Chairman's Statement

OPERATING RESULTS

Our commitment to you last year, in a challenging wider operating environment, was to continue to advance our strategy to build a sustainable, international, cider-led, multi-beverage business through a combination of organic growth and selective acquisitions. The results of the last 12 months demonstrate the merits of that approach. While our headline numbers reflect a relatively static financial performance, the further development of our heritage brands, craft offering and customer reach is particularly encouraging. We have also utilised our balance sheet strength and cash generation capability to return capital to shareholders; and, to make a number of key strategic investments, which broaden our platform and will drive value for shareholders.

Sir Brian Stewart
Group Chairman

The incursions of the major brewers into the traditional cider category space has been significantly blunted in spite of their distribution leverage and marketing spend. Consumers continue to recognise both the provenance and value of our core brands, while our new product offerings continue to grow strongly. We have to accept that this has been at some short term cost but the increasing momentum in the business is readily evident. This is particularly evident in our partnership with AB InBev in the UK where there was undoubtedly some short term cost to us but now we are beginning to see the longer term benefits.

Social responsibility has historically been at the heart of traditional drinks companies. There has always been an appreciation that we are integral to our communities. Globalisation has stressed that relationship, certainly in wider consumer terms, including the drinks industry. Our approach to minimum unit pricing is well known and reflects our belief in the importance of acting in community interests. It has not always been easy for the executives concerned to pursue this course but it is certainly in our and society's long-term interest. Governments, in approaching market restrictions, must also take on board when looking at any legislation, the impact on locally focused businesses such as ourselves compared to the more generic multinationals and their capacities.

ECONOMIC AND INDUSTRY BACKGROUND

The past year has seen considerable political and economic volatility. One has to question whether 12 months on, there is any less prospect of stability. It is obviously our obligation to put the Group in the most resilient position to face these challenges and with certainty, the Group is better positioned than it was 12 months ago.

Brexit continues to be a significant issue for us, particularly in Ireland. Given this is ultimately outside our control, all we can do – and which we are acutely focused on – is ensuring our business is operating as effectively and efficiently as possible for whatever outcome may come.

It is perhaps presumptuous given our scale but the risk of wider trade wars, sanctions, tariffs and general restrictions in trade should equally be protested. We are intent on increasing our exports and the wider value to Ireland and Scotland cannot be ignored. We are very much a long-term business investing in brands, communities, assets and our people and instability is obviously a hindrance, indeed a barrier.

CAPITAL ALLOCATION

Our investment philosophy, which we have clearly and consistently communicated, has been to seek investment opportunities which will enhance the return for our shareholders and build upon the strength of the Group. If such opportunities are not available then our commitment has been to use surplus capital to buy back shares, particularly if the price is attractive. During the past year we have spent €33.1 million buying back shares at an average price of €3.44 contributing to a 1% reduction in our weighted average number of shares. We also paid a further €40.6 million to shareholders in dividends.

In this context, the strength of the Group can be supplemented by brand acquisitions or extending our capacity through associated distribution channels. During the past year we have seen:

- the strategic investment in Admiral Taverns, creating an enhanced shop window for our brands and developing our distribution infrastructure; and
- the acquisition, subsequent to the year end, of Matthew Clark Bibendum giving us an unparalleled distribution capacity throughout the UK.

Our reputation as a trusted, long-term company undoubtedly enhanced our progress in these transactions.

While, in the short term, our recent acquisition will obviously raise our debt level, our strong cash generation from our existing and this new business will reduce our debt relatively quickly. Our medium term guidance for leverage of two times net debt to EBITDA remains intact although of course it will take us a little time to return to this level.

Chairman's Statement
(continued)

Recognising our financial strength and strong cash generation, we propose to pay a final dividend of 9.37 cent per share subject to shareholder approval. This will bring the Group's full year dividend to 14.58 cent, an increase year on year of 1.7%.

PEOPLE

Our employees have been hugely supportive through a period of transformation for the Group, recognising the need for us to remain steadfast and competitive in the face of considerable challenges. The Board fully recognises their efforts and that of the Management Team in the pursuit of business success and the creation of shareholder value.

The new employees brought into the Group with our recent acquisition have experienced a period of traumatic uncertainty and our team are fully committed to restoring the momentum in that business. This will equally provide the more stable platform necessary to serve our customers but also providing greater security for our employees.

MANAGEMENT & GOVERNANCE

A statement of our governance, principles and practice is as usual provided on pages 71 to 83 and we are in any case committed to maintaining the highest standards.

An important aspect of good governance is having appropriate succession planning in place to ensure that we are fully prepared for changes in the Board and departures from key positions. In this context, the Nomination Committee continuously reviews succession plans for the Board, the Management Team and other key roles within the organisation.

The past year has seen considerable evolution in the management of the Group with Kenny Neison stepping down as Finance Director and the appointment of Jonathan Solesbury as his successor. Jonathan brings considerable international financial experience to the role. Andrea Pozzi was appointed to the Board in June 2017 after several years in a progression of operational roles. His appointment emphasises the growing strength of the Management team.

Board refreshment and renewal is a continuous process and during the year Geoffrey Hemphill was appointed. Geoffrey's background is both legal, financial and wealth management. Our intention is always to have a wide and divergent skill set applied to Board decisions. Unfortunately Breege O'Donoghue felt it was time to step down from the Board. Over her 13 years serving on the Board, Breege's insights and perspectives were always progressive and I would like to take this opportunity to express both my own, and the Board's appreciation for her inimitable contribution.

CONCLUSION

Over the past year, we have built a larger, more diverse and ultimately stronger business. It will take time to integrate and capitalise on the benefits of recent investments but we are confident in our outlook. While we remain cautious on the consumer environment in our key markets of the UK and Ireland, as currency and political volatility remain challenging for companies and consumers, we look forward to the future with renewed optimism, confident that our portfolio of heritage brands, our growing craft offering and increased distribution strength – both through partners and direct to market – will sustain growth in the period ahead and create value for all shareholders.

Sir Brian Stewart
Chairman