forward, our production facilities are well-invested and we do not anticipate annual capex requirements beyond €10–15 million.

Our guidance is medium term target leverage of 2x Net Debt[vi]/EBITDA[ii]. We anticipate we will move towards this level during the course of FY2018 through a combination of our progressive dividend policy, acquisitions and/or share buybacks. Since the year end we have made the acquisition of a small craft cider business and spent €18.7m on share buybacks.

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PEOPLE

At C&C the model that we operate is that the Board allocates resources and assesses performance of the business divisions with the support of a head office of not more than 20 people, whilst each business division is equipped with the relevant people assets to ensure that we operate effectively in the market. Accordingly, each of our businesses has a local MD who has the associated capability to implement the agreed strategy and make day to day operational decisions for that business. In areas like procurement, planning and manufacturing, we seek to optimise our capability and run on a functional basis.

Our remuneration philosophy focuses on stakeholder participation through equity participation, to align employee interests with those of shareholders. Management remain largely incentivised through equity and we have employee-wide schemes in Ireland and the UK with significant participation levels amongst eligible employees. Bonus arrangements for managers and employees focus on local objectives that are relevant for the creation of long term sustainable shareholder value. All employees have the opportunity of participating in performance related bonus schemes.

During the year, we continued our investment in the next generation of leaders in the business by arranging for a small number of high performing managers from across the Group to undertake the London Business School's accelerated development programme.

On a sad note, our Director, Rory Macnamara, passed away earlier this year. While Rory was a director of C&C for an all too brief period, he made a considerable contribution to the Board during that time and we will greatly miss his valuable insight.

CORPORATE RESPONSIBILITY

Over the last 12 months we have continued to develop our Corporate Social Responsibility (CSR) agenda. This includes implementing a number of initiatives that are industry-leading. Taking an active lead on CSR and working with our communities and stakeholders is essential to our business.

We punch well above our weight in terms of leading public policy on responsible drinking. During the year, we became the first drinks company in the UK to include the Chief Medical Officer's new responsible drinking guidelines on packaging. It is one of our key principles that consumers should be given information about our products at the time of consumption in order to help manage their relationship with alcohol. We are proud of this initiative which we launched jointly with the Scottish Chief Medical Officer.

Based on our belief that consumers should be given sufficient information about what they are consuming, we took the decision to voluntarily display calorie information on our packaging in the UK and Ireland.

Another example of how we aim to help communities is through our support of minimum unit pricing. Governments now have plans for this important initiative in Scotland, Ireland and Northern Ireland. We believe that minimum unit pricing is an important step in tackling irresponsible consumption of alcohol and, as such, we remain highly supportive of its implementation.

We focus our CSR efforts on activities that benefit our local areas and work hard to ensure we have a positive impact on the communities in which we operate. A significant part of this is our approach to charitable activities where we support a wide range of charities particularly those that have a local impact in relation to our operating facilities

We are extremely proud of the work of the Tennent's Training Academy, which has now provided over 34,000 courses having a very positive impact on the quality and expertise within the Scottish hospitality trade.

We support a wide range of charitable causes across the Group, big and small. These range from activities linked to our brands such as the "Celtic Cash for Goals" initiative and Tipperary Water partnering with the Irish national child protection charity, the ISPCC; to lower profile but equally important charitable activity such as our support for KidsOut, our partnership with CLIC Sargent in Northern Ireland and our support of the "Voice-Over" charity in Glasgow.

We are extremely proud of the work of the Tennent's Training Academy, which has now provided over 34,000 courses having a very positive impact on the quality and expertise within the Scottish hospitality trade.

We also support a diverse range of sporting events and activities through our partnerships with the city marathons in Dublin and Cork, our sponsorship of the Tipperary hurling and football championships, our partnership with the Irish Football Association in Northern Ireland and of course our partnership with Glasgow Celtic FC.

The Group has also delivered a great range of environmental initiatives. During the last year we reduced our energy consumption at our manufacturing sites by 3% per hectolitre and, once again, our two largest production sites sent no waste to landfill.

Our commitment to the environment is central to our business. We are a producer that relies on high-quality agricultural products. We pressed 83,000 tonnes of fruit last year across our manufacturing sites and we continue to source all of our malt used in our Wellpark Brewery from Scottish farmers.

I am personally very proud of the work undertaken by employees to ensure that we nurture our environment and the communities in which we operate.

Group Chief Executive Officer's Review
(continued)

Review by Operating Segment
Ireland

From a macro perspective, key economic measurements continued to improve in Ireland during the year.

After a strong start, growth in both the overall LAD market and the cider category in Ireland slowed in the second half of the financial year. LAD volume for the full year was +2% (H1: +5%) and the cider category saw volume grow +6%[viii] (H1: +9%)[viii]. The performance of cider was buoyed by better summer weather, as well as new product development helping to expand the category and bring in new millennial consumers. Cider is now ahead of where it was two years ago both in absolute scale and as a percentage of LAD consumption. Pricing was reasonably stable across both on and off-trade channels.

Undoubtedly, the trade enjoyed a strong early summer as both the Northern Ireland and Republic of Ireland football teams progressed from the group stages of the European Championships.

By contrast, July was poor across the industry. Volumes improved again in August, helped by some better weather.

Constant Currency[i]	FY2017 €m	FY2016 €m	Change %
Revenue	338.9	347.3	(2.4%)
Net revenue	242.3	252.5	(4.0%)
— Price /mix impact			2.5%
— Volume impact			(6.5%)
Operating profit[iii]	48.6	46.9	3.6%
Operating profit margin	20.1%	18.6%	1.5 ppts
Volume (kHL)	1,599	1,711	(6.5%)
— of which Bulmers	409	398	2.8%

The second half was impacted by the absence of the Rugby World Cup which was in last year's comparatives and trading was more volatile through the key Christmas trading period.

OPERATING PERFORMANCE

After a challenging FY2016, our priorities in Ireland for FY2017 were to stabilise trading and return our key brands to volume growth. With Bulmers recording positive volume growth of +2.8% and operating profits[iii] for the Ireland segment up 3.6% in the period, we succeeded in creating a stable platform from which to launch our Brand and New Product Development plans in FY2018.

The positive Bulmers volume performance reflected category growth and was principally driven by a strong performance in packaged, especially pint bottle (+14%) in the on-trade. The market share trends of recent periods continued through this year with Bulmers broadly holding share in packaged in the on-trade and off-trade but ceding some share in draught. On-trade share is now at 85% (MAT – Feb16: 91%) and overall Bulmers share is 62% (MAT – Feb16: 65%)(viii).

In the year, we completed an extensive review of the Bulmers brand and the competitive threat it is facing from new entrants in Ireland. The results have given us confidence in the underlying strength of the brand and informed the investment we are now making in both the Bulmers brand equity and new product development.

Our key focus for FY2018 is to take advantage of the growing popularity of cider and re-build share, particularly amongst the new generation of consumers entering the category. Accordingly, in March 2017, we launched Outcider from Bulmers, a new sweeter-tasting cider targeting a more youthful audience. Our distribution network enabled us to quickly reach 90%+ distribution in the off-trade and we are rolling out in the on-trade. We are also up-weighting our marketing investment behind the Bulmers brand with the new "100% Irish" advertising campaign and refreshed its branding and packaging from March 2017.

The Group's premium portfolio made further progress in Ireland with Heverlee volumes up strongly (+44%) to over 10kHL, the brand doing particularly well in Northern Ireland where it consolidated its position as the No.1 import lager[vii] and benefited from our increased trade lending activity. Our craft offerings within the Group (Five Lamps and Whitewater) also continued to make good progress.

Our premium mainstream brands Tennent's and Magners brands grew by +3% and +4% respectively, cementing their positions as the No.2 lager and No.1 cider brands, in Northern Ireland(viii). Our Irish beers Clonmel 1650 and Roundstone Irish Ale also grew strongly (+21%), again driven predominantly by take-up in the North of Ireland, where the benefits of expanded trade lending are evident across the portfolio.

Wholesale volume was down 3.5% on a like-for-like basis (excluding the impact of two discontinued contracts). As discussed above, this reflects the price competitiveness in the market and a reduction in active customer numbers during the year. This masks a strong performance in our wine distribution business which grew by 8.9%, driven primarily by the off-trade channel.

FINANCIAL PERFORMANCE

Year-on-year volume and revenue performance in Ireland was adversely impacted by discontinuation of two low margin distribution and own label contracts in FY2016. In aggregate, these two contracts accounted for c. 100kHl of volume, €10.6 million of revenue in FY2016 but with a limited contribution to operating profits. Excluding these discontinued contracts, the Irish segment's total volume would have been -1% and revenue flat year-on-year. Bulmers revenue was up year-on-year as a consequence of the volume growth but unfavourable pack and channel mix towards the off-trade limited the margin benefit.

Overall operating profits[iii] in Ireland were up 3.6% reflecting improved weighting in favour of branded activity and cost savings coming through in the second half of the year enhancing margins.

Group Chief Executive Officer's Review
(continued)

Scotland

The Scottish economy is lagging the rest of the UK, with Scottish GDP contracting in Q4 2016 and flat for the full year compared to +1.8% growth in the UK as a whole.

Unemployment is rising, partly due to challenges in the oil sector and consumer confidence is more subdued than in our other domestic businesses. Beer volume was flat in Scotland for the financial year, having been +1% in the first half. This follows the prior year's high single digit decline in on-trade consumption linked to the tightening of drink-driving legislation.

OPERATIONAL PERFORMANCE

After a positive first half, Tennent's brand volume performance softened during the second half of the year, in line with the broader trade. In the Independent Free Trade in Scotland Tennent's was up 0.2% in the year (H1: +2%) and still gaining share. Including off-trade and national accounts, overall volume for Tennent's in the Scotland segment was -1.3% year-on-year (H1: Flat).

Constant Currency(i)	FY2017 €m	FY2016 €m	Change %
Revenue	285.0	296.6	(3.9%)
Net revenue	186.6	198.5	(6.0%)
— Price /mix impact			(4.6%)
— Volume impact			(1.4%)
Operating profit(iii)	32.6	33.3	(2.1%)
Operating profit margin	17.5%	16.8%	0.7ppts
Volume (kHL)	1,394	1,414	(1.4%)
— of which Tennent's	1,019	1,032	(1.3%)

Rate performance in Tennent's, however, improved significantly in the second half reflecting a moderation in the competitive pricing pressures as the volatility caused by the drink-driving legislation annualised and pricing firmed. We have continued this momentum on rate in Tennent's into the new financial year.

Brand affinity scores for Tennent's were up again over the course of the year to 57% (MAT Feb16: 56%), some 13%[ix] ahead of the nearest rival. We continued to invest in the brand through our digital media "Wellpark" campaign, T5 five-a-side football and our various sports sponsorship platforms. Brand salience scores, particularly amongst the 18–24 age group, have responded encouragingly. The broad appeal of Tennent's is underscored by its success and enduring popularity even in Scotland's high-end 'Platinum' outlets, where it has outsold by a 2-to-1 ratio Craft and World lagers combined.

To address consumers growing appetite for a range of high-quality and distinctive ale flavours we launched a range of 'Caledonia' premium bottled beers, including Outpost IPA, Double Hop and Hopscotch. Each of the great tasting 5% ABV brews has its own unique flavour profile and is available in 500ml bottles across the UK and export markets.

In Premium, Heverlee and Menabrea had another year of strong volume growth and both brands are achieving real traction in the Scottish on-trade. We launched Pabst into the Scottish trade, targeted at the Millennials market. Drygate, our joint venture with local craft brewers, Williams Bros Brewing, achieved 10kHL and is now exceeding original brewery capacity.

As in Ireland, our Scottish wholesale business lost some ground during the year and was responsible for 7.7kHl and €5.5 million (£4.6 million) respectively, of the volume and revenue declines experienced across the Scotland segment. In the year, we looked to rationalise the tail of our smaller, uneconomic customers. Accordingly, the number of outlets purchasing wholesale products is down on last year, but had stabilised and started to move up by year end. Rate of sale remained steady year-on-year. Several product and pricing initiatives are underway which, together with some major account wins towards the end of the year, should stabilise volume and value performance in FY2018.

FINANCIAL PERFORMANCE

Net revenue was down 6.0% to €186.6 million reflecting our weaker rate performance in Tennent's in H1 and wholesale volume and value tracking below last year. Operating margin was up 2.3ppts in the second half as the benefit of cost savings flowed through. Margin for the year was 17.5%, delivering operating profit[iii] of €32.6m, 2.1% down on last year.

Group Chief Executive Officer's Review
(continued)

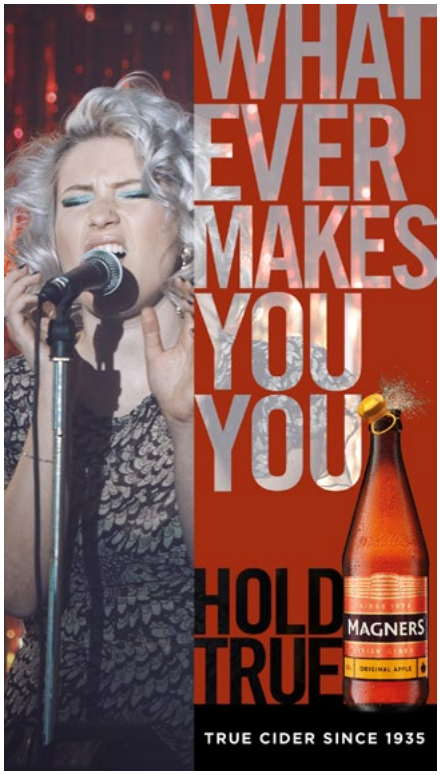
C&C Brands

The macroeconomic backdrop in the United Kingdom was broadly positive during the year with consumer confidence and spending remaining robust despite the uncertainty caused by the European Union referendum result.

More recently this picture has started to change. The return of inflation has not been matched by wage growth and is expected to put a squeeze on disposable incomes over the next 12–18 months. Retail spending fell in Q1-2017 for the first time since 2013. The overall cider category was down in the period with volume -0.5%[x]. The on-trade was in moderate growth, buoyed by city-centres and growth in casual dining

The GB cider market remains the largest in the world, with London a key opinion forming city from a global perspective. The continued success of Magners in the UK is therefore important not just to our domestic business, but our international ambitions for the brand.

Constant Currency(i)	FY2017 €m	FY2016 €m	Change %
Revenue	145.9	154.5	(5.6%)
Net revenue	83.8	90.6	(7.5%)
— Price /mix impact			(3.0%)
— Volume impact			(4.5%)
Operating profit(iii)	7.3	9.3	(21.5%)
Operating margin	8.7%	10.3%	(1.6ppts)
Volume (kHL)	1,216	1,273	(4.5%)
— of which Magners	485	430	12.8%



OPERATIONAL PERFORMANCE

Over the past five years, the Magners brand has demonstrated its consumer resilience through a period of significant and disruptive competitor brand launches. The more recent backdrop is one of retailer led range rationalisation in LAD and a lessening of competitor activity in cider. Against this backdrop, we took the decision to up-weight our investment behind Magners in FY2017 to build positive momentum in volume and share. The market response to the Magners "Hold True" campaign has been impressive with brand family volume +12.8% within the C&C Brands segment and +11% across the UK as a whole. Our share of cider is up 59bpts at 6.4% for the full year (MAT Feb16: 5.8%)[xi]. Magners Original consolidated its position as the No.2 brand in apple[vii], gaining share alongside other local brands at the expense of the market leader and the international brewers. Our brand health check data suggests that our marketing investment this year has put the brand back on the radar of our target audience and instilled our core message of Magners' authenticity.

The momentum behind Magners was helpful in our discussions with AB InBev regarding distribution rights for the C&C cider portfolio in the UK. This agreement was concluded and announced in December 2016 and marks an exciting next stage in the development of the Magners brand. Magners and our other cider brands will benefit greatly from AB InBev's best-in-class distribution capabilities in the UK off-trade and from being marketed alongside AB InBev's leading portfolio of beers. The ongoing consolidation activity currently taking place across retailers in the on and off-trade further reinforces the strategic rationale for the AB InBev partnership.

Our premium propositions in cider and beer (Chaplin & Cork's, Menabrea and Heverlee) more than increased volume by 60% in the year. Menabrea made good progress in the licensed restaurant trade and secured its first grocery multiple listing. This should help underpin brand awareness and volume growth going forward.

The performance of our portfolio of local English cider brands was more challenging with price deflation and retailer-led range rationalisation impacting more heavily on these secondary and tertiary brands. The transfer of cider production from Shepton Mallet to Clonmel also resulted in the discontinuation of certain low margin, own-label contracts. Taken together these two issues account for 120kHl of lost volume and c.€6 million (£5 million) of lost revenue within the C&C Brands division.

FINANCIAL PERFORMANCE

The brand re-positioning of Magners through the 'Hold True' campaign successfully delivered volume and share gains. However, the associated investment in price support and shift in pack mix, as we came more in line with the competitive set having previously over-indexed in glass, had a negative impact on yield and margin. Together with the incremental investment in marketing, this meant the strong volume performance in Magners did not translate through to revenue or profit growth in the year under review. Net revenue and operating profit[iii] were down in the period, at €83.8 million and €7.3 million respectively. Looking forward, with continued volume momentum, pack mix more in line with consumption trends, marketing spend returning to normalised levels and the benefits of the AB InBev partnership, we are confident in stronger profit conversion in FY2018.

Group Chief Executive Officer's Review
(continued)

North America

Constant Currency and adjusted for the Pabst transaction[i]	FY2017 €m	FY2016 €m	Change %
Revenue	24.5	36.9	(33.6%)
Net revenue	23.1	34.7	(33.4%)
— Price /mix impact			0.2%
— Volume impact			(33.6%)
Operating profit(iii)	0.7	0.6	16.7%
Operating margin	3.0%	1.7%	1.3ppts
Volume (kHL)	176	265	(33.6%)

After a period of explosive growth and competitor activity between 2010–2015 (CAGR: +44%), the cider category in the US started to reverse in mid-2015[xii].

The negative trend continued through the current financial year with cider volume down 17.6%[xii] over calendar year 2016. More recent data suggests the negative run-rate has moderated to c.10–11% and cider is maintaining its share of the overall beer category at c.1.3%[xii]. It is clear that the focus for many consumers, retailers and distributors has switched into new adjacent categories of alcoholic soft drinks, flavoured malt beverages and fruit beer. The sweetness of these propositions has no doubt taken some consumers, temporarily at least, out of the cider category. Another feature of the market is the relative success of imports and local/regional brands over national US brands.

OPERATING PERFORMANCE

The long term distribution partnership between our US subsidiary, the re-named, Green Mountain Beverages ("GMB") and the Pabst Brewing Company ("PBC"), took effect from 1 March 2016. Focus in the first six months was on transitioning GMB's sales and marketing operations into the Pabst distribution platform and integrating our domestic US and import cider brands into their broader portfolio. We also jointly developed a new regional, super premium brand –Vermont Cider Co. for the New England market and introduced new branding and packaging for existing brands in the portfolio. We are satisfied that we now have the partner and infrastructure in place to deliver long term market share recovery, but FY2017 was a period of transition for C&C against a backdrop of negative category trends. Those trends are unlikely to change in the short term and visibility on recovery of the category is low at this point.

Operationally, we are focused on building our pipeline of contract manufacturing and packaging opportunities to improve utilisation rates and reduce manufacturing variances.

FINANCIAL PERFORMANCE

Total volume was down 33.6% in the year reflecting the overall declines in the US cider market and the inevitable disruption from moving to the new partnership arrangements with PBC. Despite the decline in volume and revenue in the period, reported operating profit[iii] was broadly flat at €0.7m (FY2016: €0.6m), with PBC sharing in the downsides from reduced activity. The near term volatility in the category pushes out the prospects of Pabst being able to deliver a meaningful recovery in the short to medium term. While there is no loss of belief or enthusiasm for the long term prospects of cider in the US or in the quality of the Vermont assets, we have prudently decided to review the carrying values of our US business. As a result of this review an impairment charge of €129.4 million was taken with respect of the Group's tangible and intangible assets in the US. Following this impairment, the carrying value of our Vermont business is €45m.

It has been a challenging period for the category and our business but it is not unreasonable to believe that once the category is through these short term cyclical challenges, it will resume its long term growth trend. Past experiences in both the UK and the US suggests that the 'sweet' fads will run their course and the attributes that draw consumers to cider–natural, authentic, fruit based, craft–will ensure a return to positive territory.

Export

Constant Currency (i)	FY2017 €m	FY2016 €m	Change %
Revenue	23.8	24.4	(2.5%)
Net revenue	23.7	24.4	(2.9%)
— Price /mix impact			(6.8%)
— Volume impact			3.9%
Operating profit(iii)	5.8	5.3	9.4%
Operating profit margin	24.5%	21.7%	2.8ppts
Volume (kHL)	185	178	3.9%
— of which Magners	100	99	1.0%
— of which Tennent's	54	46	17.4%

Export markets for C&C are all markets outside of the UK, Ireland and North America.

Our strategy is to build volume through our portfolio of authentic British and Irish cider and beer brands across Europe, Asia/Pacific and Africa. The model is to partner with local distributors, to position the brands as premium/import and retain all production in our domestic manufacturing facilities, utilising surplus capacity and reducing capital employed.

We enjoyed another strong year in EMEA, our largest and most established sales territory. The region delivers c.82% of the division's volume and was up +14% with good performances from more established markets such as Spain and France where Magners was +5% and +21% respectively, and Tennent's was up +43% and +105%. Tennent's continues to perform well in Italy as a speciality/premium lager (32kHL). New territories also performed well with Eastern Europe now over 10kHl, including Magners as the first draft cider available in the nascent but fast growing Russian cider market. We continued to seed selected African markets, reaching 12kHL in only our second year with Tennent's quickly gaining traction in South Africa.

In Asia/Pacific, our new agreements with ThaiBev in Singapore, San Miguel in Thailand and Taiwan and San Miguel Mahou in India are bedding in and are delivering growth. These are still nascent cider markets and the contribution to Group volume and revenue remains small. However, our partners are sizeable, high quality regional players, with a demonstrable interest and understanding of the category. Our opportunity and focus rests in extending these arrangements to other fast growth markets in the region. Distributor disruption in Australia and with a previous distributor in India resulted in the loss of 13.1kHL (7.1%) of cider volumes, dragging back volume, revenue and profit performance for the region and the Export division.

Our Export volume is now 185 kHL. We distribute to 60 markets around the world delivering an operating margin of 24.5%. We see opportunities for growth in all regions through building on our existing relationships and establishing a presence in new territories. We have seen real traction in both the Magners and Tennent's brands in a broad range of overseas markets. Both brands have the key attributes of heritage, provenance and quality and carry excellent export potential as premium import propositions.

Group Chief Executive Officer's Review
(continued)

CURRENT TRADING AND OUTLOOK

The current financial year has started satisfactorily. The outlook for consumer spending is moderating across all our territories but the return of inflation is presenting a firmer pricing opportunity. We believe the enduring nature of our brands and products, plus the quality and efficiency of our operations ensure we can trade successfully in this environment. Each of our three key brands has had its challenges in recent years, but through continued investment and hard work they have weathered these storms. We believe they are now in a position to build on the robust volume performance of last year to deliver revenue and value growth in FY2018.

It is early days in the launch of Outcider in Ireland and the Bulmers brand re-fresh, but we are pleased with the market reception to both campaigns so far. We have had a positive reaction from the off-trade and are in roll-out to the on-trade, before the next phase of marketing focused on outdoor, social media and activation. Subject to satisfactory weather through Spring/Summer we expect another good year for the cider category in Ireland and our additional €4 million investment behind Bulmers is a margin investment in the current year to build further momentum and an improved share performance for the brand.

In Scotland, we are cautious on overall consumption and anticipate volume in the IFT will remain in modest decline for the year. Our opportunity in FY2018 is to continue to deliver an improved value performance in Tennent's and further grow our premium portfolio. We have made a solid start on both fronts with new client wins and the new Tennent's founts having an impact.

In C&C Brands, our cider brands transferred to AB InBev in two tranches on 1st February and 1st March, with minimal disruption. Initial feedback from the market is positive and the strategic logic for the combination is stronger than ever. Collectively, we have set ourselves ambitious targets for the partnership, but are confident the Magners brand can continue the volume momentum achieved last year. The amended terms of our distribution agreement for AB InBev's beers in Scotland and Ireland came into effect from 1st January 2017. These will inevitably take some of our AB InBev agency volume and associated revenue and margin out of Scotland and Ireland in FY2018, but will be compensated by an improving contribution from cider in C&C Brands. We have chosen to delay the full transfer of physical distribution until the end of this year, which will push some of the synergistic benefits of the partnership into FY2019.

In North America, the Magners brand is showing signs of recovery but the continued declines in the overall cider category will limit the progress we can expect from the Pabst partnership in the near term. The business is stable and the increased focus on contract opportunities will help cover overheads. The brighter spots within the US cider market are Import and Regional and our portfolio is well placed to take advantage of these. We remain convinced of the strength and commercial logic of our combined PBC/GMB platform and its ability to recover share and volume when the category stabilises.

Export has made a satisfactory start to the year. We are nearing completion of the switch of our Australian distributor to Coca-Cola Amatil (our existing New Zealand distributor). We are seeing good category development progress in Asia Pacific, Europe and Africa and it is clear we have a brand portfolio that resonates with international audiences. The long term prospects therefore remain very positive. Our priorities will be to consolidate our distribution network on larger high quality regional players that can help us reduce volatility and drive sustainable growth in volumes across multiple territories.

Stephen Glancey
Group Chief Executive Officer

Notes to the Group Chief Executive Officer's Review

(i) FY2016 comparative adjusted for constant currency (FY2016 translated at FY2017 F/X rates) and North America revenues to be on a like for like basis with the current financial year (as though the Pabst arrangement had also been in operation for the whole of FY2016). The like-for-like adjustment on North American revenues is arising from Pabst partnership: Under the terms of the trading arrangement with Pabst Brewing company ("PBC") which came into effect on 1st March 2016, C&C's reported revenues now comprise Cost of Goods Sold at production cost plus a royalty payment representing one-third of the gross profit of the partnership. C&C contributes one-third of marketing spend. All sales costs are borne by PBC. The like-for-like adjustment for our US revenues would have the effect of reducing our reported revenues for the comparative period (FY2016) by €10.6m had the partnership been in effect from 1st March 2015.

(ii) EBITDA is earnings before exceptional items, finance income, finance expense, tax, depreciation, amortisation charges and equity accounted investees' loss after tax. A reconciliation of the Group's operating (loss)/ profit to EBITDA is set out on page 38.

(iii) Operating profit and profit/finance expense for the year attributable to equity shareholders is before exceptional items.

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

(v) Free Cash Flow ('FCF') is a non GAAP measure that comprises cash flow from operating activities net of capital investment cash outflows which form part of investing activities. FCF highlights the underlying cash generating performance of the ongoing business. A reconciliation of FCF to Net Movement in Cash & Cash Equivalents per the Group's Cash Flow Statement is set out on page 39.

(vi) Net debt comprises borrowings (net of issue costs) less cash & cash equivalents.

(vii) Off-trade: Nielsen Scantrack 52wks to 27.02.17; on-trade: CGA OPMS MAT to 20.02.17.

(viii) Nielsen Ireland databases to End Feb17.

(ix) Rolling MAT February 2017 Brand Affinity Scores ("Drunk by people like me"–Total sample).

(x) GB Total Cider Off-trade: Nielsen Scantrack 52wks to 27.02.17; on-trade: CGA OPMS MAT to 20.02.17.

(xi) UK apple cider market by volume–MAT to Feb17 (Nielsen Scantrack 52wks to 27.02.17; on-trade: CGA OPMS MAT to 20.02.17).

(xii) The Beer Institute Quarterly Cider Domestic & Import Volumes–calendar 2016.

(xiii) Canadean: Global Cider Data–June 2015