STOCK
SPIRITS GROUP

Building on our strengths in spirits

Stock Spirits Group PLC
Annual Report & Accounts 2017

STOCK
SPIRITS GROUP

Stock Spirits is a major force in Central and Eastern European spirits

Commanding a major stake in each of our core operating markets and with a growing presence in the wider global market.

We have more than 45 brands and export internationally to more than 50 countries worldwide.

Contents

1. For more information visit **www.stockspirits.com**

2017 financial highlights

Volume in 9 litre cases
13.1m
(2016: 12.3m)

Total revenue
€274.6m
(2016: €261.0m)

Adjusted EBITDA[1]
€56.3m
(2016: €51.4m)

Profit for the year
€11.3m
(2016: €28.4m)

Dividend per share for 2017[2]
8.10€cents
(2016: 7.72 €cents plus special)[3]

Basic earnings per share
6€cents
(2016: 14 €cents)

Leverage[4]
0.94
(2016: 1.16)

Adjusted basic earnings per share[1]
16€cents
(2016: 14 €cents)

Source(s)

1. Stock Spirits Group uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. These include adjusted EBITDA (note 7), free cashflow (note 7) and adjusted basic EPS (adjusted for exceptional items; note 14). The narrative in the Annual Report & Accounts includes these alternative measures and an explanation is set out in note 7 to the consolidated financial statements included in the Annual Report & Accounts
2. Interim dividend of 2.38 €cents paid on 22 September 2017 and proposed final dividend for 2017 of 5.72 €cents
3. A special dividend of 11.90 €cents was also paid during 2016. Total dividend paid for 2016 was 19.62 €cents
4. Leverage is net debt: adjusted EBITDA. Net debt is defined as bank borrowings plus finance leases less cash and cash equivalents

Group at a glance

Award winning brands

We have more than 45 brands and export internationally to more than 50 countries worldwide.

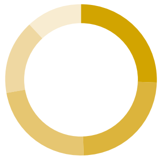
STOCK SPIRITS GROUP

Total Group revenue

€274.6m

2016: €261.0m

Czech Republic



- 25.6% rum
- 24.0% vodka
- 22.7% others
- 15.8% herbal bitters
- 11.9% liqueurs

Volume share of total spirits market 2016[4]

€0.5bn 2017 total off-trade total spirits retail value[5]

54% POLAND

2017 Revenue

€147.7m

2016: €136.9m

Headcount

586

Full Regional Review on Page 32

25% CZECH REPUBLIC

2017 Revenue

€68.8m

2016: €63.2m

Headcount

204

Full Regional Review on Page 36

10% ITALY

2017 Revenue

€28.1m

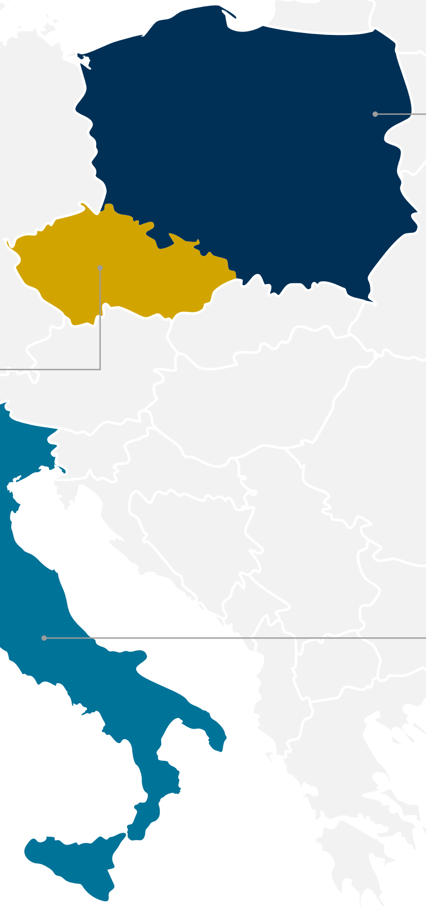
2016: €29.4m

Headcount

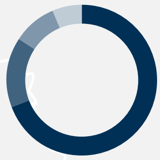
54

Full Regional Review on Page 38

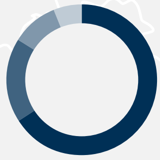
Our markets



Poland



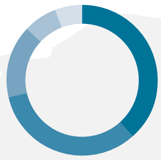
Volume share of total spirits market 2016[1]



Volume share of total vodka, flavoured vodka and vodka-based liqueurs by trade channel[2]

€3.3bn 2016 total off-trade total spirits retail value[3]

Italy



Volume share of total spirits market 2016[6]

€1.3bn 2017 total off-trade total spirits retail value[7]

11% OTHER

2017 Revenue

€30.0m

2016: €31.5m

Headcount

136

Full Regional Review on Page 40

Source(s)

1. IWSR total Poland spirits MAT Volume December 2016
2. Nielsen total Poland, total off-trade, total vodka, favoured vodka and vodka based liqueurs MAT Volume December 2017 (Note: A “coverage factor” of 1.18 x has been applied by management to the Nielsen traditional trade data. The coverage factor is derived from the historical difference between IWSR data and Nielsen data. Management considers that IWSR data more accurately represents the traditional trade in Poland)
3. Nielsen total Poland, total off-trade, total spirits and spirit based RTD’s MAT Value December 2017
4. IWSR total Czech Republic, total off and total on-trade, total spirits MAT Volume December 2016
5. Nielsen total Czech Republic, total off-trade, total spirits MAT Value December 2017
6. IWSR total Italy, total off-trade and on-trade, total spirits MAT Volume December 2016
7. IRI total Italy, total modern trade, discounters and cash & carries, total spirits MAT Value December 2017

Strategy in action

WE SELL

Stock 84 new branding and relaunch

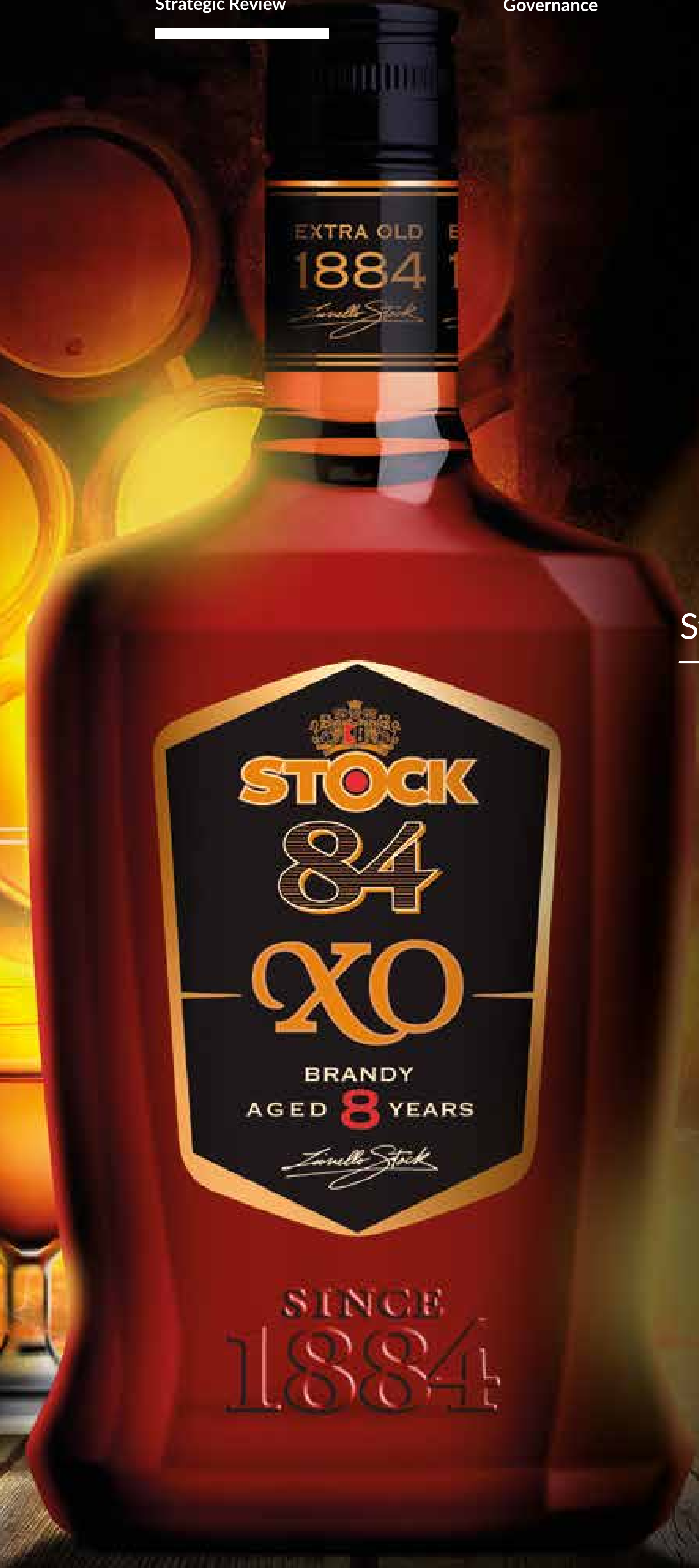
Stock 84 is one of the flagship brands of the Stock Spirits portfolio with over 130 years of heritage, founded by visionary Lionello Stock, who first produced his own Italian brandy in 1884.

Throughout its history, Stock 84 has been available in 24 countries across the world, with variations to its range, packaging and branding over time. This redesign brings a renewed consistency to the product range globally, whilst giving it a fresher and more modern look.

Stock Spirits conducted exhaustive market research to ensure the redesign was in line with consumers' high expectations for Stock 84, working with leading Italian design agencies on the redesign project. The new bottle stays faithful to the traditional Stock 84 silhouette, but with a modern twist that adds a premium feel.

130+

years of heritage



Strategic Review

Chairman's statement

Looking to the future with a stronger base

As Chairman of Stock Spirits Group PLC, I am pleased to present our Annual Report and Accounts for the year ended 31 December 2017.

After a year of great change in 2016, the Group entered 2017 with a significantly strengthened and experienced Board and Executive team who have a strong commitment to turning round the fortunes of the business. 2017 was a year of stabilisation for Stock Spirits, embedding the significant changes accomplished in 2016 whilst continuing to address the competitive challenges that remain in our markets, particularly that of our largest market, Poland. We believe we have stabilised in this market and the local management team continues to drive through change and improvements.

David Maloney
Chairman

While the Board's major focus remained on returning our Polish business to growth, we also considered the Group's future wider priorities. A comprehensive review of the Group's strategy was carried out in the latter half of the year. The chief conclusion from this process was that our strategy as outlined at the time of the IPO remains as relevant as ever. However, to achieve our goals we need to respond better to developments and changes in our key markets; to execute those plans more effectively and to focus more on the ultimate consumers of our products, rather than just on internal KPIs. The major focus of our updated strategy, therefore, is to concentrate on our largest value drivers, our brands. Mirek will cover the detail of our conclusions and plans more thoroughly in his Chief Executive's Report.

Given our operational progress we are better able to return to the other key element of our IPO strategy which is growth through mergers and acquisitions (M&A).

During 2017, we continued to review 'bolt-on' opportunities and we were pleased to announce our 25% investment in premium Irish whiskey brands, The Dubliner and The Dublin Liberties in July this year. Now that Poland has been stabilised, we return to looking at larger, more strategic opportunities to deliver enhanced growth and shareholder value for the future. More detail about the updated strategy is set out on pages 16 and 17.

Dividend

I am also pleased to announce our proposed final dividend for the year of 5.72 €cents per share (2016: 5.45 €cents per share). This takes the total dividends paid for the year to 8.10 €cents per

"We return to looking at larger, more strategic opportunities to deliver growth and shareholder value for the future."

share (2016: 19.62 €cents per share, which also included a special dividend of 11.90 €cents per share). The adjusted free cashflow conversion of the Company continues to be a strength and at 86.3% (2016: 94.1%) remains robust. The dividend policy has been revisited and the Board is moving from the 35% of net free cashflow (free cashflow after investments) approach outlined at IPO, in favour of progressive dividends where cashflow permits. We also reiterate our commitment to return surplus cash to shareholders should no meaningful capital investment or M&A opportunities arise.

People

At the time of our interim results, we announced that Lesley Jackson, our Chief Financial Officer (CFO), would be retiring and would be replaced by Paul Bal. I would like to personally thank Lesley for her hard work and dedication to Stock Spirits; she took the Company through the IPO and has worked tirelessly over the years. Paul took office in November 2017 and has made a great start in the Company and I look forward to working with him more in the future.

Randy Pankevicz, Non-Executive Director, notified the Board of his resignation as a Director of the Company to enable him to focus on his personal investments. He does not intend to seek re-election at the forthcoming AGM.

The Board would like to thank Mr Pankevicz for his contribution to the Company over the last two years and wish him well for the future.

Governance

The retirement of Lesley and the appointment of Paul as CFO was the only Board change in the year.

Following the more extensive changes to the Board in 2016, the new members have been fully engaged not only in the strategic review process but have also made significant and valuable contributions in all Board matters. I am pleased with the results. All Board Committee compositions are fully compliant with the Corporate Governance Code. See page 55 of this report for further details. The Board and its various Committees have met regularly throughout the year and an internal Board evaluation exercise was undertaken during the year (see page 58).

Looking ahead

As I have mentioned previously, the implications of Brexit on the Group are not considered material at this stage, but we will continue to monitor progress on the negotiations currently taking place.

With a stable Board, senior management team and award-winning brands, I am looking forward to delivering on our refreshed strategy to ensure growth and increased shareholder returns.

David Maloney
Chairman

7 March 2018

Why invest in Stock Spirits?

We have many key strengths which we leverage to deliver our plans

WE PREMIUMISE
Our range commands higher margins

Consumers' increasing disposable income prompts growing demand for perceived higher quality, differentiated spirits. We develop our brands and range continuously in selected categories to provide consumers with compelling reasons to pay more and to build equity that can withstand price competition.

Revenue from premium brands

€56.6m
(2016: €47.2m)

WE SELL
Our distribution platforms

Our markets combine off-trade distribution platforms with critical mass and quality of commercial execution in the on-trade. We pride ourselves in our management of customer and key account relationships.

Volumes (million 9 litre cases)

13.1m
(2016: 12.3m)

WE MARKET
Management of third party brands

Our distribution, sales and marketing capabilities combined with excellent legal and ethical compliance provides a strong platform for third party brand distributors. We have recently renewed our contract with Diageo in the Czech market and continue to strengthen the Beam portfolio in Poland and other markets.

Jim Beam % volume market share of whisky in Poland

9.5%
(2016: 7.3%)

WE MANUFACTURE
Our manufacturing capabilities

We have world class manufacturing capabilities in Poland, the Czech Republic and Germany, able to produce high volumes to a high quality standard with high levels of customer service. Having a centralised procurement team results in significant purchasing power.

Speed of a Polish bottling line (No. of bottles per hour)

44k

(2016: 42,000)

WE REINVEST
Low financial leverage

Our financial leverage allows the Company to have an efficient capital structure with headroom to support organic and M&A projects. Our cashflow conversion is also robust, for the 2017 financial year we converted 86.3% of profits into cash.

Leverage

0.94x

(2016: 1.16x)

WE GROW
M&A capabilities

We have completed two bolt-on acquisitions since 2016 and have financed both from our financing facilities. In July 2017 we completed the 25% investment in Quintessential Brands Ireland Whiskey Ltd, gaining access to premium brands in the highest growth categories in our markets.

Consideration paid

€15m

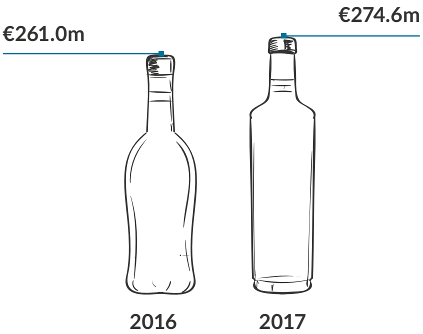
(2016: €5m)

Our markets

Macro consumer trends contribute to spirits value growth

Geographic breakdown

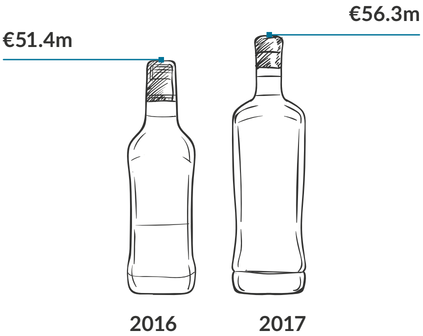
Poland	54%
Czech Republic	25%
Italy	10%
Other	11%



Total Group revenue

€274.6m

(2016: €261.0m)



Adjusted EBITDA

€56.3m

(2016: €51.4m)

The performance of spirits in our markets, as in any other geography, is linked to shifts in demographics, fluctuations in the performance of local economies with the associated impact on consumer confidence and disposable income, plus the regulatory environment.

A number of positive underlying macro consumer trends, outlined in more detail below, are anticipated to contribute to spirits value growth in our markets.

In the short term, disposable incomes may fluctuate with economic and regulatory circumstances, but the long term evolution of our markets has seen a progressive growth in standards of living and disposable income and with them an expansion of consumer choice which is positively impacting the demand for higher value spirits in the region.

The sustainable growth of Stock Spirits reflects our ability to identify and take advantage of these trends by evolving our brand portfolio, supported by consistent investment in brand communications, innovation and operational capabilities.

Desire for affordable luxury

As disposable income grows, greater numbers of consumers in our markets are able to choose higher quality products for which they are prepared to pay more. They seek spirits from trustworthy brands of better and more consistent quality than they were able to purchase historically. This can be through a desire to display their own success, expertise, values or lifestyle through their choice of brands, but the behaviour can also be driven by the desire to retain accessible everyday luxuries when economic times are challenging. Affordable, perceived high quality brands remain the preferred choice and spirits can be just such an affordable luxury.

Diversification of drinking occasions

The number and variety of drinking occasions in our markets is evolving over time, with a gradual increase in "on the go" and "out of home" drinking occasions accompanying social change.

These drinking occasions are a growing part of consumption routines and open up opportunities for different formats and pack sizes. At home drinking is diversifying, with a move from traditional meal associated usage to contemporary needs such as connoisseurship, by choosing higher quality spirits as a reward at the end of the day.

Increased spirits consumption amongst females and young adults

Changes in society in our markets are prompting greater consumption by female and young adult drinkers and these consumers seek different tastes and alcohol by volume to those available historically. Flavoured spirits and relatively lower alcohol spirits have grown faster than traditional spirits in recent years as females and younger adult drinkers seek easy drinkability and tastes which appeal to mixed gender groups of friends. There is also a growing desire for innovation and novelty as these consumers see their drinks choice as a means of self-expression and want to drink new and different flavours.

Growing confidence in local provenance

Immediately after the collapse of the old regimes in Central and Eastern Europe, there was a limited number of high quality brands of local provenance available, a sense that international brands were superior, coupled with a historical suspicion of inconsistent quality and counterfeiting. Now that the new economies are longer established and memories of the old regimes are fading, there is a resurgence of pride in local achievements, provenance and culture and a dawning recognition that local brands can be as good or superior to imported ones.

The new premiumised Božkov Republica launched in February 2018

Macro consumer trends contribute to spirits value growth

Local spirits remain the vast majority of spirits volume in Central and Eastern Europe and there is a noticeable trend to drink better quality exponents of those local spirits from trusted brands and manufacturers. The fact that many of these markets are "dark", i.e. marketing communications are strictly regulated and limited, makes it harder for imported brands to build share through the deployment of heavyweight advertising investment in the fashion often witnessed in other markets. In this context, affordable, high quality local brands with authenticity and provenance are well placed to act as a bridge to the fulfilment of rising consumer aspirations.

Increasing international mobility

Before the fall of the old regimes in Central and Eastern Europe and the reunification of Europe, international travel was extremely limited for the residents of our core markets, as were direct encounters with other international cultures. There were very limited visits to our markets by foreign visitors. The situation is radically different today and is likely to remain so going forward. A combination of greater numbers of consumers in our core markets travelling widely abroad for work, education or pleasure, plus hugely increased numbers of visitors from abroad visiting our markets for the same reasons, is influencing local drinking cultures. New usage categories and size formats are developing in response to increased international mobility.

Raised awareness of health and social responsibilities

A combination of government regulation and increased consumer awareness of the health and social responsibility issues associated with alcohol consumption is prompting demand for lower alcohol by volume spirits ranges and increased consumption of spirits in longer mixed drinks, rather than purely as shots, the traditional mode of consumption in much of Central and Eastern Europe. There is also a growth in consumer interest in the use of perceived "natural" rather than "artificial" ingredients, sourced where possible, from identifiable, trustworthy local producers. Spirits brands whose ranges include lower alcohol by volume and versatile mixers and which use natural ingredients are well placed to take advantage of this trend.

Spirits well placed to grow value sustainably

The combination of our aspirational brands, wide range of innovative tastes, breadth of options by alcohol content and flexible packaging formats, mean Stock Spirits is well placed to grow sustainably in our markets by continuing to meet these evolving consumer needs.

Strategy in action

WE PREMIUMISE

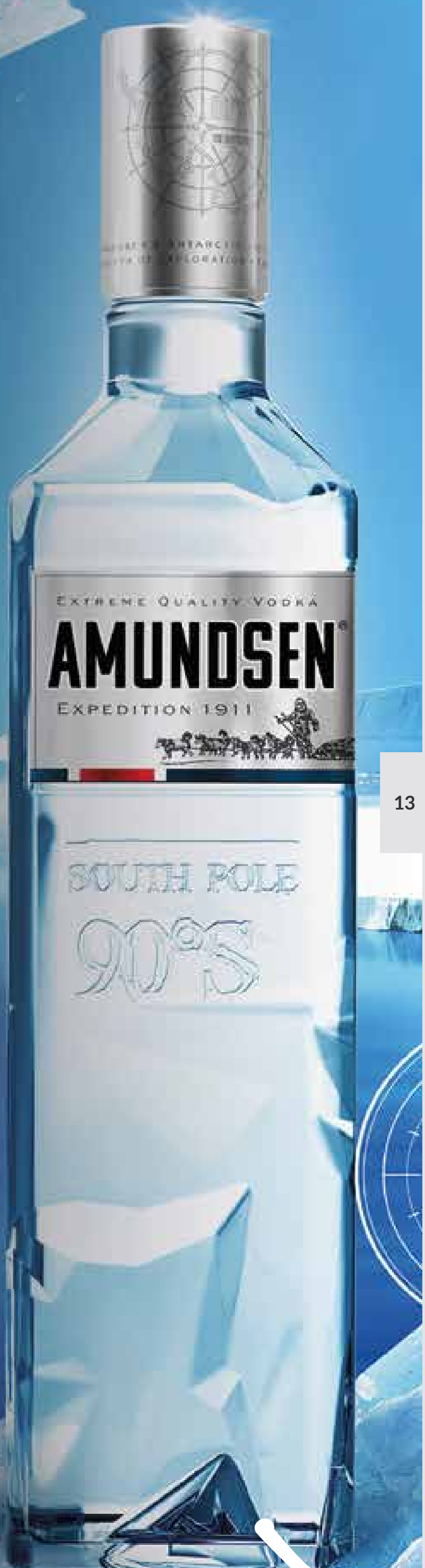
Amundsen Expedition

Stock Spirits saw an opportunity to launch a top premium clear vodka with multi-national appeal across all of its wholly owned sales and marketing operations. A great example of leveraging Group synergies.

Comprehensive qualitative and quantitative multi-market consumer research was conducted to determine the optimal liquid and brand proposition to achieve this. The result was Amundsen Expedition vodka.

Amundsen Expedition combines a universally recognisable physical benefit – the chilled, pristine purity of glacial water and the South Pole, an idea understood by consumers across our markets, with an emotional proposition with multi-national appeal, the desire for exploration, discovery and new experiences.

Amundsen Expedition is the first Stock Spirits vodka to be distributed in all of the markets where we have wholly owned sales and marketing operations, and has leveraged Group synergies to enter top premium vodka with a unified solution.



1st

vodka to be distributed in all of the markets where we have wholly owned sales and marketing operations

Our business model

What we do

We develop

We develop profitable new products swiftly, to capitalise on consumer trends and enhance our core range.

We source

We operate a central buying function with the aim of sourcing raw materials on the most competitive terms.

We manufacture

We have 382 million litres of bottling capacity at our two main production sites in Poland and the Czech Republic, and an ethanol alcohol distillery in Germany that provides more than half of the Group's alcohol requirements. We also operate a small distillery in the Czech Republic.

We market

Our own 45+ brands span a range of spirits including vodka, vodka-based flavoured liqueurs, rum, whisky, brandy, bitters and limoncello.

We seek to offer profitable products across price points and supplement our in-house portfolio with premium third party brands.

We engage

Digital is a core channel, not only for us to market our brands but also to engage with consumers, whose feedback informs our new product development.

We sell

We employ dedicated sales teams to serve the differing needs of on-trade, off-trade and wholesale customers.

We have wholly owned sales and marketing operations in Poland, the Czech Republic, Italy, Slovakia, Croatia and Bosnia & Herzegovina. We work with third party distributors in 40+ other countries.

We research

We undertake extensive market research to understand emerging consumer trends globally as well as in our local markets.

We reinvest

We see ample opportunities for acquisitions to complement our organic growth strategy.

How we think

Mixing global FMCG best practices and local insights to create value for our stakeholders.

Investment to grow
From development of our people to investment in consumer and customer insights, IT and marketing support, we allocate resources to drive the sustainable, profitable growth of the Group.

Efficiency
We seek to optimise efficiency – whether in our operations, marketing, the utilisation of our working capital or our financing strategy – but without compromising quality.

Responsibility
Ethical practices, sustainability and providing opportunities for our colleagues are important to us, and we work hard to promote a responsible attitude to drinking.

Continuous improvement
We aim to ensure that our product quality and operational processes are of the highest standard and constantly seek to improve.

Accountability
We have cascaded accountability for shareholder value and profitability throughout the Group.

To read more about our strengths, see Why invest in Stock Spirits? on page

08 ›

We deliver...

Financial performance

Financial strength

Market position

Read more about our Key Performance Indicators on page

18 ›

Our strategy

Looking out to 2020

Four priorities for growth built upon a strong foundation.

Premiumisation

Millennials

	Premiumisation	Millennials
Meaning	Ensuring brand equity is increased, driven by clear brand marketing strategies and positioning of our brands, that enables us to command higher price positions	Increased awareness and focus on this valuable segment of consumers
Aim	**30% of Group revenue to come from premium brands**	**Attract internationally-minded consumers to our local brands**
How	• Whisky strategy • New Product Development (NPD) process • World class brand partners	• Marketing insight investment • Provenance of local brands • High Potential (HIPO) management pipeline

A solid foundation forged from:

Strong governance

- compliance
- ethics
- transparency

Engaged people

- empowerment
- talent management
- line of sight

It's not a revolution… just a reformulation

At the IPO in 2013, the Group's strategy could be summarised as:

1. Further develop a strong brand portfolio in existing markets
2. Utilise purchasing and production capabilities to deliver quality products with a competitive cost advantage
3. Expand distribution capability
4. Invest in people and develop management talent
5. Invest in markets with strong growth potential
6. Pursue acquisition opportunities across Central and Eastern Europe

Digital

Using digital marketing to underpin brand execution and to engage and keep pace with consumer habits

Regularly communicating with 75% of targeted consumers through digital channels

- Combined IT/digital strategy
- Common digital marketing architecture
- Digitalised processes

M&A

Looking at larger, more strategic opportunities to deliver growth and shareholder value for the future

Consider larger, more transformational M&A opportunities

- Cost and growth synergies
- Brand portfolio enhancement
- Geographic expansion
- Strategic move

Focused resources

- sales and operational planning (S&OP) process
- insight-driven
- strategic planning

Small company agility

- flat structures
- devolved responsibility
- speed

Key performance indicators (KPIs)

Measuring our success

The Board has chosen a number of key performance indicators to measure the Group's progress. The table sets out these indicators, how they relate to strategic priorities and how we performed against them.

Financial Performance

Volumes of product sold

Why we measure it:

To ensure that we are growing the business in a balanced manner.

Total clear vodka volume
millions 9 litre cases

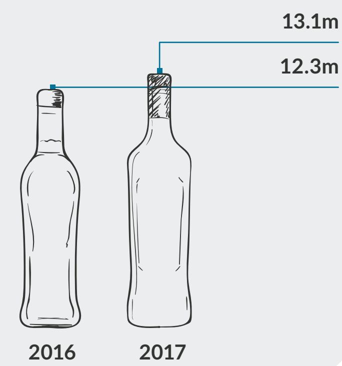
2017 6.0
2016 5.4

Total other volume
millions 9 litre cases

2017 7.1
2016 6.9

Total other volume
millions 9 litre cases

13.1m



Total Group revenue

Why we measure it:

To ensure that we are growing the revenue of the business.

Total Group revenue

€274.6m

(2016: €261.0m)

EPS

Why we measure it:

To provide a measure of underlying shareholder value, excluding exceptional items.

EPS (basic)
€cents per share

2017 6
2016 14

EPS (basic adjusted)
€cents per share

2017 16
2016 14

Adjusted EBITDA & adjusted EBITDA margin[1]

Why we measure it:

To track the underlying performance of the business and ensure that sales growth is translated into profit.

Adjusted EBITDA[1]
€m

2017 56.3
2016 51.4

Adjusted EBITDA margin
%

2017 20.5
2016 19.7

Source(s)

1. Stock Spirits Group uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. These include adjusted EBITDA, free cashflow (note 7) and adjusted basic EPS (adjusted for exceptional items; note 14). The narrative in the Annual Report & Accounts includes these alternative measures and an explanation is set out in note 7 to the consolidated financial statements included in the Annual Report & Accounts
2. Net debt is defined as bank borrowings plus finance leases less cash and cash equivalents

The Group retains very strong liquidity, significant headroom in our borrowings and a robust balance sheet, providing us with the financial strength to take the business forward and deal with shocks.

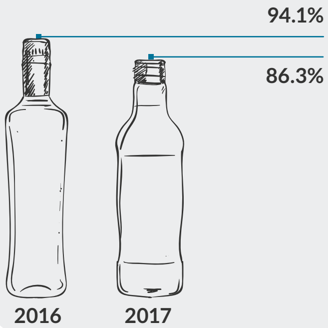
Financial Performance

Adjusted free cashflow conversion[1]

Why we measure it:

To ensure that we are converting profit into cash.

Adjusted free cashflow as % of adjusted EBITDA[1]



% of revenue from premium brands

Why we measure it:

To ensure brand equity is increased, that enables us to command higher price positions.

Revenue from premium brands
%

2017	21.6
2016	18.7

Financial Strength

Leverage

Why we measure it:

To ensure that we have an efficient capital structure with headroom to support organic and inorganic growth. This is an important measure for both our banks and shareholders.

Net debt[2] /Adjusted EBITDA[1]

0.94
(2016: 1.16)

Market Position

Value market share

Why we measure it:

To maintain focus on growing value, not just volume at any expense.

Poland[3]

2017	26.7%
2016	26.6%

Czech Republic[4]

2017	33.6%
2016	32.1%

Italy[5]

2017	5.6%
2016	5.7%

Volume market share

Why we measure it:

To ensure that we measure our underlying market position relative to our competitors.

Poland[3]

2017	26.0%
2016	25.3%

Czech Republic[4]

2017	36.6%
2016	34.2%

Italy[5]

2017	6.0%
2016	6.1%

3. Nielsen, total Poland, total off-trade, total vodka, flavoured vodka & vodka-based liqueurs MAT volume and value December 2017
4. Nielsen, total Czech Republic, total off-trade, total spirits, MAT volume and value December 2017
5. IRI retail sales data, total Italy, total modern trade and discounters and C&C, total spirits, MAT value and volume December 2017

Principal risks and uncertainties

Our internal controls framework mitigates the risks

Viability statement

The Directors have assessed the viability of the Group over a three-year period and confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due. The Directors have determined that the three-year period to December 2020 is an appropriate period over which to provide its viability statement, after taking into consideration a number of factors, including that the Group's strategic planning process covers a three-year period and that the spirits industry is considered to be non-cyclical.

The Directors' assessment has been made with reference to the Group's current position, the Group's strategy, the Board's risk appetite and the principal risks facing the Group in severe but plausible scenarios, taking account of the velocity of the risk impact and the effectiveness of any mitigating actions, including insurance, as detailed above. The strategy and associated principal risks underpin the Group's three-year plans and scenario testing, which the Directors review annually.

This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period. Whilst this review does not consider all of the risks that the Group may face, the Directors consider that this stress-testing based assessment of the Group's prospects is reasonable in the circumstances.

Approval of Strategic Report

The Strategic Report comprising pages 1 to 49 was approved and signed on behalf of the Board.

Mirek Stachowicz
Chief Executive Officer
7 March 2018

Principal risks and uncertainties

Stock Spirits believes the following to be the principal risks facing its business and the steps we take to manage and mitigate these risks. Risks are identified and assessed through a combined bottom-up and top-down robust assessment, as explained in the Corporate governance framework section of this Annual Report on page 55. If any of these risks occur, Stock Spirits' business, financial condition and performance might suffer and the trading price and liquidity of the shares may decline. Not all of these risks are within our control and this list cannot be considered to be exhaustive, as other risks and uncertainties may emerge in a changing business environment.

Risk level change key	Risk rating key
↑ HIGHER	● HIGH
↓ LOWER	● MEDIUM
→ LEVEL	● LOW

Risk description and impact	Change in 2017	How we manage and mitigate	Risk rating
Economic and political change, including Brexit The Group's results are affected by overall economic conditions in its key geographic markets and the level of consumer confidence and spending in those markets. The Group's operations are primarily in Central and Eastern European markets where there is a risk of economic and regulatory uncertainty. In the Group's experience, the local laws and regulations in the region where it operates are not always fully transparent, can be difficult to interpret and may be applied and enforced inconsistently. In addition, the Group's strategy involves expanding its business in several emerging markets, including in certain Central and Eastern European countries that are not members of the European Union. Political, economic and legal systems and conditions in emerging market economies are generally less predictable. The extent of the economic and political instability created by Brexit remains difficult to predict.	→ Brexit uncertainty continues, though the impact on our business is limited so far: the ongoing weakening of Sterling following Brexit has had a favourable impact on translation of results of our UK business.	We monitor and analyse economic indicators and consumer consumption trends, which in turn influences our product portfolio and new product development. The majority of countries that we currently operate in are part of the European Union, and therefore are subject to EU regulation. We monitor the economic conditions within each market and review our product portfolio, route to market and adjust our position accordingly. We continue to monitor the impact of Brexit and will react promptly as we consider appropriate. Given that we do not produce or export from the UK, we continue to believe the impact of Brexit upon the Group will not be significant.	●
Taxes Increases in taxes, particularly increases to excise duty rates and VAT, could adversely affect demand for the Group's products. Demand for the Group's products is particularly sensitive to fluctuations in excise taxes, since excise taxes generally constitute the largest component of the sales price of spirits. The Group may be exposed to tax liabilities resulting from tax audits: the Group has in the past faced, currently faces and may in the future face, audits and other challenges brought by tax authorities. Changes in tax laws and related interpretations and increased enforcement actions and penalties may alter the environment in which the Group does business. In addition, certain tax positions taken by the Group are based on industry practice and external tax advice and/or are based on assumptions and involve a significant degree of judgement.	→ In addition to the ongoing tax inspections in Italy, Czech and Poland that were disclosed in last year's Annual Report & Accounts, during 2017 our German subsidiary received notification from the German tax authorities of the commencement of a tax audit covering its 2014 and 2015 corporate income tax return. To date, no tax assessment has been received in respect of this open audit.	Through our membership of local market spirits associations we seek to engage with local tax and customs authorities as well as government representatives and, where appropriate, provide informed input to the unintended consequences of excise increases e.g. growth of illicit alcohol and potential harm to consumers. The Group engages the services of a professional global firm of tax advisors and undertakes regular audits of our own tax processes, documentation and compliance. We aim to operate the business in a tax-efficient and compliant manner at all times. We make appropriate provisions where tax liabilities appear likely.	●
Strategic transactions Key objectives of the Group are: (i) the development of new products and variants; and (ii) expansion, in the Central and Eastern European region and certain other European countries, through the acquisition of additional businesses. Unsuccessful launches or failure by the Group to fulfil its expansion plans or integrate completed acquisitions could have a material adverse effect on the Group's growth potential and performance.	→ Our NPD process has delivered successful innovations, including Black Fox herbal bitter liqueur in Czech during 2017. We continuously seek to strengthen our portfolio. During 2017, we acquired a 25% stake in Quintessential Brands Ireland Whiskey Ltd, giving us significant equity interest in the fast growing Irish Whiskey category.	We continue to seek value-accretive acquisition targets and have an experienced management team capable of exploring, pursuing and executing transaction opportunities swiftly and diligently, however the owners of target businesses may have price expectations that are beyond the valuation that we can place on their business. If we are unable to complete meaningful acquisitions, we will consider distributing surplus cash to shareholders.	●

Principal risks and uncertainties continued

Risk description and impact	Change in 2017	How we manage and mitigate	Risk rating
Consumer preferences Shifts in consumer preferences may adversely affect the demand for the Group's products and weaken the Group's competitive position. A decline in the social acceptability of the Group's products may also lead to a decrease in the Group's revenue. In some countries in Europe, the consumption of beverages with higher alcohol content has declined due to changing social attitudes towards drinking (see Our Markets section).	→ Overall, there has been little change in consumer preferences during 2017, although our Keglevich brand continues to suffer from ongoing changes in its target consumers' habits resulting from poor macro-economic conditions in Italy.	The Group undertakes extensive consumer research and has a track record of successful new product development to constantly meet changing consumer needs. We have developed a range of lower alcohol products and feel confident that we have the expertise to continue to develop products that meet and satisfy consumer needs.	
Talent The Group's success depends substantially upon the efforts and abilities of key personnel and its ability to retain such personnel. The executive management team has significant experience and has made an important contribution to the Group's growth and success. The loss of the services of any member of the executive management team of the Group or of a company acquired by the Group, could have an adverse effect on the Group's operations. The Group may also not be successful in attracting and retaining such individuals in the future.	↓ During the year we continued to strengthen our management team with new appointments in digital marketing, NPD, operations, legal and finance.	The Group operates a competitive remuneration policy that aims to retain, motivate and, where necessary, attract key individuals. We have developed a leadership framework to guide our talent management and a formal succession planning process to mitigate the risk of losing key personnel.	
Marketplace and competition The Group operates in a highly competitive environment and faces competitive pressures from both local and international spirits producers, which may result in pressure on prices and loss of market share. This has been particularly evident in Poland historically (see Chief Executive's statement). Changes in the Group's distribution channels may also have an adverse effect on the Group's profitability and business. A significant portion of the Group's revenue is derived from a small number of customers. The Group may not be able to maintain its relationships with these customers or renegotiate agreements on favourable terms, or may be unable to collect payments from some customers, which will lead to an impact in its financial condition. The Group is also dependent on a few key products in a limited number of markets which contribute a significant portion of its revenue.	→ In Poland, we continued to respond to price reductions by competitors and demonstrated our resilience by growing our market share in key categories without a significant impact on our profit margins.	The Group has mechanisms and strategies in place to mitigate the damage of profit erosion but there is no assurance they may work in the economies and competitive environments in which we operate. We constantly review our distribution channels and our customer relationships. We understand the changing nature of the trade channels and customer positions within those channels. We trade across all channels and actively manage our profit mix by both channel and customer. We have well-established credit control policies and procedures and we put in place trade receivables insurance where it is cost effective to do so.	

Risk description and impact	Change in 2017	How we manage and mitigate	Risk rating
Exchange rates The Group's business operations and results reported in Euros are subject to risks associated with fluctuations in currency exchange rates. The Group generates revenue primarily in Polish Złoty and secondarily in Czech Koruna and a large portion of the Group's assets and liabilities are denominated in Złoty and Koruna. The Group's non-trading activities are conducted through its Corporate Office in the UK and are mainly transacted in GB Pounds. Additionally, the Group's financial covenants are tested in Euros. Consequently, movement in the other currencies in which the earnings, assets and liabilities of the Group's subsidiaries are denominated could adversely impact the Group's ability to comply with these financial covenants. See Financial Review section for more detail about the impact of foreign exchange.	↓ During the year, the majority of foreign exchange exposure reported within operating profit arose on the devaluation of the British Pound, which reduced corporate office costs on a translated basis.	The Group aims to hedge transaction risk by matching cashflows, assets and liabilities through normal commercial business arrangements where possible. For example, all debt is currently drawn in local currency by market. For locations where we have non-trading activities, there is a limitation on the natural hedging that is available to cover currency exchange risk. We monitor currency exposure as an integral part of our monthly review process and, where appropriate, implement hedging instruments.	● (Medium)
Disruption to operations or systems The Group's operating results may be adversely affected by disruption to its production and storage facilities, in particular its main production facilities in Poland and the Czech Republic, or by a breakdown of its information or management control systems.	→ During 2017, we experienced an equipment malfunction in our Baltic distillery, which resulted in the temporary shut down of production at that site. However, contingency plans were enacted, and no disruption was caused to our business.	In addition to holding appropriate insurance cover to protect the business in the event of a production disruption or other business interruption, our two primary bottling sites offer sufficient flexibility that each site is capable of bottling all of our core SKUs. We also have well-established and tested Business Continuity and Disaster Recovery policies. Our information and management control systems are subject to internal audit following a risk-based methodology. We also periodically engage independent specialists to assess and test the security and resilience of our network against hacking and other cyber threats, which include penetration testing.	● (Medium)

Risk level change key

↑ HIGHER
↓ LOWER
→ LEVEL

Risk rating key

● HIGH
● MEDIUM
● LOW

Principal risks and uncertainties continued

Risk description and impact	Change in 2017	How we manage and mitigate	Risk rating
Laws and regulations The Group is subject to extensive laws and regulations limiting advertising, promotions and access to its products, as well as laws and regulations relating to its operations, such as health, safety and environmental laws. These regulations and any changes to these regulations could limit its business activities or increase costs. In some cases, such as the recent introduction in Poland of restrictions on retailers trading on Sundays, the changes in law impact the Group indirectly. The Group may be affected by litigation directed at the alcoholic beverages industry and other litigation such as intellectual property disputes, product liability claims, product labelling disputes and administrative claims. The Group may be exposed to civil or criminal liabilities under anti-bribery or anti-trust laws and any violation of such laws could have a material adverse effect on its reputation and business.	→ Preparations for the implementation of the EU General Data Protection Regulations in May 2018 are in progress. The EU is currently considering regulatory changes that would prohibit or restrict the use of a particular rum aroma that is currently used in our Božkov tuzemsky product in Czech Republic. Through the Czech spirits industry association and the relevant Czech government departments, we have closely monitored and participated in the process and, although the final outcome is not yet clear, we do not anticipate a significant impact upon our business.	The Group has established clear processes and controls to monitor compliance with laws and regulations, and changes to them, and also any litigation action. We operate a detailed anti-bribery and anti-trust policy and process. Regular update training is conducted across the business and we undertake regular reviews to assess the adequacy and effectiveness of our policies and processes.	●
Supply of raw materials Changes in the prices or availability of supplies and raw materials could have a material adverse effect on the Group's business. Commodity price changes may result in increases in the cost of raw materials and packaging materials for the Group's products due to a variety of factors outside the Group's control. The Group may not be able to pass on increases in the costs of raw materials to its customers and, even if it is able to pass on cost increases, the adjustments may not be immediate and may not fully offset the extra costs or may cause a decline in sales volumes.	→ Our cost optimisation initiatives in procurement, including more centralised purchasing, have allowed costs of goods to remain largely flat.	Where possible and appropriate the Group will negotiate term contracts for the supply of core raw materials and services on competitive terms to manage pricing fluctuations.	●

Risk description and impact	Change in 2017	How we manage and mitigate	Risk rating
Funding and liquidity Market conditions could subject the Group to unexpected needs for liquidity, which may require the Group to increase its levels of indebtedness. Access to financing in the longer term depends on a variety of factors outside the Group's control, including capital and credit market conditions. Higher interest rates and more stringent borrowing requirements could increase the Group's financing charges and reduce profitability.	→ Significantly lower finance costs continued during 2017 as a result of the refinancing of bank facilities in 2015.	The Group maintains a strong focus on cash, our future requirements for funding and the overall external market for financing. We undertake regular and detailed reviews of both short-term and longer-term liquidity requirements by market, including our growth ambitions. We are confident that we have the appropriate processes and relationships in place to respond to any unexpected liquidity needs and have not only secured lower cost and more flexible re-financing, but have also placed ourselves in the best position to access funding in the longer term.	● (Medium)

Risk level change key

↑ HIGHER
↓ LOWER
→ LEVEL

Risk rating key

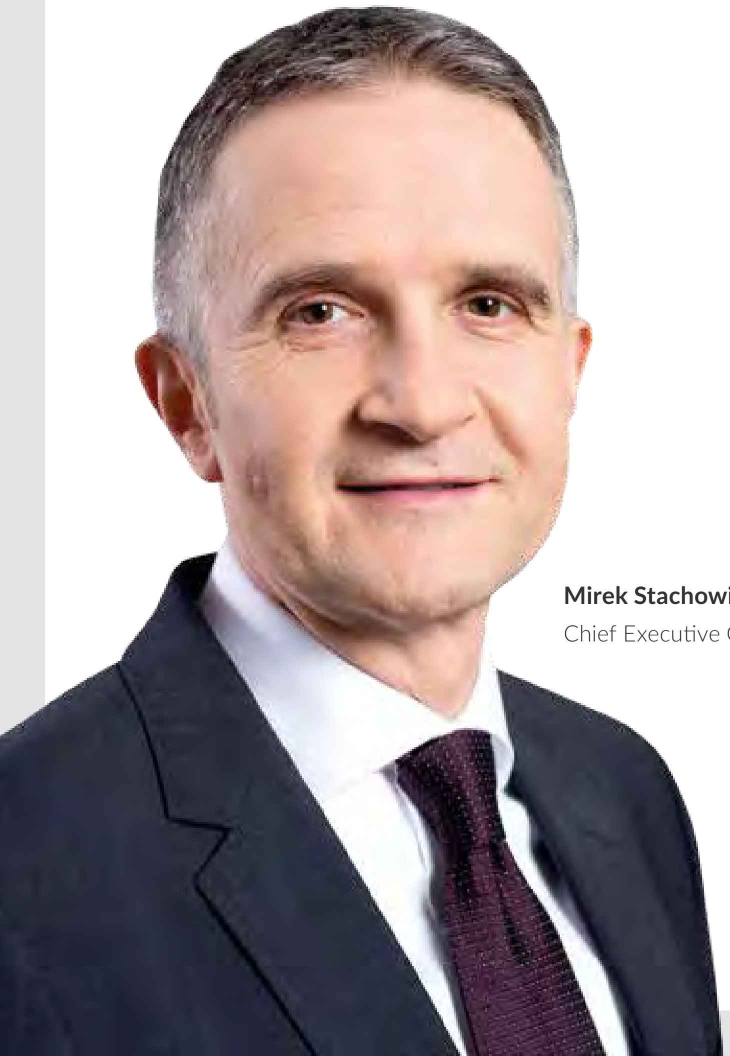
● HIGH
● MEDIUM
● LOW

Chief Executive's statement

2017 was a year of stabilisation and turnaround, producing encouraging tangible results

Stabilisation involved embedding changes set in motion since 2016.

Some of this change enabled the re-allocation of resource to the front-end of the business. Turning around Poland was 2017's top priority, through a combination of aligned pricing, a restructured sales team and driving efficiencies across the entire organisation. We invested in Poland, and we are seeing positive results.



Mirek Stachowicz
Chief Executive Officer

Introducing our four strategic pillars

Premiumisation
Ensuring brand equity is increased, driven by clear brand marketing strategies and positioning of our brands, that enables us to command higher price positions

Millennials
Increased awareness and focus on this valuable segment of consumers

Digital
Using digital marketing to underpin brand execution and to engage and keep pace with consumer habits

M&A
Looking at larger, more strategic opportunities to deliver growth and shareholder value for the future

See our Strategy on page
16 >

Volume: 9 litre cases

13.1m

(2016: 12.3m)

Total Revenue

€274.6m

(2016: €261.0m)

Group financial performance

Evidence of stabilisation and turnaround is in the results: growth in volume, share, revenues, profitability and cashflow. The balance sheet strengthened further, as net debt was reduced, and financing facilities were extended.

Turnaround in Poland

Our first focus was embedding the changes initiated in 2016, chiefly under the "Root & Branch review". This included strengthening and optimising our entire business to better compete in an intensely competitive market. To keep competitive, we had to further engage in the pricing re-alignment that the market has experienced since 2014, as our primary competitor continued an aggressive pricing strategy. Working with customers, we adjusted pricing architecture on selected products to stay competitive in on-shelf pricing. This, along with better execution in the trade, is the major driver of 2017's results. We continued to grow share in volume and value since December 2016, while monitoring the clearly divergent strategies, not to mention mixed fortunes, of our two main competitors.

Whilst these results are encouraging, we remain vigilant and the market, though stable, has yet to see upward pricing, as the market leader remains highly competitive.

The economy supported growth, with rising average incomes. Though the Government will restrict Sunday trading in 2018, we expect limited impact.

The vodka market continues to grow, and it remains, by far, the largest spirits category. Clear vodka is the main variant. Despite the aggressive pricing in economy and mainstream segments, consumers are up-trading to more premium and prestige brands, reflecting growing affluence. We benefit from this, given our brands' strong positions in premium price segments. Flavoured vodka has traditionally seen less premiumisation and so represents an opportunity, particularly as it grows ahead of the overall vodka category.

The traditional trade remains the key vodka trade channel, and one competitor's effective withdrawal from direct involvement in this prominent channel presents another opportunity for us.

In terms of our brands, our priority was distribution-build and consumer-activation over new product development (NPD). Our NPD focused on Saska flavour extensions and re-launching Stock 84 brandy.

Our biggest brand, Żołądkowa de Luxe, returned to growth in sales, out-performing both the overall and clear vodka categories. Most of the growth came from the traditional trade. Żołądkowa Gorzka responded well to activation programmes directed at younger adult drinkers. We continue to strengthen Stock Prestige, for example with the exclusive limited edition Stock Prestige Carbon. Above it, in top premium, Amundsen Expedition continues to grow. We achieved more effective price execution on our economy brands Żubr and 1906, as well as introducing a 9cl variant. In the flavoured vodka sub-category, impressive growth from the more premium Stock Prestige flavours and Saska could not raise our share given slower growth on Żołądkowa Gorzka and the decline in Lubelska sales.

Our distribution arrangement with Beluga Group, now in its second year, saw the brand Beluga out-perform the ultra-premium segment.

Strategy in action

WE REINVEST

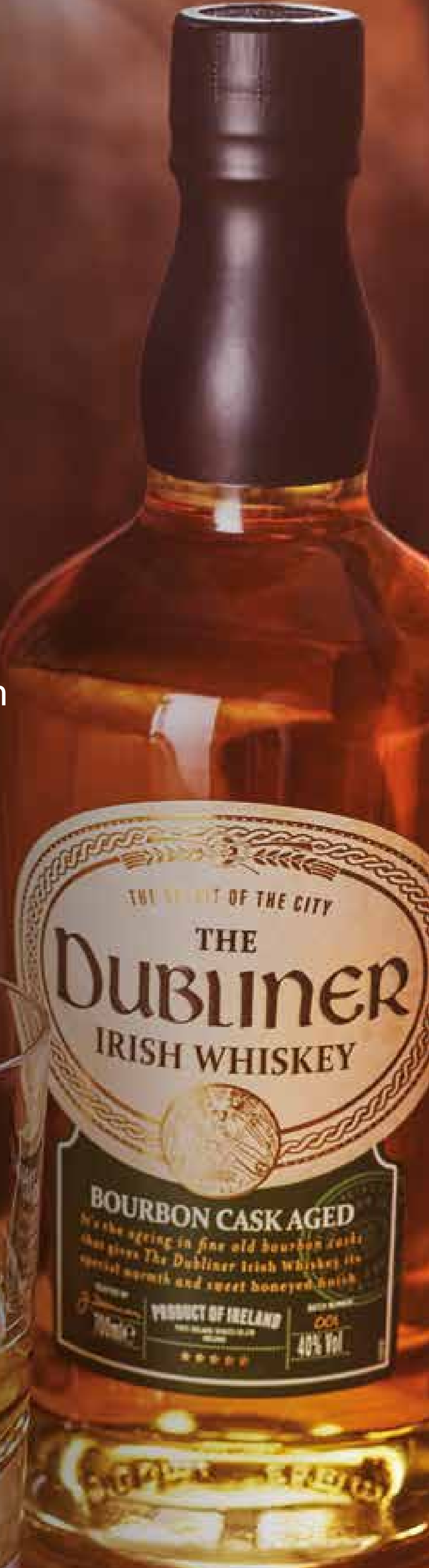
Irish Whiskey acquisition

Stock Spirits Group PLC entered agreements with Quintessential Brands Group for the acquisition of a 25% equity interest in Quintessential Brands Ireland Whiskey Limited (QBIW).

QBIW owns The Dublin Liberties® and The Dubliner Irish Whiskey® brands, a range of ultra-premium through to standard Irish whiskies, on sale in over 30 countries. The Dubliner Irish Whiskey was the fastest growing Irish whiskey globally in 2016[1].

Whisky is one of the fastest growing categories across the Group's markets[2]. This investment allows the Company to capitalise on the trend and to enhance our whisky expertise.

We have already developed strong whisky category management capabilities through distribution agreements with our established whisky brand owner partners. The QBIW brands are highly complementary to that portfolio.



+15.5%

Irish whiskey category volume CAGR in Stock markets over last five years[3]

Source(s)

1. IWSR 2016, Irish whiskies with <1 litre recorded shipments in both 2015 and 2016. Year on year % volume growth
2. IWSR 2016, % volume growth by spirits category in Stock Spirits Group wholly owned distribution markets (i.e. aggregate of Poland, Czech Republic, Slovakia, Italy, Croatia and Bosnia Herzegovina)
3. IWSR 2016, % volume CAGR of Irish whiskey category in Stock Spirits wholly owned distribution markets (i.e. aggregate of Poland, Czech Republic, Slovakia, Italy, Croatia and Bosnia Herzegovina)

Chief Executive's statement continued

In the trade, our brands continue to be celebrated, with prizes for the Lubelska range, Lubelska Cytrynówka, Żołądkowa Gorzka, Żołądkowa de Luxe and Żołądkowa de Luxe Peppercorn.

Whisky, though a much smaller category, experienced strong growth and its profit pool now exceeds flavoured vodka. The Beam-Suntory whisky brands, especially Jim Beam, rapidly grew share in the sub-category and beat Jack Daniels to number four position by volume. We see great interest in Irish whiskey and we will exploit opportunities through distribution of The Dubliner and The Dublin Liberties brands.

Following the significant changes in 2016, our Polish organisation benefitted from stable management through the year. We continued to up-skill our salesforce, improving sales execution capabilities. We strengthened our modern trade sales team to work more closely with customers and step up intensity and quality of promotions.

Progress in the Czech Republic

Our Czech business delivered another set of robust results, extending leadership in the overall market. The spirits category continues to grow in volume and value, supported by the economy performing well, with earnings rising. This delivered growth, especially in the premium off-trade. The on-trade was impacted by increased smoking restrictions.

We see aggressive pricing across some sub-categories, and monitor positions closely and take actions as necessary, for example where we strengthened category-management in the modern trade.

Božkov returned to growth – strengthened by focus and investment, including new Božkov Tradicni and Božkov Bily variants providing incremental share. The brand won the "Most Trusted Spirits Brand" award for the second successive year. It also delivered better profitability and share growth.

The Pražská, Nordic Ice and Dynybyl brands acquired in 2016, and integrated ahead of plan, significantly contributed to our growth in the vodka category, as well as our Czech results overall.

The Black Fox launch was a strategic entry with a new brand into the premium herbal bitters category at a time of intensifying price-competition. The launch highlights increased use of digital marketing in our campaigns.

Our important relationship with Diageo delivered well for both partners, and is being extended into 2019, with our leading distribution helping Diageo to be the 2nd fastest growing spirits company in the market. Building on this successful relationship, we gained approval to distribute Beam-Suntory products and to explore synergies that exist between these two complementary portfolios. With the Diageo, Beam-Suntory and Quintessential Brands Irish Whiskey portfolios leveraging our Czech distribution, we will have the strongest range of third party brands covering all segments of the growing whisky category.

The impact from a possible EU ban on certain ingredients in rum ether is being managed, and we anticipate limited impact, given our plans in hand.

Challenges in Italy

The Italian market continues to be challenging and high young-adult unemployment continues to impact our brands, primarily Keglevich, but we detect some optimism recently. The overall spirits category grew slightly, mainly through limoncello, gin and aperitifs, with pricing offsetting flat volumes overall.

We launched Syramusa, an ultra-premium Limoncé extension to consolidate our leadership in limoncello. The iconic Stock 84 brandy was re-launched with overt on-trade focus. The premium XO variant performs well, enabling us to remain in 2nd place in the brandy category.

As a result of the challenging environment, the Italian business' value suffered impairment (further details are provided by Paul in the Financial Review), a risk we had highlighted at the half year.

Chief Executive's statement continued

Ultra premium spirits with a strong brand appeal to millennials

Whilst Keglevich retains leadership in clear vodka and it extended its leadship in flavoured vodka, this sub-category is declining. In late 2017 we brought to market our re-vamped Keglevich fruit variants, to better fit the changing preferences of the young adult consumers. This was the initial step of a multi-year program to strengthen the Keglevich brand.

Nuove Distillerie Vicenze, a liqueur business, was added as a distribution partner in November, as was Nordés Gin. The organisation was further restructured, investing more in the salesforce, especially in the on-trade. Though we made encouraging progress in the modern trade, our insufficient scale hampers results.

Strong results in Slovakia

This business delivered to expectation, with solid performance by the Golden Ice range strengthening our position in the premium fruit spirits sub-category.

To penetrate the premium profit pool further, we signed a distribution agreement with Beam-Suntory here also. Combining our distribution capability and Beam-Suntory's strong investment in Jim Beam, we delivered pleasing results.

With the Jim Beam, Distell and Quintessential Brands Irish Whiskey portfolios under our distribution, we now have a range of brands covering the rapidly growing whisky category.

Our relationship with Beluga continued to deliver growth in the ultra-premium vodka sub-category.

Other markets

There was good performance in Croatia. Our focus is in the on-trade and distribution was extended beyond the Beam-Suntory relationship to include Beluga Group, Bortran rum and Bols.

Stock 84 brandy became the biggest spirits brand in Bosnia. It benefitted from the re-vamp, seeing growing appeal amongst young adult drinkers, especially in the on-trade. Bosnia also benefitted from a new Beluga distribution agreement.

Innovations

The Group's NPD process was strengthened during the year in order to help extend our reach in premium and higher price segments. The improved process aims to reduce the number of new launches whilst increasing their impact and speed to market, thus providing a better return from investment.

Operations and supply chain

We continue to develop our excellent supply chain to further leverage our core competitive strengths of productivity, smart cost management and technical talent. This delivered further efficiencies and effectiveness and contributed to our overall success. We invested across people, facilities, processes and systems. We are now well-invested, and future investment focuses on safety and quality.

Sales and operations planning development was a major enabler of improved performance, integrating all disciplines and markets to drive us forward. Our operations team won awards in Poland:

- BRC Food and IFS Food Certification (the first spirits producer to gain both accreditations), and
- 'Employer – Organiser of Safe Work' (from PIP, the State Labour Inspectorate).

During the year we suffered an equipment failure in our Baltic distillery. Though spirits production was interrupted for a brief period, our businesses were able to operate as normal. The distillery has since returned to normal operations.

Technology

We continue to invest in technology, leveraging prior investments made under the “One Network” strategy. Our cyber security kept the business safe, and we stay focused on security.

We completed the first phase implementation of a software-defined Wide Area Network (WAN) which has improved service levels. The second phase will deliver a “Tier 3” datacentre to house critical technology. As we extend digital capabilities across our business, we will have a technology base and capability underpinning this.

The group-wide Intranet, StockNet, was launched to provide a collaborative platform to quickly share and deliver further digitalisation. A unified communications suite delivers continued savings in travel, whilst enabling more engagement through virtual meetings. Progress to a single group-wide SAP platform continues.

Our people

StockNet is an effective and exciting mechanism engaging and energising us into a more aligned workforce. Through this we leverage the full power of our people wherever they are. StockNet was used to conduct our first ever Employee Engagement Survey. We welcomed high participation and are studying the feedback.

Our partners

The Group's partnership with Beam-Suntory was extended beyond Poland into the Czech Republic and Slovakia and we have mentioned our continuing partnership with Diageo. There is a new agreement in place with Beluga Group to distribute the ultra-premium vodka Beluga in Croatia and Bosnia. We also changed our route to market in the UK and moved distribution of our brands to Distell International.

Following investment in Quintessential Brands’ Irish whiskey business, we have secured the right, from the owners of our existing whiskey agency brands, to distribute the brands from the investment where the brand range will enrich our portfolios around the Group.

Our strategy

With the turnaround of our Polish business underway, we carried out a comprehensive review of the Group's strategy during the latter half of the year. We concluded that the strategy communicated at the time of the IPO remained valid, but that developments in our key markets since then mean that there is a greater need than ever before to focus on our brands in order to keep pace with the changing needs and tastes of our end consumers. Our focus now is therefore on four pillars of growth: Premiumisation, Millennials, Digital and M&A. These are supported by a foundation of engaged and empowered talent, effective processes, smart resource allocation and world class partners bringing complementary strengths. Further detail is set out on pages 16 and 17.

M&A

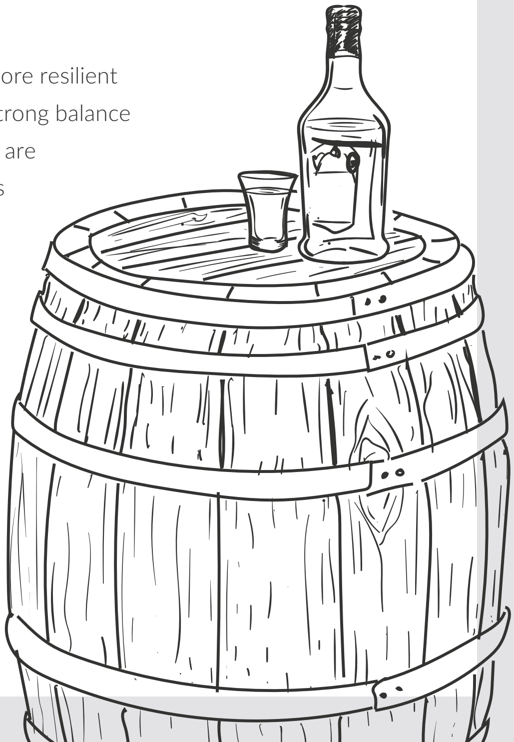
To penetrate faster growing profit pools, a 25% stake was taken in Quintessential Brands Ireland Whiskey Limited, producer of “The Dubliner” and “The Dublin Liberties” whiskies. The former was the world’s fastest growing Irish whiskey in 2016. Quintessential is the second biggest spirits supplier in the UK and has global reach, selling in over 30 countries. We expect our investment to be earnings accretive by 2021, as their new Dublin distillery becomes operational in 2018.

Outlook

With a strengthened team and a more resilient Polish business, combined with a strong balance sheet and cashflow generation, we are well placed to exploit opportunities to expand our business.

Mirek Stachowicz
Chief Executive Officer

7 March 2018



Regional reviews – Poland

Tangible results from delivering a turnaround plan in a competitive market

% of Group revenue

54%

(2016: 53%)

Revenue €m

€147.7m

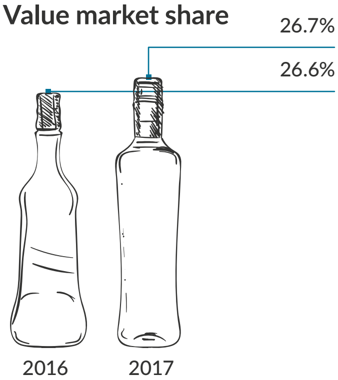
(2016: €136.9m)

Adjusted EBITDA €m

€37.7m

(2016: €35.9m)

Value market share



Poland is the Group's largest market in terms of revenue and profit. The success of Stock Polska is the highest priority for the Group.

During 2017 the Polish economy grew steadily at above 4% and average salaries continued to rise, increasing Polish consumers' purchasing power.

These positive macro trends were reflected in continued growth from the vodka category, still by far the largest spirits category in Poland (c. 80% of total spirits volume[1]). Total vodka value grew +1.7% during 2017, remaining marginally ahead of volume growth at +1.5%[2].

Growth was driven by the flavoured sub-category, at +9.5% value. Clear vodka's slight value decline continued at -1.0%.

The largest channel, the traditional trade, continues to outperform the market, achieving +3.2% value growth in marked contrast to the modern trade where value declined -1.0%.

The ultra-premium (+25.4%), top international premium (+6.5%) and premium vodka segments (+2.9%) remained in strong growth ahead of the total market, dispelling the myth that vodka in Poland has become commoditised. The mainstream segment continued to steal share from economy, achieving value growth well ahead of the category at +3.0%, whilst economy remained in severe decline at -9.2% value. Competitive prices on the leading mainstream brands have switched consumers from economy to higher perceived value mainstream, in what is now effectively a single price segment.

Core brands

Stock Polska out-performed the market in the clear vodka category, driving progressive share gains. A significant contributor was the return to growth of our largest core brand by volume, Żołądkowa de Luxe, whose total volume grew +2.9%, well ahead of the clear vodka category. Żołądkowa de Luxe's volume recovery has been driven in the traditional trade, the largest trade channel, where at +6.2%, it is well ahead of total clear vodka growth at +1.4%[2].

Żołądkowa Gorzka achieved volume growth +2.5%, driven by innovative brand activation to expand consumer consumption occasions at peak seasonal periods[2].

A mark of both Żołądkowa Gorzka's and Żołądkowa de Luxe's continuing appeal was their recognition at the "Superbrand: Polish Brand" awards in November 2017.

Whilst Stock Polska grew its total flavoured category volume and value versus last year, achieving impressive growth on premium-priced Stock Prestige Flavours (volume +36.6%) and Saska Flavours (+47.2%), a return to growth ahead of the flavoured category will require further strengthening of our core flavoured critical mass brands which, whilst recovering, are still behind the market in Żołądkowa Gorzka's case (+2.5%), and still down on Lubelska (-2.5%)[2].

In the premium segment, we continued to strengthen Stock Prestige with consistent consumer activation at the point of purchase, including a unique Stock Prestige Carbon limited edition, which contributed to a +15.0% growth in volume[2].

In top premium vodka, Amundsen Expedition grew volume by +35.0%, well ahead of top premium segment growth of +8.0% in volume[2].

We revisited our approach to the economy vodka segment, closely monitoring price execution on our two economy brands Żubr and 1906, as well as introducing an innovative 9cl bottle on Żubr instead of market standard 10cl. This enabled Stock Polska to grow volume in the economy segment by +8.5% versus last year, in contrast to the overall economy segment volume decline of -9.9%[2].

Regional reviews – Poland continued

NPD

We focused on building our core brands via a targeted programme of NPD introductions of strategic importance.

Distribution building supported by a strong package of consumer activation on Saska, coupled with the launch in H2 of two new flavour varieties (Cherry with a hint of rum and Quince) contributed to total Saska (flavoured plus clear variants) volume growth of +76.2% versus last year[2]. A pipeline of additional flavour extensions to be launched in Q1 2018 will strengthen Saska's range further.

Leveraging the group-wide Stock 84 brandy relaunch with its new more premium packaging, achieved growth of +8.1% in volume and +1.4 % increase in volume market share[6].

Distribution brands

We have continued to grow our share of the whisky category, with the Beam-Suntory portfolio outperforming the category dramatically. Beam-Suntory has grown +46.0% in value, well ahead of the +14.2% whisky category value growth[5].

Our cooperation with distribution partner Synergy Brands, which started in July 2016, is bringing consistently strong results, with Beluga growing +60.3% in value, outperforming ultra-premium segment dynamics of +25.4% growth in value[3].

Key competitors

In December 2017, Roust changed a number of key players in their senior management team, but it is too early to assess the impact of this move on Company strategy or performance.

During 2017, Marie Brizard Wines and Spirits (MBWS) moved distribution of all their brands in the traditional trade channel to Eurocash, the largest spirits wholesaler in Poland. The move does not appear to have improved their performance in the traditional trade to date, where they have suffered a value decline of -10.9%[3]. It has also experienced senior management changes.

Organisational changes

After a prolonged period of significant organisational and leadership change in Stock Polska, a stable management, sales and marketing team were in place throughout the year.

The restructuring and strengthening of our modern trade sales team has resulted in closer cooperation with key customers. We have achieved a step-change in the intensity and quality of promotional support, with our brands featured in almost triple the number of promotional leaflets versus last year[4].

Future outlook

The Government approved a law that will gradually impose a ban on Sunday shopping and has given a right to local councils to forbid alcohol sales in designated areas from 10pm to 6am, which might have an impact on spirit sales.

2017 has been a year of stabilisation and strengthening for our core brands. Our clear vodka business is back in growth, with strong gains for Stock Prestige and Żołądkowa de L uxe. Our main challenge and key area of focus for 2018 is the higher-margin flavoured vodka segment, where we aim to achieve growth ahead of the category. We are well-placed to address this challenge with our revised flavoured strategy and plans to increase focus on our top flavoured brands, Żołądkowa Gorzka and Lubelska, and to drive continued growth on Saska.

Source(s)
1. IWSR. For the purposes of this estimate, total vodka = total traditional (clear) vodka plus total flavoured vodka plus total low strength vodka based liqueurs
2. Nielsen, total Poland, total off-trade, total vodka MAT December 2017. For the purposes of this estimate, total vodka = total regular vodka plus total flavoured vodka plus total flavoured vodka based liqueurs
3. Nielsen, total Poland traditional trade, total vodka MAT December 2017. For the purposes of this estimate, total vodka = total regular vodka plus total flavoured vodka plus total flavoured vodka based liqueurs
4. Focus Data
5. Nielsen, total Poland, total off-trade, total whisky, MAT December 2017
6. Nielsen, total Poland, total off-trade, total brandy, MAT December 2017
7. Nielsen, total Poland, total vodka MAT December 2017

Strategy in action

WE MANUFACTURE

Saska

Over many centuries, Polish master distillers have perfected the art of manufacturing exquisite spirit drinks. The pursuit of pleasure is the essence of the Saska range, which includes both clear and flavoured variants. Saska's individual, distinctive range of tastes have been carefully designed for contemporary pleasure seekers, to be enjoyed in an unhurried manner, savoured rather than shot.

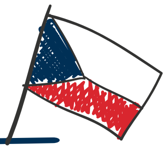
Flavour experts at our Lublin distillery drew inspiration from historical Polish recipes. The range includes an appealing combination of distinctive fruit aromas, hints of oak and the taste of the finest Polish vodka. In 2017 two new flavours, Quince and Cherry with a hint of rum, joined the range.

By bringing a new and differentiated range to consumers, Saska achieved significant volume growth[7].

+76.2%

Saska range's MAT volume growth in Poland[7]

Regional reviews – Czech Republic



Key to success was driving growth in rum and vodka

Stock Plzeň Božkov has held spirits market leadership in the Czech Republic for over 20 years[1] and has brand leaders in the key spirits categories of rum[2], vodka and herbal bitter liqueurs[3].

The Czech economy is performing well, which has increased consumer disposable income and with it the desire for premium products, which are leading growth in spirits, primarily in the off-trade.

This growth outweighed year-on-year declines in the on-trade associated with new legislation: the electronic evidence of taxes and a smoking ban.

% of Group revenue

25%

(2016: 24%)

Revenue €m

€68.8m

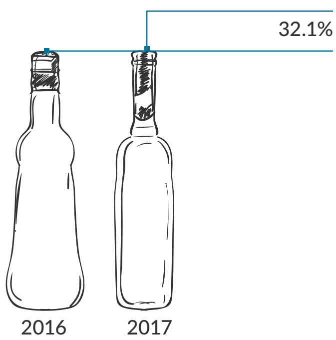
(2016: €63.2m)

Adjusted EBITDA €m

€21.8m

(2016: €19.6m)

Value market share



Consequently the total spirits market achieved strong value and volume growth during 2017 and Stock Plzeň Božkov has once again grown its market share, achieving value share of 33.6%, up 1.5% from 2016[3].

The continued investment behind our core brands, successful new product launches and the strong development of the Diageo portfolio have all assisted the business to achieve significant growth in both brand performance and overall financial results.

Revenue for 2017 was €68.8m, an increase of €5.6m versus 2016, with Adjusted EBITDA of €21.8m a growth of €2.2m from 2016. Adjusted EBITDA margin has also grown by 0.7% to 31.7%.

Core brands

The key success during 2017 was driving growth on the Božkov range in the rum and vodka categories, including the successful execution of price increases. Božkov grew volume and value ahead of the category in both rum and vodka, maintaining its strong leadership position in both categories. In an indication of the brand's continuing popularity, Božkov won the most trusted spirit brand award for the second year in a row.

Our integration of the Nordic Ice, Pražská and Dynbyl brands, acquired in 2016, was well executed, supporting our growing share in vodka and achieving year-on-year share growth in vodka.

Our success in the rum and vodka categories was underpinned by a robust commercial calendar and promotional evaluation, combined with the expansion of category management support to our modern trade customer base.

In the herbal bitters category, the Fernet Stock range maintained its brand leadership position despite a decline in volume and value, as consumer demand grew for premium herbal bitters.

NPD

Our lead Czech NPD initiative in 2017, Black Fox, is designed to address the premium opportunity and was launched in October 2017. Its accessible taste, crafted from selected forest herbs with a hint of orange, coupled with its impactful, differentiated packaging, supported by a heavyweight programme of consumer awareness and sampling activity, will build Stock Plzeň Božkov share in the fast growing premium herbal bitters segment.

Building on our history of successful flavour innovation on Božkov Tuzemský, the Czech team launched a new Božkov Coconut variant which contributed to the double digit growth achieved by the brand.

Distribution brands

We have now completed our third year as the exclusive distributor of the core Diageo brands in the Czech Republic, and are delighted with the strong growth that has been achieved across the range.

Both Johnnie Walker and Captain Morgan performed ahead of their respective categories, growing market share in both value and volume terms[3].

The integration of the Diageo international brands with Stock Plzeň Božkov's leading local brands has brought significant benefits to the combined portfolio and has further strengthened our overall offering to customers and consumers.

Organisational changes

The commercial team moved to a new, modern, open plan office in Prague which has enhanced cross functional team work and pace of delivery.

Future outlook

Debate continues in the EU Commission on the continued use of rum ether. If the aroma is to be banned from use in domestic rum (tuzemak) it would require recipe changes by all suppliers throughout the category, with potential cost implications.

Price competition remains strong, with specific competitors in each of our key categories attempting to drive volume share growth using aggressive pricing.

A number of major retailers are expanding their private label ranges in key spirits categories.

In anticipation of these measures we have undertaken a review of our plans and have begun to implement a number of changes which we anticipate will help to mitigate the potential risks associated with these developments.

The team in the Czech Republic moves forward from a position of strength with ambitious plans for the future.

Source(s)

1. IWSR
2. In the Czech Republic the "rum" category of the spirits market includes traditional rum, which is a spirit drink made from sugar cane, and what is widely referred to as "local rum", known as "Tuzemak" or Tuzemský", which is made from sugar beet. As used in this Report, "rum" refers to both traditional and local rum, while "Czech rum" refers to local rum
3. Nielsen MAT to end December 2017, total Czech off-trade

Regional reviews – Italy

Italy is our third largest market in turnover and profit terms

The spirits market remains highly fragmented from a supply perspective, consisting of a number of mature categories including bitters, vodka, brandy, whisky and liqueurs. Despite our relatively small overall share of total spirits in Italy, at circa 5.6% value share in our key focus modern trade channel[1], we hold leading positions in a number of key categories in the off-trade, with number one brands in the clear vodka, vodka based liqueurs and limoncello categories and the number two brand in brandy[2].

Whilst trading conditions remain very tough in Italy, there are some improvements in consumer confidence, young adult unemployment fell marginally towards the end of 2017 and the economy is beginning to show some growth, after years of decline. The total market has stabilised, growing slightly (+0.7% value[2]) in 2017.

Stock Italia achieved market share growth in three of its four core categories in the priority modern trade channel during the year.

% of Group revenue

10%

(2016: 11%)

Revenue €m

€28.1m

(2016: €29.4m)

Adjusted EBITDA €m

€6.3m

(2016: €6.9m)
Adjusted to exclude the impairment charge of €14.9m

Given the challenging environment, overall revenue declined versus last year reflecting primarily the decline in vodka based flavoured liqueur volumes. Adjusted EBITDA is slightly lower than last year, however Adjusted EBITDA margins have shown a small improvement, following careful cost management. This decline has led to the impairment of the value of the Italian business of €14.9m.

Core brands

In our main categories, Keglevich outperformed the contracting vodka based flavoured liqueurs category, maintaining brand leadership and growing volume and value share. In clear vodka, Keglevich remains the leading clear vodka in the off-trade, in spite of aggressive price discounting by competitor brands from above, and expansion of private labels from below its price positioning[2].

In a flat limoncello category, Limoncé retained brand leadership and grew volume and value share in spite of competition from aggressively priced private label and rival brands[2].

The Stock 84 brandy range outperformed the category, supported by its relaunch with new improved liquid and repackaging to appeal to younger adult drinkers. Stock 84 XO premium brandy, was launched in November 2017 and has already contributed to the brand's growth in volume and value share[2].

A full review of the Keglevich flavoured range resulted in the launch of a new improved liquid. The new recipe uses six times distilled grain vodka coupled with pure fruit juice.

New Keglevich flavoured packaging was launched to customers at the end of 2017, and will be available to consumers from early 2018. It will be accompanied by a range of marketing activities aimed at millennial consumers, the brand's key target group.

In Q4 2017, Syramusa, a new premium sub-brand of Limoncé limoncello, was launched. Produced and bottled in Italy with an elegant pack inspired by the classic shapes of Hellenic amphorae, recalling the Ancient Greek heritage of Syracuse and its colourful past, Syramusa takes Limoncé into a more premium future.

Distribution brands

The distribution brand range expanded further during 2017 with the addition of two new distribution agreements.

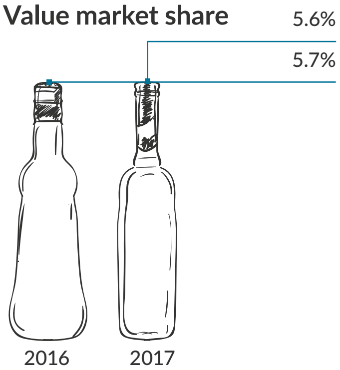
A new exclusive distribution agreement with Nuove Distillerie Vicenzi was signed in November 2017 and the new Vicenzi range of liqueurs (including the renowned "giadiotto" liqueur) will be introduced from 1 January 2018.

There was further expansion of the Nordés Gin brand during the year.

Organisational change

The sales team has been restructured so that there are new sales teams in three regions and the number of sales agents has been increased. On-trade sales have grown significantly (+15%) in the Northern region since these changes were implemented.

Value market share



The restructuring of the Italian office was completed in H1 2017. The savings realised from this restructure have been reinvested in the sales team.

Similarly, significant transport cost savings have been achieved since switching logistics provider at the start of 2017, which again have been reinvested into the business.

Future outlook

Whilst trading conditions remain very tough in Italy, there are some improvements in consumer confidence, young adult unemployment fell marginally towards the end of 2017 and the economy is beginning to show some growth, after years of decline.

Consequently the outlook for the Italian spirits market is showing early signs of improvement, however, the Italian general election in March 2018 is causing some volatility in the local market.

Duty and VAT increases

An expected increase in VAT from 22% to 24.2% is expected on 1 January 2019 with further increases expected in 2020 (24.9%) and 2021 (25%). This may dampen some of the economic recovery seen of late.

Operations

Our focus on agility and flexibility in supply chain and investment in structure and processes enabled similar improvement in performance to other markets in costs, service levels and working capital.

Source(s)

1. IRI total Italy, total modern trade, total spirits MAT December 2017
2. IRI total Italy, total off-trade, MAT December 2017

Regional reviews – Other

Revitalised core brands and extended distribution agreements

The regional report for "Other" markets includes Slovakia, Bosnia, Croatia and our export activities.

In 2017 we maintained Adjusted EBITDA performance across our other markets, delivering €6.9million.

Revenue was slightly down in the year due to a shut down at our Baltic distillery caused by faulty equipment. The plant was quickly up and running and there was no loss of supply of vodka to our operations. The reduction in revenue was due to lost revenue from sales to third parties.

Strong growth from Slovakia, where revenues were +4% and Adjusted EBITDA +7% versus the previous year, was off-set by restructuring costs in our export markets.

% of Group revenue

11%

(2016: 12%)

Revenue €m

€30.0m

(2016: €31.5m)

Adjusted EBITDA €m

€4.9m

(2016: €5.1m)

In Slovakia, new product launches including Fernet Stock Grapefruit and a Fernet Stock 90th Anniversary limited edition, coupled with a revised price positioning on Fernet Stock Grand, maintained brand leadership in herbal bitters and increased Fernet Stock's volume and value versus last year[1].

In the important fruit spirits category, the continued success of our Golden Ice range enabled Stock Slovakia's Golden brand to achieve number one status and outperform the category, growing value +3.0% in a total fruit spirit category that declined -2.3%[2].

In the fast growing whisky category, the new distribution agreement with Beam-Suntory was well executed, achieving +52.5% value growth on Jim Beam, well ahead of total whisky category value growth at +17.0%[3].

These initiatives contributed to Stock Slovakia's volume and value growth in 2017 and reinforced our position as the second biggest spirits company in the Slovakian off-trade[1]. Adjusted EBITDA has grown by +7% during the year and Slovakia's Adjusted EBITDA margin has improved by just under 1% point to over 23%.

In Croatia, volume grew by +6%. This was achieved primarily through up-weighted on-trade focus supported by the relaunch of Stock 84 and a widened range of distribution brands from Beam-Suntory plus Beluga Group, Bortran Rum and Lucas Bols.

In our export markets, the reorganisation of our route to market in the UK was completed successfully in H1 2017. Our brands are now distributed in the UK via Distell's distribution network.

In total, this regional segment has delivered revenue of €30.0m and Adjusted EBITDA of €4.9m, maintaining Adjusted EBITDA margin at over 16%.

Source(s)

1. Nielsen, total Slovakia, total off-trade, total herbal bitters MAT to end December 2017
2. Nielsen, Slovakia, total off-trade, total fruit spirits MAT to end December 2017
3. Nielsen, total Slovakia, total off-trade, total spirits MAT to end December 2017

Responsible business report

We operate our business aware of our wider responsibilities

Business and ethics

Our Group Code of Conduct and Ethics (our Code) together with our Anti-Corruption and Bribery Policy and other related policies, set out the ethics, principles and standards that are required to be consistently upheld in each business and corporate function within the Group. It also applies to our business partners: suppliers, agents and customers.

The Group has a Speak-Up hotline available in all countries where the Group has operations. The Speak-Up line can be used by any employee in the Group or by third parties and allows them to report any incidents or inappropriate behaviours in their own language. The confidentiality of the information reported is correctly protected. The Group also carries out refreshment training on the basic principles of our Code as well as the Speak-Up line, so it is well known and, in the case of the Speak-Up line, can be used as needed, by any employee in the organisation.

Stock Spirits considers that having good corporate responsibility is an essential element of achieving our overall objectives and acting as a responsible organisation. This includes developing strong relationships with our suppliers and customers, ensuring best-in-class people are joining the organisation and our commitment to the environment. We are committed to doing business responsibly and ensuring a culture of integrity.

Alcohol and society

We are conscious that our products should be enjoyed responsibly by those who choose to drink them, and we do not want irresponsible drinking to harm the health of our consumers. We believe that efforts to reduce the misuse of alcohol are most effective if all parties involved (including authorities, individuals and producers) work together.

Czech Republic and Slovakia

Our companies in these markets are founding members of “Fórum PSR”, which brings together the countries’ major spirits producers and distributors to work against alcohol abuse. The forum focuses primarily on preventive and educational projects targeting the serving of alcohol to minors, drink-driving and excessive drinking.

Additionally, we actively introduced the “PSR, (drink responsibly)” platform within our media, in-store and other brand communication. Forum members have also pledged to observe a code of conduct that strictly regulates their advertising activities. Stock Plzeň Božkov is a member of the Spirits Trade Association in the Czech Republic. This Association was active during 2017 in supporting the local government in its ongoing efforts to implement a strong regulatory environment in the spirits industry.

Poland

Stock Polska belongs to the Association of Employers Polish Spirits Industry (ZP Polski Przemysł, Spirytusowy), the trade organisation which, as part of its work, promotes responsible drinking through educational programmes and public campaigns. These include, “Don’t drink and drive”; “Pregnant – don’t drink”; “Responsible drinking”, an educational programme promoting responsible alcohol consumption, including guidelines on “How to sell and serve alcoholic drinks responsibly”; “Here we check Adulthood”, where the campaign’s objective is to reduce the availability of alcohol to the underage, by encouraging retailers to request identification from younger customers; and the most recent campaign “Alcohol. Always responsibly” which aims at building knowledge that all alcoholic beverages contain the same substance, therefore they have the same impact and all of them should be consumed responsibly.

Italy

In Italy we are a member of Federvini, the national trade association founded in 1917 which, as part of its role, promotes responsible drinking using educational and informative programmes.

Environment

Our businesses are fully aware of their responsibilities to the environment. In addition to mandatory compliance programmes, many of our businesses have undertaken a number of voluntary initiatives, which demonstrate the importance that is given to environmental matters.

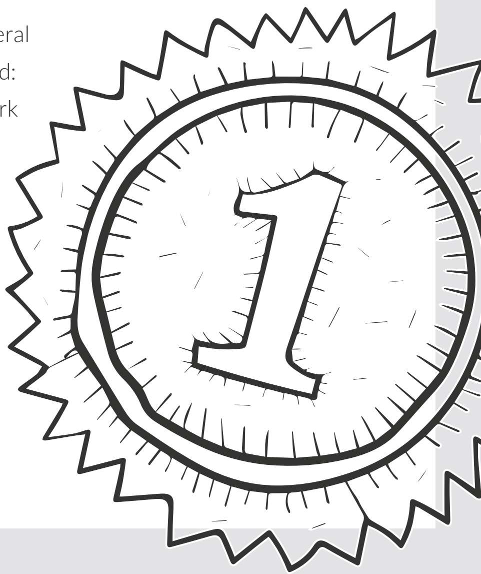
Poland

During 2017, we continued our environmental awareness campaign, using the ‘Sztokus’ mascot. The aim of the campaign was to raise the eco-awareness of Stock Polska personnel and employees of external partners and to reduce our environmental impact as a business.

The campaign was carried out at several levels:

- Eco-awareness and behaviours;
- Waste segregation and reduction;
- Water, gas and electricity savings initiatives; and
- Communication campaigns for environmental protection, including posters, banners and stickers displayed throughout the business.

In 2017, the Polish team organised several environmental initiatives which included: encouraging employees to travel to work using public transport, bicycles or carpooling (sharing their cars with co-workers); video conferencing rather than travelling to meetings and an initiative aimed at increasing recycling by offering employees a pot plant in exchange for their recycling.



Responsible business report continued

In 2017, the amount of waste we produced increased by 2%. We were able to recycle 89% of the waste we produced on site. Electricity increased by 4%. Increased use of the rectification facility led to 47% higher gas usage, and 14% higher water consumption compared to last year.

Czech Republic

In 2017, we improved efficiency of water and energy consumption. Water consumption decreased by 14% due to the installation of two new water treatments (reverse osmosis) in production (blending) which increased efficiency of water use. Reduction in water was also achieved by better planning. Electricity consumption decreased by 4% due to several projects including the installation of two new highly efficient compressors, better control of the compressed air leakage, newly installed efficient lights in blending premises and improvement of behaviour and discipline. Gas consumption decreased by 4% due to better planning. We were able to recycle 96% of the waste produced through employee training and improved processes of waste sorting.

Greenhouse gas emissions

In 2017, the Group's total Scope 1 (direct) and Scope 2 (indirect) Greenhouse Gas (GHG) emissions were 31,770 tonnes and 9,001 tonnes of CO_2e respectively (CO_2e), a total of 40,771 tonnes. This is a 11.5% decrease compared to 46,055 tonnes in 2016 (35,955 tonnes of Scope 1 and 10,100 tonnes of Scope 2 CO_2e), and is due to reduced production and related energy consumption at the Baltic distillery because of the breakdown of the grain dryer in Q2 and Q3 2017.

The emissions intensity for 2017 reduced by nearly 16% to 367 grams CO_2e per litre of packaged product compared to 436 grams in 2016. An increase in overall production was offset by a lower proportion of total production from the Baltic distillery which uses fuel with a high emission factor. The Baltic distillery accounted for 72.8% of Group emissions in 2017 and remained the largest single emitter in the Group as its core activity is energy intensive rectification.

As in prior years, we have applied the latest available DEFRA UK location based conversion factors (2017) to calculate the current year emissions. All data capture procedures, conversion and reporting have undergone independent limited assurance by ERM Certification and Verification Services.

The Group complies with all current regulations on emissions including greenhouse gas emissions, where such regulation exists in our markets. We have reviewed the impact on the business from the EU Energy Efficiency Directive (2012/27/EU), and are conducting audits in line with these requirements.

We have reported on all of the emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These sources fall within our consolidated financial statements. We do not have responsibility for any emission sources that are not included in our consolidated financial statements.

Diversity

The success of a business depends on its people, therefore we are committed to providing every employee and potential employee with equal opportunity in all areas of employment.

The Group recognises the communities in which it operates and the benefits of having a diverse workforce at all levels. The Group takes its responsibilities with regard to equality and diversity seriously and expects all colleagues to also observe this.

The senior management teams in our markets comprise predominantly of local nationals who understand the cultures in which we operate. We have an Equality and Diversity policy which applies to all colleagues as well as a recruitment policy which is inextricably linked to the Equality and Diversity policy to ensure that we recruit high calibre individuals matched to the requirements of the role we wish them to undertake, irrespective of gender, age, race, religion, sexual orientation, national origin or disability. As a consumer-focused business, we recognise the value that a diverse mix of employees provides us with, particularly in terms of consumer insights.

The Group has a diverse workforce in terms of gender and age

As an example of our diversity, at 31 December 2017 we had a diverse mix of age with 18% under 30 (17% in Poland and 19% in Plzeň) and 12% over 50 years old (12% in Plzeň and Poland). In the bottling area 3 out of 5 shift leaders in Plzeň and 3 out of 16 shift leaders in Poland are women. In our production plant in Czech Republic 60% of the managerial positions are held by women.

As at 31 December 2017, at Board level, 100% (8 out of 8) of the Directors are male, while at senior management level 91% (10 out of 11) are male and across the Group 59% (556 out of 930) of all employees are male.

Diversity is key to the success of the Group, with emphasis placed not only on gender but also on culture, nationality and experience, and our Board continues to demonstrate diversity in the wider sense, with Directors from Poland, Canada, and Italy as well as the UK, bringing a range of both domestic and international experience to the Board. The Board's diverse range of experience and expertise covers not only a wealth of experience of operating in FMCG but also extensive financial, marketing and commercial expertise.

Human rights

The Group strives to comply fully with relevant legislation in the countries in which it operates and ensures that human rights are protected in all the production plants and offices from which the Group operates. As mentioned previously, we have a Code of Conduct that we ask all our suppliers to adhere to. This requires that they and the persons acting on their behalf act without regard to gender, age, race, religion, sexual orientation, national origin or disability in accordance with our Equality and Diversity Policy.

Employee involvement and policy regarding disabled persons

A description of the action taken by the Group in relation to employee involvement, including how the Group provides employees with information on matters concerning them and the Group, can be found on page 31. The Group has an equal opportunities policy, and procedures are in place that are designed to provide for full and fair consideration and selection of disabled applicants to ensure they are properly trained to perform safely and effectively, and to provide career opportunities that allow them to fulfil their potential. Where an employee becomes disabled in the course of their employment, the Group will actively seek to retain them wherever possible by making adjustments to their work content and environment, or by retraining them to undertake new roles.

Charity

During the year the UK corporate office took part in the Macmillan Cancer Support coffee morning which raised £400. Lesley Jackson, former CFO, opened her garden to the public as part of the National Garden Scheme and raised £2,400 for the charity.

Financial review

Leveraging our balance sheet and cashflow strength operationally and for M&A

€56.3m
Adjusted EBITDA for the year
(2016: €51.4m)

Our financial performance in 2017 reflects stabilisation and turnaround. Revenue increased 5.2% to €274.6m; or 3.0% in constant currency[1].

Volume growth at 6.5%, was driven by Poland and the Czech Republic. Although revenue per litre at €2.33 per litre (2016: €2.35)[2] was impacted by pricing alignment in Poland, cost of goods per litre remained at 2016 levels. Therefore whilst overall gross profit increased 3.7%, the margin slipped a little to 50.0% (2016: 50.7%).

New product development (NPD) was more targeted on premiumising selected brands. As such, this is reflected in the slight decline in selling expenses by €0.5m to €60.8m.

Other operating expenses increased marginally, due to increased people costs, partially offset by savings elsewhere. The increase was mostly driven by higher staff incentive awards and bonuses triggered across the business by the year's stronger performance.

Much of the cost-saving restructuring initiated over recent years impacted corporate costs. Consequently, corporate costs include costs of restructuring of €1.7m (2016: €3.1m).

Total revenue

€274.6m
(2016: €261.0m)

Source(s):

1. Constant currency is calculated by converting 2016 results at 2017 FX rates
2. Revenue per litre is calculated by dividing total Group revenue by litres sold

Underlying corporate overheads, excluding PSP, share based payments and restructuring costs have declined by more than 26% year-on-year on a constant currency basis, delivering on commitments made previously.

For performance management purposes, the Group uses Adjusted EBITDA as a key measure. The combination of improved revenue performance and benefits from the restructuring initiatives reflect delivery of the turnaround plans outlined over the past two years, Adjusted EBITDA rose 9.5% to €56.3m (2016: €51.4m). Details of the adjustments reconciling Adjusted EBITDA to operating profit are in note 7 to the consolidated financial statements.

As reported previously, the Group does not expect a material impact from the UK's exit from the European Union. This will continue to be monitored similar to all primary risks that the Group faces (see page 20).

Finance income and expense and taxation

Net finance income and expense was broadly similar to the prior year at an underlying cost of around €2.6m as the financing facilities are unchanged. However, in 2016 there was a foreign exchange gain on intercompany loans of €1.4m which resulted in the reported net cost of €1.0m.

The income tax expense, as detailed in note 13 of the consolidated financial statements, reflects a number of factors, primarily being: the current year tax expense, changes in provisions for taxation relating to prior years and movements in deferred tax.

Group tax provisions total €7.5m for the year, an increase of €0.2m from 2016, see note 13 for further details. Post-IPO, the Group completed corporate restructuring transactions involving intangible assets which gave rise to a significant deferred tax asset which was being amortised over a five-year period. Due to tax legislation changes in Poland, from 1 January 2018, amortisation of these intangible assets is no longer deductible for tax purposes. This has resulted in an exceptional tax charge of €4.7m.

Exceptional items

Profit for the year at €11.3m (2016: €28.4m) declined in the year due to two exceptional items. At the interim announcement we referred to continuing challenges facing our Italian business, namely impacting Keglevich, our vodka-based flavoured liqueur brand. Whilst the Group is investing in the brand, the continued decline of the business has resulted in a non-cash impairment charge against the carrying value of the Italian business of €14.9m.

The second exceptional item was the one-off deferred tax charge of €4.7m in Poland as outlined above.

Both items are non-cash adjustments.

Earnings per share

The basic earnings per share for the year to 31 December 2017 was €0.06 per share versus €0.14 per share in 2016. Adjusted basic EPS, eliminating the effect of the exceptional items in the year, was €0.16 per share, an increase of some 14.3%.

Profit for the year
€11.3m
(2016: €28.4m)

Net finance costs
€2.6m
(2016: €1.0m)

Leverage
0.94x
(2016: 1.16x)

Financial review continued

Irish whiskey investment

In July 2017 the Group announced a 25% investment in Quintessential Brands Ireland Whiskey Limited (QBIWL) for cash consideration of up to €18.3m; with €15m paid initially, and the balance deferred dependent on certain future performance conditions. The deferred consideration has been treated as a discounted contingent liability, see note 24 to the consolidated financial statements. We are pleased to announce that we have secured, from the owners of our existing whiskey agency brands, the right to distribute the QBIWL brands in our markets.

Cashflow and working capital

The Group continues to generate strong cashflow from operating activities. Using a measure by which we judge our underlying operational cashflow, the Group generated free cashflow of €48.6m (2016: €48.3m), representing a conversion rate from Adjusted EBITDA of 86.3% (2016: 94.1%). The lower conversion rate reflects us leveraging our cashflow strength to gain competitive advantage in Poland, without which conversion would have exceeded 100%.

As stated in previous years, the peak trading period just prior to the year-end can make material differences to cashflow. Due to a combination of increased trading levels in Poland, and leveraging our cashflow capability for commercial advantage, we saw increased trade receivables at year-end. This increase has been largely offset by an increase in payables due to a focus on using the Group's scale in negotiating better commercial terms with our suppliers everywhere.

Dividend

The Board has proposed a dividend to shareholders which represents a progressive underlying increase year-on-year. An interim dividend was paid in September 2017 of 2.38 €cents per share, an increase of 4.9% compared to the 2016 interim dividend of 2.27 €cents per share. A final dividend is proposed of 5.72 €cents per share in 2017, an increase on the 2016 final dividend of 5.0% (2016: 5.45 €cents per share). The 2017 dividend pay-out represents an underlying 4.9% year-on-year increase. Given the Irish whiskey investment of €15.0m, a special dividend is not proposed this year. Nevertheless, the total distribution of 8.10 €cents represents almost double the pay-out implied by the Group's dividend reference point since IPO of 35% of net free cashflow. In the interest of our shareholders, the Board has decided to no longer consider dividends in such terms, and instead pay progressive underlying dividends, subject to there being sufficient distributable reserves and adequate cash generation.

Net debt and maturity profile

The Group's revolving credit facility (RCF), which was re-financed in 2015, was amended and re-stated in 2017, extending the arrangements to 2022. Debt can be drawn and repaid at the Group's discretion without penalty or charge. Further details can be found in note 23 of the consolidated financial statements. At the year-end, €14.3m of the RCF is utilised to back excise duty guarantees in Italy and Germany.

	Dec 2017 Closing Rate	2017 Average Rate	2016 Average Rate
Polish Złoty	4.17	4.25	4.36
Czech Koruna	25.55	26.32	27.03
GB Pound	0.89	0.88	0.80
Swiss Franc	1.17	1.11	1.09

The continued strong cashflow during the year resulted in net debt of €53.1m at the year-end, a decrease of €6.6m from December 2016, despite the €15.0m investment in Irish whiskey. Leverage fell to 0.94x from 1.16x at December 2016. We also retain a factoring facility of €50m. The net debt bridge chart below sets out the evolution over 2017. Our relatively low leverage combined with the significant headroom in our bank facilities leaves us well placed to finance our strategic aspirations.

Foreign exchange

The Group remains exposed to the impact of foreign currency exchange movements, with the major trading currencies remaining the Polish Złoty and the Czech Koruna. How the Group manages this risk is outlined on page 23. At the year-end, there were no formal hedging instruments in place, as the arrangements reported at the interim results were fully unwound.

A net positive FX gain of €0.4m was reported within Adjusted EBITDA during the year. This has arisen on the appreciation of the Polish Złoty and Czech Koruna. The table on the previous page shows the stated currency versus the Euro.

Change of year-end

As already announced, the year-end moves to 30 September in 2018. Accordingly, the Group will report a nine month period for 2018 (from 1 January to 30 September), and thereafter a normal 12 month period, starting from 1 October 2018 to 30 September 2019. However, in order to assist with the understanding of the underlying performance, it is intended to include proforma 12 month reporting (with comparatives) with the 30 September 2018 results. The interim results for the six months to 30 June 2018 will be published as usual. Further details are set out in the 2018 Financial Calendar on page 176.

Changes in accounting policies

The Group will adopt IFRS 15 (revenue from contracts with customers) from 1 January 2018. We have made an assessment of the impact of this change in accounting policy: if applied in 2017 there would have been a minor reduction in revenue for the Group of approximately -1.7%. There is no impact on Adjusted EBITDA and the change in Adjusted EBITDA margin would have been a small improvement of 36bps.

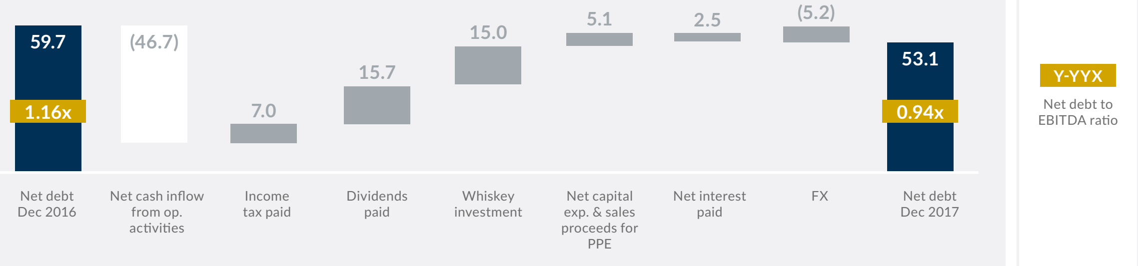
The Group has adopted IAS 7 (disclosure initiative) with a disclosure in note 23, and will adopt IFRS 9 (financial instruments) from 1 January 2018. There is not expected to be any material impact from this adoption. The Group will adopt IFRS 16 (accounting for leases) from 1 October 2019.

Equity structure

There has been no change to the equity structure of the business in 2017, which remains at 200 million issued shares with a nominal value of £0.10 each.

Paul Bal
Chief Financial Officer
7 March 2018

Net debt bridge: 31 December 2016 – 31 December 2017 (€m)



Strategy in action

WE MARKET

Digital campaigns

The maintenance of Stock Spirits' brand leadership in herbal bitters with Fernet Stock, and in tuzemský with Božkov, demands staying relevant to young adult drinkers whose media habits are very different to those of their predecessors and are evolving rapidly.

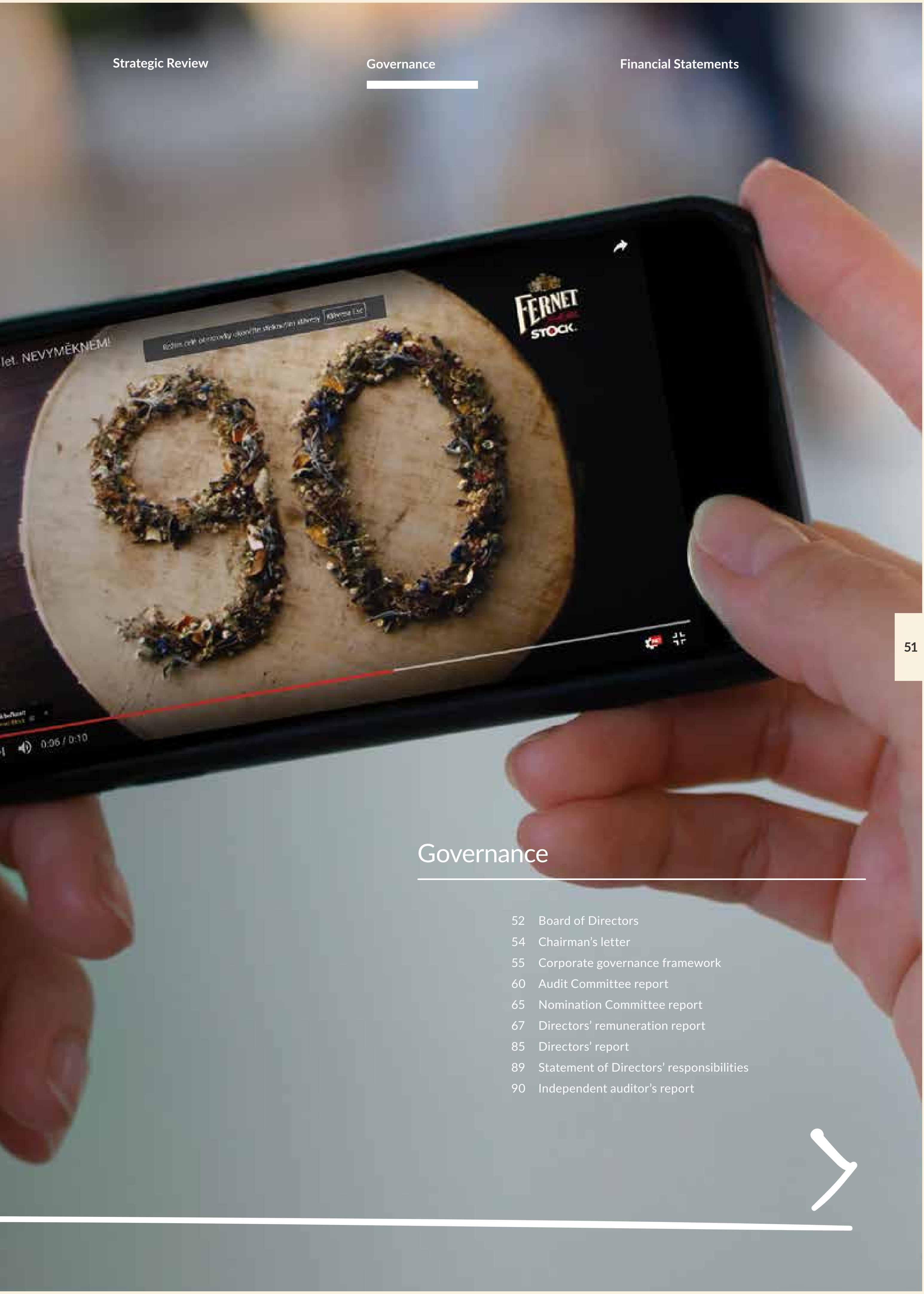
Historical communication via traditional TV advertising was becoming less relevant and too expensive.

Our Czech team developed a series of engaging and entertaining videos specifically tailored to appeal to millennials using digital and social media, which raised awareness of Fernet Stock's 90th birthday and Božkov's new flavour launches.

During 2017, the videos were viewed over 8.9 million times by our target drinkers and allowed the brands to achieve high coverage of a notoriously elusive emerging audience in a cost effective, relevant manner.

8.9m

video views by our target drinkers

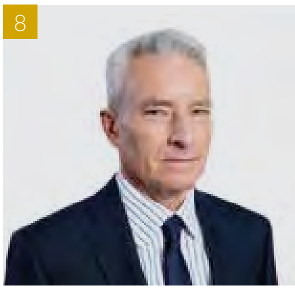


Governance

Board of Directors

An experienced international team with strong experience

Our Board is committed to maintaining high standards of corporate governance and business integrity in a constantly evolving regulatory environment.



Board structure

- Non-Executive Chairman
- Senior Independent Non-Executive Director
- Three other Independent, Non-Executive Directors
- One Non-Independent, Non-Executive Director
- Two Executive Directors

Committee status

A Audit Committee

N Nomination Committee

R Remuneration Committee

☐ Relevant Committee Chairman

1 David Maloney

Non-Executive Chairman

David was appointed to the Board as Senior Independent Non-Executive Director in October 2013 and in May 2015 was appointed Non-Executive Chairman. During a long career in finance, he was Chief Financial Officer of Le Méridien Hotels and Resorts, Thomson Travel Group and Preussag Airlines, and Group Finance Director of Avis Europe. He is currently Non-Executive Director of Ei Group plc.

2 Mirek Stachowicz

Chief Executive Officer

Mirek was appointed to the Board as an Independent Non-Executive Director in November 2015 and as Chief Executive Officer in August 2016. During a highly international career of more than 20 years, Mirek's previous roles include General Manager of Bestfoods (Romania), Managing Director of ICI Paints (Poland, Eastern Europe and Russia) and more recently Managing Director of AkzoNobel Deco (Central Europe). Currently Mirek serves as a Non-Independent Supervisory Board member of Paged S.A.

3 Paul Bal

Chief Financial Officer

Paul was appointed to the Board as Chief Financial Officer in November 2017. A Fellow of the Institute of Chartered Accountants, Paul has 20 years of experience in the tobacco industry. In a very international career, he has held various senior finance and management positions in the British American Tobacco plc Group. Several of these also included responsibility for IT. Most recently, he held a senior finance, IT and strategy role in the EEMEA business of Tupperware Brands Corporation Inc.

4 John Nicolson

Senior Independent, Non-Executive Director

John was appointed to the Board as an Independent Non-Executive Director in October 2013 and in October 2016 was appointed Senior Independent Non-Executive Director. His previous roles include President of Heineken Americas, Executive Director of Scottish & Newcastle plc, Deputy Chairman of CCU SA (Chile), Chairman of both Baltika Breweries (Russia) and Baltic Beverages Holding (Sweden) and Executive Director for Fosters Europe. He is currently the Chairman of A.G. Barr and a Non-Executive Director at North American Breweries and Senior Independent Director at P Z Cussons plc.

5 Mike Butterworth

Independent Non-Executive Director

Mike was appointed to the Board as an Independent Non-Executive Director in October 2016. He is a Chartered Accountant and previous roles include Group Finance Director of Cookson Group plc, Group Finance Director of Incepta Group plc and Group Financial Controller at BBA Group plc. He commenced a Non-Executive career in 2012 and is currently Senior Independent Director and the Chairman of the Audit Committee for Johnston Press plc and St Ives Group plc and Independent Non-Executive Director and Chairman of the Audit Committee for Cambian Group plc.

6 Diego Bevilacqua

Independent Non-Executive Director

Diego was appointed to the Board as an Independent Non-Executive Director in October 2016. With over 40 years' experience in the food and beverage sector, he has recently been an advisor to Bain & Company and serves on the Advisory Board of 24Insights GmBH. His most recent executive positions were as Chief Customer and Marketing Officer of Metro AG, having previously been President of Africa, Middle East and Turkey for Unilever. He has served as a Non-Executive Director of both Danisco AS and Pepsi Lipton International.

7 Tomasz Blawat

Independent Non-Executive Director

Tomasz was appointed to the Board as an Independent Non-Executive Director in October 2016. He is currently the Managing Director of Carlsberg Poland. Previous roles have included Chief Executive Officer of ING in Poland and a number of roles for SAB Miller and Procter and Gamble (Poland, Czech Republic, Slovakia, UK and Baltic States). Tomasz is a Polish national and also speaks fluent Czech.

8 Randy Pankevicz[1]

Non-Independent Non-Executive Director

Randy was appointed to the Board as a Non-Independent, Non-Executive Director at the AGM held on 23 May 2016. His previous roles include working with PepsiCo International over the last 27 years, including VP General Manager Czech, Hungary and Slovakia; Chief Financial Officer of the Central Europe Group; VP Finance and Chief Financial Officer of the Russia/CIS business unit and the Chief Financial Officer of the Czech and Slovakia Division. Currently Randy is an entrepreneur and private investor.

9 Sally Kenward

Company Secretary

Sally joined the Group in 2015 as Deputy Company Secretary and was appointed Company Secretary in April 2017. An Associate of the Institute of Company Secretaries (ICSA), Sally has over 20 years' experience in the drinks industry. Sally joined JD Wetherspoon Plc in 1997 and worked in a number of roles before being promoted to Deputy Company Secretary in 2013.

The biographies for the Senior Management team can be found on the website www.stockspirits.com

1. On 6th March 2018, Randy Pankevicz, Non-Executive Director, notified the Board of his resignation as a Director of the Company to enable him to focus on his personal investments. He does not intend to seek re-election at the AGM in 2018.

Chairman's letter

Dear Shareholders

I am pleased to present our Corporate Governance report for the year ended 31 December 2017. As you can read in more detail in the Audit Committee Report, we have continued to strengthen the governance policies, controls and processes to support the growth strategy of the Group during the year, and the years to come.

The Board is firmly committed to ensuring that our corporate governance policies are complied with in all jurisdictions in which the Group operates, by setting up proper processes. We are convinced that strong corporate governance is good for our business and underpins the delivery of shareholder value. We believe that corporate governance structures and processes will help our business to perform in a more efficient and competitive way in the marketplace and will lead to strong relationships with all of our stakeholders.

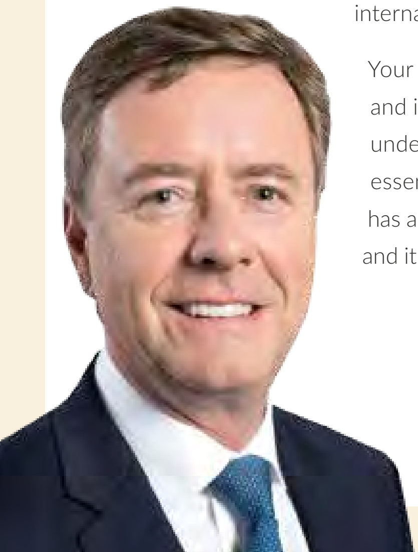
In November 2017, Lesley Jackson (CFO) stepped down from the Board and following an external search process, Paul Bal was appointed as CFO in November 2017. Elisa Gomez de Bonilla (Group General Counsel & Company Secretary) decided not to return following a period of maternity leave; Steve Weatherley was promoted to Group General Counsel and Sally Kenward to Group Company Secretary.

The Board acknowledges that with the departure of Lesley Jackson in November 2017 there are currently no women on the Board. Any future appointments will be made in line with the Board Diversity Policy and will continue to be made on merit and take into account diversity, in terms of gender and ethnicity, as well as the appropriate mix of skills, background, knowledge, international and industry experience.

As Chairman of the Board, I work with the Company Secretary to set the agenda for Board meetings. These are structured to ensure that sufficient time is spent on important matters, and all Directors have the opportunity to contribute. During the year, the Board discussed, reviewed and updated the Group's refreshed strategy. The Board also regularly reviews, among other things, the performance of each of the markets and in particular Poland, our largest market and considers the principal risks and associated procedures and processes to mitigate them. Further detail on the principal risks can be found on pages 20 to 25.

Another area of focus for the Board was succession planning including actions to strengthen the pipeline through the development of the leadership framework. Management continued to work on the pool of emerging talent within the Group providing bespoke training and development plans to create a strong pipeline of internal candidates.

In the second half of the year, an internal evaluation of the Board was carried out to review the performance of the Board, its Committees and the individual Directors, including the Chairman. The exercise was facilitated by the Company Secretary under my direction and details of the process and outcomes are shown on pages 58 and 59. I believe regular and appropriate Board and Committee evaluation is an area that is fundamental to improving Board effectiveness and ensuring objectives can be met. It enables us to review the effectiveness of individual Directors, the processes under which the Board operates, and the quality, timeliness and appropriateness of information submitted by management. In 2018 we will carry out an internal evaluation.



Your Board regularly meets with Group Management, both at Board and Board Committee meetings and in other routine meetings, which enables the Non-Executive Directors (NEDs) to gain a good understanding of the business and what is happening on the ground. We believe that this is an essential requirement for Directors. We have set out in the following pages, details of how the Company has applied the main principles of the 2016 version of the UK Corporate Governance Code and its compliance with the various provisions.

David Maloney
Chairman
7 March 2018

Corporate governance framework

Introduction

This report explains key features of the Company's governance structure to provide a greater understanding of how the main principles of the UK Corporate Governance Code, published in 2016 by the Financial Reporting Council (the Code), have been applied, and to highlight areas of focus during the year. The report also includes items required by the Disclosure and Transparency Rules. A copy of the Code can be obtained at www.frc.org.uk.

Compliance with the UK Corporate Governance Code

The Company has complied with the provisions of the Code in this financial year.

Governance overview

The Board is collectively responsible to the shareholders for the long-term success of the Company. The Board has delegated certain responsibilities to Board Committees to assist it with discharging its duties. The Board Committees play an essential role in supporting the Board to implement its vision and strategy, and to provide focused oversight of key aspects of the business. The full terms of reference for each Committee are available on the Company's website www.stockspirits.com.

How the Board works

The Board

The Company is led and controlled by the Board. The names, responsibilities and details of the current Directors appointed to the Board are set out on pages 52 and 53. The Board agrees the strategic direction and governance structure that will help achieve the long-term success of the Company and deliver shareholder value. The Board takes the lead in areas such as strategy, financial policy and ensuring the Company maintains a sound system of internal control. The Board's full responsibilities are set out in the 'Matters Reserved for the Board' and are available on the Company's website www.stockspirits.com

Role of the Chairman

The Board is chaired by David Maloney, a NED who met the independence criteria in the Code on his appointment. It is the Chairman's duty to lead the Board and to ensure Directors have sufficient resources available to them to fulfil their statutory duties. The Chairman is responsible for setting the Board's agenda, ensuring adequate time is available for discussion of all agenda items and ensuring a particular focus on strategic issues.

The Chairman promotes a culture of openness and debate by facilitating the effective contribution of NEDs in particular, and by encouraging constructive relations between Executive Directors and NEDs.

Role of the Chief Executive Officer (CEO)

Mirek Stachowicz is the CEO. Through delegation from the Board, he is responsible for executive management of the Group, including the implementation of the Group's strategic objectives. In fulfilling his duties, the CEO is supported by the senior management team, whom he also leads.

Interaction between the Chairman and the CEO

The roles of the Chairman and the CEO are separate, with a distinct division of responsibilities.

The partnership between David Maloney and Mirek Stachowicz is based on mutual trust and is facilitated by regular contact between the two. The separation of authority enhances independent oversight of the executive management by the Board and helps to ensure that no one individual on the Board has unfettered authority.

Corporate governance framework continued

Role of the Senior Independent Director (SID)

John Nicolson is the SID and is available to shareholders if they have concerns that the normal channels of Chairman, CEO or other Executive Directors have failed to resolve, or for which such channels of communication are inappropriate. The SID also acts as an internal sounding board for the Chairman, and serves as intermediary for the other Directors, with the Chairman, when necessary. During the year Mr Nicolson consulted with major shareholders to discuss the proposed changes to the Directors' Remuneration Policy both prior to and following the AGM. The role of the SID is considered to be an important check and balance in the Group's governance structure. In accordance with the Code, neither the Chairman nor the SID are employed as executives of the Group.

Non-Executive Director independence

The Board considers and reviews each NED's independence on an annual basis, as part of the Directors' performance evaluation. In carrying out the review, consideration is given to factors such as their character, judgement, commitment and performance on the Board and relevant Committees, and their ability to provide objective challenge to management. The Board has considered the findings from the internal Board evaluation exercise and reviewed the independence of each NED. The Board is of the view that all were and continue to be, independent in accordance with the provisions of the Code, with the exception of Randy Pankevicz, who is considered non-independent. His status does not preclude him from making a full contribution to the Board. He has participated in all Board and Board Committee meetings.

Meetings and attendance

The attendance of Directors at scheduled Board and Committee meetings during the year ended 31 December 2017 were as follows:

Director	Board Maximum 7	Audit Committee Maximum 5	Remuneration Committee Maximum 6	Nomination Committee Maximum 4
David Maloney	7	–	–	4
Mirek Stachowicz	7	–	–	–
Lesley Jackson[1]	7	–	–	–
Paul Bal[2]	2	–	–	–
John Nicolson[3]	7	4	6	3
Randy Pankevicz	7	–	–	–
Mike Butterworth	7	5	6	4
Diego Bevilacqua	7	–	6	4
Tomasz Blawat	7	5	6	–

1. Retired as a Director on 7 November 2017
2. Appointed as a Director on 7 November 2017
3. Mr Nicolson was unable to attend one Audit Committee and one Nomination Committee due to overseas business commitments

During 2017, certain Executive and Non-Executive Directors who are not Committee members attended Committee meetings by invitation (other than meetings where there would be a conflict). These details have not been included in the table.

In addition to the scheduled Board meetings, the Board holds regular meetings by telephone, generally to review the financial results.

In the event that a Director is unable to attend a meeting, they will receive the papers scheduled for discussion at the relevant meeting, giving them the opportunity to raise any issues and give any comments to the Chairman in advance of the meeting.

The Board delegates authority to its Committees to carry out certain tasks on its behalf, so that it can operate efficiently and give the right level of attention and consideration to relevant matters. The composition and role of each Committee is summarised in each of the respective Committee reports.

Board composition, qualification and independence

The Board is committed to high standards of corporate governance and as such, its composition, members' experience, balance of skills and effectiveness are regularly reviewed to ensure the right mix of people are on the Board and its Committees. Following the retirement of Lesley Jackson and the appointment of Paul Bal as CFO, both on 7 November 2017, the Board continues to comprise eight Directors: a Chairman (who, for the purposes of the Code, was independent on appointment); a SID; three Independent NEDs; one Non-Independent NED and two Executive Directors.

The Directors have a wide range of skills and experience including expertise in the food and drinks industry, within Europe and beyond.

Appointment and tenure

All NEDs, including the Chairman, serve on the basis of letters of appointment that are available for inspection at the Company's registered office. The letters of appointment set out the expected time commitment of NEDs who, on appointment, undertake that they will have sufficient time to meet what is expected of them.

The Executive Directors' service contracts are also available for inspection at the Company's registered office.

The Company does not place a term limit on a Director's service, as all continuing Directors will present themselves for annual re-election by shareholders at the Company's Annual General Meetings (AGMs).

Director induction and training

The Chairman, with the support of the Company Secretary, is responsible for the induction of new Directors and the ongoing training and development of all Directors. New Directors receive a full, formal and tailored induction on joining the Board, designed to provide an understanding of the Group's business, governance and key stakeholders. The induction process includes site visits, meetings with key individuals, and briefings on key business, legal and regulatory issues facing the Group.

As the internal and external business environment changes, it is important to ensure the Directors' skills and knowledge are refreshed and updated regularly. Accordingly the Chairman, with the assistance of the Company Secretary, ensures that regular updates on corporate governance, regulatory and technical matters are provided to Directors at Board meetings. During the year, operational site visits for the Board were arranged in Poland, Czech Republic and Italy which included meetings with the local senior management teams. In this way, Directors keep their skills and knowledge relevant so as to enable them to continue to fulfil their duties effectively.

Corporate governance framework continued

Information and support available to Directors

All Board Directors have access to the Company Secretary, who advises them on Board and governance matters.

The Chairman and the Company Secretary work together to ensure Board papers are clear, accurate, delivered in a timely manner to Directors and of sufficient quality to enable the Board to discharge its duties. As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary.

Director re-election

In accordance with the Code and the Directors' letters of appointment, the Directors will put themselves forward for annual re-election. Following recommendations from the Nomination Committee, the Board considers that all Directors continue to be effective, committed to their roles and to have sufficient time available to perform their duties. Accordingly, all Directors will seek re-election at the Company's forthcoming AGM.

Directors' conflicts of interest

Directors have a statutory duty to avoid situations in which they have, or may have, interests that conflict with those of the Company, unless that conflict is first authorised by the Board. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's Articles allow the Board to authorise such potential conflicts, and there is a procedure in place to deal with any actual or potential conflict of interest. The Board deals with each appointment on its individual merit and takes into consideration all relevant circumstances. All potential conflicts approved by the Board are recorded in an Interests Register, which is reviewed by the Board at least quarterly to ensure the procedure is working effectively.

Board evaluation and effectiveness

An internal evaluation of the performance of the Board, its Committees and the Chairman was carried out during the year. The process of evaluating the performance was undertaken by the Company Secretary under the direction of the Chairman. A tailored, high-level questionnaire was distributed for the Directors to complete. This was structured to provide Directors with an opportunity to express their views about:

- The performance of the Board and its Committees, including how the Directors work together as a whole;
- The balance of skills, experience, independence and knowledge of the Directors; and
- Individual performance, and whether each Director continues to make an effective contribution.

Following evaluation, it was agreed that all Directors contribute effectively, demonstrate a high level of commitment to their role, and together provide the skills and experience that are relevant and necessary for the leadership and direction of the Company.

The evaluation highlighted that following Mrs Jackson's departure, the Board is currently lacking in gender diversity, however, it is diverse in terms of ethnicity, culture, nationality and international experience. In line with the Board Diversity Policy, gender diversity will be considered alongside race, merit, skills, background, knowledge and international and industry experience when the next opportunity arises on the Board.

The responses to the evaluation of the Board and its Committees were reviewed with the Chairman and considered by the Board. The results of the evaluation indicated that the Board is working well and that there were no significant concerns among the Directors about its effectiveness. It was generally felt that the actions agreed as a result of the previous year's external evaluation had been progressed. These actions included succession planning and promoting a stronger culture of value creation in the Board and throughout the Company. For the year ahead, the actions agreed included a continued focus on succession planning, continued engagement with the management teams in each market and a focus on improving the management information provided to the Board.

The results of the evaluation of the Chairman's performance were considered by the SID and were discussed with the Chairman at a separate one-to-one meeting. The performance of individual Directors was evaluated by the Chairman, with input from the Committee Chairmen and other Directors.

For 2018, an internal evaluation of the performance of the Board, its Committees and the Chairman will take place. The process of evaluation will be undertaken by the Company Secretary under the direction of the Chairman.

Annual General Meeting (AGM)

The Company's AGM will take place at 11.30am on Tuesday, 22 May 2018 at the offices of Numis Securities Limited at The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The notice of the AGM can be found on our website www.stockspirits.com, and in a booklet that is being issued at the same time as this Report. The Notice of the AGM sets out the business of the meeting and an explanatory note on all resolutions. Separate resolutions are proposed in respect of each substantive issue.

The AGM is the Company's principal forum for communication with shareholders. The Chairman of the Board and Directors will be available to answer shareholders' questions at the AGM.

Committees

The Company has established an Audit Committee, a Nomination Committee, a Remuneration Committee and a Disclosure Committee. The Board delegated specific responsibilities to these Committees. The role and responsibilities of each Board Committee are set out in formal Terms of Reference, which are available on the Company's website. The Board Committees make recommendations to the Board as they see fit, as contemplated by their Terms of Reference.

Shareholder engagement

The Company has regular discussions with and briefings for analysts, investors and institutional shareholders. Primary responsibility for shareholder relations rests with Mirek Stachowicz, CEO and Paul Bal, CFO. They ensure there is effective communication with shareholders on matters such as governance and strategy, and are responsible for ensuring the Board understands the views of major shareholders on such matters.

As part of a comprehensive investor relations programme, formal meetings with investors are scheduled to discuss the Group's interim and final results. In the intervening periods, the Company continues its dialogue with the investor community by meeting key investor representatives and attending investor conferences.

During the year, the CFO and CEO met with a number of shareholders and potential shareholders. External presentations are posted on the Company's website at www.stockspirits.com/investors.

The Chairman is always available to meet individual shareholders on request. In addition, all Directors are available to meet shareholders at the Company's AGM.

David Maloney
Chairman

7 March 2018

Audit Committee report

I am pleased to report on the role and activities of the Audit Committee for the year

The principal objectives of the Committee are to monitor the Group's internal controls and financial risk management, to review the integrity of the Group's published financial reports, including the ARA, and to oversee the conduct of the external audit.

The Audit Committee is satisfied that it is in compliance with the provisions of the UK Corporate Governance Code in relation to Audit Committees and auditors.

The Committee has complied with the Competition and Markets Authority Order on Statutory Audit Services for Large Companies for the year ended 31 December 2017, having completed a formal competitive tender process for the appointment of the external auditor during the year ended 31 December 2014.

Composition of the Committee

During the year ended 31 December 2017, the Audit Committee held five meetings. The members of the Committee during the year were as follows:

Mike Butterworth	Chairman and Independent NED
John Nicolson	Senior Independent NED
Tomasz Blawat	Independent NED

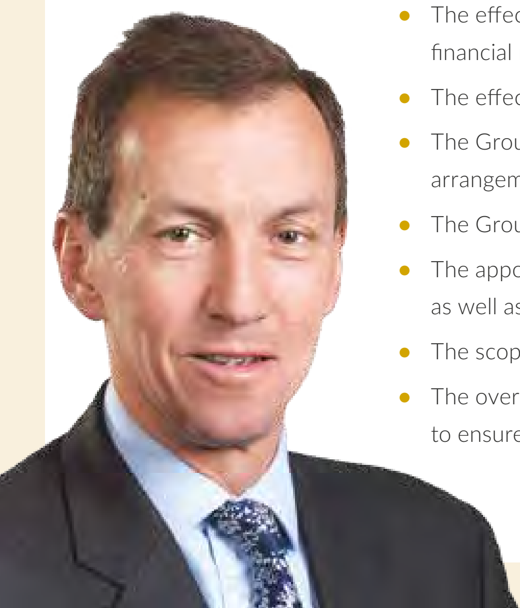
All the members of the Committee are independent and collectively have competence relevant to the beverage sector in which the Company operates, in accordance with Provision C.3.1 of the UK Corporate Governance Code. Mike Butterworth is a chartered accountant and the Board is satisfied that he brings recent and relevant financial experience to the Committee, as recommended by the Corporate Governance Code, having served as CFO of a FTSE 250 company for eight years until December 2012.

Sally Kenward (Company Secretary) served as Secretary to the Committee with the exception of two meetings where Steve Weatherley (Group General Counsel) acted as Secretary to the meeting whilst in his capacity as Acting Company Secretary. The Chairman of the Company, NEDs not on the Audit Committee, CEO, CFO, Head of Internal Audit, Risk and Compliance, and audit engagement partner from our external auditor generally attend our Audit Committee meetings by invitation. We also ask other members of senior management to present to the Committee as appropriate.

Committee meetings are planned so as to enable review of trading statements, the half-yearly report and the ARA, with additional meetings taking place as necessary.

Responsibilities and role of the Audit Committee

The Committee's main responsibilities are to oversee, monitor and make recommendations to the Board on:



- The effectiveness of the Group's internal control and risk management, including control over financial reporting
- The effectiveness of internal audit, including co-ordination with the activities of external audit
- The Group's policies and procedures relating to business conduct, including whistle-blowing arrangements and fraud prevention and detection procedures
- The Group's overall approach to ensuring compliance with laws, regulations and policies
- The appointment of the external auditor, including a tender selection process, where appropriate, as well as terms of engagement and remuneration
- The scope of the external audit, its findings and the effectiveness of the audit process
- The overall relationship with the external audit firm, including the provision of non-audit services to ensure that independence and objectivity are maintained

- The integrity of the financial statements, including a review of the significant accounting policies and financial reporting judgements
- Whether, taken as a whole, the ARA is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Risk management and internal control framework

We have a clear framework for identifying, evaluating and managing risk faced by the Group on an ongoing basis, both at an operational and strategic level, which has been in place for the year under review and up to the date of this report, and which accords with 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued by the Financial Reporting Council (FRC). Our risk identification and mitigation processes have been designed to be responsive to the constantly changing environment. Our internal control process starts with identifying risks, compliance matters and other issues at a local level in each of the Company's markets, and then consolidates it at a Group level at the Board. We do this through routine reviews carried out by process owners and facilitated by relevant dedicated, specialist teams. We record risks in our risk registers, assess the implications and consequences for the Group, and determine the likelihood of occurrence. The Group's risk register is subject to regular review and scrutiny by the Board, as well as by the Audit Committee with regards to the financial risks. Appropriate action is taken to manage and mitigate the risks identified. The Audit Committee receives an update on risk management and internal controls at every meeting. The report includes significant changes in risk registers, personnel and systems changes that may impact upon controls; any detected breaches of controls or investigations into possible breaches; and any concerns reported via our speak-up hotline.

The main features of the Group's internal control and risk management systems in relation to the process for preparing consolidated accounts include:

- Organisational structure, delegations of authority and reporting lines
- Group accounting and control procedures, with a centralised Group finance function that provides direction and support to market finance teams as well as managing the Group consolidation and reporting requirements
- Budgetary process and financial review cycle, with a quarterly review of annual budget, business performance and assessment of risks
- Risk management through monitoring and maintenance of a risk register for each business unit
- Capital expenditure control
- Internal Audit regular reports on controls
- Competence and integrity of our personnel.

Effectiveness of internal controls

The Committee has reviewed the effectiveness of our risk management and internal control process, including financial reporting, to ensure it remains robust. The review covered all material controls, including financial, operational and compliance controls, in the financial period to 31 December 2017 and the period to the approval of this ARA.

The full 'Terms of Reference of the Committee', which have been subject to review and updated during the course of the year are available on our website at www.stockspirits.com.

The Committee's role is primarily advisory: it reports its findings to the Board. Ultimate responsibility for internal control, the ARA, half-yearly reports and trading statements remains with the Board.

Main activities of the Committee during the year

Internal controls and risk management

As part of our continuous monitoring of risk management and internal controls, we receive and review the corporate risk register together with a report on changes in significant risks in our main businesses and other control related information on a quarterly basis. Over the year, we have reviewed reports from the CEO and the Company Secretary, as well as from other members of management and the internal audit team.

Audit Committee report continued

At each meeting, the Committee continued to review progress on a major project that was initiated in 2015, to develop and implement more comprehensive controls across the business. This has involved cross functional teams across our principal markets challenging and redeveloping procedures and controls to ensure they are effective and not open to misuse. The process of implementing and embedding this enhanced internal control framework across all our markets has, following implementation in our German distillery, been completed and the ongoing internal audits of compliance with the controls are now producing very high pass rates in all markets. With this enhanced control framework now in place in all our principal markets, the focus in 2017 has been on the extensive auditing of the controls to ensure that they are operating effectively.

In addition, the Committee reviewed a number of matters relevant to the financial structure of the Group. These included the adequacy of the Group's financing facilities, updates on the Group's risk management and insurance programmes, the availability of distributable reserves within the Company and its ability to pay dividends.

Internal audit

The remit of internal audit is to undertake financial, operational and strategic audits across the Group using a risk-based methodology. During the year, Monika Krenz was appointed as Head of Internal Audit, following the appointment of the previous Head of Internal Audit to the role of Group General Counsel, and Deloitte replaced PricewaterhouseCoopers as our internal audit service providers. In line with our usual practice, internal audit prepared an inventory of the key auditable control and risk areas across the Group, informed by the Principal Risks identified in our ARA and the latest quarterly risk registers prepared by our businesses, which drove priorities for the internal audit plan for 2017. This plan contained audits and reviews focused on areas identified as having the most risk to the business, covering all parts of the Group down to individual sites, processes and activities, and all aspects of the business.

During 2017, the main focus of internal audit activity continued to be on extensive auditing post-implementation of the controls project referred to above in our principal markets, to ensure compliance with controls is fully embedded. The results of the post-implementation audits were reported to the Committee, as it continued to provide strong oversight for this important project. During the year, the remit of the controls project was extended from its initial focus on the purchase-to-pay, order-to-cash and hire-to-retire processes, to additionally cover the sales and operations planning process. In addition, the Committee received internal audit reports on the design and operating effectiveness of controls around compliance with the Listing Rules of the London Stock Exchange and Market Abuse Regulation and health and safety management. In each case, the audits confirmed the general adequacy of controls and proposed areas for improvement. Results were graded, and where improvements were identified, appropriate remedial actions were agreed with the management concerned, with the Committee ensuring that these are followed up. We considered the internal control issues raised in internal audit reports that we received during the year, the adequacy of internal audit resources and the effectiveness of the internal audit function. The Committee also held a session with the Head of Internal Audit without other members of management being present.

Whistle-blowing

Part of our remit is to oversee the Group's processes for handling reports from whistle-blowers. Our Code of Business Conduct encourages all employees to report any potential improprieties in financial reporting or other matters. We have an independent compliance hotline (Speak-Up) operated by an external agency. This is available to all employees, suppliers, customers and other stakeholders, in each of the languages used throughout the Group and, subject to legal requirements, callers can remain anonymous if they wish. All contacts received are reported to and reviewed by the Audit Committee. Where appropriate, our legal and/or internal audit teams may be asked to investigate issues and report to us on the outcome. During 2017, we received only one Speak-Up hotline contact, which related to an alleged conflict of interest between an employee in Poland and a supplier. However, when we investigated the allegation, the informant provided no specific information and we found no evidence to suggest any wrongdoing.

The Committee also received regular updates from the Group General Counsel on significant litigation and disputes, initiated by or against the Company.

Review of ARA and preliminary results announcement

The Committee has considered the appropriateness of the accounting policies used. Further, the Committee carried out a comprehensive review of the ARA as a whole and considered a number of factors, including the balance between reporting of positive and negative aspects, consistency throughout the ARA and the results of enquiries made of business unit managers and other relevant management of the most significant challenges, set-backs and achievements during the year. Based on that review, the Committee has recommended to the Board that, taken as a whole, the ARA is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Significant issues considered in relation to the ARA

In reviewing the financial statements with management and the auditors, the Committee has discussed and debated the critical accounting judgements and key sources of estimation uncertainty set out in note 4 to the financial statements. As a result of their review, the Committee has identified the following issues that require particular judgement or have significant impact on interpretation of this ARA.

Revenue recognition

In the Group's main markets, seasonal sales peaks occur around the Christmas period, therefore procedures for appropriate cut-off and recording of revenue and related rebates to the correct period are important. In line with normal practice, the businesses within the Group provide a variety of discounts, rebates, promotions and marketing support to customers across a number of geographies. We reviewed the procedures performed by management and the auditors to ensure the accuracy and completeness of such reserves at the year-end. The Group's policy is set out in note 3 to the consolidated financial statements.

Carrying value of intangible assets

The Group's policies on accounting for separately acquired intangible assets and goodwill on acquired businesses, are set out in note 3 to the consolidated financial statements. The results of this year's testing showed positive headroom in all cash generating units, with the exception of Italy, where the continued low profitability resulted in a deficit of approximately €14.9m below the net asset value, requiring an impairment charge which is shown in the financial statements as an exceptional item due to its size and infrequent occurrence.

As part of the testing, the Committee has reviewed the key assumptions behind these valuations, notably the expected development of future cashflows and the discount rates used, as well as considering reasonable sensitivities to these estimates, and concluded that these support the carrying values set out in notes 15 and 16.

Taxation

As is normal, the Group has a number of outstanding tax assessments, and regularly undertakes reviews to assess tax risks across the Group – for example, risks associated with VAT and transfer pricing. As described in note 13 to the consolidated financial statements, we are facing a number of tax investigations at subsidiary level. The Group has undertaken a review of potential tax risks and current tax assessments, and while it is not possible to predict the outcome of any pending enquiries, the Committee concurs with management's assessment of the changes to provisions made during the year.

Going concern

In assessing whether the Company is a going concern, and accordingly making our recommendation to the Board, we considered a paper prepared by management based on guidance published by the Financial Reporting Council and reviewed the findings of the external auditors. The assessment was made for the period of 12 months from the date of this report, in accordance with accepted practice. Based on internal forecasts, we reviewed the Group's debt-maturity profile, including headroom and compliance with financial covenants, and its capital structure. We stress-tested this by adjusting the Company's internal full-year forecast cashflow by a combination of the principal risks we have identified – notably an economic downturn leading to loss of revenue and customer default (see Principal Risks – Economic and Political Change; and Marketplace and Competition). See note 2 to the accounts (Going concern). The Committee concluded that the application of the going-concern basis for the preparation of the financial statements remained appropriate.

Audit Committee report continued

Changes to accounting standards

The Committee reviewed analysis and proposals from the Group finance team on the implementation of several changes to accounting standards starting on or after 1 January 2018. These are outlined in note 3 to the financial statements and the Committee concurs with the assessments of the impacts, which are deemed to not be material.

External audit

During the year, the Audit Committee assessed the ongoing effectiveness and quality of the external audit process on the basis of a questionnaire-based internal review completed by members of the Audit Committee, the external auditors and key members of the finance team. The Committee concluded that the audit process was effective, while identifying a number of learnings that will be applied to future audits as part of our commitment to continuous improvement.

The Committee maintained a dialogue with our external auditors, KPMG, on the key financial statement risks on which the half-year review and full-year audit would focus. KPMG's approach to materiality informed discussion of the appropriate level of materiality for the audit, and the Committee concurred with KPMG's proposals as set out in their report. The Committee continued to meet regularly with the external auditors in the absence of management.

Before concluding our recommendation on the ARA in March 2018, we reviewed a report from KPMG on the findings from their audit with particular attention on key issues arising out of the audit, including their views on critical estimates and judgements, key assumptions, clarity of disclosures and proposed audit adjustments. We discussed these with management and satisfied ourselves that the issues raised had been properly dealt with. We received and considered confirmation of the independence and objectivity of the auditors, and reviewed the effectiveness of the audit process by interrogation of management and auditors. The Committee also sought assurance from management that all appropriate matters had been brought to the auditors' attention.

Non-audit services policy and auditor independence

We have a policy on non-audit services provided by the external auditors, which was updated in line with EU Regulation No. 537/2014 on the statutory audit of public interest entities. Specific approval must be sought from the Audit Committee for:

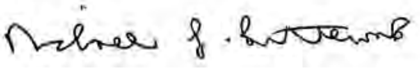
- Single or linked advice from our auditors, the cost of which is likely to exceed €50,000 in the financial year or bring the aggregate non-audit fee for that firm over €300,000 in the financial year; and
- Employment into control positions of individuals who have worked directly on the external audit in the previous two years.

Our policy also states that we require annual confirmation of the independence of an audit firm in accordance with its own and required regulatory and ethical guidelines. We review a quarterly report from the CFO of the actual level and nature of non-audit work and periodic confirmation from KPMG of their independence.

The total fees paid to KPMG for audit services for the year were €676,000 and audit-related assurance services fees amounted to €54,000. The audit-related assurance services work entirely comprised of a half year interim review. We are satisfied that this audit-related assurance services work did not detract from the objectivity and independence of our external auditors. Further details of the fees paid to the external auditors are set out in note 12.

Governance

The Committee has reported in accordance with its Terms of Reference and in particular has recommended to the Board the adoption of the ARA and the proposal to reappoint KPMG LLP as independent auditors at the AGM. A formal evaluation of the effectiveness of the Committee was carried out during the year (see page 58); based upon the results of that evaluation, the Committee believes that it has operated effectively during the year.



Mike Butterworth
Chairman of the Audit Committee
7 March 2018

Nomination Committee report

I am pleased to present the report of the Nomination Committee for 2017.

Composition of the Committee

The members of the Committee are:

David Maloney	Chairman
John Nicolson	Senior Independent NED
Mike Butterworth	Independent NED
Diego Bevilacqua	Independent NED

Meetings

The Nomination Committee met four times during the year. David Maloney, John Nicolson, Mike Butterworth and Diego Bevilacqua met the independence criteria in the Code on appointment. Sally Kenward (Company Secretary) served as Secretary to the Committee, except for two meetings where Steve Weatherley (Group General Counsel) acted as Secretary whilst in his capacity as Acting Company Secretary. The CEO and NEDs who do not sit on the Committee generally attend our Committee meetings by invitation (other than when there would be a conflict). We also ask other members of the senior management team, such as the Group HR Director, to present to the Committee during the year.

Responsibilities and roles of the Committee

The Nomination Committee is responsible for regularly reviewing the structure, size and composition (including the skills, knowledge, independence and experience) required of the Board compared to its current position, and making recommendations to the Board with regard to any changes; giving full consideration to succession planning for Directors, taking into account the challenges and opportunities facing the Company, and the skills and expertise that will therefore, be needed on the Board in the future; and identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Nomination Committee takes into account the provisions of the UK Corporate Governance Code 2016 (the Code) and any regulatory requirements that are applicable to the Company. It ensures that external evaluations of the Board are carried out according to the applicable regulations. The full 'Terms of Reference of the Committee' are available on our website www.stockspirits.com.

Main activities of the Committee during the year

The Committee met in March 2017 to determine Directors' independence or non-independence for the purpose of recommending to the Board the reappointment of Directors at the AGM.

Succession planning and development of senior management pipeline

In June and November 2017 the Committee met to discuss and agree the succession planning of senior management, both in terms of permanent succession and also short-term cover for senior roles. Succession planning is a key area for the Company and continues to be enhanced and developed. Emerging talent within the middle management team was discussed and individual development plans have been put in place to strengthen the pipeline for the future. Effective succession planning is fundamental to Board effectiveness and ensures there is continuous development of talented personnel to provide cover in the short-term and promotion, where appropriate, into senior positions in the long term. This approach helps to mitigate the risks associated with unforeseen events such as the departure of a key individual, and also assists in promoting diversity.

Nomination Committee report continued

At the meeting held in January 2017, the Chairman recommended introducing a mentoring programme between the NEDs and the senior management team. The programme was established to help the NEDs gain a greater understanding of a particular area of the business and to also provide advice to the individual where required. Everyone involved in the programme has found the exercise beneficial and the plan is to continue the mentoring programme in 2018. The Committee will continue to focus on succession planning and development of both middle and senior management during 2018.

Board Changes

Following Mrs Jackson's notification to the Committee that she intended to step down from the Board from November 2017, the Nomination Committee conducted an external search through Odgers Berndtson, an international executive search firm, who were given a brief to provide a diverse long list of candidates taking into account gender, ethnicity, skill, experience, background, knowledge, international and industry experience. The Committee agreed a short list of candidates and a number of interviews were conducted by the members of the Nomination Committee and other Board Directors. Following the final interviews with candidates, the Nomination Committee proposed to the Board, and the Board unanimously agreed, to appoint Paul Bal as CFO of the Company in November 2017.

Diversity

Following Mrs Jackson's retirement and Mr Bal's appointment to the Board, there are currently no females on the Board. The Board is diverse in terms of the race, nationality and international experience of its members. The Committee will continue to monitor and consider diversity for future Board appointments and it is the Company's policy to maintain and develop the diversity of its Board Directors without compromising on the calibre of new Directors appointed. Appointments to the Board will be based on merit while complementing and enhancing the existing diversity of skills, knowledge, and experience of the Board as a whole.

The Nomination Committee will continue to engage with Executive Search firms in a manner which enhances opportunities for diverse candidates to be considered for appointment; the Committee will support Board-level diversity throughout the Succession Planning process and will support efforts to increase diversity in the senior management pipeline towards Executive and Non-Executive Board positions.

In accordance with the recommendation for FTSE 350 companies set out in the Code, all of the Company's Directors will stand for re-election at the forthcoming AGM. The biographical details of the current Directors can be found on pages 52 and 53. The Committee considers that the performance of each of the Directors standing for re-election continues to be effective and that they each demonstrate commitment to their role, including commitment of time for Board and Committee meetings and any other duties.

The terms and conditions of appointment of NEDs, including the expected time commitment, are available for inspection at the Company's registered office.

David Maloney
Chairman of the Nomination Committee

7 March 2018

Directors' remuneration report

I am pleased to present our Remuneration Report for 2017.

Our Directors' remuneration policy (the Policy) was approved at the AGM in 2017 with a vote in favour of more than 79%, and applied during the year. As noted in the 2016 Directors' Remuneration Report, we consulted with major shareholders and representative bodies in respect of the proposed changes to the Policy and in my position as Chairman of the Committee I spoke with a number of the Company's largest shareholders following the AGM. No changes to the Policy are proposed for 2018.

The Annual Report on remuneration (pages 77 to 84) sets out how the Policy was applied in 2017 and details the rewards earned by Directors. It also sets out how we intend to apply the Policy in 2018.

As no changes are proposed to the Directors' remuneration policy this year, it will not be subject to a vote at the AGM. The Annual Report on remuneration will be subject to an advisory vote by shareholders at the AGM.

The outturn for 2017 can be summarised as follows:

- **Base salary**

  Mirek Stachowicz's salary for 2017 remained at the level of £425,000 (€482,955) as reported last year. Paul Bal was appointed as CFO during the year with a salary of £300,000 (€340,909), which is less than the salary earned by the former CFO. Further information in relation to Paul Bal's remuneration on joining the Company is set out below.

- **Annual bonus**

  Mirek Stachowicz's and Lesley Jackson's bonus opportunity for 2017 was up to 140% of salary. The bonus was based on three performance metrics: (1) EBITDA (50% of the opportunity); (2) cashflow (30% of the opportunity); and (3) individual KPIs linked to the financial, strategic and operational performance of the business (20% of the opportunity). Performance achieved against the two financial measures of EBITDA and cashflow conversion was between threshold and target. This has resulted in an annual bonus being paid to Mirek Stachowicz and Lesley Jackson at 32.1% of salary; further information is included on page 78. 25% of the bonus earned by Mirek Stachowicz will be deferred into shares. In line with the Directors' remuneration policy and as agreed in connection with her retirement from the Board, all of Lesley Jackson's bonus will be paid in cash. Paul Bal was not eligible for a bonus in respect of 2017.

- **LTIP (Long Term Incentive Plan)**

  The PSP (Performance Share Plan) award granted to Lesley Jackson in 2015 was subject to an EPS performance condition (as regards 50% of the award) and a TSR performance condition (as regards 50% of the award). Each performance condition was assessed over the three year performance period ended 31 December 2017; the performance required for threshold vesting was not achieved and the award has lapsed.

Executive Director changes

Lesley Jackson retired from the Board on 7 November 2017 and will leave the Company on 8 August 2018. The remuneration arrangements in relation to Lesley's retirement from the Board have been determined in accordance with the Policy; further information is set out on page 81.

Paul Bal was appointed as CFO with effect from 7 November 2017. His salary was set at £300,000 (€340,909) which is lower than Lesley Jackson's (£318,000 (€361,364)). We agreed to compensate Paul for incentive awards he forfeited in his previous role. Details of the compensation award are set out on page 80, the award will vest in December 2020 and has been granted in the form of an award over the Company's shares to align his interests with those of shareholders.

Directors' remuneration report continued

Remuneration for 2018

An increase of 3% is proposed for Mirek Stachowicz for 2018 to a level of £437,750 (€497,443), this is in line with the range of increases awarded to the wider workforce. No change is proposed to Paul Bal's base salary for 2018, which will remain at the level of £300,000 (€340,909).

The Executive Directors' annual bonus opportunity and LTIP awards for 2018 will be pro-rated to reflect the shortened 2018 financial year for the Company.

- The bonus opportunity will be up to 140% of salary earned during the nine month financial year from 1 January 2018 to 30 September 2018 (i.e. up to 105% of the annualised salary); 25% of any bonus earned will be deferred into shares for two years. Further information is given on page 84.
- PSP awards will be granted at the level of 125% of the pro-rated salary (i.e. 93.75% of the annualised salary). Awards will be subject to EPS and cash conversion targets as set out on page 84, and will be subject to a two year holding period after vesting.

No changes are proposed in respect of fees for 2018 for the NEDs or the Chairman.

Because the Policy is not subject to a shareholder vote at the 2018 AGM, we have not included it in full in this year's Directors' Remuneration Report. We have set out below the parts of the Policy that we consider shareholders will find most useful, but with the "Reward Scenarios" on page 73 updated to reflect the application of policy in 2018. The full policy as approved at the Company's Annual General Meeting on 23 May 2017 is set out on pages 77 to 84 of the Company's 2016 Annual Report and Accounts, which is available on the Company's website at: https://www.stockspirits.com/investors/results_reports_presentations/annual_report_2016.aspx

We remain committed to a responsible approach to executive pay as I trust that this Remuneration Report demonstrates, and value all shareholders' views on our remuneration arrangements.

John Nicolson
Chairman of the Remuneration Committee

7 March 2018

Governance

Directors' remuneration policy

This part of the report sets out those parts of the Directors' remuneration policy approved at the 2017 Annual General Meeting on 23 May 2017 that we consider shareholders will find most useful, but with the "Reward Scenarios" on page 73 updated to reflect the application of policy in 2018. The full policy, as approved, is set out on pages 77 to 84 of the Company's 2016 Annual Report and Accounts, which is available on the Company's website at: https://www.stockspirits.com/investors/results_reports_presentations/annual_report_2016.aspx

Remuneration structure

The table below sets out the elements that are included in the remuneration package for Executive Directors and explains how each element of the package operates. The Committee ensures that the incentive structure to be applied does not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Salary	To provide salaries that are sufficient to attract and retain experienced and capable Executives who can drive the business forward. In considering the base salary (and other elements of remuneration) of Executive Directors, the Committee takes due regard of the pay and conditions of the workforce generally.	Salaries are paid in equal monthly instalments and are normally reviewed on an annual basis.	No maximum salary has been set. However, any increase will normally be within the range of increases (in percentage terms) awarded to the wider workforce. Increases may be awarded above the level awarded to other employees in appropriate circumstances, which include but are not limited to: • A change in the scope of the role • An increase in the complexity or size of the business • To take account of the individual's performance in the role, which can include aligning a newly appointed Executive Director's salary with the market over time • To take account of changes in market practice.	Not applicable, but the performance of the individual is taken into account when determining the amount of any increase.

Directors' remuneration report continued

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Benefits	To operate a competitive benefits structure that aids in the recruitment and retention of our Directors.	Benefits currently provided include private medical cover, critical illness cover, life insurance, an annual car allowance and allowances to cover tax and legal advice to reflect the nature and location of the role. Additional benefits may be provided as appropriate to take into account the nature and location of the role.	There is no maximum value of benefits that may be provided, but the Committee monitors the overall cost of the benefit provision on a periodic basis. The current benefit cover includes: • Critical illness cover of 75% of salary • Life assurance of 4x salary • Car allowance of £12,000 p.a. • Private medical benefits. Critical illness cover, life assurance and private medical cover are provided through third party providers and therefore the cost to the Company and the value to the Executive Director may vary from year to year.	Not applicable.
Retirement benefits	Provide a competitive means of long-term retirement saving for Executives.	The Company will provide a monthly cash allowance in lieu of a contribution to a pension scheme or contribute an amount to a money-purchase pension scheme.	Up to 15% of salary.	Not applicable.
Annual Bonus Plan (ABP) and Deferred Annual Bonus Plan (DABP)	Rewards achievement of annual financial objectives or other performance measures which support the delivery of the Company's strategy while encouraging a long-term focus through the use of deferred share awards.	The annual bonus may be paid in cash or in deferred shares (under the DABP). The Committee's current intention is for 25% of any bonus to be deferred under the DABP. However, under the rules of the ABP, the Committee may decide to satisfy up to 100% of the annual bonus in shares. Where the amount of the bonus to be deferred into shares is less than £5,000, the Committee may pay the whole bonus in cash. Any deferred shares will be granted in the form of nil (or nominal) cost options or conditional awards, and will normally be subject to a two year vesting period. Dividend equivalents may be payable on the deferred share awards in respect of dividends paid over the period from grant of the award to vesting calculated on such basis as the Committee shall determine, which may assume the reinvestment of dividends into shares. Clawback and, in the case of deferred share awards, malus provisions, will apply as referred to below.	Maximum annual bonus (including cash and deferred shares) of 140% of salary.	The performance targets used for the annual bonus will be set by the Committee at the start of each financial year. The metrics and weightings used may vary from year to year to reflect changing business priorities. The measures will be based on financial performance and the individual Key Result Areas (KRAs) for each Executive, with at least 50% of the bonus opportunity being based on financial targets. In the case of financial performance measures, there is no minimum bonus payment for threshold performance, with up to 50% of the maximum opportunity paid for target performance increasing to the full potential being paid for maximum performance. In the case of non-financial performance measures, the bonus will be earned between 0% and 100% based on the Committee's assessment of the extent to which the relevant metric has been achieved.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Performance Share Plan (PSP)	Encourages sustained performance, assists with retention, incorporates long-term incentives into the remuneration package and aligns Directors' interests with shareholders' interests.	At the discretion of the Committee, Executive Directors will receive awards of shares in the form of nil (or nominal) cost options or conditional awards, which will usually vest following the assessment of performance conditions measured over a period typically of at least three years. Awards will be subject to a two year holding period following vesting, taking the form of either: (1) an additional period before the vested shares can be acquired; or (2) a requirement that any shares acquired pursuant to the award should be retained for the holding period (subject to sales to cover tax liabilities arising on the acquisition of the shares). Dividend equivalents may be payable in respect of dividends over the period from grant to vest (or if the holding period is structured as an additional period before the vested shares can be acquired, from grant to the date on which those shares become capable of acquisition) calculated on such basis as the Committee shall determine, which may assume the reinvestment of dividends into shares. Clawback and malus provisions will apply, as referred to below.	Maximum PSP award opportunity of 125% of salary (or up to 250% in exceptional circumstances) in respect of a financial year.	The vesting of PSP awards granted to Executive Directors will be subject to performance conditions set by the Committee prior to grant. Performance conditions will be based on financial measures aligned to the Company's strategy which may include, but are not limited to, earnings per share or other earnings based measures, cash conversion or other cash based measures and return based measures. Where more than one performance measure applies, the Committee will determine the weightings of the measures at the time of grant. Awards will vest on a sliding scale from up to 25% for threshold performance rising to 100% for maximum performance.
Shareholding guidelines	To encourage the Executive Directors to build and maintain shareholdings in the Company.	The Executive Directors are required to retain 50% of the shares (net of tax) vesting under the incentive schemes until the guideline has been achieved.	200% of salary.	Not applicable.

Further details on the operation of the incentive schemes

Annual bonus

The payment of any bonus is ultimately at the discretion of the Committee. The Committee retains the ability, in appropriate circumstances, to adjust previously set targets and/or set different performance measures if events occur that cause the Committee to determine that the measures are no longer appropriate, and that amendment is required so that they achieve their original purpose.

Performance share awards

The Committee may, acting fairly and reasonably, vary performance conditions applying to existing PSP awards if an event has occurred that causes the Committee to consider that it would be appropriate to amend the performance conditions, and the varied conditions are not materially less challenging than the original conditions would have been but for the event in question.

Directors' remuneration report continued

Operation of incentive plans

The Committee has discretion to operate the PSP and DABP in accordance with their rules, including the ability to settle awards in cash in appropriate circumstances and to adjust awards in the event of a variation of the Company's share capital or any other relevant event.

Claw-back provisions

Claw-back provisions may be operated at the discretion of the Committee in respect of awards granted under the ABP, the DABP and the PSP in certain circumstances (including where there has been a material misstatement of accounts, an error in assessing any applicable performance condition or misconduct on the part of the participant). Claw-back may be operated during a period of two years following the vesting of a DABP award, or within two years following the payment of an ABP bonus. Claw-back may be applied during a period of two years following the vesting of a PSP award i.e. during the holding period.

Malus provisions

Malus provisions may be operated at the discretion of the Committee in respect of awards granted under the DABP in certain circumstances (including where there has been a material misstatement of accounts, an error in assessing any applicable condition or misconduct on the part of the participant). Malus may be operated before the vesting of an award.

Differences in policy from the wider employee population

The Company's approach to annual salary reviews is consistent across the Group. However, there are some differences between the policy for Executive Directors as set out above and its approach to payment of employees generally. For example, there is an increased emphasis on performance-related pay for Executive Directors through a higher annual bonus opportunity and participation in the PSP, plus a higher proportion of their total remuneration is also at risk. The Committee has not consulted directly with employees on the Executive remuneration policy, but it takes into account the pay and employment conditions of the general workforce when considering any changes to the quantum or structure of the Executive remuneration packages.

Non-Executive Directors

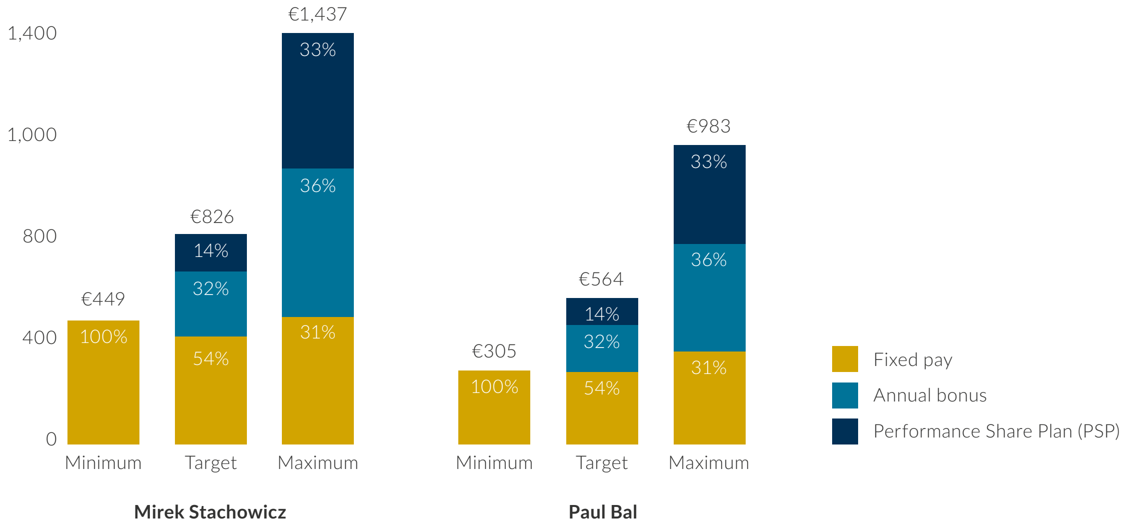
Purpose and link to strategy	Operation	Opportunity
To attract and retain high-calibre Non-Executive Directors by offering competitive fees.	Fees are paid on a per-annum basis and are not varied for the number of days worked. The fees are set to take into account the responsibilities of the role, the experience of the Chairman and NED and the expected time commitment involved. Additional fees may be paid to reflect extra responsibilities such as for the SID or when acting as Chairman or a member of any of the Board Committees. The Chairman and NEDs may also be eligible to receive benefits relevant to their role such as travel costs and secretarial support, or other benefits that may be appropriate.	The fee levels are usually reviewed biannually, and may be increased if appropriate to do so. The maximum aggregate fee to all Directors that may be paid is limited to the amount permitted under the Company's Articles of Association from time to time.

Reward scenarios

The charts below show the potential reward available to the Executive Directors under the Policy, based on the application of the Policy in the shortened nine month financial year from 1 January 2018 to 30 September 2018. Although the Executive Directors are paid in Sterling, the charts have been presented in Euros using an exchange rate of 0.88, which is the Group's reporting currency. The charts are prepared on the basis of the following assumptions.

- Fixed Pay is:
  - nine months of the € salary for 2018, as referred to on page 83;
  - a pension contribution at 15% of that salary; and
  - benefits calculated in the case of Mirek Stachowicz on the basis of nine months' worth of his € value benefits for 2017 as reported in the single figure of remuneration table on page 78 and in the case of Paul Bal nine months' worth of Lesley Jackson's € value benefits for 2017 as reported in the single figure of remuneration table on page 78 (recognising that Paul Bal's benefits figure for 2017 in the single figure of remuneration table is not for a full year).
- Annual Bonus for maximum performance is 140% of nine months of the € salary for 2018, with 50% of this maximum vesting for target performance.
- PSP for maximum performance is 125% of nine months of the € salary for 2018, as referred to on page 83, with 25% of this maximum vesting for target performance.
- No assumptions have been made as to possible share price growth or dividends earned in relation to shares.

Reward Scenarios (€000)



Directors’ remuneration report continued

Service contracts and letters of appointment

Each Executive Director has been appointed under a service contract. These contracts contain the following obligations on the Company that could give rise to, or impact on, remuneration payments or payments for loss of office:

- To provide pay, contributions to a pension scheme (or a cash allowance in lieu) and benefits as specified in the contract
- To give the Executive Director eligibility at the discretion of the Committee to participate in short- and long-term incentive plans
- To provide 30 working days’ paid holiday per annum, or pay in lieu of any accrued but untaken holiday on termination of employment
- To provide sick pay as specified in the contract
- To terminate the contract on not less than 12 months’ notice by either the Company or the Director or to make a payment in lieu of notice equal to value of the base salary either in one lump sum or in phased instalments and reduced by amounts earned from alternative remunerative positions obtained during the notice period.
- In the case of Mirek Stachowicz, to receive, subject to the prior agreement of the Company, of up to £4,500 per year in respect of legal and tax advice for the duration of his employment and for up to five years thereafter.

Each of the NEDs is appointed by letter of appointment for an initial term of three years. Their appointments may be terminated earlier without compensation on three months’ notice and are subject to annual re-election by the shareholders.

The Executive Directors’ service contracts and the NEDs’ letters of appointment are kept available for inspection at the Company’s registered office.

Payments for loss of office

In the event of an Executive Director’s departure, the Company will honour the contractual entitlements of that Director. The Company’s approach to payments for loss of office will be based on the following principles:

Notice period/pay in lieu

Executive Directors have rolling contracts with 12-month notice periods. The Company may elect to terminate employment immediately by making a payment in lieu of notice equivalent to the Executive Director’s salary for the notice period. The payment in lieu of notice may be made in monthly instalments, which can be reduced to the extent the Executive Director obtains alternative paid employment. All other benefits including pension contributions or allowance (as the case may be) will cease on termination, unless the Committee determines otherwise.

The Company may terminate a Director’s employment without notice (or payment in lieu) in certain circumstances, including where the Executive commits a serious breach of his or her service agreement or is found guilty of gross misconduct.

Outstanding incentive awards

Leavers

As a general rule, unvested incentive awards (e.g. outstanding PSP and DABP awards and entitlement to annual bonus) will lapse on a participant ceasing to hold employment or to be a Director within the Company’s Group.

Good leavers

However, if the reason for the cessation of employment falls within certain good leaver categories (which include, for example, cessation due to a participant's injury, disability, retirement, redundancy, the employing company or business being sold out of the Company's Group) or in other circumstances at the discretion of the Committee, then the unvested incentive award may vest and be payable as set out below:

- ***PSP:*** Awards will usually vest on the normal vesting date subject to performance and time pro-rating and be released at the end of the originally envisaged holding period. The Committee retains the discretion not to time pro-rate if it considers it appropriate to do so. The Committee may allow the outstanding share award to vest and be released early to a good leaver and if a participant dies, his or her award will ordinarily vest and be released early (unless the Committee decides otherwise)
- ***Annual Bonus:*** A good leaver's annual bonus for the year of cessation will ordinarily be paid in respect of the period of service during the year. Any payment will be subject to the performance conditions and be paid at the usual time, although the Committee retains discretion to make payments earlier in appropriate circumstances. Bonuses for the year of cessation or preceding year may be paid wholly in cash (with no deferral into shares) at the election of the Committee
- ***DABP:*** In the case of DABP awards, outstanding awards for a good leaver will vest early to such extent as the Committee determines appropriate.
- If a participant ceases employment after a PSP award has vested but during the holding period applying to it for any reason (other than summary dismissal, in which case his award will lapse), the holding period will usually continue until its originally scheduled end date, although the Committee retains discretion to bring the holding period to an end on cessation.

Takeovers

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation), all unvested PSP awards will vest early, subject to: (i) performance and (ii) time pro-rating, although the Committee can decide to reduce or eliminate the pro-rating of a PSP award or to disapply (or partially disapply) any performance conditions if it regards it as appropriate to do so in the particular circumstances.

In the event of a takeover or winding up of the Company (not being an internal reorganisation), vested PSP awards which are subject to a holding period, will be released early to the extent already vested. In the event of a takeover or winding up of the Company, the Committee may allow bonuses for that financial year to be paid early, subject to: (i) the extent that the performance conditions have been satisfied at that time; and (ii) the pro-rating of the bonus to reflect the reduced period of time between grant and the date of such event, although the Committee can decide to reduce or eliminate the pro-rating of a bonus.

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation), all DABP awards will vest early in full.

Internal corporate reorganisation

In the event of an internal corporate reorganisation, PSP and DABP awards may, at the discretion of the Committee, be replaced by equivalent new awards over shares in a new holding company, provided that the Board of Directors of the new holding company agrees. If such replacement is not agreed before the internal corporate reorganisation takes place, then the PSP and DABP awards will vest on the basis that would apply in the case of a takeover.

Other payments and benefits

Outplacement services may be provided where appropriate and any statutory entitlements, sums to settle or compromise claims in connection with a termination would be paid as necessary, along with any accrued but untaken holiday and where appropriate, payments in respect of legal fees.

Directors' remuneration report continued

Recruitment of Directors

Where a new Executive Director is appointed, the principles outlined above in relation to the structure, components and maximum opportunities of the existing Executive Directors' remuneration package and service contract terms will also apply to any newly appointed Director. Salaries for new hires will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the role. In accordance with the above policy table, the maximum variable pay that may be offered is 265% of salary (390% in exceptional circumstances), excluding any "buy-out award" as referred to below.

It may be necessary to buy out incentive awards that would be forfeited on leaving the previous employer. In determining the structure of any buy-out award, the Committee will take into account the form of the awards forgone (cash or shares), the timing of the awards and their expected value. Replacement share awards, if used, may be granted under the PSP, although awards may also be granted outside of this scheme if necessary and as permitted under the Listing Rules.

The Committee may also alter the performance measures, performance period, vesting period and holding period of the annual bonus, DABP or PSP if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in a subsequent Directors' Remuneration Report.

In the case of an internal promotion, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant.

Fees for a new Chairman or NED will be set in line with the approved policy.

Non-Executive positions by Executive Directors

The Company's policy is to allow the Executive Directors to take only one NED role in another company with prior consent from the Board, which cannot be unreasonably withheld. The Committee may permit an Executive Director to take on additional roles following the giving of notice to terminate his employment with the Company. During 2017, Mirek Stachowicz was a Non-Independent Member of the Supervisory Board of Paged S.A., for which he received a fee of 310,920 PLN (€43,128).

Consideration of shareholder views

The Committee is committed to open and transparent dialogue with shareholders, and seeks major shareholder views in advance of proposing significant changes to its policy. The Committee considers shareholder feedback received in relation to the AGM each year plus, any additional feedback received during any meetings from time to time. When there are material issues relating to executive remuneration or proposed changes in policy, we engage actively with major shareholders to ensure we understand the range of their views.

Annual Report on Remuneration

This part of the report provides details of remuneration earned by Executive Directors in respect of 2017 and how the Remuneration Policy, which was approved at the 2017 AGM, will be implemented during 2018. It will be put to an advisory shareholder vote at the 2018 AGM. The information in this section has been audited where stated.

Role of the Remuneration Committee

The Remuneration Committee determines and agrees with the Board the framework or broad policy for the remuneration of the Executive Directors and the senior management team. The remuneration of NEDs is a matter for the Chairman of the Board and the Executive Directors, subject to the constraints contained in the Company's Articles of Association. No Director or Manager shall be involved in any decisions as to their own remuneration.

The Remuneration Committee will determine the policy for and scope of service agreements, termination payments and compensation commitments for the Executive Directors and the senior management team. It also ensures that Directors' contractual terms on termination are observed, 'that failure is not rewarded' and that the duty to mitigate loss is fully recognised. The Remuneration Committee will also agree the policy for authorising claims for expenses from the Directors.

The full Terms of Reference of the Remuneration Committee are available on our website at www.stockspirits.com.

Composition of the Remuneration Committee

The members of the Remuneration Committee during the year were as follows:

John Nicolson	Chairman and SID
Mike Butterworth	Independent NED
Diego Bevilacqua	Independent NED
Tomasz Blawat	Independent NED

During the year ended 31 December 2017 the Committee held six meetings.

All members of the Committee are independent.

Sally Kenward (Company Secretary) served as Secretary to the Committee with the exception of two meetings where Steve Weatherley (Group General Counsel) served as Secretary whilst in his capacity as Acting Company Secretary. The Chairman and CEO generally attend our Committee meetings by invitation, but not for matters that affect them directly. We also asked other members of the senior management team (such as the Group HR Director) to present to the Committee during the year.

Advice provided to the Committee

Deloitte LLP acted as adviser to the Committee during 2017. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code of Conduct in relation to Executive remuneration consulting in the UK. Deloitte's fees for advice to the Committee during 2017 were £21,750 (€24,716) plus VAT.

The Committee reviewed the potential for conflicts of interest and the safeguards against them, and is satisfied that Deloitte does not have any such interests, or connections with the Group, that may impair its independence.

Directors' remuneration report continued

Directors' remuneration (audited)

The table below sets out the total remuneration for the Directors in 2017 and 2016.

The Directors are paid in Sterling, but figures in this report are disclosed in Euros (the Group's reporting currency). The exchange rate used is €1:£0.88 (2016: €1:£0.80) unless otherwise noted.

	Total amount of salary and fees		All taxable benefits[3]		Annual incentive arrangements		Long-term incentive arrangements		Pension		Total	
€'000	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Executive Directors												
Mirek Stachowicz[1]	483	360	26	11	155	–	744	–	72	31	1,480	402
Lesley Jackson[2]	308	398	15	19	99	–	557	–	46	60	1,025	476
Paul Bal	85	–	3	–	–	–	100	–	13	–	201	–
Independent NEDs												
David Maloney	193	213	–	–	–	–	–	–	–	–	193	213
John Nicolson	81	84	–	–	–	–	–	–	–	–	81	84
Tomasz Blawat	64	13	–	–	–	–	–	–	–	–	64	13
Mike Butterworth	75	16	–	–	–	–	–	–	–	–	75	16
Diego Bevilacqua	64	13	–	–	–	–	–	–	–	–	64	13
Non-Independent NEDs												
Alberto da Ponte[4]	4	35	–	–	–	–	–	–	–	–	4	35
Randy Pankevicz	52	35	–	–	–	–	–	–	–	–	52	35

1. Mirek Stachowicz's salary for 2017 was £425,000 (€482,955) the same as for 2016; differences in the reported number reflect that his salary for 2016 as an Executive Director was for part of the year only, and differences in the exchange rates
2. The salary of Lesley Jackson (prior to her retirement from the Board on 7 November 2017) has remained unchanged from 2015. Her salary for 2017 was £318,000 (€361,364) (2016: £318,000 (€397,500)); differences in the reported numbers reflect differences in the exchange rates. In the table above, the 2017 remuneration for Lesley Jackson is in respect of the period to her retirement from the Board. Information on payments made to her in respect of the period after her retirement from the Board is set out on page 81
3. Taxable benefits include car allowances, medical and dental insurance
4. Alberto da Ponte passed away on 21 January 2017

Annual bonus earned for 2017 (audited)

Mirek Stachowicz's and Lesley Jackson's bonuses for 2017 were based on a mix of financial (translated at the Group's budget exchange rates for the year) and personal performance measures (KRA's), as summarised below. The maximum bonus opportunity was 140% of salary. Paul Bal was not eligible for a bonus in respect of 2017. Based on the performance achieved, bonuses were earned as follows:

Mirek Stachowicz: 32.1% of salary
Lesley Jackson: 32.1% of salary

		Performance targets				
Measure	Weighting of measure	Threshold	Target	Maximum	Actual	Bonus earned (% of salary)
Adjusted EBITDA (at budget rates)	50%	€53.01m	€58.9m	€67.7m	€53.3m	8.9%
Free cashflow (at budget rates)	30%	€43.92m	€48.8m	€53.68m	€45.3m	9.2%
Individual KRAs	20%		See summary on page 79			14.0%

Individual KRAs

The individual KRAs were linked to the financial, strategic and operational performance of the business. Performance against them was assessed by the Committee on the following basis:

Mirek Stachowicz

KRAs	Performance achieved	Remuneration Committee performance achieved
Strategy "refresh"	Review of the Group Strategy including M&A opportunities Launch of updated strategy to be announced by end of Q1 2018	Achieved
People Management	There were two senior appointments made which included an internal promotion to Group General Counsel and the recruitment of a new CFO For the first time a Group colleague opinion survey was launched to measure the "engagement levels and leadership" within the business	Achieved
Deliver a "Turnaround" of the business	Delivered year-on-year growth in 2017 as measured by the annual results, analysts comments and growth in share price	Achieved

On the basis of the above performance and having regard to overall performance, the Committee determined that Mirek Stachowicz receive a payment of 14% out of a maximum of 20% of the personal element.

Lesley Jackson

KRAs	Performance achieved	Remuneration Committee performance achieved
Cost controls and savings	Delivery of €3.2m savings across the Group in 2017, including a reduction in the number of Group roles	Achieved
Change in the year-end	Preparation for the change in year-end from December to September completed	Achieved
M&A activity	A full review of M&A opportunities undertaken with a 25% stake in Quintessential Brands Ireland Whiskey Limited	Achieved

On the basis of the above performance and having regard to overall performance, the Committee determined that Lesley Jackson receive a payment of 14% out of a maximum of 20% of the personal element.

Long-term incentives vesting in respect of 2017 (audited)

The PSP award granted in 2015 to Lesley Jackson was subject to an EPS performance condition (as regards 50% of the award) and a TSR performance condition (as regards 50% of the award). Each performance condition was assessed over the three year performance period ending 31 December 2017; the performance required for threshold vesting was not achieved and the award has lapsed.

Directors' remuneration report continued

Long term incentives awarded in 2017

As discussed in the Committee Chairman's statement last year, PSP awards in 2017 were granted at the level of 175% of salary. This reflected an "ordinary" grant at the reduced policy level of 125% of salary and an additional grant of 50% of salary recognising that awards were not granted in 2016.

We also granted Paul Bal an award on his recruitment in respect of the 2017 annual bonus and share options he forfeited in his previous role. The award has been granted over Company shares to align his interests with those of shareholders. The value of the shares subject to the award was calculated by reference to the value of the forfeited remuneration as described above. We agreed with Paul that this award would be subject to a three year vesting period.

Paul Bal did not receive a PSP award in respect of 2017.

Director	Basis of award	Face value of award (£)	No of share awards	%vesting at threshold	End of performance period
PSP awards[1]					
Mirek Stachowicz	175% of salary[4]	£743,750[1]	416,667	25%	The end of the Company's financial year ending in 2019[2]
Lesley Jackson[3]	175% of salary[4]	£556,500[1]	311,765	25%	The end of the Company's financial year ending in 2019[2]
Joiner award					
Paul Bal[6]	Compensation for bonus and share options forfeited in previous role	£100,000[5]	40,184	N/A	N/A

1. The face value of each PSP award is calculated by multiplying the number of shares by £1.7850 (being the average share price over the five dealing days preceding the grant)
2. Each PSP award is subject to the following performance conditions assessed over the Company's 2017, 2018 and 2019 financial years:

Performance condition	Weighting	Threshold (25% vesting)	Maximum (100% vesting)
Annual compound growth in fully diluted adjusted EPS	50%	6%	12%
Average cash conversion for each year in the performance period	50%	75%	90%

Straight line vesting will apply between the performance levels stated. Each award is also subject to underpin conditions. The award will vest only to the extent that the Committee determines that the level of vesting reflects the overall financial performance of the Group over the Performance Period. In addition, the element of the award subject to the cash conversion performance measure shall vest only if the mean average of the Adjusted EBITDA for each Financial Year in the Performance Period is at least €58.87m

3. To the extent Lesley Jackson's award vests by reference to the performance conditions, it will be reduced to reflect her service to 8 August 2018
4. Representing the 125% award plus 50% additional grant
5. The face value of the award is calculated by multiplying the number of shares by £2.4885 (being the five day average share price from 2 October 2017 to 6 October 2017)
6. Paul Bal's joiner award is not subject to any performance conditions, but is subject to continued employment conditions to vesting in October 2020

Outstanding share options (audited)

The following table summarises the Executive Directors' share awards as at 31 December 2017 or, if earlier, the date of retirement from the Board.

Type of interest	Date of grant	Performance condition	Interest as at 31 December 2016	No. shares under award	No. shares under any lapsed portion of the award	Share options as at 31 December 2017 (or, if earlier, the date of retirement)	Vesting date or (for options) exercise period	Exercise price per share (if applicable) (£)
Mirek Stachowicz								
PSP 2017[1]	15.03.17	EPS and Cash conversion	–	416,667	Nil	416,667	15.03.20	Nil
Paul Bal								
Joiner option	10.10.17	None	–	40,184	Nil	40,184	10.10.20	Nil
Lesley Jackson								
PSP 2017[1]	15.03.17	EPS and Cash conversion	–	311,765	Nil	311,765	15.03.20	Nil
PSP 2015[2]	22.04.15	TSR & EPS	226,565	Nil	Nil	–	–	Nil
JOE agreement[3]	21.10.13	None	715,449	Nil	Nil	–	21.10.13–24.10.18	0.001183258
Top-up option agreement[4]	21.10.13	None	226,728	Nil	Nil	226,728	21.10.13–20.10.23	Nil
Substitute option agreement[5]	21.10.13	None	531,773	Nil	Nil	531,773	21.10.13–20.10.23	Nil

1. The performance conditions for the 2017 PSP awards are set out on page 80. To the extent Lesley Jackson's award vests by reference to the performance conditions, it will be reduced to reflect her service to 8 August 2018
2. The performance conditions for the 2015 PSP awards have not been achieved and the awards have lapsed
3. Lesley Jackson exercised her JOE award, which had been put in place prior to admission, on 15 September 2017
4. The top-up options are nil-cost options that were granted at IPO. The options were not subject to performance or service conditions and were exercisable immediately on grant
5. The substitute option agreements were put in place on admission to replace a commitment over shares entered into with Lesley Jackson in December 2012

Payments to past Directors and payments for loss of office (audited)

Lesley Jackson retired from the Board on 7 November 2017. Her remuneration earned to that date, including the bonus she has earned in respect of 2017 to that date, is included in the single figure of remuneration table on page 78. From 8 November 2017 until the end of the year, Lesley Jackson continued to assist with and provide support in connection with certain specific matters. Lesley received payments of £56,057 (€63,701) in aggregate in respect of her salary and other contractual benefits and a payment of £15,080 (€17,137) in respect of her bonus earned for the year. Lesley will leave the business on 8 August 2018 and will continue to receive her salary and benefits until that date of £228,448 (€259,600) in aggregate and will also receive payments of £7,000 (€7,955) in respect of the costs of legal and tax advice in connection with her departure, £94,425 (€107,301) by way of compensation and a payment of £10,169 (€11,556) in respect of accrued but untaken holiday. She will continue to benefit from medical and dental insurance cover and death in service benefits until 7 November 2018. Lesley is not eligible for a bonus in respect of 2018.

Directors' remuneration report continued

Directors' share interests (audited)

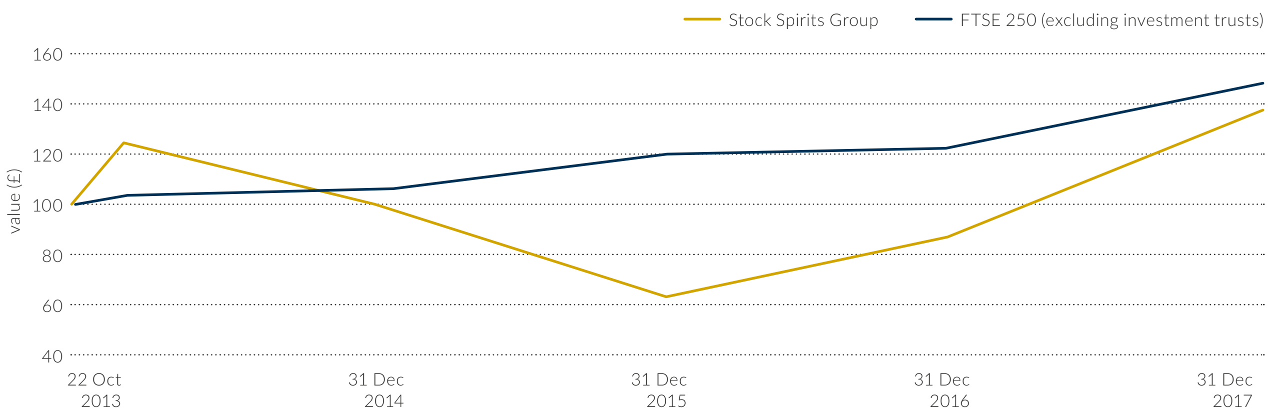
The table below sets out the Directors' shareholdings and, for the Executive Directors, a summary of their outstanding scheme interests. The Executive Directors are subject to shareholding guidelines requiring them to build and maintain a shareholding of a specified level. For 2017, this was 200% of salary, which reflects the current policy. Their achievement against these guideline limits is set out in the table below.

		Outstanding scheme interests				Value of shares counting towards the shareholding guideline[1]	
As at 31 December 2017 (or, if earlier, the date of stepping down from the Board)	**Beneficially owned shares**	**PSP**	**JOE Agreement**	**Top-up and substitute options**	**Joiner Award**	**£'000**	**% salary**
Executive Directors							
Mirek Stachowicz[2]	121,380	416,667	–	–	–	326	79%
Paul Bal[4]	–	–	–	–	40,184	–	–
Lesley Jackson	824,351	538,330	–	758,501	–	2,215	697%
NEDs							
David Maloney[3]	60,000	–	–	–	–	–	–
John Nicolson	–	–	–	–	–	–	–
Mike Butterworth	18,750	–	–	–	–	–	–
Diego Bevilacqua	27,018	–	–	–	–	–	–
Tomasz Blawat	–	–	–	–	–	–	–
Randy Pankevicz	15,000	–	–	–	–	–	–

1. Only the shares beneficially owned count towards the thresholds set out in the share ownership guidelines. Achievement against the guideline is calculated using the year-end share price of £2.6875 and expressed as a percentage of current salary
2. All of which are held jointly with Katarzyna Lewicka-Stachowicz, his wife
3. All of which are held in the name of Agneta Maloney, his wife
4. Paul Bal owned no shares in the Company at 31 December 2017, but acquired 10,000 shares on 9 January 2018, with a value of £26,875 based on the year end share price, equating to c.9% of his salary

Total shareholder return performance

The chart below shows the Company's total shareholder return performance relative to the FTSE 250 Index (excluding investment trusts). The FTSE 250 Index (excluding investment trusts) has been chosen as a comparator as it represents a broad UK equity market index.



This graph shows the value, by 31 December 2017, of £100 invested in Stock Spirits Group on 22 October 2013 (the date of the IPO) compared with that of £100 invested in the FTSE 250 Index (excluding investment trusts).

Total remuneration of Chief Executive Officer (CEO)

The table below shows a summary of the total remuneration received by the CEO since 2013.

				2016[1]		
	2013	2014	2015	Chris Heath	Mirek Stachowicz	2017
Single-figure total remuneration (€'000)	2,846[2]	717	795	222	382	1,480
Total annual bonus pay-out (as % of maximum opportunity)	N/A[2]	N/A	N/A	N/A	N/A	23%
Long-term incentive vesting (as % of maximum opportunity)	N/A[3]	N/A[3]	N/A[3]	N/A[3]	N/A[3]	N/A

1. Chris Heath was CEO in 2016 from the start of the year until his retirement on 18 April 2016. Mirek Stachowicz became CEO from 18 April 2016
2. Under the pre-IPO bonus scheme, the bonus opportunity was uncapped
3. There have been no long-term incentives vesting to date

Percentage change in the remuneration of the CEO

The table below shows the movement in salary, benefits and bonus for the CEO between 2017 and 2016, compared to the average remuneration for all employees.

% change in:	Chief Executive	All employees
Base salary	0%[2]	-6.6%
Benefits[1]	27.0%	-5.7%
Total annual bonus	N/A[3]	-1.1%

1. Benefits include car allowance, health, dental cover and pension. Note; the value for 2016 for the CEO was from 18 April 2016 to 31 December 2016
2. Mirek Stachowicz's salary was not increased between 2016 and 2017
3. Mirek Stachowicz earned no bonus in respect of 2016 and a bonus of £136,230 (€154,807) in respect of 2017. It is not possible to express the increase as a percentage

Relative importance of the spend on pay

The following table shows the relative importance of the spend on pay, which compares the total remuneration paid to all employees to the amount distributed to shareholders by way of dividend.

	2016	2017	% change
Remuneration paid to all employees (€m)[1]	36.0	37.6	4.3%
Distributions to shareholders (€m)[2]	37.4	15.7	-58.0%

1. Excluding share-based compensation
2. Distributions to shareholders represent dividends paid in each year. In 2016 a special dividend was paid of 11.9€cents per share

How the Directors' remuneration policy will be applied for 2018

Base salaries

An increase of 3% is proposed for Mirek Stachowicz for 2018 to a level of £437,750 (€497,433), this is in line with the range of increases awarded to the wider workforce. No changes are proposed to the base salary for Paul Bal for 2018, which will remain at the level of £300,000 (€340,909).

Directors' remuneration report continued

Annual bonus

For the financial year ending 30 September 2018, the Executive Directors' bonus opportunity will be pro-rated to reflect the shortened financial period, so that the bonus opportunity will be up to 140% of the salary earned (i.e. up to 105% of the annualised salary). 25% of any bonus earned for 2018 will be paid in the form of deferred shares. The bonus will be based on achievement against a range of financial targets and individual KPIs. The KPIs are linked to the financial, strategic and operational performance of the business, and include measures relating to business and sales growth, market share, brand-building and organisational targets. The annual bonus will be based 50% on achievement of the EBITDA target, 30% on the cash target and 20% on the KPIs. These performance targets are the key drivers to sustain the growth of the Group, and the individual KPIs ensure that the Executive Directors are committed to the Group's strategy. The forward-looking targets are deemed to be commercially sensitive. The maximum bonus opportunity will be payable only for achieving stretch levels of performance. Details of the targets and performance against them will be published in our 2018 Directors' Remuneration Report.

Performance Share Plan (PSP)

As described in the statement by the Committee Chairman on page 67, PSP awards for 2018 will be granted at the level of 125% of salary to be earned in the nine month financial period, which equates to 93.75% of annualised salary. The vesting of the awards will be subject to the satisfaction of performance conditions measured over 2018, 2019 and 2020 based on EPS growth (as regards 50% of each award) and cash conversion (as regards 50% of each award), as set out below:

Vesting	Compound annual growth in EPS[1] over the performance period	Three year average cash conversion[2] over the performance period
0%	Less than 6%	Less than 75%
25%	6%	75%
Pro-rata between 25% and 100%	Between 6% and 12%	Between 75% and 90%
100%	12% or more	90% or more

1. For these purposes, EPS will be defined as fully diluted earnings per share as disclosed in the note 7 subject to such adjustments as the Committee shall determine from time to time
2. For these purposes, cash conversion will be calculated as Adjusted free cashflow / Adjusted EBITDA (see note 7)

There will also be an underlying requirement for any vesting to occur which will be that, at the time of vesting, the Remuneration Committee must be satisfied with the overall financial performance of the Group. In addition, the cash conversion performance measure shall be subject to a further requirement that an award will not vest by reference to that performance measure unless a further underpin based on EBITDA performance over the performance period is achieved.

Fees for the Chairman and NEDs

In 2018 no change is proposed to the level of fees paid to the Chairman and NEDs.

Shareholding vote at the AGM

The Company's current Directors' Remuneration Policy was approved at the 2017 AGM. The voting outcome in relation to the Directors' Remuneration Policy, 2016 Annual Report on Remuneration and PSP amendments at the 2017 AGM were as follows:

	Votes for	Votes against	Votes withheld
Directors' Remuneration Policy at the 2017 AGM	128,658,271 (79.66%)	32,841,810 (20.34%)	0
2016 Annual Report on Remuneration at the 2017 AGM	120,948,261 (74.91%)	40,509,520 (25.09%)	42,300
Amendment to the rules of the PSP at the 2017 AGM	161,416,398 (99.95%)	83,183 (0.05%)	500

Approved and signed on behalf of the Board.

John Nicolson
Chairman of the Remuneration Committee
7 March 2018

Directors' report

The Corporate Governance report on pages 52 to 84 forms part of the Directors' report.

The Directors' report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Rules, and the Disclosure and Transparency Rules, comprises pages 85 to 88.

Directors

The Directors in office at the date of this report are shown on pages 52 to 53. All served throughout the year under review, with the exception of Lesley Jackson who was a Director until she stepped down on 7 November 2017; and Paul Bal who was appointed as a Director on 7 November 2017.

Directors' interests in the Company's shares

The interests of the Directors of the Company at 31 December 2017, and their connected persons, in the issued shares of the Company disclosed in accordance with the FCA's Listing Rules, are given in the Remuneration Report on pages 67 to 84. The Remuneration Report also sets out details of any changes in those interests between the year-end and 7 March 2018.

Powers of Directors

Our Directors' powers are determined by UK legislation and the Company's Articles of Association (the Articles), which are available on our website www.stockspirits.com. The Articles may be amended by a special resolution of the members. The Directors may exercise all of the Company's powers, provided that the Articles or applicable legislation, do not stipulate that any such powers must be exercised by the members.

Further details of Directors' contracts, remuneration and their interests in the shares of the Company at 31 December 2017 are given in the Directors' Remuneration Report on pages 67 to 84.

Indemnification of Directors and insurance

The indemnification for Directors provided by the Company has been arranged in accordance with the Company's Articles and the Companies Act 2006. As far as is permitted by legislation, all officers of the Company are indemnified out of the Company's own funds against any liability incurred while conducting their role in the Company, unless such liability is to the Company or an associated company. The Company has appropriate Directors' and Officers' liability insurance cover in place in respect of any legal action against, amongst others, its Executive and NEDs.

Appointment and replacement of Directors

The rules about the appointment and replacement of Directors are contained in the Company's Articles. They provide that Directors may be appointed by ordinary resolution of the members, or by a resolution of the Directors. In addition to powers to remove a Director conferred by legislation, the Company may also remove a Director by special resolution.

Compensation for loss of office

We do not have arrangements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover. Further information is provided on page 74.

Political donations

There were no political donations during the period (2016: nil).

Directors' report continued

Share capital and control

Details of our issued share capital as at 31 December 2017 can be found in note 28 to the financial statements on page 145. The Company's share capital comprises 200,000,000 ordinary shares, which are listed on the London Stock Exchange. There were no changes to the share capital during the year.

Holders of ordinary shares are entitled to receive dividends (when declared), copies of the Company's Annual Report, attend and speak at general meetings of the Company, appoint proxies and exercise voting rights.

Other than the compliance with the Company Dealing Rules for persons discharging managerial responsibilities and Permanent Insiders, there are no restrictions on the transfer, or limitations on the holding, of ordinary shares and no requirements to obtain approval prior to any transfers. No ordinary shares carry any special rights with regard to control of the Company, and there are no restrictions on voting rights. Major shareholders have the same voting rights per share as all other shareholders.

There are no known arrangements under which financial rights are held by a person other than the holder of the shares, and no known agreements on restrictions on share transfers or on voting rights.

Shares acquired through our share schemes and plans rank equally with the other shares in issue and have no special rights.

Particulars of acquisitions of own shares

At the Company's 2017 AGM, shareholders granted the Company authority to make market purchases of up to 20,000,000 ordinary shares of £0.10 each, representing 10% of the issued-share capital. At the Company's forthcoming AGM, Directors will be seeking approval from shareholders to authorise the Company to purchase up to 10% of its existing ordinary share capital. This authority, if approved, will expire on 31 May 2019 or at the Company's 2019 AGM, whichever is earlier; however, it is intended that this authority be renewed each year. For more information on this resolution, refer to the notice of AGM and explanatory notes, which are being sent separately to shareholders entitled to vote at the AGM.

Substantial share interests

In accordance with FCA Disclosure and Transparency Rule 5.1.2, the Directors are aware of the following substantial interests in the shares of Stock Spirits Group PLC:

	As at 7 March 2018		As at 31 December 2017	
Substantial interests (above 3%)	**Shares**	**%**	**Shares**	**%**
BlackRock Inc	20,639,298	10.32%	17,889,672	8.94%
Western Gate Private Investments	20,000,148	10.00%	20,000,148	10.00%
M&G Investment Management Ltd	19,387,600	9.69%	19,895,100	9.95%
Franklin Resources Inc	11,961,859	5.98%	13,045,679	6.52%
Columbia Threadneedle Investments	11,017,681	5.51%	11,086,807	5.54%
J O Hambro Capital Management	8,427,000	4.21%	7,699,497	3.85%
Heronbridge Investment Management	7,838,805	3.92%	8,156,554	4.08%
Aberdeen Asset Managers Limited	7,179,482	3.59%	8,532,426	4.27%
Capital Group Companies Inc	6,909,631	3.45%	7,340,434	3.67%
Majedie Asset Management	6,679,348	3.34%	6,392,377	3.20%
Princeton Holdings Ltd	6,168,798	3.08%	6,168,768	3.08%

Western Gate Private Investments Limited, of which the ultimate beneficial owner is Mr Luis Manauel Conceicao Do Amaral, holds 10.00% of the shares of the Company. Mr Luis Manauel Conceicao Do Amaral also holds 43.75% of the shares of Eurocash SA. Eurocash is one of the Group's major customers in Poland.

There have been no other changes notified between 31 December 2017 and the date of this report.

Financial risk management

The Group's financial risk management objectives and policies, including its use of financial instruments, are set out in note 30 to the Group's consolidated financial statements on pages 147 to 152.

Post-balance sheet events

There were no events after the balance sheet date that require adjustment to or disclosure in these financial statements.

Future business developments

Further details on these are set out in the Strategic Report on pages 16 to 17.

Research and development

The Company does not undertake any material research and development activities.

The existence of branches outside the UK

The Group's activities in overseas jurisdictions are carried out through subsidiary companies. The Company does not have any branches outside the UK.

Significant agreements

The Group is a party to the following significant agreements that would take effect, alter or terminate on a change of control of the Company following a takeover bid:

- Amended and restated Facilities agreement dated 21 July 2017 for a €200,000,000 revolving facility agreement with a banking club consisting of five banks including HSBC who also act as the Agent. The loans bear variable rates of interest which are linked to the inter-bank offer rates of the drawers, WIBOR, PRIBOR or EURIBOR as appropriate. Each of the loans have a variable margin element to the interest charge. The margin is linked to a ratchet mechanism where the margin decreases as the Group's leverage covenant decreases.
- Agreement with Quintessential Brands Group in relation to the acquisition in July 2017 of a 25% equity interest in Quintessential Brands Ireland Whiskey Limited (QBIWL). The shareholder not subject to the change of control, shall be entitled to purchase the other shareholder's shares in the QBIWL.

Dividend

A dividend of 2.38 €cents per share was paid at the half year stage (see note 29 to the financial statements), and the Directors recommend a final dividend of 5.72€cents to be paid on 25 May 2018 to shareholders on the share register at the close of business on 4 May 2018. The shares will be quoted ex-dividend on 3 May 2018. The FX fixing date will be 4 May 2018.

Total dividends paid and proposed for the year amount to 8.10 €cents per share.

Going concern

The Directors have considered the Group's debt maturity and cash-flow projections, and an analysis of projected-debt covenant compliance. The Board is satisfied that the Group's forecasts and projections, taking into account reasonable changes in trading performance, shows that the Group will continue in operation for a period of at least 12 months from the date of this report, and has neither the intention nor the need to liquidate or materially curtail the scale of its operations. For this reason the Group continues to adopt the going-concern basis in preparing its financial statements. More information can be seen in note 2 to the financial statements.

Directors' report continued

Statement on disclosure to auditors

So far as each Director is aware, there is no relevant audit information, that would be needed by the Company's auditors in connection with preparing their audit report (which appears on pages 90 to 97), of which the auditors are not aware; each Director, in accordance with Section 418(2) of the Companies Act 2006, has taken all reasonable steps that he or she ought to have taken as a Director to make him or her aware of any such information, and to ensure that the auditors are aware of such information.

Auditors

KPMG LLP is the statutory auditor of the Company, and resolutions for its reappointment and to authorise the Directors to agree the auditor's remuneration will be submitted at the 2018 AGM.

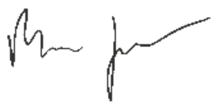
Requirements of the Listing Rules

The following table provides references to where the information required by Listing Rule 9.8.4R is disclosed:

Listing Rule requirement	Location
A statement of the amount of interest capitalised during the period under review, and details of any related tax relief	Not applicable
Publication of unaudited financial information, profit forecast and profit estimates	Not applicable
Details of any long-term incentive scheme established in the past year specifically to recruit or retain an individual Director	No such scheme
Details of any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company	No such waivers
Details of any non pre-emptive issues of equity for cash	No such share allotments
Details of any non pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	No such share allotments
Details of parent participation in a placing by a listed subsidiary	No such participations
Details of any contract of significance in which a Director is or was materially interested	No such contracts
Details of any contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder	No such contracts
Details of waiver of dividends by a shareholder	Not applicable
Board statement in respect of relationship agreement with the controlling shareholder	No such agreements

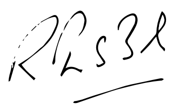
Approval of Directors' report

This Directors' report was approved for and signed on behalf of the Board.



Mirek Stachowicz
Chief Executive Officer

7 March 2018



Paul Bal
Chief Financial Officer

7 March 2018

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law, and have elected to prepare the parent company financial statements on the same basis.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company, and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies, and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU;
- Assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions, and disclose with reasonable accuracy at any time the financial position of the parent company, and enable them to ensure its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report & Accounts (ARA)

We confirm that, to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the undertakings included in the consolidation taken as a whole; and
- The Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the ARA, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board.

Mirek Stachowicz
Chief Executive Officer
7 March 2018

Paul Bal
Chief Financial Officer
7 March 2018

Independent auditor's report

to the members of Stock Spirits Group PLC

1. Our opinion is unmodified

We have audited the financial statements of Stock Spirits Group PLC (the Company) for the year ended 31 December 2017 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and ompany statement of financial position, consolidated and company statement of changes in equity, consolidated and company statement of cashflows, and the related notes, including the accounting policies in note 3 to the consolidated financial statements, and note 2 to the parent company financial statements.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the shareholders on 19th May 2015. The period of total uninterrupted engagement is for the 3 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	€1.6m (2016: €1.5m) 3.8% (2016: 3.8%) of Normalised profit before tax	
Coverage	98% (2016: 99%) of Group profit before tax	
Risks of material misstatement		**vs 2016**
Recurring risks	Goodwill and intangible asset impairment	▲
	Revenue recognition	◀▶
	Tax provisioning	◀▶
	Recoverability of parent company's investment in subsidiaries	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Goodwill & brand intangible asset impairment *(€302 million; 2016: €311 million)* *Refer to page 63 (Audit Committee Report), page 115 (accounting policy) and page 135 (financial disclosures).*	**Forecast-based valuation** The risk is focused on the Czech and Italy Cash Generating Units (CGUs) for which the level of headroom is the most sensitive. An impairment was recorded against the carrying value of Italy goodwill in the current period. The appropriateness of the carrying value of goodwill and brand intangible assets is dependent on achieving sufficient levels of future cashflows. The assets are spread across a range of markets and consequently forecasting cashflows used in impairment testing is more complex, requiring assumptions to be made relating to differing economic environments. Estimating the recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cashflows.	Our procedures included: – **Assessing forecasts:** based on our knowledge of the business and industry, we assessed the forecast revenue growth and profit margins with reference to past performance, future plans (for example, brand positioning, pricing actions and promotional expenditure), and external market data for each CGU. – **Benchmarking assumptions:** we involved our own valuation specialists to assess the long term growth rates, and discount rates used by the Group for each CGU, including comparing the key inputs, such as risk free rates, size premium, country premium and inflation, to externally derived data. – **Sensitivity analysis:** we performed breakeven analysis on key assumptions, including discount rate and projected cashflows. – **Assessing transparency:** we considered whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill and brand intangible assets. **Our results** – We found the resulting estimate of the recoverable amount of goodwill and brand intangible assets to be acceptable. (2016 result: Acceptable).

KPMG

Independent Auditor's Report continued

2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Revenue Recognition (€275 million; 2016: €261 million) *Refer to page 63 (Audit Committee Report), page 111 (accounting policy) and page 123 (financial disclosures).*	**Calculation error** The Group negotiates a variety of sales incentive arrangements, particularly retrospective volume rebates and other contractual discounts, with most of its customers. The reductions resulting from these arrangements are significant in the income statement, in particular from the Polish operations. There are a large number of individual customer arrangements for the Group to monitor that are in place across multiple locations and include differing terms. As such there is a risk of incorrect calculation of the sales incentives due to key terms having been input inappropriately. Not all sales incentives are confirmed by customers at 31 December, albeit rebate measurement periods are retrospective and in most cases coterminous with the 31 December year end. **Omitted arrangements** Due to the large number of customers and the geographic spread there is a risk that not all sales incentive arrangements have been captured and reflected in the financial statements, either through fraud or error. **2017/2018 sales** The business is seasonal in nature with peak revenues towards the end of the financial year which increases the risk of inclusion of revenue in the wrong period. Trading conditions in 2017 continued to be challenging across the Group and there is pressure to achieve financial targets. These considerations give rise to an increased risk of management bias or fraud over the timing of revenue recognition.	Our procedures included: – **Expectation vs outcome:** we performed a comparison of amounts deducted from sales as a proportion of gross sales throughout the year and across regions and customers to identify any unusual trends. We assessed whether these indicated further risk of revenue being inappropriately recognised in the current year. – **Enquiry of customers:** we have sought customer confirmations of amounts owed with a sample of customers and investigated any significant differences between confirmations received and the Group's records. Where responses were not received, alternative procedures were performed, including agreeing the records to post year end cash receipts. – **Reperformance:** in addition to quantitatively significant contracts, we selected a random additional sample of other customer contracts, understood the key terms and recalculated rebates based on those terms. – **Historical comparison:** we assessed the completeness of prior period accruals for sales incentives by performing an analysis of payments made, invoices received and credit notes issued in 2016 against accrued amounts. – **Test of details:** we have assessed the completeness of accruals for sales incentives by agreeing a sample of post year end cash disbursements, invoices received and credit notes issued to amounts recorded by the Group at the year end to obtain evidence that sales incentives were recorded in the income statement in the correct period. – **Extended scope:** we tested a sample of invoices issued close to the year end to assess whether revenue was recorded in the appropriate period by agreeing the sale recorded to delivery note information. We also inspected a sample of journal entries relating to revenue, including transactions close to the year end, and assessed whether they were booked into the correct period by agreeing to supporting documentation, including delivery notes where applicable. **Our results** – We found the Group's assessment of revenue recognition to be acceptable (2016 result: Acceptable).

2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Tax provisioning (€7.5 million; 2016: €7.3 million) *Refer to page 63 (Audit Committee Report), page 121 (accounting policy) and page 128 (financial disclosures).*	**Dispute outcome** The directors are required to make judgements and estimates in determining the liabilities to be recognised with regard to the various taxation exposures. The Group has a number of outstanding tax assessments. The tax risks for the group include transfer pricing amounts charged not being considered deductible by local authorities for corporation tax.	Our procedures included: – **Own tax expertise:** we used our own local tax specialists to assess the Group's tax positions, through inquiry of management and their external tax advisors with regard to latest status with the relevant tax authorities. We obtained management's written correspondence with the Group's tax advisors containing their explanations of material tax exposures and any related litigation. We analysed and challenged the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts. – **Our sector experience:** we assessed the Group's transfer pricing documentation and policy with reference to the latest market practices in this area. – **Assessing transparency:** we assessed the appropriateness of the disclosures in the financial statements in respect of tax and uncertain tax positions. **Our results** – We found the level of tax provisioning to be acceptable (2016 result: Acceptable).
Recoverability of parent company's investment in subsidiaries (£256 million; 2016: £254 million) *Refer to page 63 (Audit Committee Report), page 164 (accounting policy) and page 166 (financial disclosures).*	**Low risk, high value** The carrying amount of the parent company's investment in its subsidiary represents 94% (2016: 89%) of the company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: – **Tests of detail:** comparing the carrying amount of 100% of investments with the relevant subsidiaries' financial statements to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. – **Assessing subsidiary audits:** assessing the work performed by the subsidiary audit team on all of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets. – **Our sector experience:** where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on relevant market data. **Our results** – We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable. (2016 result: Acceptable).

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Independent Auditor’s Report continued

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at €1.6 million (2016: €1.5 million), determined with reference to a benchmark of group profit before tax, normalised to exclude this year’s impairment loss as disclosed in note 17, of which it represents 3.8% (2016: 3.8%).

Materiality for the parent company financial statements as a whole was set at £0.3 million (2016: £0.3 million) by reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to assets, and represents 0.1% of the Company's total assets (2016: 0.1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding €80,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group’s 16 (2016: 16) reporting components, we subjected 7 (2016: 7) to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

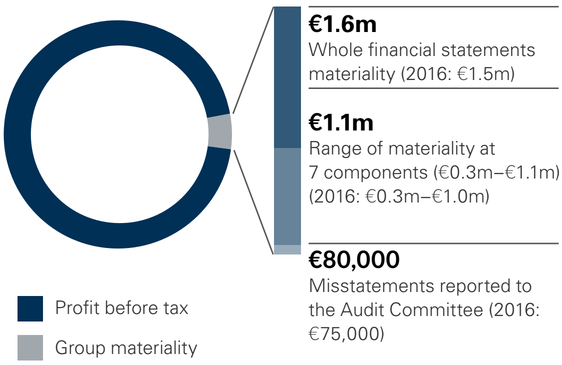
The remaining 3% (2016: 3%) of total Group revenue, 2% (2016: 1%) of group profit before tax and 2% (2016: 2%) of total Group assets is represented by 9 (2016: 9) reporting components, none of which individually represented more than 1% (2016: 1%) of any of total Group revenue, Group profit before tax or total Group assets. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from €0.3 million to €1.1 million, having regard to the mix of size and risk profile of the Group across the components. The work on 5 of the 7 components (2016: 5 of the 7 components) was performed by component auditors and the rest, including the audit of the parent company, were performed by the Group team.

The Group audit team visited 4 (2016: 4) component locations in Poland (1), Czech Republic (2) and Italy (1), to assess the audit risk and strategy and review work performed. Telephone and video conference meetings were also held with these component auditors and others that were not physically visited. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

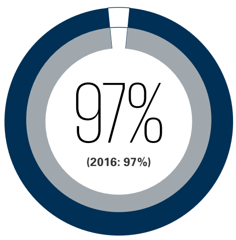
Normalised Profit Before Tax
€42.2m (2016: €39m)

Group Materiality
€1.6m (2016: €1.5m)

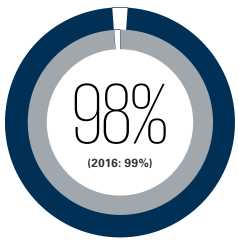


Profit before tax
Group materiality

Group revenue

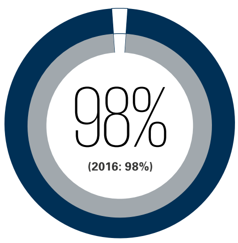


Group profit before tax



Represents percentage of the total profits and losses that made up group profit before tax.

Group total assets



Full scope for group audit purposes 2017
Full scope for group audit purposes 2016
Residual components

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 88 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 20 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Independent Auditor's Report continued

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 89, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of certain of the Group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of corporate taxation and excise duty recognising the financial nature of the Group's activities and its legal form. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items. Further detail in respect of corporate taxation is set out in the key audit matter disclosures in section 2 of this report.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included requesting our component audit teams to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Haydn-Jones (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Reading

7 March 2018

Strategy in action

WE DEVELOP

New liquid development

Herbal liqueurs are particularly popular with Czech young adults, who are discerning about the taste and packaging of their preferred brands and seek drinks that can be enjoyed together in mixed male and female company.

Black Fox is a new and original premium herbal liqueur crafted from selected forest herbs with a hint of orange, developed specifically to meet millennials tastes.

The development lasted for over a year and a half and included intensive research into young adults' preferences for overall taste, design and brand concepts.

Black Fox will gain share in the profitable and fast growing young adult segment of the herbal liqueurs category.

1st

premium herbal bitter liqueur launch by Stock Spirits Group

Financial Statements

Shareholders' information

Consolidated income statement

for the year ended 31 December 2017

	Notes	2017 €000	2016 €000
Revenue	5	274,601	260,974
Cost of goods sold		(137,394)	(128,714)
Gross profit		137,207	132,260
Selling expenses		(60,808)	(61,305)
Other operating expenses		(31,287)	(30,819)
Share of loss of equity-accounted investees, net of tax	22	(331)	–
Operating profit before exceptional expense		44,781	40,136
Exceptional expense	8	(14,900)	–
Operating profit		29,881	40,136
Finance income	9	681	1,703
Finance costs	9	(3,253)	(2,668)
Profit before tax		27,309	39,171
Income tax expense	13	(11,280)	(10,734)
Exceptional tax expense	13	(4,700)	–
Profit for the year		11,329	28,437
Attributable to:			
Equity holders of the Parent		11,329	28,437
Earnings per share, (Euros), attributable to equity holders of the Parent	14		
Basic		0.06	0.14
Diluted		0.06	0.14

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	2017 €000	2016 €000
Profit for the year	11,329	28,437
Other comprehensive income/(expense):		
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:		
Exchange differences arising on translation of foreign operations	8,310	(7,768)
	19,639	20,669
Other comprehensive expense not to be reclassified to profit or loss in subsequent period:		
Re-measurement losses on employee severance indemnity	(5)	(3)
Total comprehensive income for the year, net of tax	19,634	20,666
Attributable to:		
Equity holders of the Parent	19,634	20,666

Consolidated statement of financial position

as at 31 December 2017

	Notes	31 December 2017 €000	31 December 2016 €000
Non-current assets			
Intangible assets – goodwill	15	45,940	60,840
Intangible assets – other	16	311,614	302,753
Property, plant and equipment	18	50,871	55,705
Investment in equity accounted investee	22	17,160	–
Deferred tax assets	13	4,151	13,255
Other assets	21	4,770	4,533
		434,506	437,086
Current assets			
Inventories	19	23,101	21,658
Trade and other receivables	20	163,162	131,396
Other assets	21	–	1,500
Current tax assets	13	715	411
Cash and cash equivalents	32	61,341	74,956
		248,319	229,921
Total assets		682,825	667,007
Non-current liabilities			
Financial liabilities	23	114,048	134,168
Other financial liabilities	24	2,600	113
Deferred tax liabilities	13	47,501	45,933
Provisions	25	1,051	946
Trade and other payables	27	416	49
		165,616	181,209
Current liabilities			
Trade and other payables	27	73,915	53,352
Financial liabilities	23	48	33
Other financial liabilities	24	83	174
Income tax payable	13	8,395	8,926
Indirect tax payable	26	79,256	74,200
Provisions	25	1,203	534
		162,900	137,219
Total liabilities		328,516	318,428
Net assets		354,309	348,579

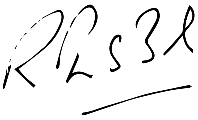
	Notes	31 December 2017 €000	31 December 2016 €000
Capital and reserves			
Issued capital	28	23,625	23,625
Share premium	28	183,541	183,541
Merger reserve	28	99,033	99,033
Consolidation reserve	28	5,130	5,130
Own share reserve	28	(306)	(356)
Other reserve	28, 34	11,277	9,335
Foreign currency translation reserve	28	15,829	7,519
Retained earnings		16,180	20,752
Total equity		354,309	348,579
Total equity and liabilities		682,825	667,007

Notes 1 to 37 are an integral part of the consolidated financial statements.

The consolidated financial statements of Stock Spirits Group PLC, registered number 08687223, on pages 100 to 159, were approved by the Board of Directors and authorised for issue on 7 March 2018 and were signed on its behalf by:

Mirek Stachowicz
Chief Executive Officer

7 March 2018



Paul Bal
Chief Financial Officer

7 March 2018

Consolidated statement of changes in equity

as at 31 December 2017

	Issued capital €000	Share premium €000	Merger reserve €000	Consolidation reserve €000	Own share reserve €000	Other reserve €000	Foreign currency translation reserve €000	Retained earnings €000	Total equity €000
Balance at 1 January 2016	23,625	183,541	99,033	5,130	(635)	9,254	15,284	29,630	364,862
Profit for the year	–	–	–	–	–	–	–	28,437	28,437
Other comprehensive expense	–	–	–	–	–	–	(7,765)	(3)	(7,768)
Total comprehensive income	–	–	–	–	–	–	(7,765)	28,434	20,669
Share-based compensation charge (note 34)	–	–	–	–	–	81	–	–	81
Dividends (note 29)	–	–	–	–	–	–	–	(37,356)	(37,356)
Own shares utilised for incentive schemes (note 28)	–	–	–	–	279	–	–	44	323
Balance at 31 December 2016	23,625	183,541	99,033	5,130	(356)	9,335	7,519	20,752	348,579
Profit for the year	–	–	–	–	–	–	–	11,329	11,329
Other comprehensive income/(expense)	–	–	–	–	–	–	8,310	(5)	8,305
Total comprehensive income	–	–	–	–	–	–	8,310	11,324	19,634
Share-based compensation charge (note 34)	–	–	–	–	–	1,942	–	–	1,942
Dividends (note 29)	–	–	–	–	–	–	–	(15,730)	(15,730)
Own shares acquired for incentive schemes (note 28)	–	–	–	–	(116)	–	–	–	(116)
Own shares utilised for incentive schemes (note 28)	–	–	–	–	166	–	–	(166)	–
Balance at 31 December 2017	23,625	183,541	99,033	5,130	(306)	11,277	15,829	16,180	354,309

Consolidated statement of cashflows

for the year 31 December 2017

	Notes	2017 €000	2016 €000
Operating activities			
Profit for the year		11,329	28,437
Adjustments to reconcile profit for the year to net cashflows:			
Income tax expense recognised in income statement	13	15,980	10,734
Interest expense and bank commissions	9	3,169	2,668
Loss on disposal of tangible assets		538	185
Other financial income	9	(681)	(220)
Depreciation of property, plant and equipment	18	9,894	9,739
Amortisation of intangible assets	16	1,318	1,485
Impairment of goodwill	8	14,900	–
Net foreign exchange loss/(gain)	9	84	(1,483)
Share-based compensation	34	1,942	81
Share of loss of equity-accounted investees, net of tax	22	331	–
Increase/(decrease) in provisions		775	(323)
		59,579	51,303
Working capital adjustments			
Increase in trade receivables and other assets		(30,505)	(1,596)
(Increase)/decrease in inventories		(1,443)	6,058
Increase in trade payables and other liabilities		25,988	5,140
		(5,960)	9,602
Cash generated by operations		53,619	60,905
Income tax paid	13	(6,959)	(6,831)
Net cashflow from operating activities		46,660	54,074
Investing activities			
Interest received		681	220
Payments to acquire intangible assets	16	(1,376)	(5,838)
Proceeds from sale of property, plant and equipment		98	–
Purchase of property, plant and equipment	18	(3,710)	(6,727)
Purchase of equity-accounted investees	22	(15,000)	–
Net cashflow from investing activities		(19,307)	(12,345)
Financing activities			
Repayment of borrowings	23	(20,128)	–
New borrowings raised		–	2,712
Interest paid		(3,147)	(2,571)
Purchase of own shares		(116)	–
Dividends paid to equity holders of the parent	29	(15,730)	(37,427)
Net cashflow from financing activities		(39,121)	(37,286)
Net (decrease)/increase in cash and cash equivalents		(11,768)	4,443
Cash and cash equivalents at the start of the year		74,956	75,806
Effect of exchange rates on cash and cash equivalents		(1,847)	(5,293)
Cash and cash equivalents at the end of the year	32	61,341	74,956

Notes to the consolidated financial statements

at 31 December 2017

1. Corporate information

These consolidated financial statements were approved and authorised for issue by the Board of Directors of Stock Spirits Group PLC (the Company) on 7 March 2018.

Stock Spirits Group PLC is domiciled in England. The Company's registered office is at Solar House, Mercury Park, Wooburn Green, Buckinghamshire, HP10 0HH, United Kingdom.

The Company, together with its subsidiaries (the Group), is involved in the production and distribution of branded spirits in Central and Eastern Europe.

2. Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. Thus they continue to adopt a going concern basis of accounting in preparing the financial statements.

The financial position of the Group, its cashflows, liquidity position and borrowings facilities are described in the paragraphs below. In addition note 30 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity.

Details of the terms of each external loan facility are set out in note 23. The Group met its covenant requirements throughout the year ended 31 December 2017.

The Group has positive free cashflow. The Group has a €200,000,000 revolving credit facility available to it. As at 31 December 2017 €114,191,000 (2016: €134,319,000) was drawn, and a further €14,250,000 (2016: €14,751,000) was utilised for customs guarantees in Italy and Germany, thereby leaving access to funds of €71,599,000 (2016: €50,930,000) which could be drawn at short notice. See note 23 for further details.

The Group's forecasts and projections, taking account of possible changes in trading performance, show that the Group will be able to operate within the level of its current available facilities and maintain comfortable covenant headroom. The revolving credit facility is available as part of wider borrowing arrangements with the syndicate of banks and is not subject to annual renewal. Stock Polska Sp. z.o.o. also has a debt factoring facility of €33,573,000 (PLN 140,000,000) which can be utilised to meet short term working capital requirements if necessary. Pursuant to the HSBC Credit Facility, the total amount of receivables subject to a factoring facility may not in aggregate exceed €50,000,000. See note 20 for further details.

After making enquiries, the Directors have reasonable expectation that the Company and the Group will have adequate resources to continue their operational existence for the foreseeable future and remain compliant with the covenant requirements under the Group's revolving credit facility for a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis for preparing the financial statements.

3. Accounting policies

Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. International Financial Reporting Standards are issued by the International Accounting Standard Board (IASB).

These consolidated financial statements have been prepared on a going concern basis as the Directors believe there are no material uncertainties that lead to significant doubt that the entity can continue as a going concern for a period of at least 12 months from the date of approval of the financial statements.

The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

Changes in accounting policies

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2017.

New/Revised standards and interpretations adopted in 2017

The following amendments to existing standards and interpretations were effective for the year and were applicable to the Group:

Amendments to IAS 7: Disclosure initiative

This amendment aims to assist users of financial statements to evaluate changes in an entity's liabilities arising from financing activities. This includes changes from cashflows and non-cash items, such as the impact of fluctuations in foreign exchange rates, changes in fair value, gain or loss of control of subsidiaries and other businesses. Furthermore, the new disclosure requirements apply to changes in financial assets, such as assets used to hedge liabilities arising from financial activities, if the corresponding cashflows would be classified as cashflows from financing activities.

The disclosure requirements are met by a reconciliation between the opening and closing balances (per the statement of financial statement) of the financing liabilities in note 23.

The following amendments to existing standards and interpretations were effective for the year, but either they were not applicable to or did not have a material impact on the Group:

- Amendments to IAS 12: IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Minor amendments to IFRS 12

Notes to the consolidated financial statements continued

at 31 December 2017

3. Accounting policies continued

New/Revised standards and interpretations not applied

The following standards and interpretations in issue are not yet effective for the Group and have not been adopted by the Group.

	Effective dates[1]
Annual Improvements to IFRS Standards 2014–2016 Cycle – minor amendments to IFRS 1 and IAS 28	1 January 2018
IFRS 9: Financial Instruments	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 15: Revenue from Contracts with Customers	1 January 2018
Clarification to IFRS 15: Revenue from Contracts with Customers	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRS 16: Leases	1 January 2019

1. The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union (EU), the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

The Directors do not expect the adoption of these standards and interpretations to have a material impact on the consolidated or company financial statements in the period of initial application.

A detailed review of the impact of IFRS 15 and IFRS 9 has been undertaken. The impacts are as follows:

IFRS 15 Revenue from customers

IFRS 15 "Revenue from customers" provides a single, principle-based, five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers.

The Group has carried out analysis of how IFRS 15 should be implemented within our markets and we expect that the impact will be primarily on the recording of the payments we make to customers to support promotions and marketing activities. With the exception of slotting and listing fees, these are currently recorded as sales expenses. From 1 January 2018, with the adoption of IFRS 15, these costs will be a reduction to revenue.

The impact on revenue, if applied in 2017 is very minor for the Group at about 2%. There is no impact on Adjusted EBITDA and the change in Adjusted EBITDA margin is a very minor improvement of approximately 0.36%, as can be shown in the analysis for 2017 as per the following table:

	Revenue €000s	Adjusted EBITDA €000s	Adjusted EBITDA as % of revenue
Current reporting	274,601	56,324	20.51%
Under IFRS 15	269,837	56,324	20.87%
% change	(1.7%)	–	0.36%

This quantum is based upon the specific composition and nature of the Group's portfolio of contracts and economic conditions at the date of transition.

In the transition period, when IFRS 15 is adopted, it is the intention that the changes will be adopted from start of the reporting period on a modified retrospective basis. This does not modify the prior period's reporting but restates the opening retained earnings for the cumulative effect of initially applying this standard if the changes impact the profits of the Group. For the Group there is no expected impact on the opening retained earnings for 2018.

IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments" will simplify the classification of financial assets for measurement purposes, but is not anticipated to have a significant impact on the financial statement, including in respect of the non-substantial modification of the Group's financing arrangements in 2017.

IFRS 16 Leases

A project to implement IFRS 16 "Leases" will be undertaken in early 2018. The Directors do expect that the adoption of this standard will have a material impact to the Group's financial statements in the period of initial application. The Group does not intend to apply the new standard before 1 January 2019.

IFRS 16 will remove the distinction between operating leases and finance leases and will require lessees to report operating leases on the balance sheet, similar to the treatment of finance leases under IAS 17. Lessees will recognise an asset for the right to use the leased asset and a liability for the future lease payments for each lease. They will also have to recognise an element of each lease payment as an interest charge.

The effect of this on the Group's financial statements will be that gross assets and gross liabilities will each increase following the recognition of right-of-use assets and lease liabilities relating to future lease payments. In the income statement depreciation or amortisation and interest expenses will be recognised, instead of lease rental expenses. This change will result in an improvement in the financial measure of Adjusted EBITDA. In the Statement of cashflows, the change in presentation of the lease expenses will result in an improvement in the cashflows from operating activities and a decrease in the cashflows from financing activities.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries controlled by the Company for the years to 31 December 2017 and 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Notes to the consolidated financial statements continued

at 31 December 2017

3. Accounting policies continued

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The subsidiary financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intragroup balances and transactions including unrealised profit arising from them are eliminated in full.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control of a subsidiary it (i) derecognises the assets (including goodwill) and liabilities of the subsidiary; (ii) derecognises the carrying amount of any non-controlling interest; (iii) derecognises the cumulative translation differences recorded in equity; (iv) recognises the fair value of the consideration received; (v) recognises the fair value of any investment retained; (vi) recognises any surplus or deficit in profit or loss; (vii) recognises the parent's share of any components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of any acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquirer's identifiable net assets. Acquisition costs incurred are expensed and included within exceptional items.

When the Group acquires a business it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit and loss.

After initial recognition goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing goodwill acquired in a business combination is from the acquisition date allocated to each of the Group's cash generating units that are expected to benefit from the combination irrespective of whether assets or liabilities of the acquisition are assigned to those units.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated statement of financial position at cost. Subsequently associates are accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the consolidated statement of profit and loss and other comprehensive income (except for losses in excess of the Group's investment in the associate unless there is an obligation to make good those losses).

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

We have allocated the investor's share of the comprehensive income of equity-accounted investees to the appropriate components of equity.

Contingent consideration

Deferred consideration that is contingent on future performance conditions is recognised at its fair value at acquisition date within the cost of investment, with a corresponding entry to other financial liabilities. Changes to fair value of the resulting financial liability at each subsequent reporting date are recognised in the income statement.

Revenue recognition

Sale of goods

The Group has concluded that it is the principal in its revenue arrangements, including distribution agreements, as it is the primary obligor in these revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

As such, revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods; in general this is deemed to occur when customers take delivery of the goods
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty which are generally recognised at the point of sale.

Revenue is reduced for estimated customer returns, discounts, rebates and other similar allowances, the measurement of which is determined by contractual arrangements with customers. Sales incentives are recognised in the same period as the related revenue is recorded, and comprise:

- Discounts and rebates – which are sales incentives to customers to encourage them to purchase increased volumes and are related to total volumes, purchases and sales growth Other incentives, such as slotting and listing fees.

The Group has concluded that it is the principal in its revenue arrangements as it is the primary obligor in these revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

Notes to the consolidated financial statements continued

at 31 December 2017

3. Accounting policies continued

Finance income

Finance income is recognised as interest accrues using the effective interest method. The effective rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Finance income also includes foreign currency exchange gains on the retranslation of loans and gains arising from changes in the fair value of interest rate swap instruments.

Segmental analysis

The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the chief operating decision-maker.

For management purposes, the Group is organised into business units based on geographical area, and has five reportable segments:

- Poland
- Czech Republic
- Italy
- Other operational, including the Slovakian, International and Baltic Distillery entities
- Corporate, including the expenses and central costs incurred by non-trading Group entities.

Management monitors the results of all operating segments separately as each of the geographic areas require different marketing approaches. Segment performance is evaluated based on EBITDA, adjusted for exceptional items and non-recurring expenses.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Group financial statements, the results and financial position of each entity are reported in euros (€), which is the presentational currency for the Group financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All resulting differences are taken to the income statement.

For the purpose of presenting Group financial statements, the assets and liabilities of the Group's foreign operations are expressed in euros using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The closing foreign exchange rates used in the consolidation are as follows:

	2017	2016
PLN	4.17	4.39
CZK	25.55	26.97
GBP	0.89	0.85
CHF	1.17	1.07

Employee benefits – severance indemnity

The provision for employee severance indemnity, mandatory for Italian companies pursuant to Law No. 297/1982, represents an unfunded defined benefit plan, according to IAS 19 (Revised), and is based on the working life of employees and on the remuneration earned by an employee over the course of a pre-determined term of service.

For details of the actuarial assumptions used, see note 25. For the severance indemnity, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting period. Past service costs are expensed in full in the year in which the past service credit is granted.

The severance indemnity obligation recognised in the statement of financial position represents the present value of the obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Contributions for severance indemnity are recognised as an expense in the income statement when employees have rendered service entitling them to the contributions.

Income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements with the following exceptions:

- Where the temporary differences arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the consolidated financial statements continued

at 31 December 2017

3. Accounting policies continued

Income taxes continued

Deferred income tax assets are recognised only to the extent that the directors consider that it is probable that there will be taxable profits from which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rate that is expected to apply when the related asset is realised or liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

Property, plant and equipment

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their cost less depreciation. Land is not depreciated.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Fixtures and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

The following useful lives are used in the calculation of depreciation:

Land	No depreciation
Buildings	20–50 years
Technical equipment	7–20 years
Other equipment	3–10 years

Intangible assets

Intangible assets acquired separately

Intangible assets including brands, customer lists and trademarks acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with a definite life are amortised on a straight-line basis over their estimated useful lives of between 2 and 15 years. A useful life of 15 years has been applied to trademarks, with consideration to the age, history and profile of such trademarks. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortisation expense related to software is included within other operating expenses in the consolidated income statement. Amortisation expense related to customer relationships and trademarks is included in selling expenses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Fair value of identifiable brands acquired and recognised as part of a business combination are determined using the royalty or multi-period excess methods. All of the Group's brands have indefinite useful lives, are not amortised but are subject to an annual impairment test or whenever there is an indication that the asset may be impaired.

In arriving at the conclusion that a brand has an indefinite life, management considers their future usage, commercial position, stability of industry and all other aspects that might have an impact on this accounting policy. Management considers the business to be a brand business and expects to acquire, hold and support brands for an indefinite period. Subsidiary company history goes back to 1884 in Italy, 1920 in the Czech Republic and for over 100 years in Poland. Brands have a long tradition and companies have built customer loyalty over their history.

A core element of the Group's strategy is to invest in building its brands through an ongoing programme of spending on consumer marketing and through significant investment in promotional support. This policy is appropriate due to the stable long-term nature of the business and the enduring nature of the brands.

Subsequent to initial recognition, other intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment of tangible and intangible assets excluding goodwill

At each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cashflows have not been adjusted.

Notes to the consolidated financial statements continued

at 31 December 2017

3. Accounting policies continued

Intangible assets continued

Impairment of tangible and intangible assets excluding goodwill continued

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

Goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units. Goodwill is reviewed for impairment annually or more frequently if there is an indication of impairment. Impairment of goodwill is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying value of the cash-generating unit to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Trade and other receivables

Trade and other receivables are recognised when it is probable that a future economic benefit will flow to the Group. Trade and other receivables are carried at original invoice or contract amount less any provisions for discounts and doubtful debts. Provisions are made where there is evidence of a risk of non-payment taking into account ageing, previous experience and general economic conditions.

Sale of receivables under non-recourse factoring

The Group via Stock Polska Sp. z.o.o. has entered into a non-recourse receivables financing agreement with Coface, supported by Natixis Bank. It may sell up to €31,891,000 (PLN 140,000,000) (at any one time) at face value less certain reserves and fees. Trade receivables sold under this non-recourse factoring arrangement are included net of the value of invoices which have been factored. Pursuant to the HSBC Credit Facility, the total amount of receivables subject to a factoring facility may not in aggregate exceed €50,000,000.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

Financial assets

Financial assets in the statement of financial position are loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables are subsequently carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The timing of cash outflows are by their nature uncertain and are therefore best estimates. Provisions are not discounted as the time value of money is not deemed to be material.

Financial liabilities

Borrowings and other financial liabilities

Borrowings and other financial liabilities, including loans, are initially measured at fair value, net of transaction costs.

Borrowings and other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Notes to the consolidated financial statements continued

at 31 December 2017

3. Accounting policies continued

Derivative financial instruments

The Group may enter into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the reporting period date. The resulting gain or loss is recognised in profit or loss immediately.

The fair value of derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the relationship is less than 12 months.

The Group does not apply hedge accounting.

Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Leases and hire purchase commitments

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases are capitalised on commencement of the lease at the lower of the fair value of the asset and the present value of the minimum lease payments. Each payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the finance balance outstanding. The rental obligations, net of finance charges, are included in interest bearing loans and borrowings.

The finance charges are charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments under operating leases are charged to the income statement on a straight line basis over the term of the lease.

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions is recognised together with a corresponding increase in other reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of the period and is recognised in general and administrative expenses.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cost based on the original award terms continues to be recognised over the original vesting period and an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification.

The financial effect of awards by the parent company of options over its equity shares to employees of subsidiary undertakings was recognised by the parent company in its individual financial statements as an increase in its investment in subsidiaries with a credit to equity equivalent to the IFRS 2 cost in subsidiary undertakings. The subsidiary, in turn, recognised the IFRS 2 cost in its income statement with a credit to equity to reflect the deemed capital contribution from the parent company.

Notes to the consolidated financial statements continued

at 31 December 2017

3. Accounting policies continued

Share-based payments continued

Repurchase and reissue of ordinary shares (own shares)

When shares recognised in equity are repurchases, the amount of the consideration paid, which includes directly attributable costs, are recognised as a deduction from equity. Repurchased shares are classified as own shares and are presented in the own share reserve. When own shares are sold or re-issued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within retained earnings.

Cash dividends to equity holders of the parent

The Company recognises a liability to make cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws in the United Kingdom, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Exceptional items and adjusted profitability measures

Management use a range of measures to monitor and assess the Group's financial performance, including those calculated in accordance with IFRS, and other, alternative performance measures (APMs). Such measures are also used in determining performance incentives for management.

The Group uses the following APMs to provide management and investors with useful additional information about the group's performance, profitability, liquidity and indebtedness:

- Adjusted EBITDA, being operating profit before depreciation and amortisation and exceptional items and the share of results of equity accounted investees (refer to note 7);
- Adjusted basic EPS, being basic earnings per share before the impact of exceptional items (refer to note 14);
- Free cashflow, being cash generated from operating activities (excluding income tax paid), plus the proceeds from the sale of property, plant and equipment and proceeds from the disposal of intangible assets less cash used for the acquisition of property, plant or equipment and for the acquisition of intangible assets (refer to note 7);
- Adjusted free cashflow conversion, being free cashflow as a percentage of adjusted EBITDA (refer to note 7);
- Net debt, being the net of balances reported as cash and cash equivalents, loans and borrowings, and finance leases (refer to note 30); and
- Leverage, being net debt divided by adjusted EBITDA (refer to note 30).

The above measures represent the equivalent IFRS measures but are adjusted to exclude items that we consider would prevent comparison of the group's performance both from one reporting period to another and with other similar businesses.

Exceptional items are not defined under IFRS. Exceptional items are those significant items which are separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance. In determining of an event or transaction is exceptional, management of the Group considers quantitative and qualitative factors such as its expected size, precedent for similar items and the commercial context for the particular transactions, while ensuring consistent treatment between favourable or unfavourable transactions impacting income and expense. Presentation of these measures is not intended to be a substitute for or to promote them above statutory measures.

Exceptional items are detailed in note 8 to the financial statements.

Items that are considered to be exceptional and that are therefore separately identified in order to aid comparability may include the following:

- Profits or losses resulting from the disposal of a business or investment;

- Costs incurred in association with business combinations, such legal and professional fees and stamp duty that are excluded from the fair value of the consideration of the business combination;
- Significant restructuring and integration costs that are incurred following a material change in business operations, such as a business combination;
- Impairment charges in respect of tangible and intangible assets as a result of restructuring, business closure, underperformance, or other matters; and
- Significant tax charges (current or deferred) in respect of prior years or changes in legislation.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Financial risk management note 30
- Sensitivity analyses disclosures notes 17, 30.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Where Group entities are loss making, and are expected to continue to be loss making into the future it is judged that deferred tax assets should not be recognised in respect of these losses as it is not known when the losses will be able to be utilised in these entities.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Measurement and impairment of indefinite life intangible assets

A key source of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year is the measurement and impairment of indefinite life intangible assets. The measurement of intangible assets other than goodwill on a business combination involves estimation of future cashflows and the selection of a suitable discount rate. The Group determines whether indefinite life intangible assets are impaired on an annual basis and this requires an estimation of their value in use. This involves estimation of future cashflows and choosing a suitable discount rate (note 17). Brands are considered to have an indefinite life. Management considers the business to be a brand business and expects to acquire, hold and support brands for an indefinite period.

Notes to the consolidated financial statements continued

at 31 December 2017

4. Critical accounting judgements and key sources of estimation uncertainty continued

Estimates and assumptions continued

Impairment of goodwill

The Group's impairment test for goodwill is based on a value in use calculation using a discounted cashflow model. The cashflows are derived from the Group's three year-plans. The recoverable amount is most sensitive to the discount rate used for the discounted cashflow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, as further explained in note 17. The Group tests annually whether goodwill has suffered any impairment.

Taxation and transfer pricing

The Group is an international drinks business and, as such, transfer pricing arrangements are in place to cover the recharging of management costs, as well as the sale of finished goods between Group companies.

Transfer prices and the policies applied directly affect the allocation of group wide taxable income across a number of tax jurisdictions.

While transfer prices between reportable segments are on an arm's length basis, similar to transactions with third parties, there is increasing scrutiny from tax authorities on transfer pricing arrangements. This could result in the creation of uncertain tax positions.

The Group provides for anticipated risks, based on reasonable estimates, for tax risks in the respective countries in which it operates. The amount of such provisions are based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible authority. See note 13.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income.

Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Uncertainties in relation to tax liabilities have been provided for within income tax payable to the extent that it is considered probable that the Group will be required to settle a tax liability in the future. Settlement of tax provisions could potentially result in future cash tax payments; however these are not expected to result in an increased tax charge as they have been fully provided for in accordance with management's best estimates of the most likely outcomes.

Significant uncertainty exists over the size of possible settlements of ongoing enquiries and new enquiries could be opened into prior years. Hence the tax liabilities could be higher or lower than the amounts provided for.

Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 34.

5. Revenue

An analysis of the Group's revenue is set out below:

	2017 €000	2016 €000
Revenue from the sale of spirits, gross of excise taxes	794,299	733,257
Other sales	3,025	4,166
Excise taxes	(522,723)	(476,449)
Revenue	274,601	260,974

6. Segmental analysis

In identifying its operating segments, management follows the Group's geographic split, representing the main products traded by the Group. The Group is considered to have five reportable operating segments: Poland, Czech Republic, Italy, Other Operational and Corporate. The Other Operational segment consists of the results of operations of the Slovakian, International and Baltic Distillery entities. The Corporate segment consists of expenses and central costs incurred by non-trading Group entities.

Each of these operating segments is managed separately as each of these geographic areas requires different marketing approaches. All inter-segment transfers are carried out at arm's length prices. The measure of revenue reported to the chief operating decision-maker to assess performance is based on external revenue for each operating segment and excludes intra-Group revenues. The measure of Adjusted EBITDA reported to the chief operating decision-maker to assess performance is based on operating profit and excludes intra-Group profits, depreciation, amortisation, exceptional items and the share of the results of equity-accounted investees.

The Group has presented a reconciliation from profit before tax per the consolidated income statement to Adjusted EBITDA below:

	2017 €000	2016 €000
Profit before tax	27,309	39,171
Share of loss of equity-accounted investees, net of tax	331	–
Net finance charges	2,572	965
	30,212	40,136
Depreciation and amortisation (note 11)	11,212	11,224
EBITDA	41,424	51,360
Exceptional expense (note 8)	14,900	–
Adjusted EBITDA	56,324	51,360

Total assets and liabilities are not disclosed as this information is not provided by segment to the chief operating decision-maker on a regular basis.

Notes to the consolidated financial statements continued

at 31 December 2017

6. Segmental analysis continued

2017	Poland €000	Czech Republic €000	Italy €000	Other Operational €000	Corporate €000	Total €000
External revenue	147,654	68,817	28,115	30,015	–	274,601
EBITDA after exceptional expense	37,738	21,818	(8,583)	4,899	(14,448)	41,424
Exceptional expense (note 11)	–	–	14,900	–	–	14,900
Adjusted EBITDA	37,738	21,818	6,317	4,899	(14,448)	56,324

Memo note:

Group wide costs included within Corporate costs are:

Group insurance costs					(665)	
Group audit fee					(269)	
Restructuring and one-off costs					(1,698)	
FX impact within Corporate costs					(11)	

Included within the regional and Corporate segments are:

Performance share plan costs/share-based compensation	636	166	215	305	962	2,284

2016	Poland €000	Czech Republic €000	Italy €000	Other Operational €000	Corporate €000	Total €000
External revenue	136,890	63,175	29,401	31,508	–	260,974
Adjusted EBITDA	35,873	19,655	6,883	5,088	(16,139)	51,360

Memo note:

Group wide costs included within Corporate costs are:

Group insurance costs					(685)	
Group audit fee					(273)	
Restructuring and one-off costs					(3,099)	
FX impact within Corporate costs					212	

Included within the regional and Corporate segments are:

Performance share plan costs/share-based compensation						
- excluding one-off adjustments	(203)	18	(15)	(49)	(825)	(1,074)
- one-off adjustments	17	14	31	66	1,490	1,618

7. Adjusted EBITDA and Free cashflow

The Group defines Adjusted EBITDA as operating profit before depreciation and amortisation, exceptional items and the share of results of equity accounted investees. Adjusted EBITDA and Adjusted free cashflow conversion are supplemental measures of the Group's performance and liquidity that are not required to be presented in accordance with IFRS.

The directors use the Adjusted EBITDA and Adjusted free cashflow conversion as the performance measures of the business. They remove significant items that would otherwise distort comparability.

The use of these alternative performance measures is consistent with how institutional investors consider the performance of the Group. These measures are not defined in IFRS and thus may not be comparable to similarly titled measures by other companies.

Adjusted EBITDA

	2017 €000	2016 €000
Operating profit	29,881	40,136
Exceptional expense	14,900	–
Share of results of equity-accounted investees, net of tax	331	–
	45,112	40,136
Depreciation and amortisation (note 11)	11,212	11,224
Adjusted EBITDA	56,324	51,360
Adjusted EBITDA margin	20.5%	19.7%

The Group defines free cashflow as cash generated from operating activities (excluding income tax paid), plus the proceeds from the sale of property, plant and equipment and proceeds from the disposal of intangible assets less cash used for the acquisition of property, plant or equipment and for the acquisition of intangible assets. Adjusted free cashflow conversion is free cashflow as a percentage of Adjusted EBITDA.

Free cashflow

	2017 €000	2016 €000
Cash generated from operations	53,619	60,905
Payments to acquire property, plant and equipment	(3,710)	(6,727)
Payments to acquire intangible assets	(1,376)	(5,838)
Proceeds from sale of property, plant and equipment	98	–
Free cashflow	48,631	48,340
Adjusted free cashflow conversion	86.3%	94.1%

8. Exceptional items

In 2017, the Group has exceptional expenses and an exceptional tax charge (2016: €nil).

The impairment review for goodwill identified the need to impair the goodwill held for the Italian brands by €14,900,000. Due to the nature of the size of the impairment and the nature of the transaction, it is disclosed as an exceptional expense. See note 17.

Due to a change in tax legislation in Poland, tax amortisation on our Polish brands is no longer available. This has resulted in a significant one-off deferred tax charge of €4,700,000, which has been classified in accordance with our accounting policies as an exceptional charge. See note 13 for further information.

Notes to the consolidated financial statements continued

at 31 December 2017

9. Finance income and costs

	2017 €000	2016 €000
Finance income:		
Foreign currency exchange gain	–	1,483
Interest income	681	220
Total finance income	681	1,703
Finance costs:		
Interest payable on bank overdrafts and loans	1,384	1,777
Foreign currency exchange loss	84	–
Bank commissions, guarantees and other payables	788	557
Other interest expense	997	334
Total finance costs	3,253	2,668
Net finance costs	2,572	965

In 2016, finance income included €1,483,000 foreign currency exchange gain on intercompany loans.

10. Staff costs

	2017 €000	2016 €000
Wages and salaries	29,096	27,917
Social security costs	5,273	5.407
Other pension costs	1,552	1,229
Termination benefits	1,632	1,469
Long-term incentive plan (note 25)	28	7
Share-based compensation	2,284	(1,191)
	39,865	34,838

Other pension costs relate primarily to the Group's contributions to defined contribution pension plans. Also included is €239,000 (2016: €29,000) of contributions relating to the employee severance indemnity in Italy, which represents an unfunded defined benefit plan. Refer to note 25 for further details.

Average monthly number of employees in the year

	2017 No.	2016 No.
Production and logistics	436	428
Sales	353	260
Other	191	188
	980	876

11. Operating profit

Operating profit for the year has been arrived at after charging:

	2017 €000	2016 €000
Costs of inventories recognised as an expense	137,394	128,714
Advertising, promotion and marketing costs	24,486	24,631
Indirect costs of production	8,543	9,190
Logistics costs	5,530	5,916
Operating lease payments	4,356	2,444
Legal and professional fees	3,595	4,356
Loss on disposal of intangible and tangible assets	538	185
Net foreign exchange translation (gain)/loss	(123)	419
Exceptional expense (note 8)	14,900	–
Depreciation and amortisation – production cost	5,690	5,307
Depreciation and amortisation – selling cost	3,266	3,532
Depreciation and amortisation – administration cost	2,256	2,385
Total depreciation and amortisation	11,212	11,224

12. Auditor's remuneration

The Group paid the following amounts to its auditor KPMG LLP in respect of the audit of the financial statements and for other services provided to the Group:

	2017 €000	2016 €000
Fees payable for:		
Audit of the Parent and Group financial statements	284	273
Local statutory audits for subsidiaries	392	393
Audit-related assurance services	54	65
Total	730	731

Notes to the consolidated financial statements continued

at 31 December 2017

13. Income taxes

(i) Income tax recognised in profit or loss:

	2017 €000	2016 €000
Tax expense comprises:		
Current tax expense	5,826	6,991
Tax expense/(credit) relating to prior year	213	(393)
Deferred tax charge	5,219	4,132
Other taxes	22	4
Total tax expense	11,280	10,734

	2017 €000	2016 €000
Exceptional tax expense:		
Deferred tax charge	4,700	–

There have been no tax charges to other comprehensive income.

	2017 €000	2016 €000
Profit before tax	27,309	39,171
Accounting profit multiplied by United Kingdom combined rate of corporation tax 19.25% (2016: 20.00%)	5,257	7,834
Expenses not deductible for tax purposes		
– Goodwill impairment (note 17)	2,868	–
– Other	1,363	852
Tax losses for which no deferred tax is recognised	1,384	1,578
Effect of difference in tax rates	248	296
Impact of post-IPO corporate restructuring	–	639
Tax charge/(credit) relating to prior year	213	(393)
Taxable profit relieved against brought forward losses	(75)	(76)
Other taxes	22	4
Income tax expense reported in the income statement	11,280	10,734
Exceptional tax expense – impact of post-IPO corporate restructuring	4,700	–
Total tax charge	15,980	10,734
Effective tax rate	58.5%	27.4%

Post-IPO corporate restructuring

Post-IPO the Group completed corporate restructuring transactions which gave rise to a significant deferred tax assets which were being amortised over a five-year period. Due to tax legislation changes in Poland, from 1 January 2018, amortisation on these items is no longer deductible for tax purposes. This has resulted in an exceptional tax charge of €4,700,000. The charge is considered exceptional because it is a significant transaction resulting from the change in tax legislation.

The 2016 current tax expense includes €820,000 relating to liquidation of Stock Wodka Polska S.A.

(ii) Income tax recognised in the balance sheet:

Current tax liability:

	2017 €000	2016 €000
Tax prepayments as of 1 January	411	3,569
Tax liability as of 1 January	(8,926)	(12,277)
Tax credit/(charge) relating to prior year	(213)	393
Payments in year	6,959	6,831
Current tax expense	(5,826)	(6,991)
Other taxes	(22)	(4)
Foreign exchange adjustment	(63)	(36)
Net current tax liability	(7,680)	(8,515)
Analysed as:		
Tax prepayment as of 31 December	715	411
Current tax liability as of 31 December	(8,395)	(8,926)
	(7,680)	(8,515)

Transfer pricing

The Group is an international drinks business and, as such, transfer pricing arrangements are in place to cover the recharging of management and stewardship costs, as well as the sale of finished goods between Group companies.

Tax inspections

The Group has undertaken a review of potential tax risks and current tax assessments, and whilst it is not possible to predict the outcome of any pending enquiries, adequate provisions are considered to have been included in the Group accounts to cover any expected estimated future settlements.

Common with many groups operating across multiple jurisdictions, certain tax positions related to intercompany transactions may be subject to challenge by the relevant tax authority. The Group has recognised provisions totalling €7,514,000 (2016: €7,341,000) in relation to transfer pricing risks where it is not probable that tax positions taken will be accepted.

The most significant relates to tax risks in respect of our Italian business, Stock S.r.l. The Italian tax authorities have open enquiries covering the years 2006-2010. During 2017, no cash prepayments were made in respect of the open enquiries (2016: €1,045,000). Any prepayments are returnable to Stock S.r.l. should the rulings be found in favour of the Company.

The Group's Czech subsidiary, Stock Plzen Bozkov s.r.o. received a tax assessment relating to 2011 from the Czech tax authorities in February 2017. During the year, the tax judgement has not been found in the Company's favour and hence provisions have been made for income tax due of €636,000 and penalties and interest of €631,000 (see note 25 for the penalties and interest provision).

Management continue to vigorously defend each of the companies' positions through the appeals process in both cases.

In July 2016, the Group's Polish subsidiary, Stock Polska Sp. z.o.o., received notification from the Polish tax authorities of the commencement of a standard enquiry covering its 2013 corporate income tax return. To date no tax assessment has been received in respect of this open enquiry, however the Group anticipates initial findings from this enquiry will be communicated within the next 12 months.

Notes to the consolidated financial statements continued

at 31 December 2017

13. Income taxes continued

Tax inspections continued

In October 2017, the Group's German subsidiary, Baltic Distillery GmbH, received notification from the German tax authorities of the commencement of a standard enquiry covering its 2015 corporate income tax return. To date no final tax assessment has been received in respect of this open enquiry, however the Group anticipates initial findings from this enquiry will be communicated within the next 12 months.

Although our transfer pricing is performed on an arms' length basis, it is management's view that there is significant risk of further disputes with tax authorities regarding intercompany transactions and thus a provision has been made for this eventuality.

Additional provisions, including in respect of the matters noted above, of €2,118,000 were recorded during 2017 (2016: nil).

Whilst it is the case that there could be a risk of a material exposure arising from ongoing enquiries in respect of positions taken other than those related to transfer pricing discussed above, the Group considers this to be unlikely and accordingly have made no provision in relation to these risks.

In respect of tax years no longer subject to enquiries or audit, where the relevant statute of limitations has expired, and in cases where management's estimation of the most likely future settlement has changed, tax provisions of €1,945,000 (2016: nil) were released to profit and loss.

Impact of Brexit

On 29 March 2017, the UK government invoked Article 50 of the Treaty of Lisbon, notifying the European Council of its intention to withdraw from the EU. There is an initial two-year timeframe for the UK and EU to reach an agreement on the withdrawal and the future UK and EU relationship, although this timeframe can be extended. At this stage, there is significant uncertainty about the withdrawal process, its timeframe and the outcome of the negotiations about the future arrangements between the UK and the EU. As a result, there is significant uncertainty over the period for which the existing EU laws for member states will continue to apply to the UK and which laws will apply to the UK after an exit. Following the negotiations between the UK and the EU, the UK's tax status may change and this may impact the Group, for example as it relates to distributions from subsidiaries over which no tax is currently payable due to the EU Parent Subsidiary Directive. However, at this stage the level of uncertainty is such that it is impossible to determine if, how and when that tax status will change.

(iii) Unrecognised tax losses

The Group has tax losses which arose in the UK of €32,298,000 as at 31 December 2017 (2016: €31,167,000) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. A deferred tax asset has not been recognised in respect of these losses as it is not sufficiently probable that the losses will be utilised in the relevant entities.

(iv) Deferred tax balances

The exceptional tax expense is included in the amount charged in 2017 on the Brands.

Deferred tax assets and liabilities arise from the following:

2017	1 January 2017 €000	(Charged)/ credited to income €000	Translation difference €000	31 December 2017 €000
Temporary differences:				
Brands	(42,687)	(11,145)	(1,253)	(55,085)
Accrued liabilities	4,475	3,685	(204)	7,956
Other assets and liabilities	5,534	(2,459)	704	3,779
	(32,678)	(9,919)	(753)	(43,350)
Deferred tax asset	13,255	(9,670)	566	4,151
Deferred tax liability	(45,933)	(249)	(1,319)	(47,501)
	(32,678)	(9,919)	(753)	(43,350)

2016	1 January 2016 €000	(Charged)/ credited to income €000	Translation difference €000	31 December 2016 €000
Temporary differences:				
Brands	(36,766)	(5,544)	(377)	(42,687)
Accrued liabilities	2,914	1,647	(86)	4,475
Other assets and liabilities	5,847	(235)	(78)	5,534
	(28,005)	(4,132)	(541)	(32,678)
Deferred tax asset	17,770	(4,133)	(382)	13,255
Deferred tax liability	(45,775)	1	(159)	(45,933)
	(28,005)	(4,132)	(541)	(32,678)

Brands

Deferred tax liability arising on the difference is based on the difference between the accounting and tax book values of brands, and calculated using the appropriate substantively enacted tax rate.

(v) Change in tax rates

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) was substantively enacted on 15 September 2016. A further reduction to 17% (effective from 1 April 2020) was also substantively enacted on this date. The deferred tax asset or liability at 31 December 2017 has been calculated based on the appropriate tax rates. There are no UK deferred tax assets or liabilities to which this new rate will be applied.

Notes to the consolidated financial statements continued

at 31 December 2017

14. Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Adjusted earnings per share amounts exclude the impact of the significant items that would otherwise distort comparability and distort understanding of the underlying performance of the Group.

Details of the earnings per share are set out below:

	2017	2016
Basic earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	11,329	28,437
Weighted average number of ordinary shares in issue for basic earnings per share (000)	198,104	199,851
Basic earnings per share (€)	0.06	0.14
Diluted earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	11,329	28,444
Weighted average number of diluted ordinary shares adjusted for the effect of dilution (000)	200,787	200,399
Diluted earnings per share (€)	0.06	0.14
Adjusted basic earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	11,329	28,437
Exceptional expense (€000)	14,900	–
Exceptional tax charge (€000)	4,700	–
Profit attributable to the equity shareholders of the Company before exceptional expenses and exceptional tax charges (€'000)	30,929	28,437
Weighted average number of diluted ordinary shares adjusted for the effect of dilution (000)	198,104	199,851
Adjusted basic earnings per share (€)	0.16	0.14
Adjusted diluted earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	11,329	28,437
Exceptional expense (€000)	14,900	–
Exceptional tax charge (€000)	4,700	–
Profit attributable to the equity shareholders of the Company before exceptional expenses and exceptional tax charges (€000)	30,929	28,437
Weighted average number of diluted ordinary shares adjusted for the effect of dilution (000)	200,787	200,399
Adjusted diluted earnings per share (€)	0.15	0.14

Reconciliation of basic to diluted ordinary shares

	2017	2016
Issued ordinary shares (000)	200,000	200,000
Effect of own shares held (000)	(1,896)	(149)
Basic weighted average number of ordinary shares (000)	198,104	199,851
Effect of options (000)	2,683	548
Diluted weighted average number of ordinary shares (000)	200,787	200,399

There have been no transactions involving the Group's ordinary shares between the reporting date and the date of authorisation of these financial statements.

15. Intangible assets – goodwill

	2017 €000	2016 €000
Cost:		
As at 1 January	77,340	76,866
Goodwill arising on the acquisition of brands	–	474
As at 31 December	77,340	77,340
Accumulated impairment:		
As at 1 January	16,500	16,500
Impairment charge	14,900	–
As at 31 December	31,400	16,500
Carrying amount at 31 December	45,940	60,840

See note 17 for details of the impairment of goodwill.

Notes to the consolidated financial statements continued

at 31 December 2017

16. Intangible assets – other

2017	Brands €000	Customer relationships and trademark €000	Software €000	Total €000
Cost:				
As at 1 January 2017	298,660	1,514	20,264	320,438
Additions	207	110	1,059	1,376
Disposals	–	–	(60)	(60)
Transfers	–	–	513	513
Net foreign currency exchange differences	8,255	–	109	8,364
As at 31 December 2017	307,122	1,624	21,885	330,631
Amortisation:				
As at 1 January 2017	–	472	17,213	17,685
Amortisation expense	–	115	1,203	1,318
Net foreign currency exchange differences	–	2	12	14
As at 31 December 2017	–	589	18,428	19,017
Carrying amount: As at 31 December 2017	307,122	1,035	3,457	311,614

Costs for brand additions in 2017 relate to the final payment for the Saska brand acquired in Poland in 2016.

2016	Brands €000	Customer relationships and trademark €000	Software €000	Total €000
Cost:				
As at 1 January 2016	294,261	1,514	19,304	315,079
Additions	4,522	–	1,115	5,637
Disposals	–	–	(18)	(18)
Transfers	224	–	(83)	141
Net foreign currency exchange differences	(347)	–	(54)	(401)
As at 31 December 2016	298,660	1,514	20,264	320,438
Amortisation:				
As at 1 January 2016	–	354	15,829	16,183
Amortisation expense	–	118	1,367	1,485
Disposals	–	–	(15)	(15)
Net foreign currency exchange differences	–	–	32	32
As at 31 December 2016	–	472	17,213	17,685
Carrying amount: As at 31 December 2016	298,660	1,042	3,051	302,753

Included in transfers in 2017, was €513,000 for assets which were previously classified as assets under construction, which were subsequently reclassified as software. In 2016, the amounts in transfers from assets in the course of constriction to software was €141,000.

Brands are not amortised, as it is considered that their useful economic lives are not limited. An annual impairment assessment is performed to ensure carrying values are recoverable. Other intangible assets are amortised as follows:

- Customer Relationships are amortised over 12 years
- Trademarks are amortised over 15 years
- Software is amortised over 2–5 years.

The gross carrying value of fully amortised intangible assets that are still in use is €6,627,000 (2016: €6,033,000).

Amortisation relating to software is included within other operating expenses in the consolidated income statement. Amortisation relating to customer relationships and trademark is included in selling expenses.

17. Impairment of goodwill and intangibles with indefinite lives

Goodwill acquired through business combinations and brands have been allocated for impairment testing purposes to cash-generating units based on the geographical location of production plants and the ownership of intellectual property. This represents the lowest level within the Group at which goodwill and brands are monitored for internal management purposes.

Cash generating units

For the purposes of impairment testing, goodwill has been allocated to the Group's CGUs as follows:

	Czech Republic €000	Italy €000	Poland €000	Other €000	Total €000
31 December 2017					
Carrying amount of brands	206,787	52,584	45,300	2,451	307,122
Carrying amount of goodwill	34,516	7,732	2,212	1,480	45,940
Value in use headroom	26,936	–	287,541		

	Czech Republic €000	Italy €000	Poland €000	Other €000	Total €000
31 December 2016					
Carrying amount of brands	196,173	57,225	42,811	2,451	298,660
Carrying amount of goodwill	34,516	22,632	2,212	1,480	60,840
Value in use headroom	40,865	9,014	350,600		

Notes to the consolidated financial statements continued

at 31 December 2017

17. Impairment of goodwill and intangibles with indefinite lives continued

Cash generating units continued

Key assumptions used in the value-in-use calculations

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the industry and have been based on historical data from both external and internal sources.

The calculation of value-in-use for all regions is most sensitive to the following assumptions:

- Spirits price inflation – small annual percentage increases assumed in all markets based on historic data
- Growth in spirits market – assumed to be static or marginally increasing in all markets based on recent historical trends.
- Market share – through company specific actions outlined in detailed internal plans, market share to be grown overall.
- Discount rates – rates reflect the current market assessment of the risks specific to each operation. The discount rate was estimated based on an average of guideline companies adjusted for the operational size of the Group and specific regional factors
- Raw material cost – assumed to be at average industry cost
- Excise duty – no future duty changes have been used in projections
- Growth rate used to extrapolate cashflows beyond the forecast period. The assumed growth rate reflects management expectation and takes into consideration growth achieved to date, current strategy and expected spirits market growth.

The headroom for each cash generating unit where these sensitivities would be applicable has been detailed below.

Impairment review

(i) Czech Region

The recoverable amount of the Czech Region unit has been based on its value-in-use using discounted cashflows based on cashflow projections from the three-year planning process approved by senior management.

The pre-tax discount rate applied to cashflow projections is 10.7% (2016: 10.3%) and cashflows beyond the three-year period are extrapolated using a 2.5% (2016: 1.9%) growth rate.

A reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following sensitivity analysis shows the impact on the headroom of different pre-tax discount rates and EBITDA delivery in the cashflow projections used in the impairment review models.

Pre-tax discount rate	**9.5%**	**10.0%**	**10.5%**	**10.7%**	**11.0%**
EBITDA delivery	**€000**	**€000**	**€000**	**€000**	**€000**
-10%	34.6	17.6	2.8	(2.4)	(10.3)
-5%	37.7	20.5	5.5	0.2	(7.8)
0%	68.7	49.6	32.8	26.9	18.0
5%	83.5	65.5	47.8	41.6	32.1
10%	102.9	81.5	62.8	56.2	46.3

The impact of a 1 percentage point decrease in the long term growth rate applied in the terminal value calculation would be a lower headroom of €3m.

(ii) Italy Region

The recoverable amount of the Italy Region unit was determined based on its value-in-use using discounted cashflows based on cashflow projections from the three-year planning process approved by senior management.

In the prior year, the headroom between the estimated recoverable amount of the Italy Region CGU and its carrying value was limited, and certain sensitised scenarios indicated a potential impairment. As performance in 2017 was below budget, an indicator of impairment was identified. The assessment of recoverable amount was performed at the level of the CGU level as it is the lowest level of separately identifiable cashflows, and as such is not possible to estimate the recoverable amount at the brand level.

Due to a continued decline in the market, particularly in relation to vodka-based flavoured liqueur, the projections in the Group's three-year plan were not sufficient to support the carrying value of the assets. As a result of the annual impairment tests required by IAS 38, the carrying amount of the assets of the CGU was determined to be higher than its recoverable amount of €67.9 million, and an impairment loss of €14.9 million was recognised during 2017 (2016: nil).

The impairment loss was fully allocated to goodwill and included in 'exceptional expense' (note 8).

The pre-tax discount rate applied to cashflow projections is 13.5% (2016: 12.7%) and cashflows beyond the three-year period are extrapolated using a 1.7% (2016: 1.6%) growth rate.

Following the impairment loss recognised, recoverable amount was equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to further impairment. The following sensitivity analysis shows the impact on headroom of different pre-tax discount rates and EBITDA delivery in the cashflow projections used in the impairment review models.

Pre-tax discount rate	**12.5%**	**13.0%**	**13.5%**	**14.0%**	**14.5%**
EBITDA delivery	**€000**	**€000**	**€000**	**€000**	**€000**
-10%	(1.5)	(4.5)	(7.1)	(9.8)	(12.1)
-5%	2.4	(0.8)	(3.6)	(6.4)	(8.9)
0%	6.2	2.9	–	(3.0)	(5.6)
5%	10.1	6.6	3.6	0.4	(2.3)
10%	14.0	10.3	7.1	3.8	1.0

The impact of a 1 percentage point decrease in the long term growth rate applied in the terminal value calculation would be an impairment of €4.2m.

(iii) Poland Region

The recoverable amount of the Poland Region unit has been determined based on its value-in-use using discounted cashflows based on cashflow projections from the three-year planning process approved by senior management.

The pre-tax discount rate applied to cashflow projections 10.3% (2016: 9.6%) and cashflows beyond the three-year period are extrapolated using a 1.7% (2016: 2.4%) growth rate.

The recoverable amount calculated indicates significant headroom over the carrying value exists. As such, there are no assumptions for which a reasonably possible change will result in an impairment.

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18. Property, plant and equipment

2017	Land and buildings €000	Technical equipment €000	Other equipment €000	Assets under construction €000	Total €000
Cost:					
As at 1 January 2017	34,089	52,575	15,820	1,837	104,321
Additions	501	1,132	514	1,563	3,710
Disposals	–	(942)	(710)	–	(1,652)
Transfers	33	1,948	434	(2,928)	(513)
Foreign currency adjustment	945	764	134	79	1,922
As at 31 December 2017	35,568	55,477	16,192	551	107,788
Depreciation:					
As at 1 January 2017	10,449	27,378	10,789	–	48,616
Depreciation expense	1,055	5,638	3,201	–	9,894
Disposals	–	(384)	(632)	–	(1,016)
Foreign currency adjustment	(264)	(280)	(33)	–	(577)
As at 31 December 2017	11,240	32,352	13,325	–	56,917
Carrying amount: As at 31 December 2017	24,328	23,125	2,867	551	50,871

2016	Land and buildings €000	Technical equipment €000	Other equipment €000	Assets under construction €000	Total €000
Cost:					
As at 1 January 2016	33,037	48,697	15,056	3,297	100,087
Additions	414	320	895	5,544	7,173
Disposals	(8)	(1,496)	(521)	–	(2,025)
Transfers	800	5,402	535	(6,878)	(141)
Foreign currency adjustment	(154)	(348)	(145)	(126)	(773)
As at 31 December 2016	34,089	52,575	15,820	1,837	104,321
Depreciation:					
As at 1 January 2016	9,408	23,338	7,738	–	40,484
Depreciation expense	1,021	5,307	3,411	–	9,739
Disposals	(19)	(1,410)	(419)	–	(1,848)
Foreign currency adjustment	39	143	59	–	241
As at 31 December 2016	10,449	27,378	10,789	–	48,616
Carrying amount: As at 31 December 2016	23,640	25,197	5,031	1,837	55,705

€513,000 of amounts included in transfers in 2017 represented assets which were previously classified as assets under construction. They have subsequently been reclassified as software. In 2016, the amounts in transfers from assets in the course of constriction to software was €141,000.

The net book value of assets held under finance leases amounts to €164,000 (2016: €231,000).

The gross carrying value of fully depreciated property, plant and equipment that are still in use is €26,542,000 (2016: €21,359,000).

19. Inventories

	2017 €000	2016 €000
Raw materials	5,004	5,068
Work in progress	3,324	2,971
Finished goods and merchandise	16,992	17,021
Provision for obsolescence	(2,219)	(3,402)
	23,101	21,658

During the year ended 31 December 2017, inventories with a total value of €1,347,000 (2016: €2,770,000) were written off. This amount does not include the impact to the income statement for provisions made during the year. All write-offs were incurred as part of normal activities.

20. Trade and other receivables

	2017 €000	2016 €000
Trade receivables	159,249	127,710
Allowance for doubtful debts	(5,379)	(4,737)
	153,870	122,973
Other debtors and prepayments	9,292	8,423
	163,162	131,396

The movement on the allowance for doubtful debts is set out below.

	2017 €000	2016 €000
As at start of year	(4,737)	(5,298)
Charge for the year	(963)	(232)
Amounts utilised	494	697
Foreign currency adjustment	(173)	96
As at end of year	(5,379)	(4,737)

Sale of receivables under non-recourse factoring

The Group via Stock Polska Sp. z.o.o. has entered into a non-recourse receivables financing agreement with Coface, supported by Natixis Bank. It may sell up to €33,573,000 (PLN 140,000,000) (at any one time) at face value less certain reserves and fees. As at 31 December 2017 Coface charge interest on the drawn amounts of WIBOR (Warsaw Interbank Offered Rate) 1M + 1.05% and a fee per invoice of 0.19%. The proceeds from the sale can be applied for the general corporate and working capital purposes of the Group. Pursuant to the HSBC Credit Facility, the total amount of receivables subject to a factoring facility may not in aggregate exceed €50,000,000.

In both 2017 and 2016, the factoring facility was not utilised.

Notes to the consolidated financial statements continued

at 31 December 2017

20. Trade and other receivables continued

Sale of receivables under non-recourse factoring continued

Trade receivables are denominated in the following currencies:

	2017 €000	2016 €000
Polish Złoty	119,090	91,272
Euro	19,819	18,628
Czech Koruna	12,129	9,901
Other currencies	2,832	3,172
	153,870	122,973

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

	2017 €000	2016 €000
Overdue 0–30 days	13,055	11,777
Overdue more than 30 days	6,895	1,570
	19,950	13,347

The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used. The Group continually assesses the recoverability of trade receivables and the level of provisioning required.

Information about major customers:

Annual revenue from one customer in the Poland segment totalled more than 10% of total Group revenue. In 2017 revenue from this customer amounted to €48,108,000 (2016: €35,916,000).

21. Other assets

	Current 2017 €000	Non-current 2017 €000	Current 2016 €000	Non-current 2016 €000
Customs deposits	–	4,770	1,500	4,533

Customs guarantees are lodged with local Customs and Excise authorities and represent assets belonging to the Group. The deposits are to provide comfort to local Customs and Excise authorities that liabilities will be settled. These are cash deposits and are recognised as a receivable that does not meet the definition of cash and cash equivalents.

22. Investment in equity-accounted investees

On 17 July 2017, Stock Spirits entered into an agreement with Quintessential Brands Group for the acquisition of a 25% equity interest in Quintessential Brands Ireland Whiskey Limited for a cash consideration of up to €18,333,000. Consideration comprised of an initial cash payment of €15,000,000 for 25% of the equity interest, and a contingent consideration of up to €3,333,000 which is payable over a five year period, subject to performance conditions.

The fair value of the contingent cash consideration at the acquisition date has been calculated as €2,491,000. See note 24 (other financial liabilities) and note 30 (risk management).

Based on the fair value of assets and liabilities of the investee at the acquisition date, goodwill of €425,000 was recognised.

The Group's share of the loss of Quintessential Brands Ireland Whiskey Limited for the period is €331,000.

The principal place of business of Quintessential Brands Ireland Whiskey Limited is Dublin, Ireland.

The following table summarises the financial information of Quintessential Brands Ireland Whiskey Limited as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies, as at 31 December 2017. The table also reconciles the summarised financial information to the carrying value of the Group's interest in Quintessential Brands Ireland Whiskey Limited, and the results for the period from acquisition of the investment to 31 December 2017.

	2017 €000
Net assets	
Non-current assets	58,356
Current assets and liabilities	9,166
Non-current liabilities	(583)
Net assets (100%)	66,939
Group's share of net assets (25%)	16,735
Goodwill	425
Carrying value of investment in associate at 31 December 2017	17,160
Revenue (100%)	1,321
Loss from continuing operations (100%)	(1,324)
Total comprehensive income (100%)	(1,324)
Group's share of loss from continuing operations (25%)	(331)
Group's share of total comprehensive income (25%)	(331)
Carrying amounts of investment at acquisition date	17,491
Share of loss from continuing operations (25%)	(331)
Carrying amounts of interest in associate at 31 December 2017	17,160

Notes to the consolidated financial statements continued

at 31 December 2017

23. Financial liabilities

	Current 2017 €000	Non-current 2017 €000	Current 2016 €000	Non-current 2016 €000
Unsecured – at amortised cost				
HSBC loan[1]	–	114,191	–	134,319
Cost of arranging bank loan[2]	(53)	(143)	(52)	(151)
Interest payable	101	–	85	–
Total	48	114,048	33	134,168

1. The Group has a facilities agreement for a €200,000,000 revolving credit facility (RCF) with a banking club consisting of five banks including HSBC who also act as the Agent. The term of the RCF facility is five years. The facility is fully flexible and allows the Group to benefit from being able to increase or reduce borrowings as required, and utilise balance sheet cash more effectively. Each of the drawings under the RCF are drawn down in the local currencies. The loans bear variable rates of interest which are linked to the inter-bank offer rates of the country of drawing, WIBOR, PRIBOR or EURIBOR as appropriate. Please refer to the table below for the balances drawn down. Each of the loans have a variable margin element to the interest charge. The margin is linked to a ratchet mechanism, subject to a minimum margin, as the Group's leverage covenant decreases.

   As well as RCF drawings of €114,191,000 as at 31 December 2017 (2016: €134,319,000), an additional €14,250,000 (2016: €14,751,000) of the RCF was utilised for customs guarantees in Italy and Germany. These custom guarantees reduce the available RCF but do not constitute a balance sheet liability.

   On 21 July 2017, Stock Spirits Group extended its revolving credit facilities with its banking club by a further 2 years to November 2022. The key facility terms remain unchanged.
2. Costs of arranging the Group banking facilities are deducted from the original measurement of the loan facilities and amortised into finance costs throughout the period using the effective interest method. The arrangement fees under the facility totalled €300,000, and these are being amortised into finance costs throughout the initial period of the new facility. Fees for the extension of the facility until 2022 are being amortised over the loan period. The balance of the fees remaining is €196,000.

The following table shows the distribution of loan principal balances as at 31 December 2017 and 31 December 2016 in Euros.

	Total RCF 2017 €000	Total RCF 2016 €000
Stock Polska Sp. z.o.o.	34,293	32,346
Stock Plžen-Božkov s.r.o.	50,998	67,223
Stock S.r.l.	9,000	28,500
Stock Slovensko s.r.o.	900	2,500
Baltic Distillery GmbH	4,000	3,750
Stock Spirits Limited	15,000	–
	114,191	134,319

No security is provided to the lenders under the RCF facility as at 31 December 2017 (2016: nil security provided).

Reconciliation of movement of financial liabilities

	€000
As at 1 January 2017	134,201
Repayments of loans	(20,128)
Interest charge	3,169
Interest paid	(3,147)
Foreign exchange on restatement of opening balances	1
As at 31 December 2017	114.096

24. Other financial liabilities

	Current 2017 €000	Non-current 2017 €000	Current 2016 €000	Non-current 2016 €000
Finance leases	83	109	174	113
Contingent consideration	–	2,491	–	–
	83	2,600	174	113

Contingent consideration: on the purchase of the 25% equity interest in Quintessential Brands Ireland Whiskey Limited (see note 22), the fair value of contingent consideration has been estimated at €2,491,000; this value is determined to be materially consistent at the reporting date, and therefore no adjustment have been recorded for the period from acquisition to 31 December 2017.

25. Provisions

	(i) Employee benefits and pensions €000	(ii) Employee severance indemnity €000	(iii) Interest and penalties on open tax enquires €000	(iv) Legal and contract related provisions €000	(v) Other provisions €000	Total €000
As at 1 January 2017	535	219	–	306	420	1,480
Arising during the year	68	239	631	111	38	1,087
(Utilised)/released	(55)	(305)	–	–	(8)	(368)
Movement in provision following revaluation	28	–	–	–	–	28
Net foreign currency exchange differences	23	–	–	–	4	27
As at 31 December 2017	599	153	631	417	454	2,254
– Current	179	–	631	296	97	1,203
– Non-current	420	153	–	121	357	1,051

Notes to the consolidated financial statements continued

at 31 December 2017

25. Provisions continued

(i) Employee benefits and pensions:

The provision for employee benefits represents expenses recognised in relation to a long-term incentive plan (LTIP) operated by the Group, and Czech and Polish pension commitments for retirement benefits.

The long-term incentive plan which existed prior to admission was amended so that 50%-70% of accrued awards crystallised upon admission, being paid out in cash. All remaining awards became exercisable in October 2014. At the company's discretion these options can be satisfied in cash and consequently these have been accounted for as long-term employee benefits under IFRS 2 Share Based Payments.

During 2017 no LTIP options were exercised (2016: 172,399 options exercised).

(ii) Employee severance indemnity:

The Group operates an employee severance indemnity, mandatory for Italian companies, for qualifying employees of its Italian subsidiary. Under IAS 19 (Revised), this represents an unfunded defined benefit plan and is based on the working life of employees and on the remuneration earned by an employee over the course of a pre-determined term of service.

The most recent actuarial valuations of the present value of the severance indemnity obligation were carried out at 31 December 2017 by an actuary.

The present value of the severance indemnity obligation, and the related current service cost and past service cost, were measured using the projected unit credit method. The principal assumptions used for the purposes of the actuarial valuations were as follows: discount rate 1.92% p.a. (2016: 2.33% p.a.), inflation 2.00% p.a. (2016: 2.00% p.a.), revaluation rate 75% of inflation rate + 1.5 points = 3.00% p.a. (2016: 1.80% p.a.).

The amounts recognised in the consolidated statement of financial position are as follows:

	2017 €000	2016 €000
Defined benefit obligation 1 January	219	203
Interest cost	1	2
Benefits paid	(86)	(10)
Defined benefit obligation	134	195
Other	19	24
Non-current provision	153	219

(iii) Interest and penalties on open tax enquiries: as stated in note 13, a provision has been made for the penalties and late interest payment for the 2011 tax assessment in the Czech Republic. The Company will continue to defend the assessment through the appeals process available

(iv) Legal and contract related provisions: relate to exposures for potential contractual penalties arising in the normal course of business. Provisions are recognised where a legal or constructive obligation exists at the year end date and where a reliable estimate can be made of the likely outcome. While these provisions are reviewed on a regular basis and adjusted for management's best current estimates, the judgemental nature of these items means that future amounts settled may differ from those provided

(v) Other provisions: relate primarily to sales agent indemnity fees and other various miscellaneous provisions. Provisions are recognised where a legal or constructive obligation exists at the year end date and where a reliable estimate can be made of the likely outcome. While these provisions are reviewed on a regular basis and adjusted for management's best current estimates, the judgemental nature of these items means that future amounts settled may differ from those provided.

26. Indirect tax payable

	2017 €000	2016 €000
Excise taxes	65,931	58,856
VAT	13,325	15,344
	79,256	74,200

27. Trade and other payables

	2017 €000	2016 €000
Trade payables	33,146	20,582
Accruals	37,398	28,801
Social security and staff welfare costs	1,839	2,002
Other payables	1,948	2,016
	74,331	53,401
– Current	73,915	53,352
– Non-current	416	49

28. Authorised and issued share capital and reserves

Share capital of Stock Spirits Group PLC

Number of shares	2017	2016
Ordinary shares of £0.10 each, issued and fully paid	200,000,000	200,000,000

The movements in called up share capital and share premium accounts are set out below:

	Number of ordinary shares	Ordinary shares €000	Share premium €000
At 31 December 2016 and 31 December 2017	200,000,000	23,625	183,541

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at shareholders' meetings.

Merger reserve

On 21 October 2013 129,064,871 shares were issued in exchange for shares in OCM Luxembourg Spirits Holdings S.à.r.l. The net book value of OCM Luxembourg Spirits Holdings S.à.r.l. at the time of exchange was €114,279,000, which resulted in €99,033,000 being credited to the merger reserve in line with merger relief provided by Section 612 of the Company Act 2006.

Consolidation reserve

As the Group was formed through a reorganisation in which Stock Spirits Group PLC became a new parent entity of the Group, the 2013 consolidated financial statements were prepared as a continuation of the existing Group using the pooling of interests method (or merger accounting). Merger accounting principles for this combination gave rise to a consolidation reserve of €5,130,000.

Notes to the consolidated financial statements continued

at 31 December 2017

28. Authorised and issued share capital and reserves continued

Other reserve

Other reserves includes the credit to equity for equity-settled share-based payments. Please see note 34 for full details. The charge for the period ending 31 December 2017 was €1,942,000 (2016: €81,000). On the exercise of JOE Share Subscription Agreements, and Top-Up options in the year €166,000 was credited to the reserve for share-based payments with the charge to the own share reserve.

Own share reserve

The own share reserve comprises the cost of the Company's shares held by the Group. The Employment Benefit Trust (EBT) holds these shares on behalf of the employees until the options are exercised. At 31 December 2017 the Group 822,246 of the Company's shares (2016: 2,638,440).

The EBT holds the shares at cost.

The number of shares held by the EBT has reduced year on year following the exercise of a number of Joint Owned Equity Share Subscription Agreements, Top-Up and LTIP options. Refer to note 34 for further details.

Jointly owned equity scheme

The business entered into a number of Jointly Owned Equity (JOE) Share Subscription Agreements with key members of Group staff. Refer to note 34. The last of these agreements was exercised in 2017.

Foreign currency translation reserve

	2017 €000	2016 €000
Foreign currency translation reserve	15,829	7,519

Exchange differences relating to the translation from the functional currencies of the Group's foreign subsidiaries into Euros are accounted for by entries made directly to the foreign currency translation reserve.

29. Distributions made and proposed

	2017 €000	2016 €000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2017: 2.38 cents per share (2016: 2.27 cents per share)	4,760	4,537
Special dividend for 2017: nil (2016: 11.90 cents per share)	–	23,781
Proposed dividends on ordinary shares:		
Final cash dividend for 2017: 5.72 cents per share (2016: 5.45 cents per share)	11,437	10,883

Dividend payment included in the consolidated cashflow statement of €15,730,000 (2016: €37,427,000) reflects the movement in exchange rates from the date of declaration to the date of payment and include the payment of the final dividend from the prior year.

The proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December 2017.

Stock Spirits PLC will receive dividends from its subsidiaries before the payment is due, thus ensuring that there will be sufficient distributable reserves capacity.

30. Risk management

The Group is exposed to a variety of risks such as market risk, credit risk and liquidity risk. The Group's principal financial liabilities are loans and borrowings. The Group also has trade and other receivables, trade and other payables, indirect tax payables and cash and cash equivalents that arise directly from operations. This note provides further detail on financial risk management and includes quantitative information on the specific risks.

The Group's senior management oversees the management of these risks, and agrees the policies for managing each of these risks. These are summarised below.

Market risk

Market risk is the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in market prices. The Group's exposure is primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Financial instruments affected by market risk include loans and borrowings.

All Group borrowings are subject to the variable rates based on WIBOR, PRIBOR and EURIBOR, as stated per the HSBC loan facility agreement.

The Group has not entered into any derivatives to hedge foreign currency risk in relation to the HSBC facility. Each facility and the resulting cash outflows are denominated in local currency. The cashflows are therefore economically hedged within each market. Management have considered the foreign currency risk exposure and consider the risk to be adequately mitigated.

Sensitivity analysis

The Company recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might affect the amounts recorded in its equity and its profit and loss for the period. Therefore the Company has assessed:

- What would be reasonably possible changes in the risk variables at the end of the reporting period
- The effects on profit or loss and equity if such changes in the risk variables were to occur.

Notes to the consolidated financial statements continued

at 31 December 2017

30. Risk management continued

Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the Group's floating rate loans and borrowings at which at the end of 31 December 2017 are not hedged. With all other variables being constant the Group's profit before tax is affected through the impact on floating rate borrowings as follows.

	Increase in basis points	Effect on profit/(loss) before tax €000
31 December 2017		
Euro	-50/+50	145/(145)
Polish Złoty	-50/+50	171/(171)
Czech Koruna	-50/+50	255/(255)
31 December 2016		
Euro	-50/+50	174/(174)
Polish Złoty	-50/+50	162/(162)
Czech Koruna	-50/+50	336/(336)

The assigned movement in basis points for interest rate sensitivity analysis is based upon the currently observable market environment.

The Group cash balances are held in current bank financial statements and earn immaterial levels of interest. Management have concluded that any changes in the EURIBOR rates will have an immaterial impact on interest income earned on the Group cash balances. No interest rate sensitivity has been included in relation to the Group's cash balances.

Foreign currency risk

The following tables consider the impact on profit before tax arising from the conversion of non-domestic currency trade debtor, trade creditor and cash balances in our Polish, Czech and UK Group entities should there be a change in the spot €/CZK, €/PLN and €/GBP exchange rates of +/-5%. These currencies are considered as these are the most significant non-Euro denominations of the Group.

	Change in EUR vs. PLN/CZK/GBP rate	2017 €000	2016 €000
EUR – PLN	+ 5%	34	24
	- 5%	(38)	(26)
EUR – CZK	+ 5%	115	75
	- 5%	(127)	(83)
EUR – GBP	+ 5%	(708)	(12)
	- 5%	783	13

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored and credit insurance is used where applicable. The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used. The Group continually assesses the recoverability of trade receivables and the level of provisioning required. Refer to note 20 for details of the age of accounts receivable which are past due.

The carrying amount of accounts receivable is reduced by an allowance account and the amount of loss is recognised within the consolidated income statement. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement. Refer to note 20 for details the movement in allowance for doubtful debts. Management does not believe that the Group is subject to any significant credit risk in view of the Group's large and diversified client base which is located in several jurisdictions.

Other receivables and financial assets

Other receivables and financial assets consist largely of VAT and excise duty receivables and customs guarantees. As the counterparties are Revenue and Customs Authorities in the various jurisdictions in which the Group operates, credit risk is considered to be minimal and therefore no further analysis has been performed.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. The Group deposits cash with reputable financial institutions, from which management believes loss to be remote. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2017 and 31 December 2016 is the carrying amounts as illustrated in notes 23 and 32. The Group's maximum exposure for financial guarantees are noted in either note 23 or in the liquidity table below, respectively.

Notes to the consolidated financial statements continued

at 31 December 2017

30. Risk management continued

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cashflows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Group's undiscounted financial liabilities at 31 December 2017 and 2016.

As at 31 December 2017

Financial liabilities	Less than one year €000	Between two and five years €000	Total €000
Interest bearing loans and borrowings (note 23)	–	114,191	114,191
Interest payable on interest bearing loans	1,918	9,360	11,278
Other financial liabilities (note 24)	83	109	192
Trade and other payables (note 27)	72,285	–	72,285
Contingent consideration (note 24)	–	2,491	2,491
	74,286	126,151	200,437

The RCF agreement which was signed in 2015 was for a term of five years. The facility is fully flexible, with the amount borrowed being reset each month. On 21 July 2017, Stock Spirits Group extended its revolving credit facilities with its banking club by a further two years to November 2022. Interest payable on interest bearing loans for the term of the facility has been estimated using amounts drawn at 31 December 2017, and the interest rates and margins applicable at this time.

The Group has €71,599,000 of undrawn facilities available to it under the terms of the RCF. Refer to note 23.

The contingent consideration's fair value measurement (Level 3) has been performed using a discounted cashflow based on a series of unobservable inputs. Management have used all available information about likely future trading of Quintessential Brands Ireland Whiskey Limited to determine to determine the fair value of the contingent consideration.

As at 31 December 2016

Financial liabilities	Less than one year €000	Between two and five years €000	Total €000
Interest bearing loans and borrowings (note 23)	–	134,319	134,319
Interest payable on interest bearing loans	1,887	5,433	7,320
Other financial liabilities (note 24)	174	113	287
Trade and other payables (note 27)	51,259	–	51,259
	53,320	139,865	193,185

Capital risk management

The primary objective of the Group's capital management is to ensure that it has the capital required to operate and grow the business at a reasonable cost of capital without incurring undue financial risks. The Board periodically reviews its capital structure to ensure it meets changing business needs.

In addition, the Directors consider the management of debt to be an important element in controlling the capital structure of the Group. The Group may carry significant levels of long term structural and subordinated debt to fund investments and acquisitions and has arranged debt facilities to allow for fluctuations in working capital requirements. There have been no changes to the capital requirements in the current period.

Management manage capital on an ongoing basis to ensure that covenants requirements on the third party debt are met.

The Group regards its total capital as follows:

	2017 €000	2016 €000
Net debt	53,143	59,735
Equity attributable to the owners of the Company	354,309	348,579
	407,452	408,314

Net debt is calculated as follows:

	2017 €000	2016 €000
Cash and cash equivalents (note 32)	61,341	74,956
Floating rate loans and borrowings (note 23)	(114,292)	(134,404)
Finance leases (note 24)	(192)	(287)
Net debt	(53,143)	(59,735)

	2017 €000	2016 €000
Adjusted EBITDA (note 7)	56,324	51,360
Net debt/Adjusted EBITDA (Leverage)	0.94	1.16

Notes to the consolidated financial statements continued

at 31 December 2017

30. Risk management continued

Fair value

Management assessed that cash and cash equivalents, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

As per the table below the carrying amounts of the Group's financial instruments are considered to be a reasonable approximation of their fair values.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts which approximates fair values of all of the Group's financial instruments that are carried in the financial statements.

As at 31 December 2017

	Loans and receivables €000	Amortised cost €000	Total book value €000	Fair value €000
Financial assets:				
Cash	61,341	–	61,341	61,341
Trade and other receivables	160,224	–	160,224	160,224
Customs deposits	4,770	–	4,770	4,770
Financial liabilities:				
Interest-bearing loans and borrowings:				
(i) Finance lease obligations	–	(192)	(192)	(192)
(ii) Floating rate borrowings – banks	–	(113,995)	(113,995)	(113,995)
Trade and other payables	–	(72,285)	(72,285)	(72,285)
Contingent consideration (note 24)	–	(2,491)	(2,491)	(2,491)

As at 31 December 2016

	Loans and receivables €000	Amortised cost €000	Total book value €000	Fair value €000
Financial assets:				
Cash	74,956	–	74,956	74,956
Trade and other receivables	128,393	–	128,393	128,393
Customs deposits	6,033	–	6,033	6,033
Financial liabilities:				
Interest-bearing loans and borrowings:				
(i) Finance lease obligations	–	(287)	(287)	(287)
(ii) Floating rate borrowings – banks	–	(134,116)	(134,116)	(134,116)
Trade and other payables	–	(51,259)	(51,259)	(51,259)

At 31 December 2017 and 31 December 2016 there were no financial instruments and therefore no analysis using the fair value hierarchy has been performed.

31. Related party transactions

Note 33 below provides details of the Group's structure including information about the subsidiaries of Stock Spirits Group PLC. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. There were no transactions with related parties in the year to 31 December 2016 or 31 December 2017, with the exception of intercompany transactions and compensation of key management personnel.

Compensation of key management personnel

The Group's Directors as shown on page 52 and the Senior Management Team are deemed to be key management personnel. It is the Board and Senior Management Team which have responsibility for planning, directing and controlling the activities of the Group. Total compensation to key management personnel were included in general and administrative and other operational expenses in the consolidated income statement.

	2017 €000	2016 €000
Short-term employee benefits	5,342	4,865
Social security costs	443	609
Post-employment benefits	306	72
Share-based compensation (note 34)	1,845	(1,144)
Termination benefits	730	1,401
	8,666	5,803

There were no material transactions or balances between the Group and its key management personnel or members of their close family. At the end of the period, key management personnel did not owe the Group any amounts.

As at 31 December 2017, no Directors (2016: nil) had any retirement benefits accrued under either money purchase schemes or under defined benefit schemes.

In 2017, one Director (2016: nil) made gains on the exercise of share options.

Other disclosures on Directors' remuneration required by the Companies Act 2006 and those specified for audit by the Directors' Remuneration Report Regulations 2002 are included in the Directors' Remuneration Report.

There were no transactions with Quintessential Brands Ireland Whiskey Limited and its parent subsequent to the purchase of the equity-accounted investment as disclosed in note 22.

Notes to the consolidated financial statements continued

at 31 December 2017

32. Cash and cash equivalents

For the purposes of the cashflow statement, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cashflow statement can be reconciled to the related items in statement of financial position as follows:

	2017 €000	2016 €000
Cash and bank balances	61,341	74,956

Cash and cash equivalents are denominated in the following currencies:

	2017 €000	2016 €000
Sterling	1,445	21,649
Euro	7,883	8,960
Czech Koruna	21,958	21,918
Polish Złoty	24,610	16,578
Other currencies	5,445	5,851
Total	61,341	74,956

33. Group structure and acquisition details

Details of Group undertakings as of 31 December 2017 and 31 December 2016 are as follows:

Group company	Country of incorporation and registered office address	Relation	Proportion of voting rights shares held 31 December 2017	31 December 2016
Stock Spirits (UK) Limited	England[2]	Subsidiary	100%	100%
Stock Plžen-Božkov s.r.o.*	Czech Republic[4]	Subsidiary	100%	100%
Stock S.r.l.*	Italy[6]	Subsidiary	100%	100%
F.lli Galli, Camis & Stock A.G.*	Switzerland[7]	Subsidiary	100%	100%
Stock Polska Sp. z.o.o.*	Poland[3]	Subsidiary	100%	100%
Wodka Polska Sp. z.o.o.*[1]	Poland[3]	Subsidiary	–	100%
Stock International s.r.o*	Czech Republic[4]	Subsidiary	100%	100%
Stock Spirits Group Services AG*	Switzerland[7]	Subsidiary	100%	100%
Stock BH d.o.o.*	Bosnia[5]	Subsidiary	100%	100%
Stock d.o.o.*	Croatia[9]	Subsidiary	100%	100%
Baltic Distillery GmbH*	Germany[10]	Subsidiary	100%	100%
Stock Slovensko s.r.o.*	Slovakia[5]	Subsidiary	100%	100%
Stock Finance (Euro) Limited*	England[2]	Subsidiary	100%	100%
Stock Finance (Złoty) Limited*	England[2]	Subsidiary	100%	100%
Stock Finance (Koruna) Limited*	England[2]	Subsidiary	100%	100%

All shareholdings in subsidiaries are represented by ordinary shares.

* Wholly owned held indirectly through subsidiary undertakings.

1. In connection with an internal corporate reorganisation Wodka Polska Sp. z.o.o was liquidated in April 2017
2. The registered office is Solar House, Mercury Park, Wooburn Green, Buckinghamshire, HP10 0HH, United Kingdom
3. The registered office is ul Spoldzielcza n.6 Lublin 20-402, Poland
4. The registered office is Palirenska 641/2, PSC 32600, Czech Republic
5. The registered office is Galvaniho 7/A, 821 04 Bratislava, Slovakia
6. The registered office is Tucidide 56 bis, 20 134 Milan, Italy
7. The registered office is Domanda Verurraltungs GmbH, Baarerstrasse 43, 6302 Zug, Switzerland
8. The registered office is Džemala Bijedića 185, Ilidža, 71000 Sarajevo, Bosnia Herzegovina
9. The registered office is Josipa Lončara 3, 10000 Zagreb, Croatia
10. The registered office is Baltic Distillery GmbH, Gartenweg 1, 18334 Dettmannsdorf, Germany

Notes to the consolidated financial statements continued

at 31 December 2017

34. Share-based compensation

Elian Employee Benefit Trustee Limited acts in its capacity as trustee of the Stock Spirits Employee Benefit Trust (EBT).

Jointly owned equity scheme

The EBT holds the Jointly Owned Equity (JOE) scheme shares on behalf of the employees.

The movements in the awards outstanding during the year were as follows:

	No. of awards
At 1 January 2017	715,449
Exercised	(715,449)
Outstanding at 31 December 2017	–
Exercisable at 31 December 2017	–

Share options issued at IPO

The EBT held the shares for the vested options on behalf of the employees. Post IPO awards were valued by reference to the share price at admission to the London Stock Exchange.

The movements in the awards outstanding during the year were as follows:

	No. of awards
At 1 January 2017	1,881,499
Exercised	(1,122,998)
Outstanding at 31 December 2017	758,501
Exercisable at 31 December 2017	758,501

Performance share plan (PSP)

Participation in the PSP is restricted to the Senior Management Team. Awards made under the PSP normally vest provided the participant remains in the Group's employment during the performance period and financial targets are met at the end of the performance period.

In the 2017 plan, financial targets were based 50% on EBITDA targets and 50% on cashflow conversion for senior management excluding the Executive Directors. For Executive Directors the performance conditions were 50% EPS targets and 50% cashflow conversion targets.

In the 2015 plan, financial targets were based on total shareholder return (TSR), versus comparator companies, and earnings per share (EPS). In the 2014 plan, financial targets were based on TSR only.

The performance period for all PSP schemes is three financial years beginning with the financial year in which the award is granted. The vesting period for grants made under this scheme is three years with an exercise period of seven years. The exercise price of PSP options is €nil.

Further information on the PSP is set out in the Directors' Remuneration Report on pages 71 to 84.

Awards were granted over 1,611,583 shares on 15 March 2017 (2016: nil shares). These new options were valued using the Black-Scholes model. Dividends accrue to the participants prior to option exercise.

The compensation expense recognised in relation to these awards is based on the fair value of the awards at grant date.

The fair value of nil cost options subject to the TSR condition is determined using a Monte-Carlo option pricing model. The fair value of all other options is calculated using the share price at the date of grant, adjusted for dividends not received during the vesting period.

The principal assumptions made in measuring the fair value of PSP awards were as follows:

	2017 PSP	2015 PSP	2014 PSP
Principal assumptions			
Fair value at grant date	187 pence	41.0 pence	192.5 pence
Share price on grant date	187 pence	196.5 pence	292.3 pence
Expected life of the awards	3 years	3 years	3 years
Risk free rate interest rate	0%	0.74%	1.12%
Dividend yield on the Company's shares	n/a	1.52%	1.06%
Volatility of the Company's shares	n/a	23.9%	21.6%
TSR correlation (SSG PLC vs comparators)	n/a	20.7%	25.0%

Due to the limited historic data available for the Group, expected volatility was based on the historic volatilities of the companies in the TSR comparator group.

The movements in the awards outstanding during the year were as follows:

	2017 No.
At 1 January	1,975,862
Granted	1,611,583
Forfeited	(634,592)
Lapsed	(337,990)
Outstanding at 31 December	2,614,863
Exercisable at 31 December	–

Included within the terms of the grant the employee agrees to receive their options net of a deduction to allow the Group to settle any personal income taxes on behalf of the recipient. Consequently there is no liability to the Group on exercise of the options.

Notes to the consolidated financial statements continued

at 31 December 2017

34. Share-based compensation continued

Restricted stock options (RSU)

On 15 March 2017, awards were granted over 534,419 shares (2016: nil shares).

Participation in the 2017 RSU is restricted to the Senior Management Team, who were previously included in the 2014 or 2015 PSP schemes and still employed by the Group in March 2017. There are no performance conditions. Vesting is dependent upon continued employment as at the date of the announcement of the 2018 results. No dividends accrue to the participants prior to exercise.

The exercise price of RSU options is £nil.

The compensation expense recognised in relation to these awards is based on the fair value of the awards at grant date. The fair value of nil cost options is determined using a Black-Scholes model. The principal assumptions made in measuring the fair value of RSU awards were as follows:

	2017 RSU awards
Principal assumptions	
Fair value at grant date	187 pence
Share price on grant date	187 pence
Expected life of the awards	1.72 years
Risk free rate interest rate	0%
Dividend yield on the Company's shares	n/a
Volatility of the Company's shares	n/a

The movements in the awards outstanding during the year were as follows:

	2017 No.
At 1 January	–
Granted	534,419
Lapsed	(54,954)
Outstanding at 31 December	479,465
Exercisable at 31 December	–

Special option award

Managing Director of Polish business

In 2016, 1,000,000 awards were issued to the Managing Director of the Polish business. The awards will vest provided that this participant remains in the Group's employment during the performance period and various financial targets are met. The performance period is the period of three financial years beginning with the financial year in which the award is granted. All performance conditions over the three financial years must be met for any awards to vest.

The vesting period for grants made under this scheme is five years with an exercise period of seven years. The exercise price of these awards is £nil.

The compensation expense recognised in relation to these awards is based on the fair value of the awards at grant date. The fair value has been calculated using the share price of 156.0 pence at the date of grant, and has been assumed to be the same as the share price at the date of grant.

The movement in awards granted to employees of Stock Spirits Group PLC under this scheme during the year are as follows:

	2017 No.
At 1 January	1,000,000
Outstanding at 31 December	1,000,000
Exercisable at 31 December	–

Annual Bonus Plan

In respect of 2017 an annual bonus is being paid to Mirek Stachowicz of 32.1% of salary. 25% of the bonus earned will be deferred into shares. See page 67 in the Directors' Remuneration Report. No deferred shares were granted under the Group Annual Bonus Plan for 2016.

Share-based compensation expense

The expense recognised in other operational expenses for employee services received during the year is shown in the following table.

	2017 €000	2016 €000
Total share-based compensation expense recognised in Statement of Changes in Equity	1,942	81
Total cash-settled share-based compensation awards recognised in liabilities	342	(1,272)
Share-based compensation (note 10)	2,284	(1,191)

The total value of cash-settled share based compensation awards recognised in liabilities at 31 December 2017 is €342,000 (2016: €nil). These represent employer's social security on share options and accrued dividend equivalents. In previous periods, the Group has accrued tax liabilities in respect of personal tax due on share-based payments. These amounts were released in 2016 as the employees have settled, or will settle, all such liabilities on exercise.

35. Operating lease commitments

The Group has entered into commercial leases on certain items of plant and machinery and buildings. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these contracts.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2017 €000	2016 €000
Within one year	4,977	2,810
After one year but not more than five years	12,778	10,270
More than five years	4,076	5,514
	21,831	18,594

The total charge under operating leases as of 31 December 2017 was €4,356,000 (2016: €2,444,000).

36. Commitments for capital expenditure

Commitments for the acquisition of property, plant and equipment as of 31 December 2017 are €511,000 (2016: €429,000).

37. Events after the balance sheet date

There were no events after the balance sheet date which require adjustment to or disclosure in these financial statements.

Company statement of financial position

at 31 December 2017

	Notes	31 December 2017 £000	31 December 2016 £000
Non-current assets			
Investments	3	256,301	254,428
Other receivables	4	66	335
		256,367	254,763
Current assets			
Other receivables and prepayments	5	15,414	13,330
Cash and cash equivalents	6	656	16,456
		16,070	29,786
Total assets		272,437	284,549
Non-current liabilities			
Trade and other payables	8	130	7
Current liabilities			
Trade and other payables	7	2,006	2,402
Total liabilities		2,136	2,409
Net assets		270,301	282,140
Capital and reserves			
Issued share capital	9	20,000	20,000
Share premium	9	155,428	155,428
Own share reserve	9	(272)	(210)
Merger reserve	9	83,837	83,837
Share-based compensation reserve	12	9,021	7,292
Retained earnings		2,287	15,793
		270,301	282,140

Notes 1 to 14 are an integral part of the financial statements.

The standalone financial statements of Stock Spirits Group PLC, registered number 08687223, on pages 160 to 175, were approved by the Board of Directors and authorised for issue on 7 March 2018 and were signed on behalf by:

Mirek Stachowicz
Chief Executive Officer
7 March 2018

Paul Bal
Chief Financial Officer
7 March 2018

Company statement of cashflows

for the year ended 31 December 2017

	Notes	For the year ended 31 December 2017 £000	For the year ended 31 December 2016 £000
Operating activities			
Profit for the year		169	50,482
Adjustments to reconcile profit to net cashflows:			
Other financial income		(334)	(211)
Interest expense		238	167
Share-based compensation	12	568	20
		641	50,458
Working capital adjustments			
Increase in trade receivables and other assets		(2,137)	(10,408)
Decrease in trade payables and other liabilities		(352)	(377)
		(2,489)	(10,785)
Net cashflows from operating activities		(1,848)	39,673
Investing activities			
Interest received		22	50
Net cashflow from investing activities		22	50
Financing activities			
Interest paid		(238)	(167)
Dividends paid to equity holders		(13,634)	(30,992)
Purchase of own shares		(102)	–
Net cashflow from financing activities		(13,974)	(31,159)
Net (decrease)/increase in cash and cash equivalents		(15,800)	8,564
Cash and cash equivalents at the start of the year		16,456	7,892
Cash and cash equivalents at the end of the year	6	656	16,456

Company statement of changes in equity

at 31 December 2017

	Issued capital £000	Share premium £000	Merger reserve £000	Share-based compensation reserve £000	Own share reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2016	20,000	155,428	83,837	7,272	(451)	(3,737)	262,349
Profit for the year	–	–	–	–	–	50,482	50,482
Total comprehensive income	–	–	–	–	–	50,482	50,482
Share-based compensation charge (note 12)	–	–	–	20	–	–	20
Own shares utilised for incentive schemes (note 9)	–	–	–	–	241	40	281
Dividends (note 10)	–	–	–	–	–	(30,992)	(30,992)
Balance at 31 December 2016	20,000	155,428	83,837	7,292	(210)	15,793	282,140
Profit for the year	–	–	–	–	–	169	169
Total comprehensive income						169	169
Share-based compensation charge (note 12)	–	–	–	1,729	–	–	1,729
Own shares acquired for incentive schemes (note 9)	–	–	–	–	(103)	–	(103)
Own shares utilised for incentive schemes (note 9)	–	–	–	–	41	(41)	–
Dividends (note 10)	–	–	–		–	(13,634)	(13,634)
Balance at 31 December 2017	20,000	155,428	83,837	9,021	(272)	2,287	270,301

Notes to the Parent Company financial statements

at 31 December 2017

1. General information

These separate financial statements were approved and authorised for issue by the Board of Directors of Stock Spirits Group PLC (the Company) on 7 March 2018.

The Company's registered office is at Solar House, Mercury Park, Wooburn Green, Buckinghamshire, HP10 0HH, United Kingdom.

2. Accounting policies

Basis of preparation

These separate financial statements of the Company are presented as required by the Companies Act 2006 (the Act). As permitted by the Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

International Financial Reporting Standards are issued by the International Accounting Standard Board (IASB).

The financial statements have been prepared on a going concern basis as the Directors believe there are no material uncertainties that lead to significant doubt that the entity can continue as a going concern for a period of at least 12 months from the date of approval of the financial statements.

The financial statements are presented in Sterling (£), rounded to the nearest thousand (£000) unless otherwise stated. They have been prepared under the historical cost convention.

These financial statements have been prepared for the year ended 31 December 2017.

Exemptions

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the Company alone. The profit for the year has been disclosed in the statement of changes in equity.

New/Revised standards and interpretations adopted in 2017

The following amendments to existing standards and interpretations were effective for the year, but either they were not applicable to or did not have a material impact on the Company:

- Amendments to IAS 7: IAS 7 Disclosure initiative
- Amendments to IAS 12: IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Minor amendments to IFRS 12.

Notes to the Parent Company financial statements continued

at 31 December 2017

2. Accounting policies continued

New/Revised standards and interpretations not applied

The following standards and interpretations in issue are not yet effective for the Company and have not been adopted by the Company:

	Effective dates[1]
Annual Improvements to IFRS Standards 2014-2016 Cycle – minor amendments to IFRS 1 and IAS 28	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 15: Revenue from Contracts with Customers	1 January 2018
Clarification to IFRS 15: Revenue from Contracts with Customers	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRS 16: Leases	1 January 2019

The Directors do not expect the adoption of these standards and interpretations to have a material impact on the Company financial statements in the period of initial application.

The Directors have completed an assessment of the potential impact of IFRS 9, and don't believe that it will have a material impact on the results of the Company. Due to the nature of the Company's operations it will not be impacted by IFRS 15 or IFRS 16. The Company will continue to monitor any potential impact as the new standards become more imminent.

1. The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the Company prepares its financial statements in accordance with IFRS as adopted by the European Union (EU), the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Company's discretion to early adopt standards.

Investments

Investments in subsidiary undertakings are valued at cost, less accumulated impairment.

Share-based compensation

Equity-settled transactions

The cost of equity-settled transactions is recognised together with a corresponding increase in other reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of the period and is recognised in general and administrative expenses.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cost based on the original award terms continues to be recognised over the original vesting period and an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification.

The financial effect of awards by the Company of options over its equity shares to employees of subsidiary undertakings is recognised by the parent company, in its individual financial statements, as an increase in the costs of investments in its subsidiaries, with the corresponding credit being recognised directly in equity as a credit to the share-based payments reserve equivalent to the IFRS 2 cost.

Repurchase and reissue of ordinary shares (own shares)

When shares recognised in equity are repurchased the amount of consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as own shares and are presented in the own share reserve. When own shares are sold or re-issued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within retained earnings.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise Other receivables and Cash and cash equivalents in the balance sheet.

Other receivables

Other receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost, using the effective interest rate method.

Cash dividends to equity holders

The Company recognises a liability to make cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws in the United Kingdom, an interim distribution is authorised by the Board, whilst a final distribution is authorised when it is approved by the shareholders.

Notes to the Parent Company financial statements continued

at 31 December 2017

3. Investments

	2017 £000
Carrying value at 1 January 2017	254,428
Increase in investments from share based payments	1,873
Carrying value at 31 December 2017	256,301

See note 33 to the consolidated financial statements.

4. Other receivables due in more than 1 year

	2017 £000	2016 £000
Amounts owed by subsidiary undertakings	–	292
Cost of arranging bank loans > 1 year	66	43
	66	335

5. Other receivables and prepayments

	2017 £000	2016 £000
Amounts owed by subsidiary undertakings	15,295	12,551
Other debtors and prepayments	104	764
Cost of arranging bank loans < 1 year	15	15
	15,414	13,330

No security has been granted over other receivables.

6. Cash and cash equivalents

	2017 £000	2016 £000
Cash and bank balances	656	16,456

7. Trade and other payables

	2017 £000	2016 £000
Trade payables	143	114
Accruals	1,285	1,359
VAT and social security	346	507
Amounts due to subsidiary undertakings	7	10
Other payables	225	412
	2,006	2,402

Other payables includes £225,000 (2016: £322,000) which represents Employer's social security costs in relation to share-based compensation.

8. Trade and other payables: amounts falling due after more than one year

	2017 £000	2016 £000
Other payables	130	7

Other payables falling due after more than one year represents social security costs of £130,000 (2016: £7,000) in relation to the Share Plans.

9. Authorised and issued share capital and reserves

The movements in called up share capital and share premium accounts are set out below:

	No. of ordinary shares	Ordinary shares £	Share premium £
At 31 December 2017 and 31 December 2016	200,000,000	20,000,000	155,428,080

Merger reserve

On 21 October 2013 129,064,871 shares were issued in exchange for shares in OCM Luxembourg Spirits Holdings S.à.r.l. The net book value of OCM Luxembourg Spirits Holdings S.à.r.l. at the time of exchange was £96,743,000, which resulted in £83,837,000 being credited to the merger reserve in line with merger relief provided by Section 612 of the Company Act 2006. On 25 October 2013 the Company was admitted to the London Stock Exchange and placed 22,127,660 ordinary £0.10 shares at a premium of £2.25 pence per share. Also included in share premium are capitalised listing costs, which have been incurred directly in connection with the registration and distribution of shares.

Own share reserve

The own share reserve comprises the cost of the Company's shares, which are held by the Employment Benefit Trust (EBT) on behalf of the employees until the options are exercised. At 31 December 2017 the EBT held 822,246 of the Company's shares (2016: 2,638,440).

The EBT holds the shares at cost. The shares held prior to 2015 were acquired for the exercise of Jointly Owned Equity (JOE) Share subscriptions agreements, as well as Top-Up option and Substitute option agreements. Ownership of the JOE Share subscription agreements was shared between the EBT and the Executive Directors, and therefore the total cost to the EBT was minimal. Top-Up and Substitute option agreements were allocated to the EBT on IPO for nil payment. Consequently no own share reserve has been presented prior to 2015. In 2015 shares were acquired at market value for LTIP options, which became exercisable in October 2014.

Share-based compensation reserve

Share-based compensation reserve includes the credit to equity for equity-settled share-based payments. Please see note 12 for full details. The equity charge for the year ending 31 December 2017 was £1,729,000 (2016: £20,000).

Notes to the Parent Company financial statements continued

at 31 December 2017

10. Distributions made and proposed

	2017 £000	2016 £000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2017: 2.38 €cents (2.19 pence) per share (2016: 2.27 €cents (1.91 pence))	4,350	3,809
Special dividend for 2017: nil €cents per share (2016: 11.90 €cents (10 pence))	–	19,986
Proposed dividends on ordinary shares:		
Final cash dividend for 2017: 5.72 €cents (4.85 pence) per share (2016: 5.45 €cents (4.63 pence))	9,697	9,245

11. Risk management

The Company's principal financial liabilities are trade and other payables. The Company's principal financial assets include other debtors, prepayments and cash and cash equivalents that derive directly from its operations.

The Company is exposed to a variety of risks including market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks, and agrees the policies for managing each of these risks. These are summarised below.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Company is exposed to credit risk from its financing activities, including deposits with banks and financial institutions.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy (refer to note 30 of the consolidated financial statements). The Company deposits cash with reputable financial institutions, from which management believes loss to be remote. The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2017 is the carrying amounts as illustrated in note 6.

Other receivables and prepayments

Other receivables and prepayments consist largely of amounts receivable from subsidiaries. As there are deemed to be no going concern issues with any of the individual group entities loss is considered to be remote, and consequently credit risk is minimal and no further analysis has been performed.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying values and fair values of all financial instruments that are carried in the financial statements.

As at 31 December 2017	Loans and receivables £000	Payables £000	Total book value £000	Fair value £000
Cash and cash equivalents (note 6)	656	–	656	656
Other receivables (note 4,5)	15,350	–	15,350	15,350
Trade and other payables (note 7,8)	–	(1,790)	(1,790)	(1,790)

As at 31 December 2016	Loans and receivables £000	Payables £000	Total book value £000	Fair value £000
Cash and cash equivalents (note 6)	16,456	–	16,456	16,456
Other receivables (note 4,5)	12,945	–	12,945	12,945
Trade and other payables (note 7,8)	–	(1,902)	(1,902)	(1,902)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecast and actual cashflows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Company's undiscounted financial liabilities.

As at 31 December 2017

Financial liabilities	On demand £000	Less than one year £000	Between two and five years £000	More than five years £000	Total £000
Trade and other payables (note 7,8)	–	(1,660)	(130)	–	(1,790)

As at 31 December 2016

Financial liabilities	On demand £000	Less than one year £000	Between two and five years £000	More than five years £000	Total £000
Trade and other payables (note 7,8)	–	(1,902)	–	–	(1,902)

Market risk

Market risk is the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in market prices. The Company's exposure is primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Financial instruments affected by market risk are limited to cash and cash equivalents.

Currency risk

The Company engages in foreign currency transactions to a very limited extent. No financial assets or liabilities are held in foreign currencies. Due to the Company's lack of exposure to currency risk no sensitivity analysis has been performed.

Interest rate risk

The Company has no interest bearing financial liabilities, and its interest bearing financial assets consist of only cash and cash equivalents. As such exposure to interest rate risk is limited and no sensitivity analysis has been performed.

Capital risk management

The Board's objectives and policies for the Company are consistent with those of the Group. Full details are provided in note 30 of the consolidated financial statements.

RCF financing facility

On 18 November 2015 the Group signed a facilities agreement for a €200,000,000 revolving credit facility (RCF) with a banking club consisting of five banks including HSBC who also act as the Agent. The term of the RCF facility was originally five years. On 21 July 2017, the Group extended its RCF with its banking club by a further two years to November 2022. The key facility terms remain unchanged. See note 23 of the consolidated financial statements for further details.

Notes to the Parent Company financial statements continued

at 31 December 2017

12. Share-based compensation

Jointly owned equity scheme

The Company and former shareholder (Oaktree) previously entered into a number of Jointly Owned Equity (JOE) Share Subscription Agreements with key members of Group management employees.

Prior to IPO management employees were invited to subscribe for an interest in the growth in value of Class F ordinary shares (F shares) in OCM Luxembourg Spirits Holdings S.à.r.l. jointly with Elian Employee Benefit Trustee Limited acting in its capacity as trustee of the Stock Spirits Employee Benefit Trust (EBT). The EBT holds the JOE scheme shares on behalf of the employees.

At IPO the 200 F Shares issued under the JOE scheme were converted into ordinary £0.10 shares of Stock Spirits Group PLC (PLC), the new ultimate parent company of the Group at the rate of 1 F share to 17,886 PLC ordinary shares. The conversion was accounted for as a replacement under IFRS 2.

The movements in the awards outstanding during the year were as follows:

	2017 No. of awards
At 1 January 2017	715,449
Exercised	(715,449)
Outstanding at 31 December 2017	–
Exercisable at 31 December 2017	–

Share options issued at IPO and other equity-settled share-based compensation

Post IPO awards were valued by reference to the share price at admission to the London Stock Exchange.

The EBT holds the shares for all vested share options. At IPO several members of key management were issued a total of 1,538,124 £0.10 ordinary share options in Stock Spirits Group PLC. The options vested immediately upon grant.

Included within the terms of the grant the employee agrees to receive their options net of a deduction to allow the Company to settle any personal income taxes on behalf of the recipient. Consequently there is no liability to the Company on exercise of the options.

	2017	2016
Exercisable options:		
Number outstanding	758,501	1,881,499
Weighted average exercise price	£nil	£nil
Expiration period	6 years	7 years

The movements in the awards outstanding during the year were as follows:

	2017 No. of awards
At 1 January 2017	1,881,499
Exercised	(1,122,998)
Outstanding at 31 December 2017	758,501
Exercisable at 31 December 2017	758,501

Performance share plan (PSP)

Participation in the PSP is restricted to the Senior Management Team. Awards made under the PSP normally vest provided the participant remains in the Group's employment during the performance period and financial targets are met at the end of the performance period.

In the 2017 plan, financial targets were based 50% on EBITDA targets and 50% on cashflow conversion for senior management excluding the Executive Directors. For Executive Directors the performance conditions were 50% EPS targets and 50% cashflow conversion targets,

In the 2015 plan, financial targets were based on total shareholder return (TSR), versus comparator companies, and earnings per share (EPS). In the 2014 plan, financial targets were based on TSR only.

The performance period for all PSP schemes is three financial years beginning with the financial year in which the award is granted. The vesting period for grants made under this scheme is three years with an exercise period of seven years. The exercise price of PSP options is £nil.

Further information on the PSP is set out in the Directors' Remuneration Report on pages 67 to 84.

Awards were granted over 1,611,583 shares on 15 March 2017 (2016: nil shares). These new options were valued using the Black-Scholes model. Dividends accrue to the participants prior to option exercise.

The compensation expense recognised in relation to these awards is based on the fair value of the awards at grant date.

The fair value of nil cost options subject to the TSR condition is determined using a Monte-Carlo option pricing model. The fair value of all other options is calculated using the share price at the date of grant, adjusted for dividends not received during the vesting period.

The principal assumptions made in measuring the fair value of PSP awards were as follows:

	2017 PSP	2015 PSP	2014 PSP
Principal assumptions			
Fair value at grant date	187 pence	41.0 pence	192.5 pence
Share price on grant date	187 pence	196.5 pence	292.3 pence
Expected life of the awards	3 years	3 years	3 years
Risk free rate interest rate	0%	0.74%	1.12%
Dividend yield on the Company's shares	n/a	1.52%	1.06%
Volatility of the Company's shares	n/a	23.9%	21.6%
TSR correlation (SSG PLC vs comparators)	n/a	20.7%	25.0%

Due to the limited historic data available for Stock Spirits Group (SSG) PLC expected volatility was based on the historic volatilities of the companies in the TSR comparator group.

Notes to the Parent Company financial statements continued

at 31 December 2017

12. Share-based compensation continued

Performance share plan continued

The movements in the awards outstanding during the year were as follows:

	2017 No. of awards
At 1 January	1,975,862
Granted	1,611,583
Forfeited	(634,592)
Lapsed	(337,990)
Outstanding at 31 December	2,614,863
Exercisable at 31 December	–

Included within the terms of the grant the employee agrees to receive their options net of a deduction to allow the Group to settle any personal income taxes on behalf of the recipient. Consequently there is no liability to the Group on exercise of the options.

Restricted stock options (RSU):

On 15 March 2017, awards were granted over 534,419 shares (2016: nil shares).

Participation in the 2017 RSU is restricted to the Senior Management Team, who were previously included in the 2014 or 2015 PSP schemes and still employed by the Group in March 2017. There are no performance conditions. Vesting is dependent upon continued employment as at the date of the announcement of the 2018 results. No dividends accrue to the participants prior to exercise.

The exercise price of RSU options is £nil.

The compensation expense recognised in relation to these awards is based on the fair value of the awards at grant date. The fair value of nil cost options is determined using a Black-Scholes model.

The principal assumptions made in measuring the fair value of RSU awards were as follows:

	2017 RSU awards
Principal assumptions	
Fair value at grant date	187 pence
Share price on grant date	187 pence
Expected life of the awards	1.72 years
Risk free rate interest rate	0%
Dividend yield on the Company's shares	n/a
Volatility of the Company's shares	n/a

The movements in the awards outstanding during the year were as follows:

	2017 No. of awards
At 1 January	–
Granted	534,419
Lapsed	(54,954)
Outstanding at 31 December	479,465
Exercisable at 31 December	–

Special option award

Managing Director of Polish business

In 2016, 1,000,000 awards were issued to the Managing Director of the Polish business. The awards will vest provided that this participant remains in the Group's employment during the performance period and various financial targets are met. The performance period is the period of three financial years beginning with the financial year in which the award was granted. The vesting period for grants made under this scheme is five years with an exercise period of seven years. The exercise price of these awards is £nil.

All performance conditions over the period of two financial years must be met for any awards to vest.

The compensation expense recognised in relation to these awards is based on the fair value of the awards at grant date. The fair value has been calculated using the share price of 156.0 pence at the date of grant, and has been assumed to be the same as the share price at the date of grant.

The movement in awards granted to employees of Stock Spirits Group PLC under this scheme during the year are as follows:

	2017 No. of awards
At 1 January	1,000,000
Outstanding at 31 December	1,000,000
Exercisable at 31 December	–

Annual Bonus Plan

In respect of 2017 an annual bonus is being paid to Mirek Stachowicz of 31.1% of salary. 25% of the bonus earned will be deferred into shares. See page 67 in the Directors' Remuneration Report. No deferred shares were granted under the Annual Bonus Plan for 2016.

Notes to the Parent Company financial statements continued

at 31 December 2017

12. Share-based compensation continued

Share-based compensation expense

The amount recognised in the Statement of Changes in Equity for employee services received during the year is shown in the following table:

	2017 £000	2016 £000
Equity settled share-based compensation expense recognised in Statement of Changes in Equity	1,729	(20)

The expense recognised in other operational expense in respect of the directors of Stock Spirits PLC during the year is shown in the following table:

	2017 £000	2016 £000
Equity settled share-based compensation expense	496	20
Cash settled share-based compensation expense	72	(668)
Share-based compensation (note 14)	568	(648)

13. Subsidiaries

The principal subsidiary undertakings of the Company and their details are set out in note 33 to the consolidated financial statements.

14. Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

2017	Sales of goods/services £000	Purchases of goods/services £000	Amounts owed by related parties £000	Amounts owed to related parties £000
Subsidiaries:				
Stock Plžen-Božkov s.r.o.	–	–	11	–
Stock Spirits (UK) Limited	796	–	806	2
Stock Polska Sp. z.o.o.	–	–	–	5
Stock Finance (Euro) Limited	–	–	4	–
	796	–	821	7

2016	Sales of goods/services £000	Purchases of goods/services £000	Amounts owed by related parties £000	Amounts owed to related parties £000
Subsidiaries:				
Stock Plžen-Božkov s.r.o.	–	–	9	–
Stock Spirits (UK) Limited	706	–	12,104	9
Stock Polska Sp. z.o.o.	–	–	315	1
Stock S.r.l.	–	–	22	–
Stock International s.r.o.	–	–	61	–
Stock Spirits Group Services AG	–	–	271	–
Stock Slovensko s.r.o.	–	–	61	–
	706	–	12,843	10

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Compensation of key management personnel

The Executive and Non-Executive Directors are deemed to be key management personnel of Stock Spirits Group PLC. It is the Board which have responsibility for planning, directing and controlling the activities of the Company.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the year, key management personnel did not owe the Company any amounts.

Executive and Non-Executive Directors received remuneration for their services to the Company.

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Short term employee benefits	2,030	1,670
Social security costs	114	177
Post-employment benefits	10	–
Termination benefits	379	–
Share-based compensation	568	(648)
	3,101	1,199

As at 31 December 2017, no Directors (2016: nil) had any retirement benefits accrued under either money purchase schemes or under defined benefit schemes.

In 2017, one Director (2016: nil) made a gain on the exercise of share options. Please refer to page 81 of the Directors Remuneration Report for further details.

Other disclosures on Directors' remuneration required by the Companies Act 2006 and those specified for audit by the Directors' Remuneration Report Regulations 2002 are included in the Directors' Remuneration Report.

Shareholders' information

Financial calendar

Annual General Meeting: 22 May 2018

Results announcement

Interim Results – for the period ending 30 June 2018: 8 August 2018

Shareholder information online

Stock Spirits Group's registrars are able to notify shareholders by email of the availability of an electronic version of shareholder information.

Whenever new shareholder information becomes available, such as Stock Spirits Group's interim and full year results, Link will notify you by email and you will be able to access, read and print documents at your own convenience. To take advantage of this service for future communications, please go to www.mystockspiritsshares.com where full details of the shareholder portfolio service are provided. Once you have logged in you can check your account details, change your address details or review FAQs, one of which will explain how to request a new share certificate.

When registering for this service, you will need to have your 11-character Investor Code (IVC) to hand, which is shown on your dividend tax voucher, share certificate or form of proxy.

You can then select "Send me all communications by email (most environmentally friendly)". Should you change your mind at a later date, you may amend your request by entering your portfolio online and selecting your preferred method of communication to "Send me paper copies of all communications".

If you wish to continue receiving shareholder information in the current format, there is no need to take any action.

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Independent Auditors

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Registrars

Link Asset Services

The Registry
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Tel: 0871 664 0300

(Calls cost 12 pence a minute plus your phone company's access charge, lines are open 8.30am–5.30pm Monday to Friday excluding public holidays in England and Wales)

(From Overseas: +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate)

Email: enquiries@linkgroup.co.uk

Useful Links

Link share portal

www.mystockspiritsshares.com

Information for investors

Information for investors is provided on the internet as part of the Group's website which can be found at: www.stockspirits.com/investors

Investor enquiries

Enquiries can be directed via our website or by contacting:

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