Operations review

2007/08 Overview

C&C is reporting Revenue of €679.0 million and Operating Profit before exceptional items of €125.2 million. The performance of each division is discussed in this review. Comparisons for both Revenue and Operating Profit for each division are shown at constant exchange rates for transactions in relation to the Cider and Spirits & Liqueurs divisions and for translation in relation to the Group’s sterling denominated subsidiaries by restating the prior year at 2007/08 effective rates.

The impact of restating currency is as follows:

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Operating Profit – before exceptional items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previously Reported</td>
<td>Year ended 28 Feb 2007</td>
</tr>
<tr>
<td>Cider</td>
<td>517.9 (0.7)</td>
</tr>
<tr>
<td>Spirits &amp; Liqueurs</td>
<td>79.1 -</td>
</tr>
<tr>
<td>Distribution</td>
<td>141.5 (2.4)</td>
</tr>
<tr>
<td>Total</td>
<td>738.5 (3.1)</td>
</tr>
<tr>
<td>Operating Profit – before exceptional items</td>
<td>Year ended</td>
</tr>
<tr>
<td>Cider</td>
<td>178.9 -</td>
</tr>
<tr>
<td>Spirits &amp; Liqueurs</td>
<td>17.7 -</td>
</tr>
<tr>
<td>Distribution</td>
<td>3.0 -</td>
</tr>
<tr>
<td>Total</td>
<td>199.6 -</td>
</tr>
</tbody>
</table>

Cider

There was more to 2007/08 than headlines about the considerable challenges we faced in the British and Irish markets. Despite those difficulties, Magners retained its firm foothold in the British LAD market, Bulmers increased its share of the Irish LAD market and we started the process of developing new markets. We completely re-organised how we structure our cider business. Our production facility in Annerville, Clonmel, was transformed into a state-of-the-art environmentally friendly production and storage complex.

The effect on our business of the unusually bad summer weather in Ireland and Great Britain in the summer of 2007 has been well documented. Volume sales of Magners declined by 15%.

Nevertheless, our investment in marketing and the awareness of the Magners brand created in the British market over the past four years stood to us as the brand recorded a 1.6% MAT share of the LAD ontrade market. This achievement indicates that we are only seeing the beginning of future potential for Magners.

Draught

We have built ourselves a robust platform to widen our brand exposure in Great Britain as we now move into draught and begin to create a new category of premium draught cider. We have signed a five year contract with Coors under which they will keg, distribute and sell Magners to the ontrade in Great Britain. After several years of establishing the Magners brand, we believe the time is right to widen its appeal into the draught market. To support this initiative, we will continue an exceptionally high level of marketing “spend”, retaining Magners place among the top three spending brands in the LAD market. To further leverage the Magners brand, we are launching Magners Light as a premium packaged product into a range of selected outlets.

Marketing

At the current stage of evolution of our brands, seasonality is a factor that impacts on the performance of Magners in Great Britain. Broadening our product portfolio to include draught and Light is a key part of our response.
Cider

Our experience of selling draught in the Republic of Ireland and Northern Ireland indicates that it is a less seasonal product. In addition, although in 2007/08 we were underperforming on our volume of sales, we continued to invest in marketing at planned levels. This decision to maintain marketing “spend” was an unambiguous signal of our clear intent on capitalising on the long term opportunities we see in the British market. In 2008/09 there will be a shift in emphasis towards trade marketing. We are increasing our investment in trade marketing to ensure the closest possible relationship with our key customers and make an impact on consumers at their point of choice.

Sponsorships
Sponsorships, focused on activities that fit well with our brand, are a key element of our marketing programmes. We sponsor three main activities – rugby, golf and comedy.

We sponsor Edinburgh rugby because it gives us a more personal contact point with our consumers in a very different way to our media advertising. London Wasps, one of the leading teams in England, are another of our sponsorships.

They are both teams of quality and stature and our sponsorship demonstrates our commitment to these markets. We also, of course, sponsor the celebrated Magners League for elite clubs in Scotland, Wales and Ireland. Combined, these sponsorships give quality exposure in all our key markets. They position our brand in association with: a growing, dynamic sport which is hard but fair; has some Irish tradition; and has an age profile that fits well with our brand.

We sponsor club championships in golf at the amateur level in Scotland, Wales and Ireland. This has the practical effect of getting brand presence in a wide network of golf clubs.

Comedy is an important part of our sponsorships portfolio. It helps to lighten the brand image and put us in touch with a slightly different target consumer group. In Glasgow and Dublin, we sponsor the highly successful and popular International Comedy Festivals.

Award
The British marketing industry has recognised the quality and effectiveness of our marketing programmes. The Marketing Effectiveness Awards are run in conjunction with the Marketing Institute and are well respected. In the 2007 Awards, Magners won the overall Grand Prix Award as well as best in category in New Products and Drinks.

International
Magners is developing a presence in European markets outside of Great Britain and Northern Ireland. The popularity of the brand both here and in Great Britain has driven demand in European tourist markets where people holiday. Similarly, sales of Magners are developing in the United States based mainly on people who have emigrated there.

In March 2007, we began establishing a presence in two important European markets, Catalonia in Spain and Munich in Germany. We have begun building a good quality base in these markets and we are encouraged by what we have experienced so far. We believe both markets have potential and we will continue to invest in marketing support, advertising, promotions, and tastings, as well as putting country teams in place on the ground. Our aim is to build brand awareness and strengthen distribution. From a strategic point of view, both of these markets have the potential to diversify our sources of revenue over the medium term.

Cider Ireland
The extremely poor weather in the summer of 2007 impacted negatively on sales of Bulmers in the summer period. However, the brand recovered in the second half and, once again, Bulmers confirmed its status as one of the power consumer brands in Ireland.

The Irish licensed trade experienced mixed fortunes in 2007/08. The off trade grew by 6% while the on-trade declined by 2.5%. Our experience with Bulmers confirmed what we have long known about the brand – its strength and resilience in a mature market. Despite a 4% reduction in volume of sales, we ended the year with a record share, by volume and value, of the LAD on-trade and off-trade in the Republic of Ireland. Bulmers’ share of the Irish LAD market increased slightly to 10.6%. This was an exceptional outcome in what had been a very difficult year.

We do not take Bulmers’ pre-eminent position for granted. We continued to invest strongly in maintaining and enhancing the brand through advertising, sponsorships and promotions. In the rapidly growing off-trade, we strengthened our presence through the introduction of new special packs and targeted promotions.

Costs
Reflecting the high cost environment we operate in, we are being hit by a 15% increase in ingredients costs in 2008/09. Part of this increase is accounted for by growth in the cider category, which led to heavier demand for apples in 2007. We have increased our holdings of apple juice, which will give us the benefit of reduced apple requirements in 2008/09.

Re-organisation
In the second half of the year, we conducted a root and branch review of our business. On 15 November 2007, we announced a redundancy programme across all levels of the company and, as a result, there was a reduction of 150 in the number of people employed, most of them at the Group’s cider plant in Annerville, Clonmel. Annualised savings to the Group resulting from the reduction in the numbers employed amounts to €10 million and there was a once off cost of €15.6 million in implementing the redundancies.

We are now a single management structure within a Group Supply / Demand model. As part of the overall restructuring of our business, we strengthened our management presence and leadership in Great Britain through the appointment of John Holberry as Managing Director, Magners Great Britain. John has extensive experience in the drinks industry in Great Britain.
Spirits & Liqueurs

Tullamore Dew enjoyed exceptional growth and showed exceptional potential for even further growth in 2008/09. Worldwide, whiskey - especially Irish whiskey - is increasing rapidly in popularity and Tullamore Dew has been moving faster and further than the overall category.

<table>
<thead>
<tr>
<th></th>
<th>Year ended 29 February 2008</th>
<th>Year ended 28 February 2007</th>
<th>Year ended 28 February 2007*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>€87.5</td>
<td>€79.1</td>
<td>€77.9</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>€15.8</td>
<td>€17.7</td>
<td>€16.7</td>
</tr>
<tr>
<td>Operating Margin %</td>
<td>18.1</td>
<td>22.4</td>
<td>21.4</td>
</tr>
</tbody>
</table>

*constant currency

Tullamore Dew

Tullamore Dew is a star brand. In 2007/08, shipments volumes to the trade increased by 22% and growth in depletions, or sales into the market, is estimated at 19%. In a strongly developing market for whiskey worldwide, Tullamore Dew is growing even more strongly. It has consolidated a clear position as the number two Irish whiskey globally and number one in Central Europe.

Revenue in Spirits & liqueurs, at €87.5 million, represented a 12.3% increase on 2007. Operating Profit decreased by 5.4% to €15.8 million, while Operating Margin declined by 3.3 percentage points to 18.1%. The main factors influencing the decline in Operating Margin were a higher investment in marketing and an increase in the cost of cream for producing Carolans.

Last year saw a big increase in depletions in the United States where the volume of sales has almost doubled and continued strong growth is in prospect. Tullamore Dew appeals to younger consumers who value its smooth flavour derived from being a grain whiskey, with high malt content. In the American market, the provenance of whiskey is a significant deciding factor in consumer choice and in our advertising and marketing we leveraged the positive features of our Irish origin. For example, in our outdoor and press advertising, we used the catch line ‘Born in Ireland, raised everywhere’.

The continued liberalisations of economies worldwide is leading to increased prosperity in many parts of the world outside our traditional markets. The growing middle classes in newly prospering countries are keen to adopt Western ways and products, not least whiskey. As a result, Tullamore Dew has enjoyed exceptional growth in Central and Eastern Europe.

Carolans

The cream liqueur sector is doing well. However, Carolans sales declined by 7% last year largely because of the effects of a price increase early in the year ahead of competition. This increase was necessary because the price of cream increased, as part of the worldwide increase in the price of dairy products.

Frangelico

Frangelico is a premium hazelnut liqueur. It retained strong popularity in some markets, like the United States, Spain and the Canaries, and is growing strongly in Australia, but overall volume of sales was flat compared with the previous year.

Irish Mist

Our Irish whiskey liqueur retained popularity in its main markets - the United States, Ireland and airport duty free.