Business Model

In Scotland and Ireland our ambition is to be the pre-eminent brand-led wholesale drinks supplier to the licensed on and off-trade. Our platforms in both territories provide: an unrivalled range across our Core, Premium, Agency and 3rd Party Brands; enhanced customer service; and comprehensive geographic coverage. We firmly believe this is the right model to meet the needs of both customers and consumers, who are increasingly demanding authentic, differentiated local brands as well as global reach.

	Brands	Meeting customer needs
Core Brands All own brands	Bulmers Original, Magners Original, Tennent's (T)	"Must-have" local brands
Premium and Craft Portfolio Predominantly own brands or craft JVs	Heverlee, Menabrea, Drygate Brewing Co, Pabst Blue Ribbon, Five Lamps Dublin Brewery	Craft and premium consumer experimentation
Other Owned Brands Owned local and specialty brands	Clonmel 1650, Caledonia, Roundstone	Local, niche and specialty brands
World Premium Brands 3rd party brands distributed under contract, primarily AB InBev brands	Stella Artois, Beck's, Budweiser, Corona Extra	Access to global brands
Wholesale All 3rd party brands bought-in	Soft Drinks, Wines, Spirits, Cider, Beer	"One-stop shop"

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 our own range of brands and meeting customers needs. In the rest of Great Britain we focus on cider market share expansion and our growing premium portfolio. Internationally we focus on volume and value growth in established markets and seeding new markets in Asia & Africa.
- 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 in brands and innovation to drive revenue and market share. 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.

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.

Strategic pillars	Medium term strategic goals
Enhance value of key brands	Brand and product investment to build value of key brands over the long term
Grow Premium and Craft portfolio	Leverage key brand strength and market position to grow our portfolio of Premium and Craft brands
Brand-led drinks wholesaler in key markets	Deliver unrivalled portfolio strength, value and service to the Scottish and Irish on-trade and off-trade
Rigorous focus on costs and efficiencies	Ongoing commitment to delivering operational efficiencies and cost control
International growth	Grow international volumes of our key brands through strategic alliances
Capital allocation to enhance growth and shareholder returns	Selective acquisitions to fuel sustainable, profitable growth and/or cash returns to shareholders

Financial characteristics

- Resilient high margins
- Cash generation and Balance Sheet strength
- EPS growth and cash returns

Achievements during FY2017

- Up-weighted investment in our key brand assets of Magners, Bulmers and Tennent's, returning them to volume growth of +2.6% 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.
- 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. Launched Outcider from Bulmers, a new sweeter tasting cider targeting a more youthful audience.

- The Premium and Craft portfolio (which includes Chaplin & Cork's, Heverlee, Menabrea, Pabst as well as our local craft businesses Five Lamps, Dowds Lane, Drygate and Whitewater) grew volume by 60%.
- Premium and craft 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.

- The Group complements its branded business with third-party drinks wholesaling, own-label and agency distribution in its key domestic markets of Ireland and Scotland.
- We are working through the challenges and complexities of running fully integrated brand-led wholesale businesses and the increased focus delivered 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.

- We closed our plant at Borrisoleigh in Ireland and sold our cidery and bottling operations at Shepton Mallet in England. The activities at both sites were transferred to our Clonmel site. 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.
- 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.

- The Group enjoyed another good year of progress in its international business, with volumes during the year up + 3.9% (FY2016: +14.8%).
- 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.

- Our Balance Sheet remains in robust health with a net debt to EBITDA ratio of 1.55x at the year end. This is after paying out €66m in dividends and share buybacks, increased net capex of €16m (including €17m on the new PET line at Clonmel) and investing an additional €12m in our trade lending books in Northern Ireland.
- Our guidance is medium term target leverage of 2x Net Debt/EBITDA. 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.

Strategic priorities for FY2018

CORE OBJECTIVE

Our core strategic objective is to deliver earnings growth.

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
- successfully imbed our new distribution relationship with AB InBev for our cider portfolio in the UK, to grow volume and value in our core cider brands
- to grow international volumes and earnings through distribution partnerships

Capital allocation

- after increased investment in FY2017 maintain the strong cash conversion characteristics of the business
- to move towards target leverage of 2x Net Debt/EBITDA 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

Strategic Priority	KPI	Definition (see also financial definitions on pages 177 and 178)	FY2017 performance	FY2018 Focus	Links to other Disclosures
To enhance earnings growth	Operating Profit	Operating profit (before exceptional items)	FY15 €115.0m FY16 €103.2m FY17 €95.0m	To seek continuing growth, through revenue enhancement, acquisition synergies and cost control	Group CFO Review **page 37**
	Operating Margin	Operating profit (before exceptional items), as a percentage of net revenue	FY15 16.8% FY16 15.6% FY17 17.0%		
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	FY15 27.2c FY16 24.2c FY17 23.8c	To achieve adjusted diluted EPS growth in real terms	Group CFO Review **page 37**
To generate strong cash flows	Free Cash Flow	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	FY15 €82.3m FY16 €113.4m FY17 €54.3m	To generate improved operating cash flows	Group CFO Review **page 39**
	Free Cash Flow Conversion Ratio	The conversion ratio is the ratio of free cash flow as a percentage of EBITDA before exceptional items	FY15 58.8% FY16 92.5% FY17 49.4%		Group CFO Review **page 39**
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	FY15 1.13x FY16 1.33x FY17 1.55x	Move towards medium term target of 2.0 times Net Debt/EBITDA	Group CFO Review **page 38**
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	FY15 11.50c FY16 13.65c FY17 14.33c	The Group will continue to seek to enhance shareholder returns	Chairman's Statement **page 12**
	Dividend Payout Ratio	Dividend cover is Dividend/ Adjusted diluted EPS	FY15 42.3% FY16 56.4% FY17 60.2%		
To achieve the highest standards of environmental management	Reduction in CO_2 emissions	Tonnes of CO_2 emissions[1]	FY15 37,955t FY16 45,071t FY17 41,228t	To achieve best practice across the Group, including acquired businesses	Corporate Responsibility Report **page 47**
To achieve the highest standards of environmental management	Waste recycling	Tonnes of waste sent to landfill[2]	FY15 27t FY16 24t FY17 16t	To achieve best practice across the Group, including acquired businesses	
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]	FY15 0.68 FY16 0.42 FY17 0.56	To achieve best practice across the Group, including acquired businesses	Corporate Responsibility Report **page 49**

1. Clonmel, Wellpark and Vermont in FY2015. FY2016 and FY2017 includes the Gleeson and Wallaces Express businesses.
2. Clonmel, Wellpark and Shepton Mallet

Principal Risks and Uncertainties

The principal risks and uncertainties which have the potential to have a material impact upon the Group's long-term performance and achievement of strategy are set out below.

These represent the Board's view of the principal risks at this point in time. There may be other matters that are not currently known to the Board or are currently considered of low likelihood which could arise and give rise to material consequences.

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. For instance, as part of this programme, Outcider was launched in Ireland in FY2017. The Group also operates a brand-led model in our core 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, consolidation and vertical integration of distribution channels 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, such as the distribution arrangement that the Group entered into with AB InBev in GB in FY2017, 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.
The Group is reliant on the performance of its distribution partners for the distribution of its products in international markets and the UK.	The Group mitigates these risks by continuously monitoring the performance of its distribution partners and having agreements with appropriate protections in place in relation to inadequate performance.

Principal Risks And Uncertainties
(continued)

Risks and Uncertainties	Mitigation
Risks and Uncertainties Relating to Revenue and Profits	
Key strategic partnerships may not be renewed or may be renewed on less favourable terms.	The Group seeks to mitigate this risk by managing its relationship with its key strategic partners and by putting long-term arrangements in place in relation to termination and renewal.
Risks and Uncertainties Relating to Costs, Systems and Operations	
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 through business continuity plans, which are tested regularly to ensure that interruptions to the business are prevented or minimised and that data is protected from unauthorised access, contingency planning, including involving the utilisation of third party sites and the adoption of fire safety standards and disaster recovery protocols. The Group seeks to mitigate the financial impact of such an event through business interruption and other insurances.
Increased levels of cybercrime represent a threat to the Group's businesses and may lead to business disruption or loss of data. The Group is exposed to the risk of external parties gaining access to Group systems to deliberately disrupt business, steal information or commit fraud. Theft of data relating to employees, business partners or customers may result in a regulatory breach and impact the reputation of the Group.	The Group has a number of IT security controls in place including gateway firewalls, intrusion prevention systems, security incident monitoring and virus scanning. The Group's approach is one of ongoing enhancement of controls as threats evolve with the target being to align controls, and in particular to implement any new services or changes to the environment, with reference to the ISO 27001 international standard. The Group also has a suite of information security policies in place.
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 UK vote to leave 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 and FY2017 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.

Risks and Uncertainties	Mitigation
Fiscal, Regulatory and Political Risks and Uncertainties	
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.
The UK vote to leave the European Union has created significant uncertainty about the near term outlook and prospects for the UK, Ireland and European Union economies. While the economic effect of the UK leaving the European Union is uncertain, it could have the effect of negatively impacting the UK, Irish and European Union economies and currencies and the financial performance of the Group, reducing demand in the Group's markets and increasing business costs including through the application of additional tariffs and transaction taxes on the Group's products and raw materials. With our reporting currency as the Euro, the Group is exposed to the translation impact of a weaker Sterling.	The Board and management will continue to consider the impact on the Group's businesses, monitor developments and play a role in influencing the UK, Irish and Scottish Governments to help ensure a manageable outcome for our businesses. In FY2017, we contributed to a House of Lords study on the implications of the UK vote to leave the European Union on UK and Irish relations and are also working closely with the Food and Drink Federation in Ireland and the European Cider Association in relation to the implications of the UK vote for our businesses. On an ongoing basis, we seek, where appropriate, to mitigate currency risk through hedging and structured financial contracts and take appropriate action to help mitigate the consequences of any decline in demand in its markets.
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.