

Strategic Report - Management of Risks and Uncertainties

Internal Controls and risk management

The Board has overall responsibility for the Group's system of internal control, for reviewing its effectiveness and for confirming that there is a process for identifying, evaluating and managing the principal risks affecting the achievement of the Group's strategic objectives. The process which has been in place for the entire period and up to the date the financial statements were approved accords with the FRC Guidance published in September 2014 and involves the Board considering the following:

- the nature and extent of the principal risks facing the Group;
- the likelihood of these risks occurring;
- the impact on the Group should these risks occur; and
- the actions being taken to manage these risks to the desired level.

The key elements of the internal control system currently in operation are as follows:

- clearly defined organisation structures and lines of authority;
- corporate policies for financial reporting, treasury and financial risk management, information technology and security, project appraisal and corporate governance;
- annual budgets for all business units, identifying key risks and opportunities;
- monitoring of performance against budgets on a weekly basis and reporting thereon to the Board on a periodic basis;
- an internal audit function which reviews key business processes and controls; and
- an audit committee which approves plans and deals with significant control issues raised by internal or external audit.

This system of internal control can only provide reasonable and not absolute,

assurance against material misstatement or loss. The terms of reference of the Audit Committee require it to monitor the adequacy and effectiveness of the Group's internal financial controls and risk management systems and at least annually carry out a review of the effectiveness of these systems. The risks facing the Group are reviewed regularly by the Audit Committee with the executive management team. Specific annual reviews of the risks and fundamental controls of each business unit are undertaken on an ongoing basis, the results and recommendations of which are reported to and analysed by the Audit Committee with a programme for action agreed by the business units.

The preparation and issue of financial reports, including consolidated annual financial statements is managed by the Group Finance function with oversight from the Audit Committee. The key features of the Group's internal control procedures with regard to the preparation of consolidated financial statements are as follows:

- the review of each operating division's period end reporting package by the Group Finance function;
- the challenge and review of the financial results of each operating division with the management of that division by the Group Chief Financial Officer;
- the review of any internal control weaknesses highlighted by the external auditor by the Group Chief Financial Officer, Head of Internal Audit and the Audit Committee; and
- the follow up of any critical weaknesses to ensure issues highlighted are addressed.

The Directors confirm that, in addition to the monitoring carried out by the Audit Committee under its terms of reference,

they have reviewed the effectiveness of the Group's risk management and internal control systems up to and including the date of approval of the financial statements. This review had regard to all material controls, including financial, operational and compliance controls that could affect the Group's business. The Directors considered the outcome of this review and found the systems satisfactory.

Principal Risks and Uncertainties

During the year, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and uncertainties are set out on pages 14 to 17 represent the principal uncertainties that the Board believes may impact the Group's ability to deliver effectively its strategy in the future. The list does not include all risks that the Group faces and it does not list the risks in any order of priority.

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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, associates and joint ventures and entry into new markets. The Group is prepared to take measured risks to acquire new assets, talent, brands and innovation. 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 proactively monitoring the market to identify suitable acquisition targets, due diligence, careful investment and integration planning and continuing monitoring and management post-acquisition.

Only acquisitions that the Board believe will add value and are a strategic fit are considered.

As the Group grows through acquisition, it is necessary to adjust to change and assimilate new business cultures. The breadth and pace of change can present strategic and operational challenges.

Significant acquisitions have formal leadership and project management teams to deliver integration. Regular Group communications ensure effective information, engagement and feedback flow to support cultural change.

Business integration and change that are not managed effectively could result in unrealised synergies, poor project delivery, increased staff turnover, erosion of value and failure to deliver growth.

The executive management team oversees change management and integration risks through regular people, planning and product meetings.

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 our core geographies with a comprehensive range to meet consumer needs.

The off-trade and increasingly the on-trade in Great Britain 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 and acquisitions, 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 continuously.

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.

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

Mitigation

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 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.

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.

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Risks and Uncertainties

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Fiscal, Regulatory and Political Risks and Uncertainties

The Group may be adversely affected by changes in excise duty or taxation on alcoholic products 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, a steering committee member of the all-party Parliamentary beer group and a member of the British Beer and Pub Association. The Group is a member of the Wine & Spirits Trade Association ("WSTA") in the UK. In the US, we are active in the United States Association of Cider Makers.

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 and regulatory costs including through the application of additional tariffs and transaction taxes on the Group's products and raw materials. While recent developments in relation to the transition period have brought greater clarity for that period and there have potentially been positive developments in relation to a free trade agreement after that period, were WTO tariffs to be applied to our exports from Ireland to the UK or were there to be a hard border in relation to the movement of people and goods within the Island of Ireland, it would negatively impact the Group. With our reporting currency as the Euro, the Group is exposed to the translation impact of a weaker Sterling.

The Board and executive management team 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. We are 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. Our manufacturing capability in Scotland may also provide opportunities for the Group arising from Brexit. 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 our 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.

Risks and Uncertainties

Mitigation

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.

Assessment of the Group's Prospects

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the Group's and Company's financial statements. Further information in relation to the Directors' assessment of going concern is contained in note 23 to the financial statements.

Viability Statement

For the purposes of assessing the future prospects of the Group, the Directors have selected a three year timeframe and have carried out a forward looking assessment of the Group's viability based on this timeframe.

This period has been considered for the following reasons:

- The business model can be evolved for significant changes in market structure or government policy over the three year period;
- For major investment projects three years is considered by the Board to be a reasonable time horizon for an assessment of the outcome; and
- The Group's strategic planning cycle covers a three year period.

The assessment has been made with reference to the Group's current position and prospects, the Group's strategy, the Board's risk appetite and the Group's Principal Risks and Uncertainties as set out above and how these are identified, managed and mitigated.

This assessment is based on a number of cautious assumptions concerning macro growth and stability in our key markets particularly in the context of forecasted volume growth and margins. It will be reviewed regularly by the Board through presentations from senior management on the performance of the respective business units, the assessment of market opportunities and the consideration by the Board of its ability to fund its strategic ambitions.

In making this assessment, the Directors have considered the resilience of the Group, taking account of its current position and the Group's Principal Risks and Uncertainties and the Group's ability to manage those risks. The risks have been identified using a top down and bottom up approach, and their potential impact was assessed having regard to the effectiveness of controls in place to manage each risk. The Directors also noted that borrowings under the Group's five year syndicated revolving loan facility have been refinanced during the period under review, in addition to taking out a new three year term loan.

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

Strategic Report Approval

The Strategic Report, outlined on pages 1 to 43, (including the assessment of the Group's prospects as set out above) incorporates the Highlights, the Business Profile and Key Performance Indicators, the Chairman's Statement, the Group Chief Executive Officer's Review, the Group Chief Financial Officer's report, the Corporate Social Responsibility Report and the Management of Risks and Uncertainties section of this document.

This report was approved by the Board of Directors on 22 May 2019.

Mark Chilton

Company Secretary