STOCK
SPIRITS GROUP

Investing in our brands

Stock Spirits Group PLC

Annual Report & Accounts 2018

STOCK SPIRITS GROUP

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

With 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.

2018 Financial highlights

9 month financial highlights:

Stock Spirits has changed its reporting date to 30 September. In this Annual Report & Accounts, the Group is reporting on a 9 month period to 30 September 2018, with the year to 31 December 2017 reported as a comparative.

Volume in 9 litre cases
9 mth Sept
9.1m
(12 mth Dec 2017: 13.1m)

Revenue
9 mth Sept
€193.8m
(12 mth Dec 2017: €269.8m)[1]

Adjusted EBITDA[3]
9 mth Sept
€35.8m
(12 mth Dec 2017: 56.3m)

Profit for the period
9 mth Sept
€19.3m
(12 mth Dec 2017: €11.3m)

Basic earnings per share
9 mth Sept
9.71€cents
(12 mth Dec 2017: 5.72 €cents)

Dividends per share
9 mth Sept[2]
8.51€cents
(12 mth Dec 2017: 8.10 €cents)

Source(s):
1. The Group has adopted IFRS 15 using the retrospective method and, as such, 2017 reported revenue has been restated. See note 3 in the financial statements on page 108
2. Interim dividend of 2.50 €cents paid on 21 September 2018 and proposed final dividend for the 9 month period to 30 September 2018 of 6.01 €cents

S **Statutory period**
Due to our year-end change, figures calculated based on our statutory periods are denoted by this symbol throughout the report

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Premiumisation in action

Božkov Republica
see page 04

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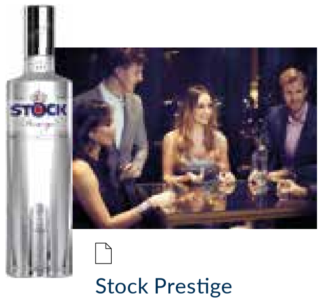


Stock Prestige
see page 100

Syramusa
see page 178

Proforma financial highlights:

Stock Spirits has changed its reporting date to 30 September. In order to show meaningful and comparable measures of performance, proforma data for the 12 months to 30 September 2017 and 2018 has been presented. See page 48 for the proforma consolidated income statement and associated notes. In summary they are:

Volume in 9 litre cases
13.3m
(2017: 12.9m)

Revenue
€282.4m
(2017: €259.8m)

Adjusted EBITDA[3]
€59.4m
(2017: €53.2m)

Basic earnings per share
16.72€cents
(2017: 14.74 €cents)

Leverage[4]
0.53
(2017: 0.94)

3. Stock Spirits Group uses alternative performance measures as key financial indicators to assess underlying performance of the Group. These include adjusted EBITDA, free cashflow and basic EPS. For the proforma numbers see page 48. The narrative in the Annual Report & Accounts includes these alternative measures and an explanation is set out in note 7 of the financial statements on page 126.
4. Leverage for 2018 is the net debt as per page 153 of the financial statements as at 30 September 2018 divided by proforma 12 months Adjusted EBITDA for the 12 months to 30 September 2018 as per page 51. Leverage for 2017 is as reported in the Annual Report & Accounts for 2017 as at 31 December 2017.

Pf **Proforma figures**
Due to our year-end change, proforma figures are denoted by this symbol throughout the report

For more information visit
www.stockspirits.com

Group at a glance

Our core markets

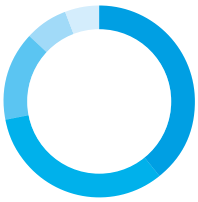
Italy

Regional Review see page 34

% REVENUE
9%

HEADCOUNT
52

TOTAL SPIRITS MARKET BY CATEGORY 2017[1]



TOTAL RETAIL VALUE OF SPIRITS MARKET[2]

€1.5bn

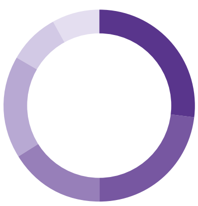
Czech Republic

Regional Review see page 32

% REVENUE
25%

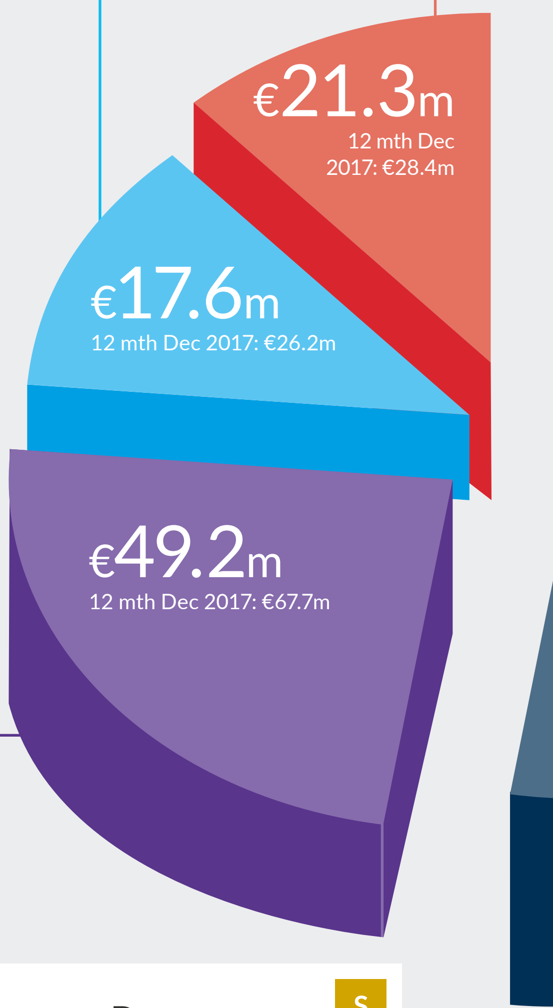
HEADCOUNT
209

TOTAL SPIRITS MARKET BY CATEGORY 2017[3]



TOTAL RETAIL VALUE OF OFF-TRADE SPIRITS MARKET[4]

€0.5bn



S

Revenue

9 mth Sept 2018

€193.8m

12 mth Dec 2017: €269.8m

Source(s):

1. IWSR total Italy, total off-trade and on-trade, total spirits MAT Volume 2017
2. IRI total Italy, total modern trade, discounters and cash & carries, total spirits MAT Value September 2018
3. IWSR total Czech Republic, total off and total on-trade, total spirits MAT Volume 2017
4. Nielsen total Czech Republic, total off-trade, total spirits MAT Value September 2018
5. IWSR total Poland spirits MAT Volume December 2017

GROUP REVENUE BREAKDOWN

- POLAND
- CZECH REPUBLIC
- ITALY
- OTHER

Other

Regional Review see page 36

% REVENUE
11%

HEADCOUNT
140

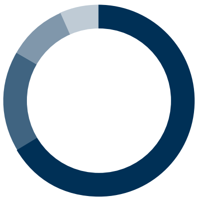
Poland

Regional Review see page 30

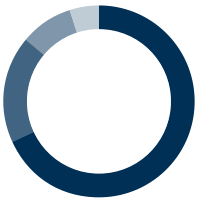
% REVENUE
55%

HEADCOUNT
602

TOTAL SPIRITS MARKET BY CATEGORY 2017[5]



VOLUME SHARE OF TOTAL MARKET: VODKA, FLAVOURED VODKA AND VODKA-BASED LIQUEURS BY TRADE[6]



TOTAL RETAIL VALUE OF OFF-TRADE SPIRITS MARKET[7]

€3.3bn

TOTAL HEADCOUNT

- 602 Poland
- 209 Czech Republic
- 52 Italy
- 140 Others

6. Nielsen total Poland, total off-trade, total vodka, flavoured vodka and vodka-based liqueurs MAT Volume September 2018 (note: A "coverage factor" of 1.18x 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)
7. Nielsen total Poland, total off-trade, total spirits and spirit-based RTD's MAT Value September 2018

Božkov Republica

The First Republic was an era of noble ideals and elegance, a time when the Czechs were renowned for exercising honesty and pride in their crafts. Božkov Republica is a celebration of these values.

Strategic Review

Chairman's statement

David Maloney
Chairman

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 9 month period ended 30 September 2018. This reflects our adoption of 30 September as the Group's new accounting reference date.

Following on from the results of 2017, I am pleased to announce another period of growth, reflecting the continued turnaround of the business, particularly in Poland. The results reflect the early positive impact of the reformulated strategy of focusing on premiumising our range and increasing the use of digital channels in order to engage with consumers, especially the millennial cohort.

While it was very encouraging to see real progress in our two largest markets of Poland and the Czech Republic, Italy, however remained difficult.

With regards to mergers and acquisitions (M&A), we continue to assess a range of acquisition opportunities that would deliver enhanced growth and shareholder value for the future.

Dividend

I am pleased to announce an 'enhanced' final dividend for the 9 month period. We are proposing a final dividend that is in excess of what would have been declared based on the 9 months of profit generated in the period. Effectively, it is a full final dividend as though we were reporting for a full 12 month period. Hence, the final dividend proposed of 6.01 €cents per share (12 month to Dec 2017: 5.72 €cents), represents growth of 5.1% from the prior year final dividend. Shareholders are therefore not only receiving the full 'enhanced' final dividend, but are also receiving this three months earlier than in previous years.

This dividend represents the continued approach, as outlined previously, of a progressive dividend policy which can be supported by the ongoing strength of the Group's free cashflow conversion. It also does not preclude pursuit of M&A opportunities and allows us to retain a solid balance sheet which is important in the current economic climate.

Dividends per share for 2018

8.51€cents

(2017: 8.10 €cents)

"Kate Allum joined the Group as an Independent Non-Executive Director, being appointed with effect from 1 November 2018. Her experience will be hugely beneficial as the Group continues to develop."

See our Responsible business report section on page 38

See our Governance section on page 56

Board and people

As announced in September 2018, Kate Allum joined the Group as an Independent Non-Executive Director, being appointed with effect from 1 November 2018. Kate brings a wide variety of experience in both human resources and supply chain management, and from within Central and Eastern Europe, which will be hugely beneficial as the Group continues to develop. Kate has been appointed to the Audit and Remuneration Committees and we are delighted to welcome her to the Board.

The success of any company is down to the quality of its leadership and is reliant on the skills and talent of the team working throughout the organisation. On behalf of the Board, I would like to thank all of the employees of Stock Spirits for their continued hard work, commitment and dedication.

Corporate governance

The Company complies with all applicable laws and regulations, and the Board adopts the UK Corporate Governance Code as part of its culture. A statement relating to compliance with the Code is included within the Governance section on page 59. Our Annual Report also sets out the processes which have been put in place to deliver long-term success.

The Board and its various Committees have met regularly throughout the year, and an internal Board evaluation exercise took place during the period which showed continued progress in overseeing and guiding the business. Further information can be found on page 62.

Looking ahead

The possible implications of Brexit on the Group will continue to be closely monitored, but, as previously reported, the likely effect is not considered to be material as we do not produce in or export from the UK.

We now have an enhanced Board, a stable management team that is working to a clear strategy and a portfolio of brands that are growing in strength. Notwithstanding the continued competitive environment in our main market of Poland, we remain confident of being able to achieve further growth in the future.

David Maloney
Chairman

5 December 2018

Why invest in Stock Spirits?

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.

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.

WE MARKET

Management of third party brands

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

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.

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 2018 financial period we converted 133.6% of profits into cash.

WE GROW

Competence in spirits

We are continually growing our core competencies by investing in and developing our people. In this way, we have a highly capable team – we know our spirits, we continue to develop our portfolio of brands and products and we are passionate about growing our business.

Our markets

Total spirits volume shipments in Stock Spirits Group's wholly owned distribution markets are estimated at c.542 million litres[1]

After falling back temporarily in 2013 to 2014 (driven primarily by excise duty changes in Poland), total spirits volume shipments returned to growth over the last two years.

Vodka remains by far the largest category in our markets, accounting for c.42% of total volume, almost four times the size of the second biggest category, herbal bitters, and almost five times that of whisky, the third largest category.

Whilst total vodka volumes have contracted over the last five years, the premiumisation observed in spirits globally is evident in vodka. The double digit Compound Annual Growth Rate (CAGR) achieved by premium and ultra-premium vodka over the last five years in Stock's markets is significantly higher than that of any other spirits category.

Herbal bitters and rum, where Stock enjoys brand leadership in several markets, are in volume growth, as is whisky, where Stock has built share via distribution partnerships with Diageo and Beam Suntory and is now also building presence with its own whisky brands and, most recently, the Quintessential Brands Ireland Whiskey Limited investment.

The gin category is also in growth, but this is far less material in Stock's markets, where gin is a niche category compared to Western European markets. Given different consumer spirits usage and tastes in Stock's markets, gin is unlikely to impact total spirits to the degree it has elsewhere in the short to medium term.

Spirits performance in Stock's markets, as in any other geography, is linked to shifts in demographics, fluctuations in the performance of local economies with their associated impact on consumer confidence and disposable income, plus the regulatory environment.

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.

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

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 enjoy accessible everyday luxuries when economic times are challenging. Affordable, high perceived quality brands remain the preferred choice and spirits are an increasingly affordable luxury.

Evolving needs of the next generation of spirits consumers

The next generation of spirits consumers in Stock's core markets are 'millennials' (broadly defined as 21 to 34 year old drinkers). These consumers are entering their peak spending years and can still be recruited by spirits brands. Their brand choices are not yet fixed but are heavily influenced by their peer group's 'word of mouth' recommendations.

For this generation, big brands are not 'over', but they need to have credible heritage, values and authenticity. These consumers are 'digital natives', who grew up with new technology and are already purchasing other categories heavily online. Whilst this is still a relatively low penetration trade channel for spirits in Stock's core markets, it is forecast to grow significantly.

Millennials expect a greater degree of personalised communication from brands than their predecessors did. Unisex drinking occasions and mixed gender friendship groups are of growing importance, as are the spirits brands which cater for them.

Technological change and the digital revolution

Rapidly changing technology and the advent of the digital era is impacting consumer behaviour and attitudes in Stock's core markets, just as it is globally. The impact of technology is more than a marketing device. It should be leveraged throughout the whole business to speed up decision-making and facilitate joined up action.

At the Business to Consumer level, it provides an easily accessible route to our target consumers with all the benefits of real time consumer tracking and better targeted spend. At Business to Business level, it can complement distributor and retailer coverage, enabling brand owners to communicate and serve customers they could not do so profitably historically using traditional means. Whilst e-commerce is still a niche channel in Stock's core markets, estimated at less than 1.0% of alcohol beverages sales currently[2], it is the fastest growing channel and forecast to rise significantly over the next decade.

Rising need for convenience and range are anticipated to supersede current extra costs for home deliveries. In spirits, e-commerce is already working in the premium segment, appealing to time poor, money rich consumers with greater ability and readiness to pay higher prices. Spirits players which develop their capabilities in the digital arena most effectively will gain competitive advantage.

Growing confidence in local provenance

Historically in Stock's Central European markets, there were a limited number of high quality brands of local provenance available. There was also a sense that international brands were superior, coupled with a historical suspicion of inconsistent quality and counterfeiting. Now that the economies in Central Europe are more mature, there is a resurgence of pride in local achievements, provenance and culture and a dawning recognition that local brands can be as good as, or superior to, imported brands. 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. 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 rapidly 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

A combination of greater numbers of consumers in our core markets travelling widely abroad for economic reasons as migrant workers or for 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 drinks retail formats are developing in response to increased international mobility.

Raised awareness of health and social responsibility

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.

Stock Spirits well-placed to grow value sustainably

The combination of our aspirational brands, wide range of innovative taste profiles, breadth of alcohol by volume options and flexible packaging formats means Stock Spirits Group is well-placed to grow sustainably in our markets by continuing to meet these evolving consumer needs.

Source(s):

1. IWSR 2017, aggregated spirits data from Poland, Czech Republic, Italy, Slovakia, Croatia and Bosnia & Herzegovina
2. IWSR e-commerce studies 2018, Italy, Poland, Czech Republic and Croatia

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 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 IT, consumer and customer insights and marketing support, we allocate resources to drive the sustainable, profitable growth of the Group.

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

We source

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

We deliver

Financial performance

Financial strength

Market position

We manufacture

We have significant bottling capacity at our two main production sites in Poland and the Czech Republic, and an ethanol alcohol distillery in Germany.

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.

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.

Accountability

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

Governance on page 56

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.

Responsible business report on page 38

Our strategy

Looking out to 2020

Four priorities for growth built upon a strong foundation.

Early in 2018 we reiterated the strategy which would enable Stock Spirits to deliver sustainable and valuable growth across its existing operations and beyond.

The strategy can be summarised as driven by four pillars based upon a solid foundation of values, people and resources.

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

Aim: 30% of Group revenue to come from premium brands

How:

Whisky strategy

New Product Development (NPD) process

World-class brand partners

A solid foundation forged from:

Strong governance

Compliance

Ethics

Transparency

See Our strategy in action page 16

Millennials

Increased awareness of and focus on this valuable segment of consumers

Aim: Attract internationally-minded consumers to our local brands

How:

Marketing insight investment

Provenance of local brands

High Potential (HIPO) management pipeline

A solid foundation forged from:

Engaged people

Empowerment

Talent management

Line of sight

See Our strategy in action page 16

Digital

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

Aim: Regularly communicating with 75% of targeted consumers through digital channels

How:

Combined IT/digital strategy

Common digital marketing architecture

Digitalised processes

A solid foundation forged from:

Focused resources

Sales and operational planning (S&OP) process

Insight-driven

Strategic planning

See Our strategy in action page 17

M&A

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

Aim: Consider larger, more transformational M&A opportunities

How:

Cost and growth synergies

Brand portfolio enhancement

Geographic expansion

Strategic move

A solid foundation forged from:

Small company agility

Flat structures

Devolved responsibility

Speed

Our strategy in action

Premiumisation

Millennials

Digital

Božkov Republica

Czech Republic

Consumer Insight: Consumers are prepared to pay a premium for higher perceived quality from trusted brands.

Aim: Increase core brand equity and margins.

How: Republica, a new premium range extension of the Czech Republic's best-selling spirits brand, Božkov[1], was launched in February 2018. Republica combines imported rum with premium packaging from the best-selling Božkov brand. Republica retails at double the price of Božkov Original. It offers consumers an option to trade up to a more premium but still affordable variant of a trusted brand, delivering improved margin per litre for Stock Spirits Group. Supported by a 360˚ trial building campaign across the on and off-trade, including integrated digital, TV, outdoor and press and sampling communication. Božkov Republica is a celebration of the Czech First Republic, the period between the first and second world wars, regarded by many Czechs as a 'golden age' associated with authenticity, honesty and self-esteem. A time when Czech craftsmanship and invention flourished.

Result: Achieved 25.9% value share of premium rum eight months post launch in Czech Republic[2]. Contributed to year-on-year value growth of +12.5% on total Božkov rum[3].

Saska

Poland

Consumer Insight: Amid the constant rush of modern life, everyone seeks moments to enjoy unhurried pleasures.

Aim: Recruit young-adults in the high margin flavoured category.

How: Saska encouraged its target millennial consumers to slow down the pace of their hectic lives and take the time to enjoy experiences to the full in a meaningful way. A compelling new communications campaign showed stylish young-adults enjoying good company, good food and good drink together in a variety of occasions. Pairing Saska flavours with selected foods and occasions drove usage. Three innovative new contemporary flavours – coffee with a hint of brandy, orange with a hint of bourbon and hazelnut with a hint of caramel – with specific appeal to millennials, were launched during 2018, supported by point of purchase merchandising and a heavyweight social media campaign which achieved reach of over two million views via Facebook, blogs and Instagram by working with food, drink and fashion influencers and linking Saska to 40 top restaurants. A new, improved packaging design to strengthen premium cues and aid navigation around Saska's range of flavours was also introduced.

Result: Saska flavours achieved 153.0% Moving Annual Total (MAT) value growth versus last year in the Polish off-trade[4].

Keglevich

Italy

Consumer Insight: Our target consumers are 'digital natives', who grew up with new technology and are already purchasing other categories heavily online.

Aim: Compelling communication of the Keglevich relaunch.

How: A multi-channel relaunch communications plan, focused on the 'pure vodka, pure fruit' proposition, was executed from June to September 2018 with the aim of raising awareness, consideration and purchase intent. The campaign reached over 82% of the brand's target 18–34 year old Italian consumers using impactful online video executions, via content on demand advertorials, Facebook and Instagram.

A simultaneous public relations campaign generated 37 articles with an estimated coverage of 2.7 million. Physical sampling and trial of the relaunched range of liquids and packaging was achieved through a 'Play On' music tour in partnership with one of Italy's biggest radio stations, RDS. It toured six high visitor traffic seaside locations during the peak summer season. Each tour location executed two days of pre-event sampling, followed by two days of day and night party events attended by over 22,000 of our target consumers. The 'Play On' sampling tour was itself designed to generate additional coverage via social media as the radio station and the party-goers shared images with their own networks of contacts. An innovative 'click through button' was embedded in the Keglevich digital communications which enabled consumers to visit the e-retailers which sell Keglevich and to make an online purchase should they choose.

Result: Improved top of mind, spontaneous and prompted awareness scores post- than pre-campaign. Higher consideration and purchase intent scores post than pre-campaign. Record breaking content on demand interaction rates versus benchmarks. Engagement rates in Facebook and Instagram significantly higher than benchmarks[5]. Increased use of digital communication enabled real time tracking of consumer responses to our communications, allowing faster campaign adjustments and better targeted spend.

Source(s):

1. IWSR 2017
2. Nielsen, Czech Republic, total off-trade, total premium rum, MAT September 2018
3. Nielsen, Czech Republic, total off-trade, total rum, MAT September 2018
4. Nielsen, Poland, total off-trade, MAT value, September 2018
5. Zenith Media pre- and post-campaign tracking and evaluation, September 2018

Key performance indicators (KPIs)

Financial performance

Volumes of product sold (millions 9 litre cases)

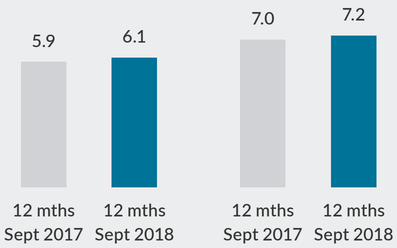
Proforma KPIs

Total volume Pf

13.3m

Total clear vodka volume

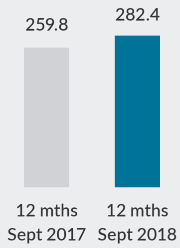
Total other volume



Revenue

Pf

€282.4m

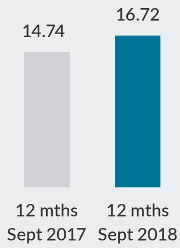


Earnings per share (basic)

Pf

16.72

(€cents per share)



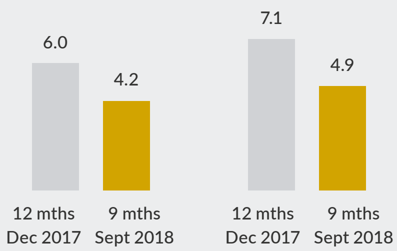
Statutory KPIs

Total volume S

9.1m

Total clear vodka volume

Total other volume

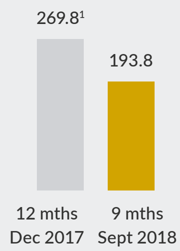


Why we measure it:

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

S

€193.8m



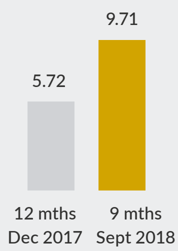
Why we measure it:

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

S

9.71

(€cents per share)



Why we measure it:

To provide a measure of underlying shareholder value.

Measuring our success

The Board has chosen a number of key performance indicators to measure the Group's progress. These indicators are set out here, along with how they relate to strategic priorities and how we performed against them.

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 strength

Leverage[4]

0.53

(Dec 2017: 0.94)

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.

Source(s):

1. The Group has adopted IFRS 15 using the retrospective method and, as such, 2017 reported revenue has been restated. See note 3 in the financial statements on page 108
2. Stock Spirits Group uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. These include adjusted EBITDA and free cashflow (note 7). The narrative in the Annual Report and Accounts includes these alternative measures and an explanation is set out in note 7 to the consolidated financial statements (for statutory figures) and the proforma notes (page 48 for proforma figures) included in the Annual Report and Accounts
3. The proforma cashflow conversion reconciliation is within the notes to the proforma consolidated income statement on page 50
4. Leverage for 2018 is the net debt as per page 153 of the financial statements as at 30 September 2018 divided by proforma 12 months Adjusted EBITDA for the 12 months to 30 September 2018 as per page 51. Leverage for 2017 is as reported in the Annual Report and Accounts for 2017 as at 31 December 2017
5. Data for this section:

Poland: Nielsen, total Poland, total off-trade, total vodka, flavoured vodka & vodka-based liqueurs MAT value and volume September 2018

Czech: Nielsen, total Czech Republic, total off-trade, total spirits, MAT volume and value September 2018

Italy: IRI retail sales data, total Italy, total modern trade and discounters and cash & carry, total spirits, MAT value and volume September 2018

Pf Proforma figures
For clarity following our year-end change, proforma figures are denoted by this symbol

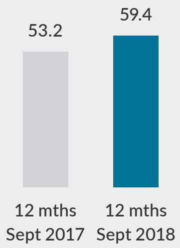
S Statutory period
For clarity following our year-end change, statutory reported figures are denoted by this symbol

Adjusted EBITDA & adjusted EBITDA margin[2]

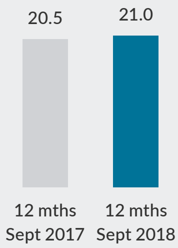
Adjusted EBITDA Pf

€59.4m

Adjusted EBITDA €m



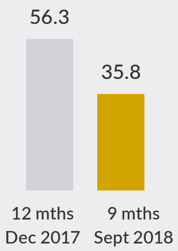
Adjusted EBITDA margin %



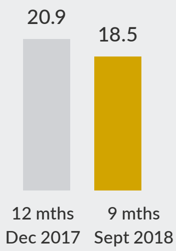
Adjusted EBITDA S

€35.8m

Adjusted EBITDA €m



Adjusted EBITDA margin %



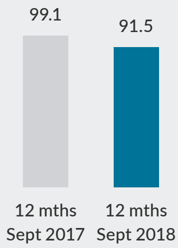
Why we measure it:

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

Adjusted free cashflow conversion[3]

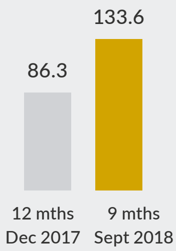
Pf

91.5%



S

133.6%



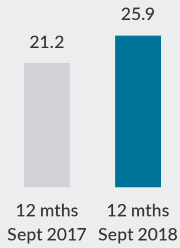
Why we measure it:

To ensure that we are converting profit into cash.

% revenue from premium brands

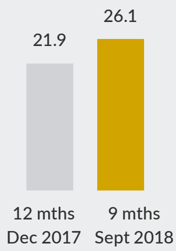
Pf

25.9%



S

26.1%



Why we measure it:

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

Market position[5]

Value market share

Poland	Czech Republic	Italy
27.4%	33.1%	4.2%
(Sept 2017: 26.2%)	(Sept 2017: 33.7%)	(Sept 2017: 4.4%)

Why we measure it:

Value market share: to maintain focus on growing value, not just volume at any expense.

Volume market share

Poland	Czech Republic	Italy
27.0%	35.2%	4.1%
(Sept 2017: 25.2%)	(Sept 2017: 36.3%)	(Sept 2017: 4.3%)

Why we measure it:

Volume market share: to ensure that we measure our underlying market position relative to our competitors.

Principal risks and uncertainties

Our internal controls framework mitigates risk

Risk level change key

↑ Higher ↓ Lower → Level

Risk rating key

● High ● Medium ● Low

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 September 2021 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 Review

The Strategic Review comprising pages 1 to 53 was approved and signed on behalf of the Board.

Mirek Stachowicz
Chief Executive Officer

5 December 2018

Principal risks

Stock Spirits Group 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 approach. 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. References to changes in 2018 mean changes during the 9 month period ended 30 September 2018.

Risk description and impact	Change in 2018	How we manage and mitigate	Rating
Risk 1 **Economic and political change** 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 some 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.	→ We have not been significantly impacted by major economic or political changes in our key markets during 2018, although we continue to monitor the budget dispute between the new Italian government and the EU.	We monitor and analyse economic indicators and consumer consumption trends which, in turn, influence 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.	●

Risk description and impact	Change in 2018	How we manage and mitigate	Rating
Risk 2 **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 previously faced, currently faces and may in the future face, audits and other challenges brought by local 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.	↑ See note 13 Income Taxes in the consolidated financial statements for details of the ongoing tax inspections in Poland and Italy and other tax matters.	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 advisers 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.	●
Risk 3 **Strategic transactions** Key objectives of the Group are: (i) the development of new products and variants; (ii) expansion, in the Central and Eastern European region and certain other European countries, through the acquisition of additional businesses; and (iii) distribution agreements with world-class brand partners. Unsuccessful launches, or failure by the Group to fulfil its expansion plans or integrate completed acquisitions, or to maintain and develop its third-party brand relationships could have a material adverse effect on the Group's growth potential and performance.	↑ Our new product development (NPD) process has been improved and continues to deliver successful innovations such as Božkov Republica rum and Black Fox herbal bitter liqueur in the Czech Republic. We continuously seek to strengthen our portfolio. During 2018, we commenced launches across our markets of The Dubliner and The Dublin Liberties Irish whiskey brands, building on our 25% investment in Quintessential Brands Ireland Whiskey Limited. In the period, we extended our partnership with Beam Suntory to include the Czech Republic and Slovakian markets, alongside existing markets in Poland, Croatia and Bosnia and Herzegovina. The recent imposition of EU tariffs on US bourbon imports did not impact us immediately, however, we expect the increased costs will flow through with effect from the start of 2019.	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. We also continue to invest significant resources in our NPD process as well as exploring opportunities to extend and enhance our third-party distribution arrangements.	●

Principal risks and uncertainties continued

Risk level change key
↑ Higher ↓ Lower → Level

Risk rating key
● High ● Medium ● Low

Risk description and impact	Change in 2018	How we manage and mitigate	Rating
Risk 4 **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 the Our Markets section on pages 10 and 11 for further details.	→ Our Keglevich brand in Italy continues to suffer from ongoing changes in its target consumers' habits, resulting from continuing poor macro-economic conditions in Italy, and we continue to see a general decline in consumption of higher alcohol drinks, particularly by young-adult drinkers. During the period we invested significant resources in digital marketing, with the formation of our new Digital Marketing Group to drive more effective use of digital media and analytics and share best practice across the Group.	The Group undertakes extensive consumer research and has a track record of successful NPD 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.	●
Risk 5 **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, 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 key marketing and commercial roles in our largest businesses in Poland and Czech respectively. The results of our first annual Employee Engagement Survey were received during the year and the action plans arising from those results continue to be implemented.	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. Our annual Employee Engagement Survey enables us to assess employee engagement levels across the Group and act upon the feedback in a systematic way.	●

Risk description and impact	Change in 2018	How we manage and mitigate	Rating
Risk 6 **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. 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. We saw a significant growth in sales of private label spirits and liqueurs in the Czech Republic which our Czech business continues to mitigate through strengthening its management of promotions, brand support and activations.	The Group has mechanisms and strategies in place to mitigate the damage of profit erosion but there is no assurance they will 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 7 **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.	↑ Recent world trade volatility, including tariffs imposed by the US, EU and China together with the strength of the US dollar and Brexit, have led to increased currency fluctuations.	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. We provide a sensitivity table showing the impact on profit before tax, based on changes in the spot exchange rates of our primary earnings currencies, in the foreign currency risk section of note 30 to the consolidated financial statements.	
Risk 8 **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 2018, we commenced an IT project to upgrade to a single version of SAP S4/Hana, to improve access to consistent information across the Group, deliver analytical reports and insights and further automate controls and standardise processes across the Group.	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, and we retained our Cyber Essentials certification.	

Principal risks and uncertainties continued

Risk level change key
↑ Higher ↓ Lower → Level

Risk rating key
High Medium Low

Risk description and impact	Change in 2018	How we manage and mitigate	Rating
Risk 9 **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.	↑ We implemented new policies and procedures to ensure compliance with the EU General Data Protection Regulation which took effect in May 2018. The EU passed a law to restrict the use of a particular rum aroma used in our Božkov Tuzemský product in the Czech Republic. Through the Czech spirits industry association and the relevant Czech government departments, we closely monitored and participated in the process and thereby avoided significant impact upon our business. In Slovakia, a law was passed in September 2018 to permit home distillation of spirits, subject to certain restrictions and requirements.	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 and independent internal audits to assess the adequacy and effectiveness of our policies and processes.	Medium
Risk 10 **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 off-set the extra costs or may cause a decline in sales volumes. Extreme weather conditions and climate change may damage supplies of key raw materials such as grain, resulting in more extreme price spikes and supply shortages. Energy price fluctuations can impact us both directly and indirectly through our supply chain. Labour costs may also rise ahead of our ability to pass through such costs.	↑ Grain prices were adversely affected by poor harvests, however, our cost optimisation initiatives in procurement, including more centralised purchasing, have ensured that cost of goods sold to remains broadly consistent with the prior year.	We closely monitor the key markets in order to optimise our purchasing. 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.	Medium

Risk description and impact	Change in 2018	How we manage and mitigate	Rating
Risk 11 **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 2018 as a result of the refinancing of bank facilities in 2015 and we continue to enjoy those financing facilities until November 2022.	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.	●

As far as Brexit is concerned, we do not consider it to be a principal risk. For completeness, we include a summary of our risk assessment below. For risk management purposes, it is prudent to assume the most disruptive outcome of a no-deal exit in March 2019. As stated in our previous reports, given that we do not produce or export from the UK and have minimal sales in the UK, we continue to believe the impact of Brexit is unlikely to be significant for us. We have analysed the potential impacts under six main categories:

Trade

Our supply chain is predominantly non-UK based. We have very few UK suppliers, therefore the risk of additional duties, tariffs or import/export procedures is unlikely to affect us in a material way. One of our few UK-sourced supplies for our EU businesses is Scotch whisky, which could be subjected to EU tariffs or other restrictions. However, it represents an insignificant part of the Group's revenues and profits. Some of our suppliers may supply other customers in the UK and therefore could be financially weakened by duties, tariffs or other increased costs arising from Brexit, possibly causing a knock-on impact on their ability, or cost, to supply us; but we are not aware of any suppliers on whom we are dependent who would fall into this category. We do not have any selling activity from our UK companies to EU customers. Whilst there may be additional Customs and/or VAT rules for supply of our products from our EU subsidiaries to our UK distributor, which could increase prices and delivery lead times, the UK market is an insignificant part of the Group's revenue and profits.

Taxes

The loss of EU directives such as the parent-subsidiary directive may cause payment of dividends, interest and/or royalties from an EU subsidiary to a UK parent to be subject to withholding tax, but double taxation agreements or specific exemptions may fully or partly mitigate this and we will seek to apply them accordingly. We expect transfer pricing involving UK and EU group companies to come under even greater scrutiny post-Brexit and we are confident that the intra-group services arrangements we have in place are robust, well documented and compliant with current legislation.

People

After Brexit, it is expected that employees' ability to transfer between the UK and EU countries will be restricted. We have relatively little international mobility among our employees therefore we would not expect any material impact. In addition, the removal of the UK from European legislation and the rulings of the European Court of Justice may, over time, create differences in employment laws in relation to social security, working time, minimum wage and equality. Again, we do not expect this to have any significant impact given our very small population of UK employees.

Economic

The loss of the UK's net contribution to the EU budget is likely to impact the remaining EU countries, particularly net recipients such as Poland and Czech Republic. The impact may be both direct, through a reduced EU funding pot, but also indirect by causing the GDP per capita in such countries to increase compared to the EU average and therefore reduce such countries' eligibility for EU funds.

Financial

The Group's credit facility runs until November 2022, therefore we have no need to access credit markets in the near future when they may be affected by Brexit.

Other

It is currently intended that the 'Great Repeal Bill' will implement the vast majority of EU law that currently applies in the UK directly into UK law. As a result we do not anticipate significant disruption in our compliance processes.

Chief Executive's statement

Mirek Stachowicz
Chief Executive Officer

We believe in the strength of our brands and that our strategy is delivering results.

Group financial performance

Given the change in our accounting year to 30 September, we have presented summarised proforma results for the 12 months to 30 September 2018 along with proforma 12 month comparatives. On this basis, we have delivered growth in volume, revenues and profitability and the balance sheet has strengthened further as net debt was reduced.

Continued growth in Poland

Our Polish business continued to grow from the foundations that have been re-laid in recent years. Given it contributes some half of Group revenues, success in Poland is critical.

The economic environment remained favourable, and the total vodka category was stable, with welcome growth in premium segments. Total vodka category growth is still driven by the flavoured sub-category, with clear vodka seeing a small decline. Trade channel dynamics were also stable notwithstanding some regulatory changes in retailing. Against this backdrop, we were able to capitalise on rising consumer affluence by continuing to strengthen our portfolio with attractive premium brands.

Stock out-performed the total vodka market, continuing to grow volume and value share. Our total vodka volume share grew from 25.2% last year to 27.0% this year, and value share grew from 26.2% to 27.4%[1]. In recent months, both our volume and value growth rates outpaced our key competitors.

A significant contributor was the continued strong growth of our leading premium brand, Stock Prestige, which is the number one brand in premium vodka in Poland. In the top premium segment, our Amundsen Expedition grew volume well ahead of that segment's volume growth. Our leading mainstream brand, Żołądkowa de Luxe, was re-launched and also achieved volume growth, outperforming its segment. In the economy segment our Żubr and 1906 brands grew their combined volume strongly, benefiting from pack size innovation. We also grew total flavoured vodka volume and value versus last year, led by Stock Prestige Flavours and Saska Flavours.

We are building on our progress in flavoured vodka to achieve our longer term aim of growth ahead of that sub-category. Our revised flavoured strategy will entail an increasing focus on our top flavoured brands: Żołądkowa Gorzka, Lubelska and Saska.

We continued to grow whisky category share via the Beam Suntory portfolio. Our co-operation with Synergy Brands, which has been in place since July 2016, also generated positive results as Beluga grew value in the fast growing ultra-premium vodka segment.

The strengthening of our sales capabilities continued with a significant programme of store re-layouts in traditional trade channel which improved results at point-of-purchase.

Overcame headwinds in the Czech Republic

The Czech Republic is the Group's second largest market. We have held spirits market leadership for over 20 years[2], leading in the three key spirits categories of rum[3], vodka and herbal bitter liqueurs[4]. The Czech economy is also performing well, and with higher consumer incomes we see an increasing desire for premium products, which in turn drives value growth[5]. The total spirits market grew value and volume despite reduced levels of retailer promotional activity[4].

> *Our brands are responding well to increased investment. Our strengthened core brands have delivered steady growth and improved mix; they position us well for ongoing success.*

Given our scale in these categories, Stock was heavily impacted by the shift in retailers' promotional strategy, resulting in only marginal total volume growth. Despite this, the combination of our premium innovations, benefits from previously-acquired brands and the addition of new distribution brands delivered value growth, maintaining our market leadership and achieving value share of 33.1%[4].

Stock grew value share in the biggest spirits category, rum, through the outstanding success from the Q1 launch of Božkov Republica. This has achieved 24.5%[4] value share of imported rum. Captain Morgan, which we distribute on behalf of Diageo, remains the number one international rum and also achieved solid value growth.

In the highly competitive vodka category, the Bohemia Sekt spirits brands that we acquired in 2016, helped maintain our category leadership despite massive growth of retailer private labels.

Our established partnership with Diageo, coupled with the new distribution agreement with Beam Suntory, have created the strongest whisky portfolio in the market. We grew whisky value share to over 10% despite significant price reductions by some leading competitors.

Success in rum, vodka and whisky outweighed a decline in herbal bitters value share, driven primarily by the changed retailer promotional strategy, coupled with aggressive price-discounting by Jägermeister. Our new premium herbal bitter, Black Fox, which was launched late last year, increased its value share of the premium segment counteracting, in part, the decline of Fernet Stock in the mainstream segment.

EU Commission deliberations on the use of rum ether concluded that the aroma will not be banned in domestic rum (Tuzemak) for five years. Our team managed this challenge without significant business implications.

A new debate that has opened between the EU Commission and the Czech Ministry of Agriculture and Food Inspection regarding inclusion of milk in egg liqueurs carries no material risk to Stock.

We continued to develop our sales and trade marketing capabilities, achieving step-change in category-management. We also stay focused on price management and promotional efficiency, as price competition remains strong, especially with the growth of private label. Our Czech business has a demonstrable ability to deliver value growth through focus on premiumisation, both of our own core brands and by working with our distribution partner brands.

Tough trading conditions in Italy

Italy is our third largest market in terms of revenue and EBITDA. The market is highly fragmented with several mature spirits categories including, bitters, vodka, brandy, whisky and liqueurs. Whilst Stock has a relatively small overall share of total spirits, with 6.0% volume share in our main focus area of the modern off-trade channel, we hold leading positions in several key categories including number one brands in the clear vodka, vodka-based liqueurs and limoncello categories, and the number two brand in brandy.

Trading conditions remain very tough as a result of high levels of unemployment and consumer consumption is being impacted by rising inflation. As a result of these trends, the total market declined slightly in value in the period.

Against this backdrop, Stock's total volume share was slightly down to 6.0% with value share slightly down to 5.7% in the modern trade channel[6]. Stock held overall volume and value share in its four key categories, with slight gains in brandy, but as a result of the softening market and strong growth of private label, there were slight losses in flavoured vodka-based liqueurs, limoncello and clear vodka.

Source(s):

1. Nielsen, total Poland, total off-trade, total vodka MAT September 2018. For the purposes of this estimate, total vodka = total clear vodka plus total flavoured vodka plus total flavoured vodka-based liqueurs
2. IWSR
3. 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 "Tuzemák" 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.
4. Nielsen MAT to end September 2018, total Czech off-trade
5. OECD 2018
6. IRI total Italy, total modern trade, total spirits, MAT September 2018

Chief Executive's statement continued

Looking ahead, continuing economic challenges and political uncertainty are expected to constrain consumer confidence and disposable income with a continuing negative impact on overall spirits sales. There is also a possible VAT increase from 22% to 24.2% on 1 January 2019, with further smaller increases possible in 2020 and 2021.

Despite this, in the early summer we relaunched the Keglevich fruit flavoured range, supported by new packaging and a programme of investment in a new 'Pure Vodka, Pure Fruit' campaign using both digital and traditional media. Early indications point to a positive consumer response.

Our iconic brandy, Stock 84, which was refreshed last year, achieved value and volume share growth, to which our premium XO variant contributed significantly.

We continue to carry out focused brand-building in selected premium on-trade outlets for Syramusa, the premium sub-brand of Limoncè limoncello, which was launched in late 2017. The brand is also now listed in travel retail.

Finally, our distribution brand range expanded further with new distribution agreements with Nuove Distillerie Vicenzi, Dictador rum and The Dubliner Irish whiskey.

Continued strong results in Slovakia

Our Slovakian team delivered another strong performance growing both volume (+4.9%) and value (+3.9%) ahead of the market[7]. Stock maintained its leadership in herbal bitters, with growth supported by the Fernet Stock grapefruit flavour extension, coupled with revised price-positioning of Fernet Stock Grand[8]. The continued roll-out of Black Fox added a premium dimension to our bitters portfolio, whilst in vodka, Amundsen achieved double digit volume and value growth[9].

As in other markets, NPD also drove premiumisation. Božkov Republica was rolled out, and we entered the borovička (Juniper) category using the premium Golden Ice brand.

Stock's second highest value growth in Slovakia came from whisky. Having begun distribution of Beam Suntory's range in May 2017, Jim Beam's value share was increased to 7.5% from 3.6%, with strong growth in sales[10]. The distribution brands portfolio was expanded to other growth categories through adding the Quintessential Brands gin range, The Dubliner and The Dublin Liberties whiskeys, and Barcelo premium rum.

These initiatives contributed to overall volume and value growth for Stock in Slovakia, and reinforced our position as the second biggest spirits company in the off-trade[7].

Other markets

In Croatia we grew volume and value[11], primarily through an increased focus on the on-trade, supported by the relaunch of Stock 84, and an increased range of distribution brands from Beam Suntory plus Beluga, Botran Rum and Lucas Bols.

In our export markets, reorganisation of our route to market in Germany was completed successfully, and contributed to a strong volume uplift. New distribution in Taiwan for Hammerhead Single Malt Czech Whisky also generated high margin incremental sales.

Innovations

We continued to build our core brands via a focused programme of NPD. In addition a new online NPD process flow was implemented to streamline and speed up this critical process.

In Poland in clear vodka, we relaunched our leading brand by volume, Żołądkowa de Luxe, with a new, smoother taste and impactful new packaging. The relaunch was supported by awareness and trial building activity, including an innovative digital campaign and a Guinness Book of World Records entry winning the largest ever linked-arms toast.

We also introduced an evolutionary update of Stock Prestige's packaging to retain consumer appeal in the fast evolving premium vodka segment.

In the flavoured category, a strong package of consumer-activation on Lubelska and Saska, coupled with the launch of two new Lubelska flavours and three new Saska flavours contributed to volume growth. We continued to have a strong NPD pipeline in flavoured vodka.

Building on our history of successful flavour innovation on Božkov, and with the ambition of premiumising the brand, we launched new Božkov Republica imported rum in February 2018 in the Czech Republic. It has achieved outstanding growth, growing the overall rum category. Božkov Republica is fast becoming one of the most successful NPD launches in Czech spirits history.

Source(s):
7. Nielsen, total Slovakia, total off-trade, total spirits MAT to end September 2018
8. Nielsen, Slovakia, total off-trade, total herbal bitters MAT to end September 2018
9. Nielsen, total Slovakia, total off-trade, total vodka MAT to end September 2018
10. Nielsen, total Slovakia, total off-trade, total whisky MAT to end September 2018
11. Internal Stock Spirits Group audited sales data

A full review of the Keglevich flavoured range in Italy resulted in the launch of a new improved liquid. The new recipe uses six times distilled grain vodka coupled with 100% fruit juice. The range was also relaunched with new packaging. Keglevich clear vodka has also been relaunched, again with an improved quality six times distilled liquid and more impactful packaging. It has outperformed the category in both volume and value growth.

In Slovakia, Fernet Stock Grapefruit won the Consumer Choice Award 2018, which is awarded to the most successful innovation in the spirits category by Slovak consumers.

Božkov Republica was also rolled out in Slovakia, and we entered the borovička (Juniper) category using the premium Golden Ice brand.

Operations and supply chain

Smarter purchasing strategies coupled with new systems tools delivered encouraging results, and helped to mitigate adverse market conditions in certain categories of input.

Digital and technology

We are enhancing our marketing and sales capabilities with the latest technology to deliver enhanced brand experiences. Digital communications played a leading role in our Keglevich relaunch in Italy, where we pilot tested a new smart e-commerce tool which links our social media activation directly to opportunities to purchase.

In Poland, Stock established the first ever virtual bartender league, along with tools to encourage brand advocacy and increased consumer engagement.

In the Czech Republic we began working with our customers to develop our reach beyond the established 'bricks and mortar' channels into the emerging e-retail arena.

In respect of our IT infrastructure, we have consolidated and strengthened our network architecture which will also facilitate us running more Group-wide software solutions in future.

Our people

We made senior Marketing and Sales appointments in Poland and the Czech Republic. We also invested in our Italian marketing team in order to support the Keglevich relaunch.

A number of updated health and safety initiatives were put in place across the Group, the improvements from which have been recognised by third party auditors.

The results from our very first employee engagement survey have been acted upon, providing a base-line from which to create an engaged, agile culture.

Our partners

The integration of the distribution brands with Stock's leading local brands has brought significant benefits to the combined portfolio, further strengthening our overall offering to customers and consumers.

We will soon complete our fourth year as exclusive distributor of Diageo's core brands in the Czech Republic, where we are delighted with the continued value growth that has been achieved on Captain Morgan, Johnnie Walker and Baileys. The addition of the Beam Suntory range to our Czech portfolio made a material increase to our total whisky share and we also began distribution of The Dubliner and The Dublin Liberties whiskeys from Quintessential Brands.

In Italy, the Vicenzi range of liqueurs from Nuove Distillerie Vicenzi was introduced from 1 January 2018. The distribution brand range expanded further with the addition of two new distribution agreements with Dictador rum and The Dubliner Irish whiskey.

In Slovakia, we began the distribution of Beam Suntory's range in May 2017. The distribution brands portfolio was further expanded to other growth categories, adding the Quintessential Brands gin range, as well as its whiskeys The Dubliner and The Dublin Liberties, and Barcelo premium rum.

Outlook

We are pleased with the ever increasing strength and resilience of our core Polish business, and also with the way in which we have combatted the headwinds experienced earlier in the year in the Czech Republic. While challenges remain in certain parts of our operations, most notably in Italy, we believe that the strength of our brands and the fact that our four pillar strategy is starting to deliver tangible results means that we are well positioned for further success.

Mirek Stachowicz
Chief Executive Officer

5 December 2018

Regional reviews – Poland

Poland is our largest market in terms of net sales and profit

Value market share

Source(s):

1. IWSR to end of calendar year 2017
2. Nielsen, total Poland, total off-trade, total spirits MAT September 2018. For the purposes of this estimate, total vodka = total clear vodka plus total flavoured vodka plus total flavoured vodka-based liqueurs
3. OECD
4. Nielsen, total Poland, total off-trade, total vodka MAT September 2018. For the purposes of this estimate, total vodka = total clear vodka plus total flavoured vodka plus total flavoured vodka-based liqueurs
5. Nielsen, total Poland, total off-trade, total brandy, MAT September 2018
6. Nielsen, total Poland, total off-trade, total whisky, MAT September 2018

The success of Stock Polska remains the Group's highest priority.

Poland is the world's third largest vodka market by value and fourth largest by volume[1]. Vodka is still by far the largest spirits category in Poland (c.80% of total spirits value[2]). Poland is the Group's largest market in terms of revenue and profit.

During 2018, the Polish economy grew steadily, disposable income rose and unemployment fell, increasing Polish consumers' confidence and purchasing power[3].

These positive macro trends were reflected in a stable performance from the total vodka category, with encouraging growth from the premium segments. Total vodka value grew +1.0% during 2018, slightly ahead of volume growth at +0.6%. Total premium vodka grew significantly faster +6.7% value and +6.5% volume[4].

At a total category level, overall growth was driven by the flavoured sub-category, +7.0% value, whilst clear vodka's value declined -1.2%[4].

The largest trade channel, the traditional trade, continues to outperform the market, achieving +1.9% value growth in contrast to the combined modern trade and discounters, where value declined -0.7%[4].

The trend to premiumisation in spirits globally is visible in Poland. The ultra-premium (+29.1%), top international premium (+5.2%) and premium vodka segments (+6.9%) are in strong volume growth, ahead of the total category, reflecting Polish consumers' readiness to pay more for premium quality vodka as affluence increases[4].

The mainstream vodka segment continues to outperform economy, with a stable value performance of -0.2% versus last year, whilst economy remains in decline at -1.4% value (although a significantly reduced rate versus recent years)[4]. 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[4]

Stock is out-performing the total vodka market in Poland, driving continued share gains. Stock grew total vodka volume +7.5% and value +5.7% ahead of the total vodka market volume +0.6% and value +1.0%.

Stock's total vodka volume share grew from 25.2% last year to 27.0% this year and value share grew from 26.2% to 27.4%.

Our MAT volume growth rate +7.5% remains ahead of Roust +5.4% and in September, our YTD value growth rate +5.9% overtook Roust at +5.0%. for a second successive month. Marie Brizard, our other largest local competitor declined heavily –20.4% volume and -20.5% value.

A significant contributor to our share growth was the continued double digit growth of our leading premium brand, Stock Prestige, total volume +20.7%, supported by consistent consumer-activation at the point of purchase, including a unique Stock Prestige World Cup limited edition. Stock Prestige is now number one brand in the premium vodka segment.

In the top premium vodka segment, Amundsen grew volume by +62.2%, well ahead of top premium segment volume growth of +6.0%.

> *“Stock is out-performing the total vodka market in Poland, driving continued share gains, with total vodka volume up 7.5%.”*

Our leading mainstream brand, Żołądkowa de Luxe achieved volume growth of +2.6%, outperforming the mainstream category, whilst in the economy segment our Żubr and 1906 brands grew their combined volume +22.9%, supported by 9cl bottle pack size innovation on Żubr (instead of market standard 10cl) and closely monitored price execution.

Stock also grew total flavoured category volume and value versus last year, achieving growth on premium-priced Stock Prestige Flavours (volume +10.7%) and Saska Flavours (+158.8%). Our ambition is to lead flavoured category growth, which will require stronger performance from our core flavoured critical mass brands, which are performing behind the total category, Lubelska +2.3%, and Żołądkowa Gorzka -2.6%.

New Product Development (NPD)

We continued to build our core brands via a focused programme of NPD introductions of strategic importance.

In clear vodka, we relaunched our leading brand by volume, Żołądkowa de Luxe, with a new, smoother taste and impactful new packaging. The relaunch was supported by awareness and trial building activity including an innovative digital campaign and a Guinness Book of World Records record breaking ‘linked arms toast’ in Kraków by the largest number of people in one place at one time ever achieved!

We introduced an evolutionary update of Stock Prestige’s packaging to ensure its design retains consumer appeal in the fast evolving premium vodka segment.

In the flavoured category, a strong package of consumer-activation on Lubelska and Saska, coupled with the launch of two new Lubelska flavours (pear and blackberry) and three new Saska flavours (orange with bourbon, coffee with brandy and hazelnut with caramel) contributed to volume growth. A strong pipeline of additional core brand flavour extensions planned for launch in 2019 will strengthen our flavoured range further.

Leveraging the Group-wide Stock 84 brandy relaunch with its new, more premium packaging, achieved volume growth of +3.6%, ahead of total brandy and cognac category volume -2.5%[5].

Distribution brands

We continued to grow our whisky category share via the Beam Suntory portfolio. Jim Beam grew +13.0% in value, ahead of the +12.6% whisky category value growth[6].

Our cooperation with distribution partner Synergy Brands, in place since July 2016, generated positive results. Beluga grew value +24.4% in the fast growing ultra-premium vodka segment[4].

Organisation

A stable management, sales and marketing team were in place throughout 2018.

Progressive strengthening of our sales team has resulted in closer co-operation with key customers. We have step-changed the intensity and quality of promotional support and have engaged in a significant programme of fixture re-layouts in the traditional trade which is yielding improved results at the point of purchase.

We are using the latest technology to deliver enhanced brand experiences. Stock Polska was first to start a virtual bartender league and educational activity aimed to create brand advocacy and increase consumer engagement in the HORECA (Hotel, Restaurant & Café) channel.

Future outlook

2018 saw continued portfolio growth in Poland through strengthening our core brands. Our clear vodka business is in growth with share gains for Stock Prestige, Amundsen, Żołądkowa de Luxe and Żubr. Stock also grew volume and value in the flavoured category. We will build further on our progress in flavoured to achieve our longer-term aim of growth ahead of the category. Our revised flavoured strategy will address this challenge by increasing focus on our top flavoured brands, Żołądkowa Gorzka, Lubelska, and Saska.

For the 9 month period to 30 September 2018, revenue for Poland was €105.6m, (12 months to 31 December 2017: €147.5m), with adjusted EBITDA of €27.5m (12 months to 31 December 2017: €37.7m).

For the proforma years of 2018 and its 2017 comparative, revenue was €152.6m, an increase of 8% from €141.2m in 2017. Adjusted EBITDA also increased 16% from €34.9m in 2017 to €40.4m. In 2018, this division represented 54% of Group revenue (2017: 54%).

Regional reviews – Czech Republic

We retain spirits market leadership in the Czech Republic

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 "Tuzemák" 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 September 2018, total Czech off-trade
4. OECD 2018

The Czech Republic is the Group's second largest market. Stock 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[4] and with it the desire for premium products, driving value growth in spirits.

The total Czech spirits market grew both value +7.3% and volume +3.7%[4]. The four core categories on which Stock focuses: rum, vodka, herbal bitters and whisky (together accounting for c.75% of total spirits value) all grew total value and volume, despite reduced levels of promotional activity in economy and mainstream in a number of major retailers[3].

Core Brands[3]

Given our scale in these categories, Stock was heavily impacted by the shift in the retailers' promotional strategy, leading to relatively flat total volume growth at +0.4%. Despite this, the combination of our premium innovation, benefits from previously acquired brands and the addition of new distribution brands delivered value growth of +5.3%, maintaining market leadership and achieving value share of 33.1%.

Stock grew value share of the biggest Czech spirits category, rum, from 60.2% to 61.6%. The outstanding success in rum was the launch in Q1 of Božkov Republica, which has already achieved a 24.5% value share of imported rum. Captain Morgan Original, which Stock distributes in the Czech Republic on behalf of Diageo, remains the number one imported rum and a key growth driver, achieving value growth of +9.9%, slightly ahead of the total rum category at +9.6%.

In the highly competitive vodka category, the continued benefits from the Bohemia Sekt spirits brands acquisition made in 2016, helped maintain our market leadership in the vodka category with 28.7% value share, despite the massive growth of retailer own label during 2018, led by Penny and Tesco. Private label vodka grew +48.4% in volume, adding over 700,000 litres to its MAT volume and gaining 6.6 share points.

Our well-established partnership with Diageo, coupled with the new distribution agreement with Beam Suntory which commenced in Q1 2018, gives us – we believe – the strongest whisky portfolio in the Czech Republic. We achieved whisky value share growth from 9.0% to 10.3%, despite significant average price reductions by leading competitors Tullamore Dew and William Grants.

These successes outweighed decline in total herbal bitters -8.6% value, driven primarily by the changed retailer promotional strategy coupled with aggressive price discounting by Jägermeister. Our new premium herbal bitter, Black Fox – launched in Q4 last year – increased its value share of the premium segment by 3.5 share points, counteracting in part, the decline on Fernet Stock in mainstream.

> *"Stock grew value share of the biggest Czech spirits category, rum, from 60.2% to 61.6%."*

NPD

We continued to invest in the development of Black Fox, our premium herbal bitter launched in October 2017. Its accessible taste and differentiated packaging, supported by a heavyweight programme of consumer awareness and sampling activity focused in selected on-trade outlets, is building Stock's share in the fast growing premium herbal bitters segment.

Building on our history of successful flavour innovation on Božkov, with the ambition of premiumising the brand, our Czech team launched new Božkov Republica imported rum in February 2018. It has achieved outstanding growth in its first eight months, achieving 6.1% value share of total rum and growing the overall rum category[3]. Božkov Republica is fast becoming one of the most successful NPD launches in Czech spirits market history.

Distribution Brands

We are close to completing our fourth year as the exclusive distributor of the core Diageo brands in the Czech Republic, and are delighted with the continued value growth that has been achieved on Captain Morgan, Johnnie Walker and Baileys[3].

The addition of the Beam Suntory range to our portfolio made a material increase to our total whisky share, and we began the distribution of The Dubliner and The Dublin Liberties Irish Whiskey Brands from Quintessential Brands.

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

Regulatory issues

The debate in the EU Commission on the continued use of rum ether has now concluded that the aroma should not be banned from use in domestic rum (tuzemák). Our team managed the challenge highly professionally without significant business or PR implications.

A new debate has opened between the EU Commission and the Czech Ministry of Agriculture and Food Inspection regarding the inclusion of milk in egg liqueurs. There is no material risk to Stock from that debate and plans are in place to address it should that prove necessary.

Organisation

A new Sales Director, Jan Riha, joined us from Coca-Cola HBC.

We continued to develop our sales and trade marketing capabilities, achieving a step-change in category-management with two of our major customers, Ahold and Billa, plus continued focus throughout our sales team on enhanced price management and promotional efficiency. We began to build relationships and to dedicate specific resources to the development of our e-retail customer base.

A number of updated health and safety initiatives were put in place; the improvements from which have been recognised by third party auditors.

Future Outlook

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

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

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 and maximise the opportunities.

Our Czech business has a demonstrable ability to deliver significant value growth through its focus on premiumisation, both of our own core brands and in collaboration with our distribution brand partners.

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

For the 9 month period to 30 September 2018, revenue for Czech Republic was €49.2m, (12 months to 31 December 2017: €67.7m), with adjusted EBITDA of €13.6m (12 months to 31 December 2017: €21.8m).

For the proforma years of 2018 and its 2017 comparative, revenue was €73.2m, an increase of 13% from €64.6m in 2017. Adjusted EBITDA also increased 5% from €20.6m in 2017 to €21.6m. In 2018, this division represented 26% of Group revenue (2017: 25%).

Regional reviews – Italy

Italy is our third largest market in revenue and EBITDA terms

The market in Italy remains highly fragmented from a supply perspective where the spirits market consists of a number of mature categories including bitters, vodka, brandy, whisky and liqueurs. Whilst Stock has a relatively small overall share of total spirits in Italy, at c.5.7% 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].

Trading conditions remain extremely tough in Italy. Whilst there are some improvements in consumer confidence versus last year, unemployment remains high and private consumption growth is slowing with waning job growth and weaker household purchasing power due to rising inflation[3].

Reflecting these macro trends, the outlook for the Italian spirits market has not improved. The total market has declined slightly -0.7% value in 2018.

Core Brands

In a difficult market, Stock Italia has held total volume and value share in our key focus channel: the modern off-trade.

Stock's total volume share is 6.0% (versus 6.3% LY) and value is 5.7% (versus 5.9% LY)[4]. Stock held MAT volume and value share in its four key categories, with slight gains in brandy but, with the softening of the market and strong growth of private label, slight losses in flavoured vodka-based liqueurs, limoncello and clear vodka (less than 1% in each). At a total company level, Stock's MAT value performance was stronger than several of its local competitors of similar scale, including Molinari, Casoni and Fratelli Branca.

Trade relationships were strengthened through the successful negotiation of annual deals with all buying groups and planned price increases achieved. Listings were also achieved with Aldi for the first time, a new entrant to the Italian market this year.

During Q2 2018 we commenced the relaunch of the Keglevich fruit flavoured range, supported by new packaging and heavyweight investment in a new 'Pure Vodka, Pure Fruit' communications campaign via a combination of digital and traditional media. This has already reached over 89% of our millennial target audience, supported by a nationwide series of 'Pure Party' trial building events in collaboration with one of Italy's biggest radio stations, RDS, which has over six million listeners. Our objective is to turnaround not just the brand but the flavoured category it leads.

NPD

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 100% fruit juice. The range was relaunched with improved liquids and packaging, with a planned gradual phase out of old with new product during H1 2018 before we commenced our relaunch communications campaign.

Source(s):

1. IRI total Italy, total modern trade, total spirits, MAT September 2018
2. IRI total Italy, total modern trade, total limoncello, total brandy, total flavoured vodka-based liqueurs and total vodka, MAT September 2018
3. OECD 2018
4. IRI total Italy, total modern trade, total spirits, MAT September 2018
5. IRI total Italy, total modern trade, total brandy, MAT September 2018
6. Stock Italia internal volume sales data

> *"During Q2 2018 we commenced the relaunch of the Keglevich fruit flavoured range, supported by new packaging and a communications campaign, with digital and traditional media."*

Keglevich clear vodka has also been relaunched with an improved quality, six times distilled liquid and more impactful packaging. It has outperformed the category in both volume and value growth.

Our iconic brand, Stock 84's refreshed packaging across the range, and improved premium Stock XO range extension, have driven value and volume growth ahead of the brandy category. The new XO has achieved value growth of +28.4% in a category declining by -3.7%[5].

We continue to invest in focused brand-building in selected premium on-trade outlets for Syramusa, a new premium sub-brand of Limoncè limoncello, launched in Q4 2017. 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 Limoncè into a more premium future. The brand has also been listed in travel retail with distribution through Heinemann.

Distribution Brands

The Vicenzi range of liqueurs (including the renowned 'gianduiotto' liqueur) from Nuove Distillerie Vicenzi was introduced from 1 January 2018.

The distribution brand range expanded further during 2018 with the addition of two new distribution agreements with Dictador rum and The Dubliner Irish whiskey.

Organisation

The pilot test of a new smart e-commerce tool commenced in October. It links our online social media activation directly to an opportunity to purchase the brand from a list of e-retailers with a click through mechanism.

The marketing team was reorganised to increase resources to support the Keglevich relaunch, with recruitment of a new senior brand manager for Keglevich, and two new (millennial age group) assistant brand managers.

Further development of our direct on-trade organisation in Northern Italy is delivering positive results. On-trade sales grew +9% in Northern Italy, versus total on-trade sales growth nationally of +1%[6].

Future Outlook

Continuing economic challenges and political uncertainty are forecast to constrain consumer confidence and disposable income with a continuing negative impact on overall spirits performance.

Duty and VAT Increases

Possible increase in VAT from 22% to 24.2% on 1 January 2019 with further increases possible in 2020 (24.9%) and 2021 (25%).

For the 9 month period to 30 September 2018, revenue for Italy was €17.6m, (12 months to 31 December 2017: €26.2m), with adjusted EBITDA of €1.7m (12 months to 31 December 2017: €6.3m).

For the proforma years of 2018 and its 2017 comparative, revenue was €25.8m, a decrease of 1% from €26.0m in 2017. Adjusted EBITDA also decreased 27% from €6.0m in 2017 to €4.4m. In 2018, this division represented 9% of Group revenue (2017: 10%).

Regional reviews – Other

In Slovakia, Stock outperformed total spirits, growing volume +4.9%

Our other markets include Slovakia, Croatia and Bosnia & Herzegovina together with our export operations and Baltic distillery.

Slovakia

Stock outperformed total spirits, growing volume +4.9% and value +3.9% (compared to total spirits volume +2.3% and value +3.8%)[1]. Stock maintained brand leadership in herbal bitters, increasing Fernet Stock's volume and value[2]. Growth was contributed to by our Fernet Stock Grapefruit flavour extension, coupled with revised price positioning on Fernet Stock Grand. Fernet Stock Grapefruit won the Consumer Choice Award 2018, awarded to the most successful innovation in the Slovakian spirits category by Slovak consumers. The roll out of Black Fox added a premium dimension to our bitters portfolio, whilst in vodka, Amundsen achieved double digit volume and value growth, well ahead of the category[3].

NPD drove premiumisation. Božkov Republica was rolled out and we entered the borovička (Juniper) category using the premium Golden Ice brand.

After herbal bitters, Stock's second highest value growth was from the whisky category. Having begun distribution of Beam Suntory's range in May 2017, Jim Beam's MAT value share was increased to 7.5% from 3.6% and +128.5% growth in value sales[4].

The distribution brands portfolio was expanded to include other growth categories through the addition of the Quintessential Brands gin range, The Dubliner and The Dublin Liberties Irish whiskeys and Barcelo premium rum.

These initiatives contributed to Stock Slovensko's volume and value growth in 2018 and reinforced our position as the second biggest spirits company in the Slovakian off-trade[1].

Other International Markets

In Croatia, despite challenging Agrikor issues, SSG grew volume and revenue per litre[5]. This was achieved primarily through up-weighted on-trade focus, supported by the relaunch of Stock 84 and a broader range of distribution brands from Beam Suntory, Beluga, Botran Rum and Lucas Bols.

In our export markets, the reorganisation of our route to market in Germany was completed successfully and contributed to a +17% volume uplift[5] and new distribution in Taiwan for Hammerhead Single Malt Czech Whisky generated high margin incremental sales.

Our Baltic distillery is fully operational and the causes of the incident last year, which caused the facility to cease production of alcohol for a short period, have been addressed fully.

For the 9 month period to 30 September 2018 revenue, for Other markets was €21.3m, (12 months to 31 December 2017: €28.4m), with adjusted EBITDA of €2.8m (12 months to 31 December 2017: €4.9m).

For the proforma years of 2018 and its 2017 comparative, revenue was €30.9m, an increase of 10% from €28.1m in 2017. Adjusted EBITDA also increased 24% from €4.6m in 2017 to €5.7m. In 2018, this division represented 11% of Group revenue (2017: 11%).

Source(s):

1. Nielsen, total Slovakia, total off-trade, total spirits MAT to end September 2018
2. Nielsen, Slovakia, total off-trade, total herbal bitters MAT to end September 2018
3. Nielsen, total Slovakia, total off-trade, total vodka MAT to end September 2018
4. Nielsen, total Slovakia, total off-trade, total whisky MAT to end September 2018
5. Internal Stock Spirits Group audited sales data

> *"NPD drove premiumisation. Božkov Republica was rolled out and we entered the borovička (Juniper) category using the premium Golden Ice brand."*

Responsible business report

We are aware of our wider responsibilities

Our approach to Responsible Business

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.

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 ensures all employees are aware of the 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.

Alcohol and society

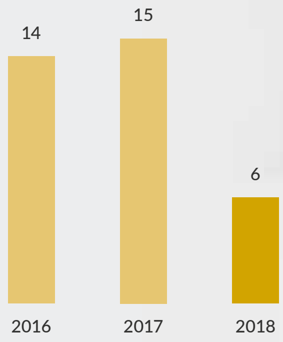
We are conscious that our products should be enjoyed responsibly by those who choose to drink them, and we do not want irresponsible drinking to harm the health of our consumers. We believe that efforts to reduce the misuse of alcohol are most effective if all parties involved (including authorities,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

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'; 'Better start for your child' aimed at pregnant women; '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. As the campaign is scheduled for three years, it will come to an end in mid-2019.

A significant part of the activity is carried out across social media and through campaigns held at universities, industry meetings and events. There are also workshops for retailers during which guidelines on 'Responsible selling and serving alcohol beverages' are communicated and ZP PPS actively supports both local and national responsible alcohol campaigns, such as the 'European Night without Accident'.

Lost Time Incident trend



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 2018 in supporting the local government in its ongoing efforts to implement a strong regulatory environment in the spirits industry.

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.

Health and Safety

The health and safety of our employees, contractors and visitors to our sites is taken very seriously and is a high priority for the Group.

With regard to performance during the period to 30 September 2018, there were no major accidents or incidents notifiable to the authorities. There was a significant reduction in accidents at work and lost time incidents (LTIs) have decreased by 60% compared to the prior year. As the graph above demonstrates, the reduction in LTIs over the three-year period between 2016–2018 emphasises the effect of our proactive focus on health and safety across the Group. There were six minor LTIs recorded in 2018 and Poland recorded a year without any LTIs in the supply chain.

With regard to our focus on governance and continuous improvement, cross Group health and safety forums are held quarterly, which support the local monitoring and review of practices, systems, processes and initiatives. The annual externally facilitated property and safety management audits, carried out across the Group, resulted in an improvement in scores across all locations.

Comprehensive and holistic safety improvement plans are in place across all locations and cover culture and behaviour; education, training, awareness and ownership; asset safety; and systems, processes and ways of working.

Responsible business report continued

Audit action plans are managed locally and at Group level, and are supported by the compliance team.

Formal local and Group health and safety reporting is presented on a monthly basis to the local management team, Group leadership team and to the Board and includes updates on: safety performance for the period; safety initiatives; investment updates; action plan performance; and reviews and audit updates.

Safety engagement and accident prevention includes the following:

- Quarterly safety days are held in Poland and the Czech Republic and focus on key safety improvements areas. Education, training, awareness and ownership for safety is a key component of our approach to health and safety and ensures our employees are aware, enabled, participating, empowered and engaged in safety at work.
- Proactive safety reporting and actioning includes documenting unsafe acts, unsafe conditions and near miss reporting, which was introduced in 2015 and is embedded in our supply chain operations.
- During the period to 30 September 2018 a target of one unsafe act/unsafe condition/near miss reported per employee per month was set and was achieved at a 98% completion rate for notifications.
- The MILA driver safety initiative was introduced during the year for all company car users in Poland and Slovakia and monitors key safety and economy areas of driver performance such as speed, seat belt wearing, acceleration, braking and fuel economy.
- Each month there is a hot topic to focus on and communicate. Some examples of those actions during the year were HALO pedestrian safety, slips trips and falls, hazardous areas training, contractor management, fire and explosion prevention and action, equipment and asset safety, car driver safety training, ergonomics and physiotherapy.

Continuous investment is made in the area of health and safety including property and asset protection.

Environment

Poland

In the 9 months to 30 September 2018, we continued our environmental awareness campaign, using the 'Sztokus' mascot. The campaigns' purpose was to raise eco-awareness of both Stock Polska personnel and employees of the Company's contractors, and to reduce our environmental impact as a business.

The campaign covered several areas including eco-awareness and behaviour; reducing the amount of generated waste and its segregation; water, gas and electricity saving initiatives; and communication campaigns focused on environmental protection, including posters, banners and stickers displayed throughout the premises.

In 2018 the following projects were set up and completed:

- On 23 April, to celebrate Earth Day, potted plants, reusable shopping bags and leaflets on consumer responsibility were distributed among the employees.
- To promote environmentally-friendly commuting, we encouraged our employees to participate in the carpooling programme and erected a roofed bicycle rack on the grounds of the employee car park.
- A waste segregation quiz was organised for the employees and winners received ecology-related prizes.
- As part of the Health and Safety and Environmental Protection Day, employees visited a stand devoted to the idea of Zero Waste at Home and Work and were given practical advice on ways of reducing their impact on the environment.
- In October the campaign 'Tree for waste' encouraged employees to bring recyclable waste such as paper, plastic or glass, in exchange for seedlings.

The main mottos of all environmental projects were "Zero waste" and "I'm a responsible consumer – I use no single-use packaging".

In 2018 we reduced the amount of generated waste by 19.43% and recycled 96.75% (2017: 89%) of the waste produced on site. In 2018 we reduced our utilities consumption in comparison to the corresponding period (January–September 2017) electricity by 10.2%; gas by 36.11% and water by 20.7%.

Czech Republic

In the 9 months to 30 September 2018, we improved efficiency of energy and water consumption. Gas consumption decreased by 10% due to increase of the efficiency of heating by exchange of ventilation exchangers in the administrative building and replacement of electric controllers on the central heating distribution. Water consumption decreased by 3% and was achieved by better planning.

In our production facility in Prádlo, electricity consumption decreased by 6% due to several projects including new electrical installation, newly installed efficient lights in blending premises and outdoors.

We were able to recycle 96% of the waste produced through employee training and improved processes of waste sorting.

Greenhouse gas emissions

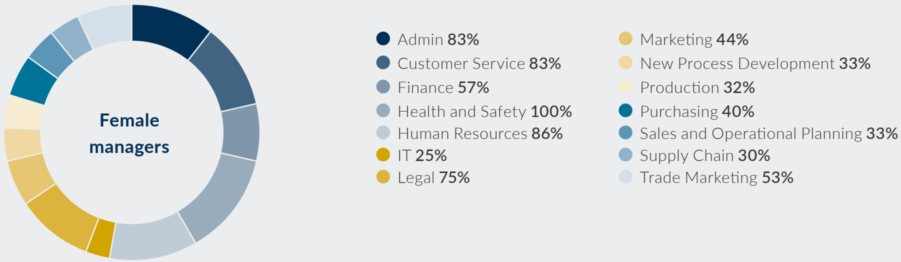
In the financial period 2018 (1 January 2018–30 September 2018), the Group's total Scope 1 (direct) and Scope 2 (indirect) Greenhouse Gas (GHG) emissions were 26,230 tonnes and 6,924 tonnes of CO_2e respectively, a total of 33,154 tonnes. This is a 13.5% increase compared to 28,938 tonnes during the same 9 months period in 2017 (22,398 tonnes of Scope 1 and 6,540 tonnes of Scope 2 CO_2e).

The emissions intensity for the financial period rose by 9.9% to 403 grams CO_2e per litre of packaged product compared to 365 grams during the same period in 2017.

This increase is due to the higher level of activity at the Baltic distillery site in the financial period relative to the same period in 2017 when the facility was not operational due to the breakdown of the grain dryer for a period. Baltic's core activity is energy-intensive rectification, which is why it accounted for 77.6% of total Group emissions in the financial period. In addition, the site's energy mix results in higher emissions per unit of energy used compared to other sites. An increase in activity at Baltic consequently leads to a disproportionate increase in emissions intensity at Group level.

As in prior years, we have applied the latest available DEFRA UK location based conversion factors (2018) to calculate the current year emissions. All data capture procedures, conversion and reporting have undergone independent limited assurance by ERM Certification and Verification Services (CVS).

Responsible business report
continued



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' Reports) 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 and we are committed to providing equality of opportunity to every employee and potential employee in all areas of employment.

The Group benefits from having a workforce reflecting the composition of the local communities in which it operates. The Group takes its responsibilities with regard to equality and diversity seriously and expects employees at all levels to not only respect and observe this, but also to take personal responsibility for driving equality and diversity.

We have an Equality and Diversity policy, that applies to all employees, which lies at the foundation of our recruitment process, in order 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.

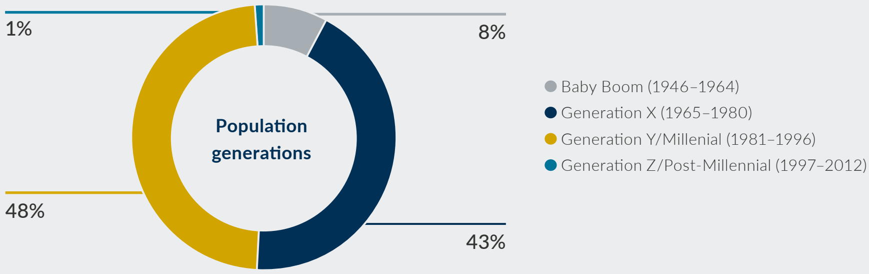
As a consumer-focused business, we recognise the value that a diverse mix of people provides us with, particularly in terms of consumer insights, but also in terms of driving business performance. Diversity is key to the success of the Group, with emphasis not only on gender but also on culture, nationality and experience.

As at 30 September 2018, at Board level, 100% of the Directors were male, however, Kate Allum was appointed as an Independent Non-Executive Director on 1 November 2018 reducing the percentage of male Directors to 87.5%. As detailed in the Nomination Committee Report on page 69, the Board will work towards 33% female representation on the Board when the next vacancy arises.

At the Group senior management level, 91% and across the Group 60% of all employees were male. From a cultural perspective, our Board continues to demonstrate broader diversity in the wider sense, with Directors from Poland, Italy and the UK, bringing a range of both domestic and international experience to the organisation. 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.

The senior management teams in our markets comprise predominantly of local nationals who understand the cultures in which we operate. In the local senior management teams the proportion of females is 40% and the percentage of female managers is 38%. The graph above shows the percentage of females by department across the Group.

As a Group we harness the experience, knowledge and points of view of our employees representing the various generations. The graph on page 43 shows the split for employee population by generation as at 30 September 2018. The proportion of employees under the age of 30 remained at 18% compared to the previous year, whilst the employees aged over 50 increased from 12% to 14%. The average age of employee across the Group was 39.



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 29. 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 raised over £4,000 for charity which included taking part in the 'World's Biggest Coffee Morning' supporting Macmillan Cancer and continuing to support the Project Artworks 'Art on Loan' programme.

Stock Polska donated 30,000 PLN to enable a group of local children to attend the 'Odyssey of The Mind World Finals' in USA.

In Slovakia retired laptops were donated to local charities and as part of their 'Healthy Company' initiative, a life balance lecture was organised alongside First Aid training for office staff in April as part of World Health & Safety Day.

Financial review

Paul Bal
Chief Financial Officer

Change of year-end and the proforma results

As previously announced, we have now adopted 30 September as our accounting year-end. The transition to this has been achieved without any major issues or business disruption. Given there is very limited comparability between the results reported for the 9 months to 30 September 2018, and the results for the 12 months ended 31 December 2017 ('2017'), we have presented certain additional proforma financial statements and notes in this Annual Report and Accounts. The proforma financial statements cover the 12 months ended 30 September 2018 ('2018 proforma') and the 12 months ended 30 September 2017 ('2017 proforma'). We have also set out the basis on which these proforma financial statements have been compiled, and provided reconciliations to the reported financial statements, see page 48. The proforma financial statements are not audited.

In the 9 months to 30 September 2018, we sold 9.1m 9 litre cases (2017: 13.1m). In 2018 proforma, volumes were up 2.8% as we sold 13.3m 9 litre cases (2017 proforma: 12.9m 9 litre cases).

Total Group revenue was €193.8m for the 9 month period (2017: €269.8m as restated for IFRS 15). On a proforma basis in 2018, revenues were up +8.7% to €282.4m (2017 proforma: €259.8m) and up +6.9% on a constant currency basis[1].

Revenue per litre[2] in the 9 month period was €2.36 (2017: €2.33). On a proforma basis it was €2.37 (2017 proforma €2.24), reflecting the progress in improved sales mix as our focus on premiumisation gains traction.

Costs of goods per litre[2] rose during the 9 months to 30 September 2018 to €1.22 (2017: €1.16). This reflects the impact of inflation as well as the premiumisation focus, including the increased proportion of distribution brands volume in our sales mix. Reported gross margin therefore slipped from 49.1% to 48.2%, although this was distorted by the shorter reporting period and the seasonality of Group sales. On a proforma basis, gross margin improved to 48.9% (2017 proforma: 47.3%); and cost of goods per litre were held to general inflationary levels.

As previously communicated, we invested more on the development and marketing of our brands and products than in recent years. This included several New Product Developments (NPDs) during the period. Whilst this increased investment is not apparent in the reported results selling expenses (9 months 2018: €42.5m, 2017: €56.0m), it can be seen in the proforma results (2018 proforma: €57.7m, 2017 proforma: €54.9m).

Other operating expenses, whilst lower in the reported results (9 months 2018: €22.0m, 2017: €29.6m), were higher on a proforma basis (2018 proforma: €30.1m, 2017 proforma: €25.1m). This largely reflects higher people costs particularly in Central Europe, and also includes higher variable reward costs as a result of the stronger performance across the business as a whole during the period. Underlying corporate costs reflect inflationary increases only.

Adjusted EBITDA for the 9 month period was €35.8m (2017: €56.3m). Proforma adjusted EBITDA was 2018: €59.4m, (2017 proforma: €53.2m) up +11.5%; or +8.1% on a constant currency basis[1].

Source(s):

1. Constant currency is calculated by converting 2017 results at 2018 FX rates
2. Revenue and cost of goods per litre is calculated by dividing total Group revenue or cost of goods sold by litres sold

> *"We have invested more on the development and marketing of our brands and products than in recent years; revenue and adjusted EBITDA have increased year-on-year as a result."*

The change in year-end has implications for our Financial Calendar, notably in respect of results announcements and dividends. Further details are set out on page 180.

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

Finance income and expense

The decline in net finance expense in the 9 months to 30 September 2018 of €1.7m (2017: €2.6m) as reported, is lower principally due to the shorter reporting period. On a proforma basis, the increase in net finance expense (2018 proforma: €3.1m, 2017 proforma: €1.7m) was primarily due to interest payable on settling historic tax issues and higher interest rates in the Czech Republic.

Taxation

The income tax expense, as detailed in note 13 of the consolidated financial statements, reflects a number of factors, primarily being: the tax expense for the current period, changes in provisions for taxation relating to prior years and movements in deferred tax. The higher reported effective tax rate of the Group, at 27.3% (2017: 26.7% excluding exceptionals), primarily reflects the settlement of prior year open tax issues. A small increase in the effective rate is also seen on the proforma basis (2018 proforma: 27.1%, 2017 proforma: 27.0%).

Group tax provisions totalled €8.0m at 30 September 2018, an increase of €0.5m from 31 December 2017. As set out in the principal risks and uncertainties (see page 20) and in note 4 of the consolidated financial statements, the Group is exposed to a number of tax risks in the countries in which it operates. There have been a number of developments in the period with respect to the Group's unsettled tax years in several countries. This includes in Poland where, in recent years, the Group has noted the Polish authorities increasingly adopting a more aggressive approach towards the interpretation of tax laws and regulations. Taken as a whole, and in common with other companies operating in Poland, this increases the uncertainties relating to the treatment of historical tax positions. Further details are set out in note 13 of the consolidated financial statements. The Group takes professional advice, and 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 likely or expected future settlements. Nevertheless, in some circumstances the Group may have to pay over sums assessed as due by the authorities and then seek their recovery as appeals processes run their course.

Exceptional items

There are no exceptional items arising in the 9 months to 30 September 2018 (2017: €14.9m Italian impairment charge and €4.7m deferred tax charge).

During the year-ended 31 December 2017, there were two non-cash exceptional items. First, there was an impairment charge against the carrying value of the Italian business, of €14.9m. Second, there was a one-off deferred tax charge of €4.7m in respect of Poland resulting from changes in tax legislation whereby tax deductibility of intangible asset amortisation is no longer allowed.

For the purposes of comparability, these exceptional items have been completely excluded from the proforma results.

Earnings per share

The basic earnings per share (EPS) for the 9 months to 30 September 2018 was 9.71 €cents per share (2017: 5.72 €cents per share). On a proforma basis, the basic EPS for the 12 months to 30 September 2018 was 16.72 €cents (2017: 14.74 €cents).

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 (see note 7 on page 126) of €47.9m in the 9 months to 30 September 2018 (2017: €48.6m). This represents a conversion rate from Adjusted EBITDA of 133.6% (2017: 86.3%), and reflects the reversal of the high-level of trade receivables at 31 December 2017.

Financial review continued

On a proforma basis, the Group generated free cashflow of €54.3m in the year to 30 September 2018 (2017 proforma: €52.8m). This represents a strong conversion rate from Adjusted EBITDA of 91.5% (2017: 99.1%).

Dividend and reserves

The Board has proposed a final dividend to shareholders which, when combined with the interim dividend, represents a significant enhancement over the progressive underlying dividend that would have otherwise been paid for the 9 month period to 30 September 2018.

The Board proposes a final dividend of 6.01 €cents per share for the 9 months to 30 September 2018 (2017: €5.72 €cents per share). In effect, the Board has proposed what would be a 12 month dividend that was progressive versus the 5.72 €cents final dividend paid for the year ended 31 December 2017.

When combined with the interim dividend of 2.50 €cents per share paid in September 2018 (2.38 €cents interim dividend paid in September 2017), this totals 8.51 €cents per share for the 9 months to 30 September 2018 (2017: 8.10 €cents per share), and represents an increase of 5.1%. Besides the enhancement of some 3.41 €cents, there are two further benefits for our shareholders: the final dividend is to be paid some three months ahead of last year as a result of the year-end change; and the 8.51 €cents total dividend becomes the base for future dividends under our progressive dividend policy.

If, through the combination of continued strong cash generation and limited M&A activity, the Group finds itself with an inefficient capital structure, the Board will consider making additional shareholder distributions.

During the period, the Company undertook a Reduction of Capital. This involved the cancellation of £155,428,080 standing to the credit of the Company's share premium account. This correspondingly increased the Company's distributable reserves by the same amount. The Reduction of Capital itself did not involve any return of capital to shareholders, or any reduction in the Company's net assets. The rationale for the Reduction of Capital was to increase the Company's distributable reserves, providing the Company with greater headroom and flexibility in the future for the paying of dividends.

Net debt and maturity profile

The Group's Revolving Credit Facility (RCF), which was taken out in 2015, was amended and extended in 2017, and now expires in 2022. Debt can be drawn and repaid at the Group's discretion without penalty or charge. Further details can be found on page 144 of the consolidated financial statements. At 30 September 2018, €10.6m of the RCF is used to back excise duty guarantees in Italy and Germany. We also retain a factoring facility capability of €50.0m.

The continued strong cashflow during the 9 month period to 30 September 2018 resulted in Net Debt of €31.6m at 30 September 2018, a decrease of €21.6m from 31 December 2017. Leverage fell to 0.53x (calculated using the proforma Adjusted EBITDA for 2018 not the 9 month reported Adjusted EBITDA) from 0.94x at 31 December 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 continuing to be the Polish Złoty and the Czech Koruna. Details of how the Group manages this risk is outlined on page 23. At 30 September 2018, there were no formal hedging instruments in place.

	30 Sept 2018 Closing Rate	2018 Average Rate	2017 Average Rate
Polish Złoty	4.28	4.25	4.25
Czech Koruna	25.70	25.57	26.32
GB Pound	0.89	0.88	0.88

A net positive foreign currency exchange gain of €0.8m was reported within the Adjusted EBITDA over the 9 month period to 30 September 2018. This has arisen on the appreciation of the Polish Złoty and the Czech Koruna versus the Euro. The table on the previous page shows the stated currency versus the Euro.

Changes in accounting policies

The Group adopted IFRS 15 (Revenue from contracts with customers) from 1 January 2018. The impact of this adoption on the 9 month period to 30 September 2018, and the year ended 31 December 2017 is set out on page 110 of the consolidated financial statements.

The Group adopted IFRS 9 (Financial Instruments) from 1 January 2018. As previously communicated, there was no material impact from this adoption.

The Group will adopt IFRS 16 (Accounting for leases) from 1 October 2019.

Equity structure

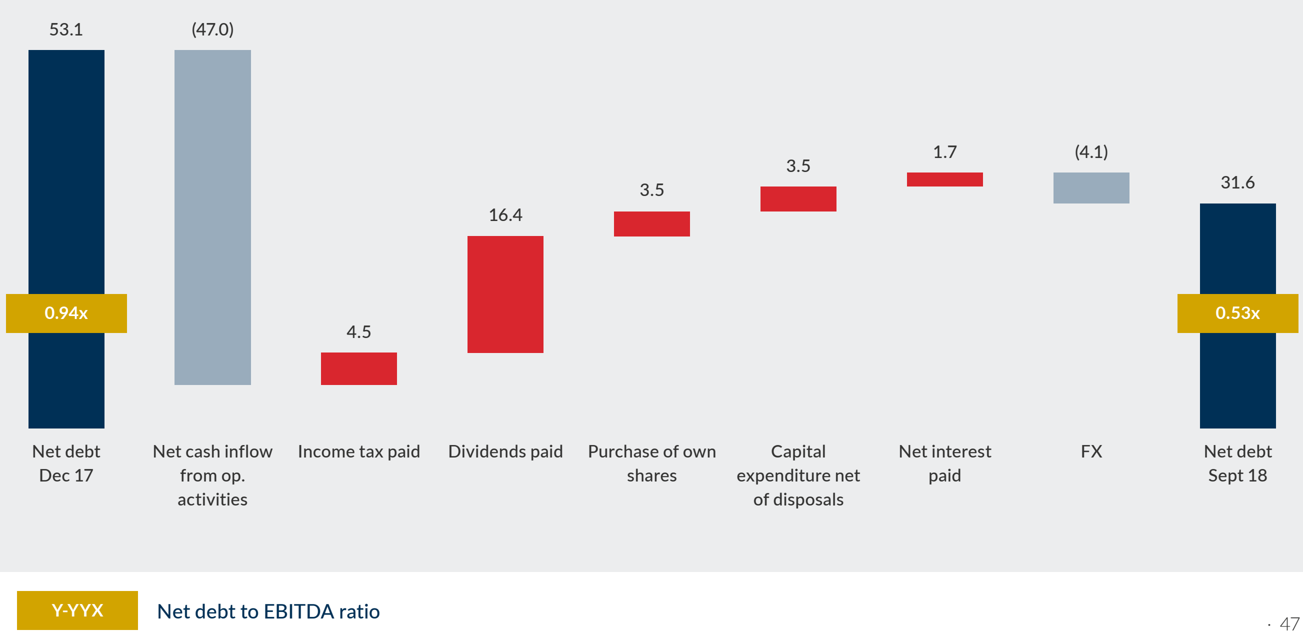
There has been no change to the equity structure of the business in the 9 month period to 30 September 2018. This remains at 200 million issued shares with a nominal value of £0.10 each.

The Company purchased 1.2 million of its shares in the period, at a cost of €3.5m, to settle future obligations under its share-based reward schemes. These shares provide a natural hedge to the P&L charge arising from the various share schemes in place under IFRS 2 (Classification and Measurement of Share-based Payment Transactions).

Paul Bal
Chief Financial Officer

5 December 2018

Net debt bridge: 31 December 2017 to 30 September 2018 (€m)



Black Fox

A fascinating, new and original herbal elixir crafted from selected forest herbs with a hint of orange. Black Fox presents a truly unforgettable blend which tastes best chilled.

Governance

Board of Directors

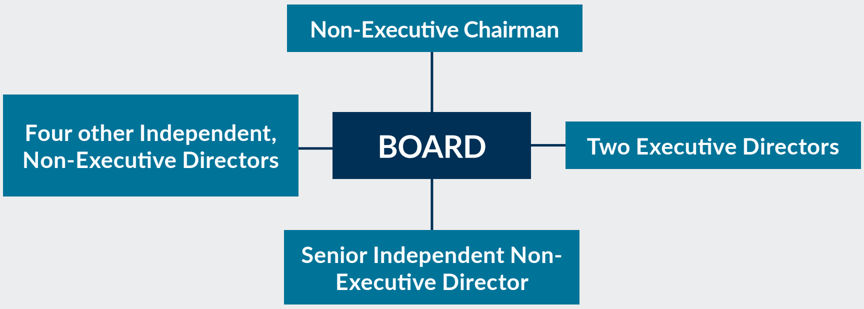
An international team with strong experience

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

	David Maloney Non-Executive Chairman	**Mirek Stachowicz** Chief Executive Officer	**Paul Bal** Chief Financial Officer	**John Nicolson** Senior Independent Non-Executive Director
Appointed	David was appointed to the Board as Senior Independent Non-Executive Director in October 2013 and in May 2015 was appointed Non-Executive Chairman.	Mirek was appointed to the Board as an Independent Non-Executive Director in November 2015 and as Chief Executive Officer in August 2016.	Paul was appointed to the Board as Chief Financial Officer in November 2017.	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.
Experience	During a long career in finance, David was Chief Financial Officer of Le Méridien Hotels and Resorts, Thomson Travel Group and Preussag Airlines, and Group Finance Director of Avis Europe. Since embarking on a plural career, David has served on several Boards including Virgin Mobile plc, Micro Focus International plc, Cineworld plc and Ei Group plc.	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).	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.	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.
Other appointments	None	None	None	He is currently the Chairman of A.G. Barr and Senior Independent Director at P Z Cussons plc.
Committee membership	N			A N R

Board structure



Committee status

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- ☐ Relevant Committee Chairman

For full bio's visit **www.stockspirits.com**

Kate Allum
Independent Non-Executive Director

Kate was appointed to the Board as an Independent Non-Executive Director in November 2018.

Previous roles have included Chief Executive of First Milk Ltd, and various senior management positions at McDonalds and OSI International Foods.

She is currently the Chief Executive of CeDo Ltd, a Non-Executive Director and Chair of the Remuneration Committee for Origin Enterprises plc, and serves as a Non-Executive Director for Cranswick plc.

A R

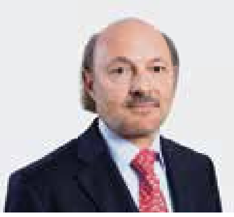
Mike Butterworth
Independent Non-Executive Director

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 Kin and Carta Group plc.

A N R



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 adviser to Bain & Company. 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.

He is Chairman of Solevo Holding B.V. and serves on the Advisory Board of POSpulse GmbH.

N R

Tomasz Blawat
Independent Non-Executive Director

Tomasz was appointed to the Board as an Independent Non-Executive Director in October 2016.

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.

He is currently the Managing Director of Carlsberg Poland.

A R

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 Governance Institute (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.

None

A N R

Chairman's letter

David Maloney
Chairman

Dear Shareholders

On behalf of the Board, I am pleased to present our Corporate Governance report for the period ended 30 September 2018. The Board is firmly committed to ensuring that our corporate governance arrangements continue to evolve and are effective and complied with in all jurisdictions in which the Group operates. We are convinced that strong corporate governance is good for our business and underpins the delivery of shareholder value. During 2018 we continued to comply with the 2016 UK Corporate Governance Code.

At the Company's last Annual General Meeting (AGM) held in May 2018, a significant number of votes were cast against the resolution proposing the re-election of a number of the Directors. Having discussed with shareholders, it is apparent that this was due in part to the lack of gender diversity on the Board, so I am pleased to explain the recent Board recruitment process which is outlined on page 70 of the Nomination Committee Report. A statement was also issued on 9 October 2018 and can be found on our website: http://www.stockspirits.com/investors/agm.aspx. I am always available to meet or speak with shareholders at any time during the year. As Chairman, I want to ensure I am fully aware of any concerns or issues they may have.

Ahead of the upcoming AGM in February, I have specifically contacted the top 20 shareholders, representing 77% of our register, seeking a meeting or call. Of these, I was able to speak to 9, representing 49% of the register.

As previously indicated, the Board and Nomination Committee supports diversity for both internal and external appointments and the most important area when recruiting will continue to be appointing the best person for the role. In May 2018, a process was put in place to search for an additional Non-Executive Director (NED) which led to the appointment of Kate Allum who joined the Board on 1 November 2018. More details can be found on page 69. This appointment will enhance the diversity and independence 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 stated on page 42 the Board will work towards the voluntary 33% target for female representation on the Board.

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 the Group's refreshed strategy focussing on the four pillars: increased focus on premiumisation of our products, attracting more millennials to our brands, increasing the use of digital communications with our consumers and reviewing M&A opportunities. The Board also regularly reviews, among other things, the performance of each of the markets and in particular Poland, our largest market; considers the principal risks and associated procedures and processes to mitigate them; an ongoing focus on people including analysing the results of the annual employee survey; and health and safety across the markets. 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.

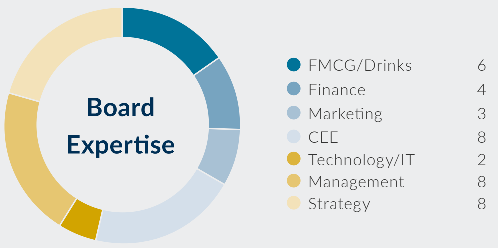
In the second half of the year, an internal evaluation of the Board was carried out to review the performance of the Board, its Committees and the individual Directors, including the Chairman. The exercise was facilitated by the Company Secretary under my direction and details of the process and outcomes are shown on page 62. In 2019 we will carry out an external evaluation.

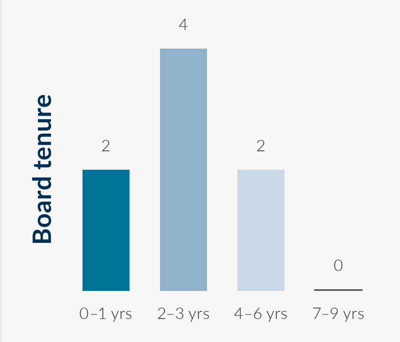
Your Board regularly meets with Group Management, both at Board and Board Committee meetings and in other routine meetings, which enables the NEDs to gain a good understanding of the business and what is happening on the ground. We believe that this is an essential requirement for Directors. We have 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

5 December 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 (the Code), published in 2016 by the Financial Reporting Council, 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 including ensuring that appropriate processes are in place to manage risk and monitor the Company's financial and operational performance. 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 composition and qualification

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 56 and 57. The biographies illustrate that the NEDs have a range of skills and experience including expertise in the food and drinks industry within Europe and beyond, that is relevant to the management of the Company.

The Board believes that there is an appropriate balance between the Executives and NEDs and that this balance is enhanced by the varying lengths of service, diversity and expertise of the Non-Executive Directors.

The Board composition, 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 appointment of Kate Allum in November 2018, the Board comprises eight Directors: a Chairman (who, for the purposes of the Code, was independent on appointment); a Senior Independent Director (SID); four Independent NEDs; and two Executive Directors.

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, operational performance 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.

Corporate governance framework continued

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.

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. 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.

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.

Meetings and attendance
In the 9 months to 30 September 2018, there were six scheduled Board meetings, plus two additional ad hoc meetings held by telephone. In the months when there is not a Board meeting, a Board call will be held to review the latest performance and cover any other matters requiring our attention. Attendance at the formal pre-scheduled Board and Committee meetings was as follows:

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

1. Mr Nicolson was unable to attend one Nomination Committee meeting due to ill health
2. Resigned as a Director on 6 March 2018

During 2018, 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.

Board meetings are structured in an open atmosphere, conducive to challenge and debate and all Directors are expected to attend. In the event that a Director is unable to attend a meeting, they will receive the papers scheduled for discussion at the relevant meeting, and are encouraged to provide comments to the Chairman or CEO on key items in advance of the meeting, so their views and opinions can be shared and taken into account at the meeting.

Generally on the evening before the Board meeting, a dinner is held for Directors to discuss strategic matters and matters to be covered the next day in a more informal environment. Senior management who are presenting to the Board may be invited to attend the dinner if appropriate.

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.

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 and Slovakia which included a deep dive presentation on the market, meetings with the local senior management team and a town hall meeting with the whole team followed by lunch. In this way, Directors keep their skills and knowledge relevant so as to enable them to continue to fulfil their duties effectively and employees are able to meet the Directors and ask questions in an informal environment.

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.

Corporate governance framework continued

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 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 were discussed individually between the Chairman and each Director. The outcome of these meetings and the overall Board discussion on the results, 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 from the previous year's internal evaluation had been progressed. These actions included succession planning; more focus on engagement with the management teams; and improving management information. For the year ahead, the Board will continue to focus on improving management information, focus on supporting the Executives as they embed culture, values and behaviours across the Group, and focus more on strategic options and plans at Board meetings.

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 2019, an external evaluation of the performance of the Board, its Committees and the Chairman will take place.

Relations with Shareholders

The Company has a comprehensive investor relations programme including meetings with institutional shareholders, buy and sell-side analysts and potential 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. David Maloney offers calls and meetings to institutional shareholders regularly throughout the year. Regular presentations take place at the time of the interim and final results, as well as during the rest of the year. An active programme of communication with potential shareholders is also maintained. All of the Directors make themselves available for meetings with shareholders as required and will be available at the AGM.

The Board receives regular updates from the CFO including feedback from meetings held and analyst reports are circulated to the Directors when available. During the year, roadshows were held in London, Poland and North America with institutional investors as well as attending various conferences. Following the interim results in August 2018, a strategy update was presented to sell-side analysts followed by a tasting session of our products. One-to-one investor meetings were held throughout the year with the CEO and CFO.

Ahead of the AGM being held in February 2019, governance meetings were offered to the top 20 shareholders with myself and the Company Secretary. We met or had a call with nine shareholders (representing 49% of the register) and discussed topics such as diversity, the change in the year end, succession planning, the Group's strategy including M&A, the dividend policy and our relationship with our largest shareholder.

The Company's website www.stockspirits.com includes a dedicated Investor section and provides an easily accessible communication channel for existing and potential investors. Private shareholders are encouraged to attend the Company's AGM or to submit questions via the website. The website also provides the latest news, historical financial information, details about forthcoming events and other information regarding Stock Spirits.

Annual General Meeting (AGM)

The Company's AGM will take place at 10am on Thursday, 14 February 2019 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.

David Maloney
Chairman

5 December 2018

Audit Committee report

Mike Butterworth
Chairman of the Audit Committee

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 Annual Report and Accounts (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 period ended 30 September 2018, having completed a formal competitive tender process for the appointment of the external auditor during the year ended 31 December 2015.

Composition of the Committee

During the period ended 30 September 2018, the Audit Committee held four meetings. The members of the Committee during the year were Mike Butterworth (Chair), John Nicolson and Tomasz Blawat.

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.

The Company Secretary served as Secretary to the Committee. The Chairman of the Company, NEDs not on the Audit Committee, CEO, CFO, Head of Internal Audit, Group General Counsel, and the 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 the risks faced by the Group on an ongoing basis, both at an operational and strategic level, which has been in place for the period 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

> *The Committee has reviewed the effectiveness of our risk management and internal controls process, including financial reporting, to ensure it remains robust.*

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 30 September 2018 and the period to the approval of this ARA.

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

The Committee's role is primarily advisery: 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 period, we have reviewed reports from the CEO and the Company Secretary, as well as from other members of management and the internal audit team.

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 been completed and the ongoing internal audits of compliance with the controls are now producing very high pass rates in all markets.

Audit Committee report continued

Internal controls and risk management continued

With this enhanced control framework now in place in all our principal markets, the main focus in 2018 has been on the ongoing auditing of the controls to ensure that they are operating effectively and also to seek to simplify and harmonise controls across the Group.

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. 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 2018. 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 2018, the main focus of internal audit activity continued to be on extensive post-implementation auditing 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. In addition, the Committee received internal audit reports on the design and operating effectiveness of controls around our excise duty settlement processes in Poland and Czech, trade marketing activity and expenditure 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 2018, we received no Speak-Up hotline contacts.

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

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, 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 and revenue is measured net of such items. A number of these arrangements are calculated retrospectively on a calendar year basis, rather than the Group's recently changed financial year ending 30 September. Therefore not all sales incentives are confirmed by customers at our financial period end. The estimation of these incentives is an area of significant judgement, with varying complexity, depending on the nature of the arrangements. We reviewed the procedures performed by management and the auditors to ensure the accuracy and completeness of such reserves at the end of the period. 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 period's testing showed positive headroom in all cash-generating units, with the exception of Italy, where the continued low profitability resulted in only limited headroom.

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, transfer pricing and cost recharges between Group companies. 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. Disclosure of significant tax risks has been made as appropriate.

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.

Change of year end

As a result of the change in year-end to 30 September from 31 December, the statutory results of the Group reflect a 9 month trading period with 12 month comparatives. To assist shareholders in better understanding the underlying performance of the business, additional financial information has been provided, on a proforma basis, for the two 12 month periods ended 30 September, 2018 and 2017. The Committee reviewed the basis of preparation for this pro-forma financial information and its disclosure in the ARA alongside the statutory financial information.

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.

Audit Committee report continued

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.

External audit continued

Before concluding our recommendation on the ARA in December 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.

We conducted a formal competitive tender for our external audit services in the second half of 2014, following which KPMG LLP was appointed as the Group's auditor at the Annual General Meeting in May 2015 and has continued as auditor to date. We continue to review external audit effectiveness each year and, depending upon the outcome, will consider the need to re-tender.

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 period were €760,000 and audit-related assurance services fees amounted to €61,000. 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

5 December 2018

Nomination Committee report

David Maloney
Chairman of the Nomination Committee

I am pleased to present the Nomination Committee Report for the 9 months to 30 September 2018.

Composition of the Committee

The members of the Committee during the period consisted of David Maloney (Chair), John Nicolson, Mike Butterworth and Diego Bevilacqua.

Meetings

The Nomination Committee met five times during the period. David Maloney, John Nicolson, Mike Butterworth and Diego Bevilacqua met the independence criteria in the Code on appointment. The Company Secretary served as Secretary to the Committee. The Executive Directors attend Committee meetings by invitation as required. We also ask other members of the senior management team, such as the Interim 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 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 'Terms of Reference of the Committee' (which are available on the website: www.stockspirits.com) were reviewed during the year to ensure they reflect the remit of the Committee and it was concluded that they remain appropriate.

In accordance with the recommendation for FTSE 350 companies set out in the Code, all of the Company's Directors will stand for election or re-election at the forthcoming AGM.

The biographical details of the current Directors can be found on pages 56 and 57. The Committee considers that the performance of each of the Directors standing for election or 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.

Activity

The Committee meets at least twice a year and after each meeting, the Committee Chairman reports formally to the Board. The Committee held five meetings during the 9 months to 30 September 2018.

Board appointments

In May 2018, the Board commenced a search for an additional Non-Executive Director (NED). The Committee, in consultation with other Board members, agreed the key experience and skills and engaged the external search consultancy Odgers Berndtson (an independent external adviser with no other connection to the Group) to assist with the search. The Committee considered a list of potential candidates prepared by Odgers Berndtson and identified those whom it wished to take forward. A number of candidates were interviewed by myself and my colleague Diego Bevilacqua, and a short-list of two candidates then met individually with the remaining Executive and Non-Executive Directors. The proposed appointment of Kate Allum was unanimously approved by the Board. Kate joined the Board on 1 November 2018 and also became a member of the Audit and Remuneration Committees.

Succession planning

Succession planning has continued to be a key area of focus during the year, both in respect of the Board and for the senior management team. In January 2018, the Committee met and discussed 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. There was an increased focus on the high performing individuals with potential to develop into senior roles in the future and a training and mentoring programme has been put in place.

Nomination Committee report continued

Succession planning continued

At the meeting held in June 2018, I recommended continuing the mentoring programme between the NEDs and the senior management team and new partnerships were suggested and agreed. This programme was established to help the NEDs gain a greater understanding of a particular area of the business and to also provide a sounding board for individuals as required. As well as regular meetings between individual NEDs and their mentees, the senior management team meets regularly in more informal settings with the Board. The mentoring programme remains beneficial and will continue in 2019. The Committee will continue to focus on succession planning and development of both middle and senior management.

Effectiveness

During 2018 an internal evaluation of the Board and its committees was carried out using questionnaires for the Board to complete. Details of the process and outcomes can be found on page 62.

Diversity

Following the AGM in May 2018 where there were high votes against the resolutions re-electing the members of the Nomination Committee, I contacted those shareholders who had cast votes against, suggesting a meeting or call. Out of the seven shareholders contacted, two responded. From those conversations, the lack of diversity on the Board was clearly a reason for voting against. As previously explained, the Committee had commenced a search for a new NED in May and Kate Allum joined the Board on 1 November 2018. Our Board now consists of one female (12.5%) and seven males (87.5%).

The Company remains committed to ensuring a diverse and representative Board and to ensuring that appointments are based on merit. Boardroom diversity will continue to be an important area of focus for the Committee with the aim of attracting and maintaining a Board which has a broad range of skills, backgrounds and experience, ensuring the best people are appointed. Whilst the Board does not currently meet the voluntary target for gender set by the Hampton-Alexander Review for FTSE350 Boards, this target has now been included within the Board Diversity Policy. The Committee will work towards the target when vacancies arise in the future, however, given the size and tenure profile of the Board, it may take slightly longer than 2020 to achieve.

The Committee will continue to seek diversity when considering new appointments to both the Board and the senior management team and will work with the Executive search firms, in a manner which enhances opportunities for diverse candidates. The Board Diversity Policy will continue to be reviewed on an annual basis to ensure it remains appropriate.

The Policy will be fully taken into account when the next Board vacancy arises. As mentioned above this may not be in the very near future given the tenure profile of the Board.

Director induction and training

New Directors undertake an induction programme when joining the Board. Each induction is tailored to the needs of the individual and will include meetings with internal and external individuals who are key to the success of the Company and include visiting our production sites.

The NEDs are encouraged to meet the Group's employees at all levels and 'town hall' meetings are held in our operating territories throughout the year, to enable employees to ask the Board questions and spend some informal time with them.

The individual training and development needs of the Directors was discussed as part of the internal Board evaluation process. Directors are encouraged to attend external seminars and briefings as part of their continuous development and several are members of the Deloitte Academy, which provides updates on areas such as corporate governance matters and financial reports.

A training session was provided by KPMG in August covering changes to Corporate Governance.

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

I will be available at the 2019 AGM to answer questions relating to the work of the Committee.

David Maloney
Chairman of the Nomination Committee

5 December 2018

Directors' Remuneration report

John Nicolson
Chairman of the Remuneration Committee

On behalf of the Remuneration Committee and the Board, I am pleased to present the Remuneration Report for the 9 month period to 30 September 2018.

During the period under review, we continued to apply the remuneration policy (the Policy) that was adopted in 2017. No changes to the Policy are proposed for 2019.

The Annual Report on remuneration (pages 80 to 86) sets out how the Policy was applied in the 9 months to 30 September 2018 and details the rewards earned by Directors. It also sets out how we intend to apply the Policy in the year to 30 September 2019.

As no changes are proposed to the Policy, it will not be subject to a vote at the AGM. The Annual Report on remuneration will be subject to an advisery vote by shareholders at the AGM.

Remuneration in 2018

The outturn for 2018 can be summarised as follows:

- **Base salary**
  Mirek Stachowicz's salary for 2018 increased by 3% to £437,750 (€497,443) as reported last year, in line with the range of increases awarded to the wider workforce. Paul Bal was appointed as CFO in October 2017 with a salary of £300,000 (€340,909), which, as reported last year, was less than the salary earned by the former CFO.
- **Annual bonus**
  Mirek Stachowicz's and Paul Bal's bonus opportunity for 2018 was up to 140% of salary earned in the period. 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 against the EBITDA measure was between on target and maximum and performance against the cashflow conversion measure exceeded maximum. The Committee used its discretion to reduce the bonus outturn which reflects the challenge of setting targets across the shortened 9 month period and the phasing effect on EBITDA over this period. Mirek Stachowicz and Paul Bal have earned bonuses of 97.24% of the salary earned in that period; further information is included on page 81. 25% of the bonus earned by Mirek Stachowicz and Paul Bal will be deferred into shares (and held for two years).

Neither Mirek Stachowicz nor Paul Bal had a PSP award which was capable of vesting in respect of the period ended 30 September 2018.

Remuneration for 2019

Executive Director salaries for the 2019 calendar year will be decided by the Remuneration Committee, at the same time as the salary review for the wider workforce. The increases will be implemented in January 2019. Any increase for the Executive Directors is expected to be modest and will not exceed the range of increases awarded to the wider workforce. Information regarding the increases will be provided in the 2019 ARA.

No changes are proposed to the quantum or overall structure of the Executive Directors' annual bonus and LTIP opportunities for the period to 30 September 2019.

The bonus opportunity will be up to 140% of salary earned during the period. 25% of any bonus earned will be deferred into shares for two years. As detailed on page 85, the Remuneration Committee have changed the bonus metrics for the financial year to 30 September 2019, removing individual KPIs and replacing with revenue growth, so that the metrics and weightings will be:

- as regards 60% of the opportunity, EDITDA
- as regards 20% of the opportunity, cashflow and
- as regards 20% of the opportunity, revenue.

It is our intention to grant PSP awards at the level of 125% of salary. Awards will be subject to EPS and cash conversion targets as set out on page 86, and will be subject to a two-year holding period after vesting.

Any proposed increase in fees for the Chairman and NEDs will be discussed and agreed at the same time at the Executive Directors and wider workforce review and will be implemented from January 2019 in line with the salary review for the Executive Directors and wider workforce, and will be reported within the 2019 ARA.

Directors' Remuneration report continued

Key activities

The key activities of the Remuneration Committee during the 9 month period to 30 September 2018 included:

- Reviewing the base salaries of the Executive Directors and senior management team for 2018
- Setting the objectives for the 2018 annual bonus arrangements for Executive Directors and the senior management team
- Reviewing targets for the Executive Directors' bonus arrangements in respect of the 9 month period to 30 September 2018
- Approving the LTIP awards granted in March 2018
- Reviewing the Remuneration Committee's terms of reference
- Reviewing the impact of the change in year-end on remuneration arrangements.

In the year ending 30 September 2019, in addition to the Remuneration Committee's usual work, we will review the Policy, both in advance of submitting it for shareholder approval at the AGM to be held following the end of the period and to consider the way in which we will reflect the provisions of the new Corporate Governance Code.

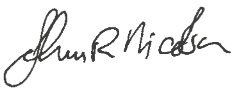
Shareholder engagement

The Remuneration Committee, and the Board of Directors more generally, recognise the importance of engaging with shareholders in relation to executive remuneration, and the members of the Remuneration Committee are available for meetings with shareholders as required. The Board issued a statement in October 2018 regarding the engagement which took place in connection with the 2017 and 2018 AGMs. See page 58 for further information. Ongoing engagement by the CEO and CFO has ensured that key shareholders have been regularly updated on progress and performance throughout the period. The Chairman of the Company has offered meetings with the top 20 shareholders ahead of the 2019 AGM as detailed on page 58.

The Remuneration Committee is pleased to report that the Remuneration Report at the 2018 AGM received 99.89% in favour from those that voted; the full breakdown of the votes is reported on page 86.

Because the Policy is not subject to a shareholder vote at the 2019 AGM, we have not included it in full in this year's Directors' Remuneration Report. On pages 73 to 79, we have set out the parts of the Policy that we consider shareholders will find most useful, but with the 'Reward Scenarios' on page 76 updated to reflect the application of policy in 2019. The full policy as approved at the Company's AGM 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. On behalf of the Board, I would like to thank shareholders for their continued support and would encourage shareholders to get in touch should they have any questions regarding our Remuneration strategy.



John Nicolson
Chairman of the Remuneration Committee

5 December 2018

Governance

Directors' remuneration policy

This part of the report sets out those parts of the Directors' remuneration policy approved at the 2017 AGM on 23 May 2017 that we consider shareholders will find most useful, but with the 'Reward Scenarios' on page 76 updated to reflect the application of policy in 2019. The full policy, as approved, is set out on pages 77 to 84 of the Company's 2016 ARA, 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.
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.

Directors' Remuneration report continued

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
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. Claw-back 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. Claw-back 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.

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.

Directors' Remuneration report continued

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 performance 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.

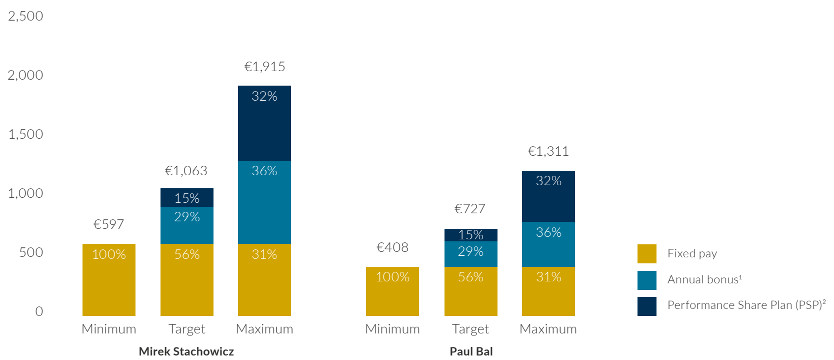
Non-Executive Directors

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 chart below shows the potential reward available to the Executive Directors under the remuneration policy. The charts have been updated to show how the policy will be applied in 2019. For illustration, target performance assumes a bonus of 50% of the maximum and threshold vesting under the Performance Share Plan (25% of the maximum). The Directors are paid in Sterling but the chart has been presented in Euros, which is the Group's reporting currency using an exchange rate of €1:£0.88. No assumptions have been made as to possible share price growth or dividends earned in relation to share awards.

Reward Scenarios (€000)



1. Annual bonus 140% of salary at maximum, assumes bonus of 63.2% of salary at target

2. Performance share plan (PSP) assumes grant of 125% of salary and threshold vesting (25% of max) at target

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, 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.

Directors' Remuneration report continued

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.

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 policy table (on pages 74 and 75), 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. Up to 28 June 2018, Mirek Stachowicz was a Non-Independent Member of the Supervisory Board of Paged S.A., for which he received a fee of 174,714PLN (€41,109).

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.

Directors’ Remuneration report continued

Annual Report on Remuneration

This part of the report provides details of remuneration earned by Executive Directors in respect of the 9 month period to 30 September 2018 and how the Policy will be implemented during the year to 30 September 2019. It will be put to an advisory shareholder vote at the 2019 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 Committee consists entirely of Independent Non-Executive Directors. The Committee is chaired by John Nicolson and during the period to 30 September 2018, its other members were Mike Butterworth, Diego Bevilacqua and Tomasz Blawat.

During the 9 month period ended 30 September 2018 the Committee held five meetings, see the table on page 60 for further details. The Company Secretary served as Secretary to the Committee. Meetings were also attended by the Chairman, CEO, CFO and Interim Group HR Director by invitation. Members of the Remuneration Committee and any person attending its meeting do not participate in any discussion or decision on their own remuneration.

Advice provided to the Remuneration Committee

Deloitte LLP acted as adviser to the Committee during the period to 30 September 2018 and have been in place since their appointment by the Committee in 2016. 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 2018 were £10,170 (€11,557) 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 (audited)

The table below sets out the total remuneration for the Directors for the 9 month period 2018 and the 12 month year 2017. 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 for both reporting periods.

	Total amount of salary and fees		All taxable benefits[2]		Annual incentive arrangements		Long-term incentive arrangements		Pension[5]		Total	
€000	9 mth period 2018	12 mth period 2017	9 mth period 2018	12 mth period 2017	9 mth period 2018[4]	12 mth period 2017	9 mth period 2018	12 mth period 2017[1]	9 mth period 2018	12 mth period 2017	9 mth period 2018	12 mth period 2017
Executive Directors												
Mirek Stachowicz	373	483	19	26	363	155	–	–	56	72	811	736
Paul Bal	256	85	12	3	249	–	–	–	38	13	555	101
Independent NEDs												
David Maloney	145	193	–	–	–	–	–	–	–	–	145	193
John Nicolson	61	81	–	–	–	–	–	–	–	–	61	81
Tomasz Blawat	48	64	–	–	–	–	–	–	–	–	48	64
Mike Butterworth	56	75	–	–	–	–	–	–	–	–	56	75
Diego Bevilacqua	48	64	–	–	–	–	–	–	–	–	48	64
Non-Independent NEDs												
Randy Pankevicz[3]	22	52	–	–	–	–	–	–	–	–	22	52

1. Long-term incentive arrangements of €744,000 for Mirek Stachowicz and €100,000 for Paul Bal were included in last years ARA in error and hence have been removed this year in the table above in relation to 2017. The value at vesting of those awards will be included in the Directors' Remuneration Report for the year in which they vest, in line with the regulations
2. Taxable benefits include car allowance, medical and dental healthcare
3. Randy Pankewicz resigned on 6 March 2018 and his salary and fees for the period include three months payments in lieu of notice
4. 25% of the bonus earned by each of Mirek Stachowicz (€362,778) and Paul Bal (€248,620) will be deferred into an award of shares under the Deferred Annual Bonus Plan which will vest after two years subject to continued employment
5. With regard to the Executive Director pensions, a monthly cash allowance of 15% of salary is paid in lieu of a pension scheme contribution

Annual bonus earned for 2018 (audited)

The key decision made by the Committee during the period was to determine how to manage reward in the shortened 9 month financial year with the new September year end.

During the process of budgeting the Board reviewed a 12 month budget for the calendar year 2018, enabling detailed comparison with the previous financial years that ended in December. Once satisfied with the basis of the plan and its components, a five quarter analysis was completed including the Q4 period of 2017. Budget targets were then applied to the 9 month financial year. The Committee also concluded that the bonus achievement would be ratified once a judgement was made as to the likely outcome of the final quarter of the 2018 calendar year. This was reviewed in November and again in early December.

The Remuneration Committee regards the financial period as a good period of progress in both financial and strategic terms. Mirek Stachowicz's and Paul Bal's bonuses for the 9 month period 2018 were based on a mix of financial (translated at the Group's budget exchange rates for the year) and personal performance measures (KRAs), as summarised below. The Committee used its discretion to reduce the bonus outturn by around 13% which reflects the challenge of setting targets across the shortened 9 month period and the phasing effect on EBITDA over this period.

The maximum bonus opportunity was 140% of salary earnt in the 9 month period. Based on the performance achieved, bonuses were earned as follows:

Mirek Stachowicz: 97.24% of salary
Paul Bal: 97.24% of salary

		Performance targets				
Measure	Weighting measure	Minimum	On Target	Maximum	Actual	Bonus earned (% of salary earned in the period)
Adjusted EBITDA (at budget rates)	50%	€31.279m	€32.925m	€36.218m	€33.963	41.24%
Free cashflow conversion (at budget rates)	30%	95%	100%	110%	131.8%	42.00%
Individual KRA's	20%		See summary on page 82			14.00%

Directors' Remuneration report continued

Individual KRAs

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

Mirek Stachowicz

KRAs	Performance outcome	Remuneration Committee assessment of performance
M&A	As indicated in the Chairman's Statement on page 6, we will continue to assess a range of acquisition opportunities that would deliver enhanced growth and shareholder value for the future.	Not Achieved
Premiumisation: Brown Spirits	Successful launch of Božkov Republica rum and growth of 3rd party brands in Czech.	Achieved
Millennials: Italy and Poland	Keglevich re-launched in Italy and ZdL re-launched in Poland. Italy continues to be a challenging environment.	Partly Achieved

On the basis of the above performance and having regard to overall performance, the Remuneration Committee determined that Mirek Stachowicz receive a payment of 14% out of a maximum of 28% of the personal element.

Paul Bal

KRAs	Performance outcome	Remuneration Committee assessment of performance
M&A	As indicated in the Chairman's Statement on page 6, we will continue to assess a range of acquisition opportunities that would deliver enhanced growth and shareholder value for the future.	Not Achieved
Digital	Increasing use of digital in our engagement with consumers.	Partly Achieved
Foundation	Implementation of the change to year-end from 31 December to 30 September in line with the plan agreed.	Achieved

On the basis of the above performance and having regard to overall performance, the Remuneration Committee determined that Paul Bal receive a payment of 14% out of a maximum of 28% of the personal element.

Long-term incentives awarded in 2018

As discussed in the Remuneration Committee Chairman's Statement last year, PSP awards in 2018 were granted at the level of 125% of salary pro-rated to 93.75% for the 9 month period to 30 September 2018.

Director	Basis of award	Face value of award (£)	No. of share awards	% vesting at threshold	End of performance period[2]
PSP awards[1]					
Mirek Stachowicz	125% of salary (93.75% for the 9 month period)	£410,392.55[1]	157,058	25%	30 September 2021[3]
Paul Bal	125% of salary (93.75% for the 9 month period)	£281,250.26[1]	107,635	25%	30 September 2021[3]

1. The face value of each PSP award is calculated by multiplying the number of shares by £2.613 (being the average share price over the five dealing days preceding the grant)
2. Neither Mirek Stachowicz nor Paul Bal may dispose of shares acquired pursuant to the exercise of the award before the expiration of a period of two years beginning with the date of vesting of his award (other than to fund tax liabilities associated with the award), unless the Remuneration Committee determines otherwise
3. Each PSP award is subject to the following performance conditions assessed over the Company's 2018, 2019 and 2020 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 aggregate of the Adjusted EBITDA for the Financial Years in the Performance Period is at least €145.2m

Outstanding share options (audited)

The following table summarises the Executive Directors' share awards as at 30 September 2018.

Type of interest	Date of grant	Performance condition	Interest as at 31 December 2017	No. shares under award	No. shares under any lapsed portion of the award	Share options as at 30 September 2018	Vesting date or (for options) exercise period
Mirek Stachowicz							
DABP 2018	23.03.18	None	–	13,661	Nil	13,661	23.03.20
PSP 2018[1]	14.03.18	EPS and Cash conversion	–	157,058	Nil	157,058	December 2020[2]
PSP 2017	15.03.17	EPS and Cash conversion	416,667		Nil	416,667	15.03.20
Paul Bal							
PSP 2018[1]	14.03.18	EPS and Cash conversion	–	107,635	Nil	107,635	December 2020[2]
Joiner option	10.10.17	None[3]	40,184		Nil	40,184	10.10.20

1. The performance conditions for the 2018 PSP awards are set out on page 82
2. The awards will vest on assessment of the performance condition following the end of the Company's financial year ending on 30 September 2020
3. This option was granted to Paul Bal to compensate him for incentive awards he forfeited in his previous role, as described in the 2017 Directors' Remuneration Report

Payments to past Directors (audited)

There have been no payments to past Directors in the period, other than those noted in the 2017 ARA.

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 2018, this was 200% of salary, which reflects the current policy, see page 75 for further details. Their achievement against these guideline limits is set out in the table below.

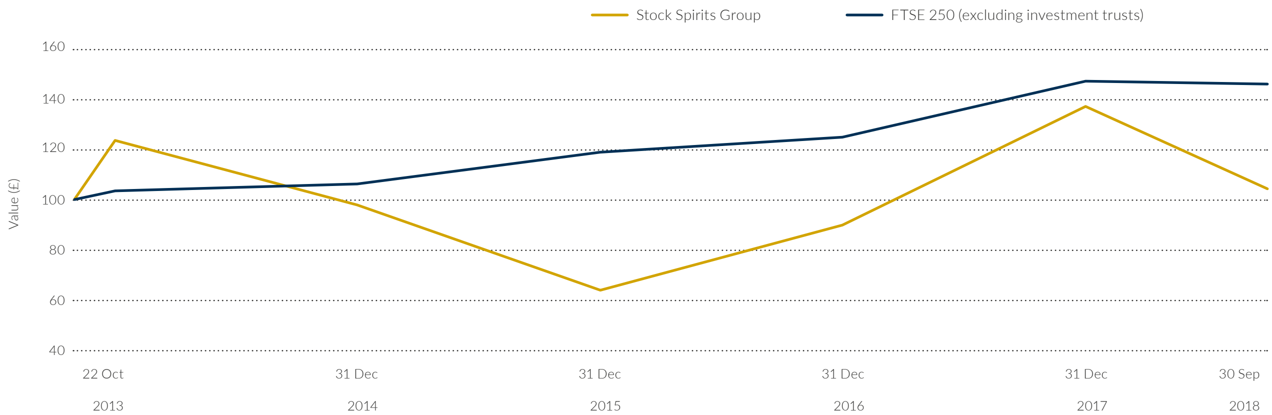
		Outstanding Scheme Interests			Value of shares counting towards the shareholding guideline	
As at 30 September 2018	Beneficially owned shares[1]	PSP[5]	Deferred Annual Bonus Plan	Joiner award	£000	% salary[4]
Executive Directors						
Mirek Stachowicz[2]	121,380	573,725	13,661	–	239	55%
Paul Bal	20,000	107,635	–	40,184	39	13%
Non-Executive Directors						
David Maloney[3]	60,000	–	–	–	–	–
John Nicolson	–	–	–	–	–	–
Tomasz Blawat	–	–	–	–	–	–
Mike Butterworth	18,750	–	–	–	–	–
Diego Bevilacqua	27,018	–	–	–	–	–

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 £1.968 and expressed as a percentage of their annualised 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. This percentage has been calculated using the annualised salary of Mirek Stachowicz of £437,750 and Paul Bal of £300,000
5. With regard to the vesting of the PSP, other than for the sale of shares to realise an amount equal to any tax, social security or dealing costs arising in connection with the exercise of the award, the Director may not deal with any shares acquired pursuant to the Award until the second anniversary of the vesting date

Directors' Remuneration report continued

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 30 September 2018, 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.

	2013	2014	2015	2016[1] Chris Heath	2016[1] Mirek Stachowicz	12 month year 2017	9 month period 2018
Single-figure total remuneration (€000)	2,846[2]	717	795	222	382	736[4]	811
Total annual bonus pay-out (as % of maximum opportunity)	N/A[2]	N/A	N/A	N/A	N/A	23%	69%
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[3]	N/A[3]

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
4. As per the table on page 81, the CEO's single figure total remuneration for 2017 has been corrected to exclude the long-term incentive arrangements incorrectly disclosed last year

Percentage change in the remuneration of the CEO

The table below shows the movement in salary, benefits and bonus for the CEO between the 9 month period 2018 and the 2017 year, compared to the average remuneration for all employees. Recognising that the financial year ending 30 September 2018 is a 9 month period, we have also included annualised figures in order to provide a 'like for like' comparison.

	Chief Executive		All employees	
% change in:	As reported	Annualised	As reported	Annualised
Base salary	-22.8%[2]	3.0%	-24.2%	1.1%
Benefits[1]	-24.0%	1.4%	-14.1%	14.5%
Total annual bonus[3]	234.0%	212.1%	-7.9%	22.8%

1. Benefits include car allowance, health and dental cover and pension; the decrease shown in the table above is created by comparing 9 months of benefits versus 12 months received in 2017
2. Mirek Stachowicz's annual salary was increased from 1 January 2018 by 3% versus received in 2017 as disclosed in the Annual Report and Accounts 2017. The percentage decrease shown above is created by comparing a 9 month salary received in 2018 to 12 months in 2017
3. Mirek Stachowicz earned a bonus of £136,230 (€154,807) in respect of 2017 and £319,245 (€362,778) for 2018

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. Recognising that the financial year ending 30 September 2018 is a 9 month period, we have also included annualised figures in order to provide a 'like for like' comparison.

	12 mth year 2017	9 mth period 2018	% change	Annualised 2018	% change
Remuneration paid to all employees (€m)[1]	37.6	28.3	-24.6%	37.8	0.5%
Dividends to shareholders (€m)	15.7	16.4	4.5%	N/A	N/A

1. Excluding share-based payments. The drop in pay to employees is due to the 9 month reporting period in 2018 compared to 2017. See note 10 in the statutory financial statements

How the Directors' remuneration policy will be applied for 2019

Base salaries

Executive Directors salaries will be decided by the Remuneration Committee at the same time as the salary review for the wider workforce. The increases will be implemented in January 2019. Any increase for the Executive Directors is expected to be modest, and will not exceed the range of increases awarded to the wider workforce. Information regarding the increases will be provided in the 2019 ARA.

Annual bonus

The annual bonus plan for 2019 will be based on achievement against a range of financial targets as follows: 60% will be based on the achievement of an EBITDA target, 20% on a cashflow target and 20% on a revenue target. The Remuneration Committee has introduced a revenue target to reflect the key strategic priority of incentivising top line growth. The forward-looking targets are deemed to be commercially sensitive. The maximum bonus opportunity will be payable only for achieving stretch levels of performance. Payment of any bonus will be subject to an overall consideration of the underlying financial performance, including, in the case of the revenue measure, the Remuneration Committee's assessment of the quality of the revenue. Details of the targets and performance against them will be published in our 2019 Directors' Remuneration Report.

Directors' Remuneration report continued

Performance Share Plan (PSP)

As described in the statement by the Remuneration Committee Chairman on page 71, it is our intention to grant PSP awards for 2019 at the level of 125% of salary. The vesting of the awards will be subject to the satisfaction of performance conditions measured over financial years 2019, 2020 and 2021 based on EPS growth (as regards 50% of each award) and cash conversion (as regards 50% of each award), as set out below. Each award will be subject to a two-year post-vesting holding period as for the 2018 awards (as described on page 75):

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 note 14 to the consolidated financial statements, 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)

Fees for the Chairman and NEDs

Any proposed increase in fees for the Chairman and NEDs will be discussed and agreed at the same time as the Executive Directors and wider workforce reviews and will be implemented from January 2019 and will be reported within the 2019 ARA.

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 and 2017 Annual Report on Remuneration 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%)	–
2017 Annual Report on Remuneration at the 2018 AGM	144,894,332 (99.89%)	157,597 (0.11%)	40,671

Approved and signed on behalf of the Board.

John R Nicolson

John Nicolson
Chairman of the Remuneration Committee

5 December 2018

Directors' report

The Corporate Governance report on pages 56 to 86 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 87 to 90.

Directors

The Directors in office at the date of this report are shown on pages 56 to 57. All served throughout the year under review, with the exception of Kate Allum who was appointed as a Director on 1 November 2018.

Directors' interests in the Company's shares

The interests of the Directors of the Company at 30 September 2018, 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 page 83. The Remuneration Report also sets out details of any changes in those interests between the year-end and 5 December 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 30 September 2018 are given in the Directors' Remuneration Report on pages 71 to 86.

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, among others, its Executives 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 the 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 78.

Political donations

There were no political donations during the period (2017: nil).

Share capital and control

Details of our issued share capital as at 30 September 2018 can be found in note 28 to the consolidated financial statements on page 147. 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 ARA, attend and speak at general meetings of the Company, appoint proxies and exercise voting rights.

Directors' report continued

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 2018 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 29 February 2020 or at the Company's 2020 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 5 December 2018		As at 30 September 2018	
Substantial interests (above 3%)	Shares	%	Shares	%
Western Gate Private Investments	20,000,148	10.00%	20,000,148	10.00%
BlackRock Inc	19,438,509	9.72%	18,195,344	9.09%
M&G Investment Management Ltd	18,480,199	9.24%	18,723,575	9.36%
J O Hambro Capital Management	12,061,173	6.03%	11,781,119	5.89%
Heronbridge Investment Management	11,275,892	5.64%	8,796,872	4.40%
Columbia Threadneedle Investments	9,983,926	4.99%	9,987,587	4.99%
Majedie Asset Management	8,828,578	4.41%	8,828,578	4.41%
Franklin Resources Inc	7,997,958	4.00%	8,735,223	4.37%
Capital Group Companies Inc	6,404,674	3.20%	6,404,674	3.20%
Aberdeen Asset Managers Limited	6,178,418	3.09%	6,427,210	3.21%
Princeton Holdings Ltd	6,168,768	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 44.04% 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 30 September 2018 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 149 to 154.

Post-balance sheet events

Further correspondence was received from the Polish tax authorities in relation to its inquiry covering the 2013 tax return of the Group's Polish subsidiary. Refer to note 13 to the Group's consolidated financial statements for further details.

Future business developments

Further details on these are set out in the Strategic Review on pages 1 to 54.

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 QBIWL.

Dividend

A dividend of 2.50 €cents per share was paid at the interims (see note 29 to the financial statements), and the Directors recommend a final dividend of 6.01 €cents to be paid on 1 March 2019 to shareholders on the share register at the close of business on 8 February 2019. The shares will be quoted ex-dividend on 7 February 2019. The FX fixing date will be 8 February 2019.

Total dividends paid and proposed for the period amount to 8.51 €cents per share.

Going concern

The Directors have considered the Group's debt-maturity and cashflow 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 consolidated 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 92 to 99), 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 2019 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

5 December 2018

Paul Bal
Chief Financial Officer

5 December 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

5 December 2018

Paul Bal
Chief Financial Officer

5 December 2018

KPMG

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 period ended 30 September 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and company 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 30 September 2018 and of the Group's profit for the period 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 first appointed as auditor by the shareholders on 19 May 2015. The period of total uninterrupted engagement is for the four financial periods ended 30 September 2018. 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	€1m (2017:€1.6m) 3.8% (2017: 3.8%) of normalised profit before tax
Coverage	98% (2017:98%) of group profit before tax

Risks of material misstatement		**vs 2017**
Recurring risks	Goodwill and intangible asset impairment	◀▶
	Tax provisioning	◀▶
	Revenue recognition	◀▶
	Recoverability of Parent Company's investment in subsidiary	◀▶

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 and brand intangible asset impairment €302 million; 2017: €302 million. Refer to page 67 (Audit Committee report), page 118 (accounting policy) and page 137 (financial disclosures).	**Forecast-based valuation** 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. 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 in the prior period against the carrying value of Italy goodwill.	**Our procedures included:** – **Assessing forecasts:** based on our knowledge of the business and industry, for each CGU we challenged the forecast revenue growth and profit margin assumptions with reference to past performance, future plans (for example, brand positioning, pricing actions and promotional expenditure), and external market data. – **Benchmarking assumptions:** for each CGU we involved our own valuation specialists to assess the discount rates used by the Group, including comparing the key inputs, such as risk free rates, size premium, country premium and inflation, to externally derived data. For the Czech and Italian CGUs, our valuation specialists also assessed the long-term growth rate and the valuation methodology used. – **Sensitivity analysis:** we considered the level of headroom and 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. (2017 result: acceptable).

Independent Auditor's Report continued

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

	The risk	Our response
Tax provisioning €8.0 million; 2017: €7.5 million. Refer to page 67 (Audit Committee report), page 124 (accounting policy) and page 130 (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 international tax specialists in foreign jurisdictions to assess the Group's tax positions, through inquiry of management and their external tax advisers with regard to latest status with the relevant tax authorities. We obtained management's written correspondence with the Group's tax advisers 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 (2017 result: acceptable).

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

	The risk	Our response
Revenue Recognition[1] €194 million, of which €19 million is subject to estimation; 2017: €270 million – restated for IFRS 15, of which €15 million was subject to estimation. Refer to page 66 (Audit Committee report), page 114 (accounting policy) and page 125 (financial disclosures).	**Omitted arrangements** Revenue is measured net of discounts, incentives and rebates earned by multiple customers on the Group's sales within this customer group. 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. **Subjective estimate** Not all sales incentives are confirmed by customers at 30 September. Within a number of the Group's markets, the estimation of retrospective rebates and certain other incentive arrangements recognised is material. There is a risk of revenue being misstated as a result of erroneous or fraudulent estimations over such arrangements. This is an area of judgement with varying complexity, depending on nature of arrangement.	**Our procedures included:** – **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. – **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 reasonableness of the Group's accruals, including estimates, by considering the historical accuracy of prior period accruals for sales incentives. This included assessing the prior period accruals against payments made, invoices received and credit notes issued in 2018. – **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. – **Our sector experience:** we assessed whether the Group's assumptions used to estimate rebate accruals reflect our knowledge of the business and industry, including known or probable trends in the business environment. – **Extended scope:** we critically assessed manual journals posted to revenue to identify unusual or irregular items, and where relevant agreed these to supporting documentation. **Our results** – We found the Group's assessment of revenue recognition to be acceptable (2017 result: acceptable).
Recoverability of parent company's investment in subsidiary £256 million; 2017: £256 million. Refer to page 67 (Audit Committee report), page 166 (accounting policy) and page 167 (financial disclosures).	**Low risk, high value** The carrying amount of the parent company's investment in its subsidiary represents 94% (2017: 94%) 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 its 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:** – **Comparing valuations:** we have compared the carrying amount of the investment to the Group's market capitalisation to assess whether there are any indicators of the investment's impairment. – **Test of detail:** we have compared the carrying amount of the investment to the value-in-use of the Group's assets, being an indication of its recoverable amount to assess whether there are any indicators of the investment's impairment. Value-in-use of the Group's assets was audited as part of the Group's audit as disclosed in the goodwill impairment key audit matter above. **Our results** – We found the Group's assessment of the recoverability of the investment in subsidiary to be acceptable (2017 result: acceptable).

1. We continue to perform procedures over the risk that revenue recognised around the period end is included in the wrong accounting period. However, following the change in year-end to September 2018, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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 million (2017: €1.6 million), determined with reference to a benchmark of group profit before tax, normalised to exclude exceptional expenses as disclosed in note 8, of which it represents 3.8% (2017: 3.8%).

Materiality for the parent Company financial statements as a whole was set at £0.2 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 (2017: 0.1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding €50,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

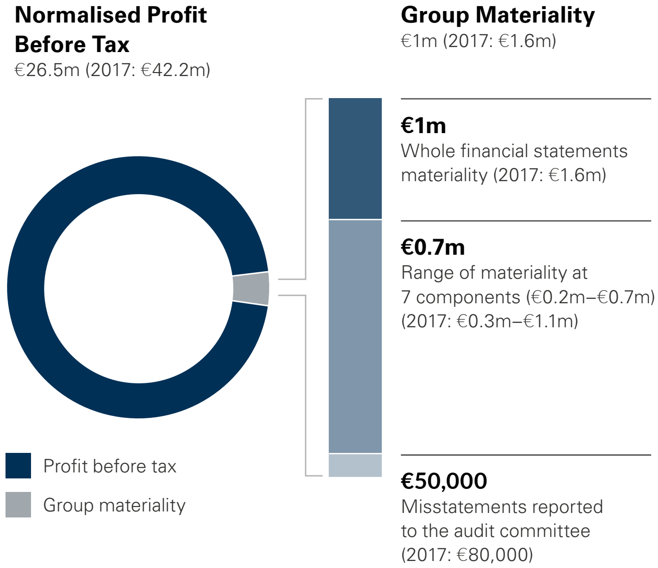
Of the Group's 15 (2017: 16) reporting components, we subjected 7 (2017: 7) to full scope audits for Group purposes.

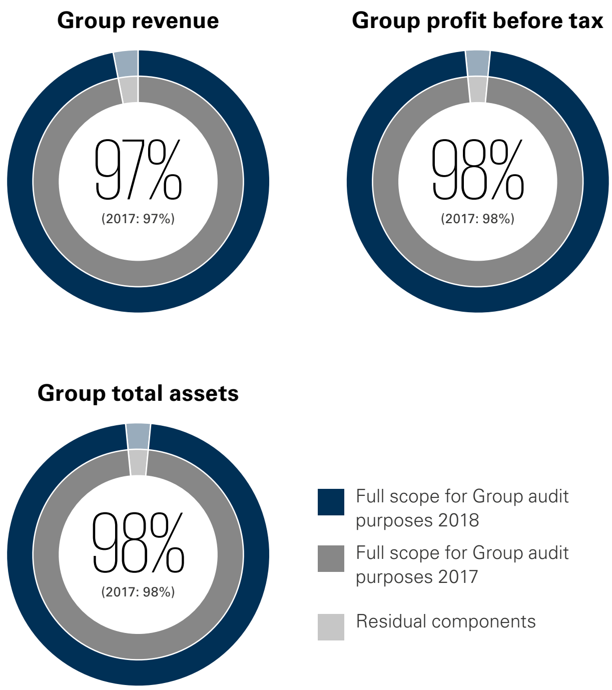
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 3% (2017: 3%) of total Group revenue, 2% (2017: 2%) of group profit before tax and 2% (2017: 2%) of total Group assets is represented by 8 (2017: 9) reporting components, none of which individually represented more than 1% (2017: 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 €0.2 million to €0.7 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 (2017: 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 (2017: 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.





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 12 months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 90 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:

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 91, 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 and through discussion with the Directors and other management (as required by auditing standards).

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 statement items.

In addition we considered the impact of laws and regulations in the specific area of excise duty, recognising the nature of the Group's activities. 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 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 non-compliance with relevant laws and regulations (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
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Reading

5 December 2018

Proforma consolidated income statement (unaudited)

for the year ended 30 September 2018

The proforma consolidated income statement has been provided as additional information to the 9 month statutory reported requirements to illustrate the performance of the business on an annualised basis given the importance of the fourth calendar quarter. This information is unaudited and does not form part of the audited annual financial statements.

Selected income statement information has been extracted from the Group's management accounts for the two comparative years. Further notes to show the segmental analysis and certain assumptions used to calculate the proforma income statement are outlined on pages 50 to 53.

2018

€000s	Notes	Statutory reported 9 mth Sept 2018	Add: Oct-Dec 2017	Proforma 12 mth Sept 2018
Revenue		193,766	88,631	282,397
Cost of goods sold		(100,374)	(43,860)	(144,234)
Gross profit		93,392	44,771	138,163
Selling expenses		(42,541)	(15,190)	(57,731)
Other operating expenses		(21,968)	(8,101)	(30,069)
Impairment loss on trade and other receivables		(501)	(810)	(1,311)
Share of loss of equity-accounted investees, net of tax	3	(166)	(220)	(386)
Operating profit		28,216	20,450	48,666
Exceptional expenses	2	–	–	–
Operating profit after exceptional expenses		28,216	20,450	48,666
Finance income		249	42	291
Finance costs		(1,938)	(1,458)	(3,396)
Profit before tax		26,527	19,034	45,561
Income tax expense	4	(7,244)	(5,087)	(12,331)
Profit for the period		19,283	13,947	33,230
Attributable to:				
Equity holders of parent		19,283	13,947	33,230
Earnings per share (€cents) attributable to equity holders of the Parent	7			
Basic		9.71		16.72
Diluted		9.66		16.65

2017

€000s	Notes	Statutory reported 12 mth Dec 2017	12 mth Dec 2017 (excluding exceptionals)	Less: Oct-Dec 2017	Add: Oct-Dec 2016	Proforma 12 mth Sept 2017
Revenue		269,837	269,837	(88,631)	78,583	259,789
Cost of goods sold		(137,394)	(137,394)	43,860	(43,407)	(136,941)
Gross profit		132,443	132,443	(44,771)	35,176	122,848
Selling expenses		(56,044)	(56,044)	15,190	(14,048)	(54,902)
Other operating expenses		(29,629)	(29,629)	8,101	(3,589)	(25,117)
Impairment loss on trade and other receivables		(1,658)	(1,658)	810	(207)	(1,055)
Share of loss of equity-accounted investees, net of tax	3	(331)	(331)	220	–	(111)
Operating profit		44,781	44,781	(20,450)	17,332	41,663
Exceptional expenses	2	(14,900)	–	–	–	–
Operating profit after exceptional expenses		29,881	44,781	(20,450)	17,332	41,663
Finance income		681	681	(42)	112	751
Finance costs		(3,253)	(3,253)	1,458	(614)	(2,409)
Profit before tax		27,309	42,209	(19,034)	16,830	40,005
Income tax expense	4	(11,280)	(11,280)	5,087	(4,612)	(10,805)
Exceptional tax expense	2	(4,700)	–	–	–	–
Profit for the period		11,329	30,929	(13,947)	12,218	29,200
Attributable to:						
Equity holders of parent		11,329	30,929	(13,947)	12,218	29,200
Earnings per share (€cents) attributable to equity holders of the Parent	7					
Basic		5.72	15.61			14.74
Diluted		5.68	15.51			14.64

Notes to the proforma consolidated income statement (unaudited)

for the year ended 30 September 2018

The following notes provide detail on further assumptions applied in deriving the financial information presented in the proforma consolidated income statement:

1. Accounting policies and critical areas of judgement: The accounting policies of the Group, as outlined on pages 108 to 123, are applied to the statutory period as presented within the financial statements and accompanying notes. The financial information provided for the proforma 12 month period has been derived from this information by extracting selected information from the Group's quarterly consolidated management accounts for the quarters ended December 2016 and December 2017.

Revenue: proforma revenue has been extracted from source accounting records without adjustment. A certain degree of estimation is applied in determining volume rebate deductions from revenue. These estimates are revised each month such that no further adjustment to revenue is necessary for the purposes of the proforma revenue. Revenue rebate adjustments were reviewed, to the extent significant, at both the December 2017 and December 2016 year-ends and no further adjustment to revenue was necessary for the purposes of proforma revenue figures.

In the context of the Group's critical accounting judgments and key sources of estimation uncertainty, described in note 4 to the financial statements, the following considerations were made:

a. Taxation: a thorough review of tax risks and exposures has been carried out in June and December of each reporting period, and again as at September 2018. A review of significant judgments and estimates made in the quarterly periods ended December 2016 and December 2017 was undertaken to identify any that would have had a significant impact on September balances. No adjustments were determined to be necessary to the methodology applied as per note 4 below.
b. Impairment of goodwill and indefinite-lived intangible assets: annual impairment reviews were performed as at 31 December of each reporting period prior to current statutory period, and then as at 30 September 2018. The impairment charge recorded against goodwill in the year to 31 December 2017 has been excluded from the proforma financial information as it was classified as an exceptional expense. Given that the annual impairment review required under IAS 36 was performed in each of the proforma periods, and no indicators of impairment were identified in either of the last three reporting periods, no further assumptions were made regarding impairment for the derivation of the proforma financial information.

There are a number of other estimates and judgements made on a routine basis that are not considered significant for the financial statements taken as a whole. No adjustments have been made to September 2016 and September 2017 balances to reflect these.

2. Exceptional expenses: in the year to 31 December 2017, two exceptional non-recurring items (see page 127) were expensed. As they are non-recurring in nature, they have been excluded in the proforma income statement to illustrate underlying comparative performance.

3. Share of loss of equity-accounted investee: on 17 July 2017, as per the note on page 142, Stock invested in a 25% shareholding of Quintessential Brands Ireland Whiskey Limited (QBIWL). Information has been gathered from the management accounts of QBIWL for the year to date September 2017 since acquisition to provide information for the proforma year September 2017. No indicators of impairment were identified during the period since acquisition, and therefore the balances recognised in the proforma periods represented only the share of loss for the relevant period. No adjustments were recorded to the fair value of contingent consideration during the period since investment.

4. Taxation: as the effective tax rates for the Group do not materially change year-on-year, for the period of October to December 2017, the effective tax rate (excluding exceptional tax expenses) has been assumed to be the same as for the reported rate for the year to December 2017, 26.7%. For the period of October to December 2016, the effective tax rate for the year to December 2016 has been assumed, 27.4%.

5. 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. A reconciliation from profit before tax per the proforma consolidated income statement to adjusted EBITDA is as follows:

2018 €000s	Statutory reported 9 mth Sept 2018	Add: Oct–Dec 2017	Proforma 12 mth Sept 2018
Operating profit	28,216	20,450	48,666
Share of loss of equity-accounted investees, net of tax	166	220	386
Depreciation and amortisation	7,466	2,845	10,311
Adjusted EBITDA	35,848	23,515	59,363
Adjusted EBITDA margin	18.5%	26.5%	21.0%

2017 €000s	Statutory reported 12 mth Dec 2017	12 mth Dec 2017 (excluding exceptionals)	Less: Oct-Dec 2017	Add: Oct-Dec 2016	Proforma 12 mth Sept 2017
Operating profit	29,881	44,781	(20,450)	17,332	41,663
Share of loss of equity-accounted investees, net of tax	331	331	(220)	–	111
Depreciation, amortisation and exceptionals	26,112	11,212	(2,845)	3,103	11,470
Adjusted EBITDA	56,324	56,324	(23,515)	20,435	53,244
Adjusted EBITDA margin	20.5%	20.9%	26.5%	26.0%	20.5%

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.

2018 €000s	Statutory reported 9 mth Sept 2018	Add: Oct-Dec 2017	Proforma 12 mth Sept 2018
Cash generated from operations	51,394	10,552	61,946
Payments to acquire property, plant and equipment	(2,449)	(3,385)	(5,834)
Payments to acquire intangible assets	(1,075)	(756)	(1,831)
Proceeds from sale of property, plant and equipment	33	–	33
Free cashflow	47,903	6,411	54,314
Free cashflow conversion	133.6%	27.3%	91.5%

2017 €000s	Statutory reported 12 mth Dec 2017	12 mth Dec 2017 (excluding exceptionals)	Less: Oct-Dec 2017	Add: Oct-Dec 2016	Proforma 12 mth Sept 2017
Cash generated from operations	53,619	53,619	(10,552)	18,944	62,011
Payments to acquire property, plant and equipment	(3,710)	(3,710)	3,385	(2,783)	(3,108)
Payments to acquire intangible assets	(1,376)	(1,376)	756	(5,595)	(6,215)
Proceeds from sale of property, plant and equipment	98	98	–	(28)	70
Free cashflow	48,631	48,631	(6,411)	10,538	52,758
Free cashflow conversion	86.3%	86.3%	27.3%	51.6%	99.1%

Notes to the proforma consolidated income statement (unaudited) continued

for the year ended 30 September 2018

6. Segmental analysis

2018	Poland €000	Czech Republic €000	Italy €000	Other Operational €000	Corporate €000	Total €000
External revenue – 9 months reported	105,648	49,220	17,592	21,306	–	193,766
Add: Oct-Dec 2017	46,936	23,961	8,165	9,569	–	88,631
External revenue – proforma 12 months	152,584	73,181	25,757	30,875	–	282,397
Adjusted EBITDA – 9 months reported	27,477	13,601	1,739	2,846	(9,815)	35,848
Add: Oct-Dec 2017	12,894	8,007	2,662	2,856	(2,904)	23,515
Adjusted EBITDA – proforma 12 months	40,371	21,608	4,401	5,702	(12,719)	59,363

2017	Poland €000	Czech Republic €000	Italy €000	Other Operational €000	Corporate €000	Total €000
External revenue – restated reported	147,496	67,712	26,224	28,405	–	269,837
Less: Oct-Dec 2017	(46,936)	(23,961)	(8,165)	(9,569)	–	(88,631)
Add: Oct-Dec 2016	40,600	20,818	7,901	9,264	–	78,583
External revenue – proforma 12 months	141,160	64,569	25,960	28,100	–	259,789
Adjusted EBITDA – restated reported	37,738	21,818	6,317	4,899	(14,448)	56,324
Less: Oct-Dec 2017	(12,894)	(8,007)	(2,662)	(2,856)	2,904	(23,515)
Add: Oct-Dec 2016	10,045	6,824	2,351	2,553	(1,338)	20,435
Adjusted EBITDA – proforma 12 months	34,889	20,635	6,006	4,596	(12,882)	53,244

7. Earnings per share: The proforma earnings per share has been calculated for the basic and diluted measures using the weighted average number of ordinary shares in issue as follows:

a. Proforma year to September 2018: as per the 9 month period ending on the same date and as per note 14 of the financial statements, as there were no material share schemes vesting or purchased into the employee benefit trust in the last quarter of 2017, nor did options outstanding materially differ over that period;

b. Proforma year to September 2017: the weighted average number of shares as per December 2017 as there were no material share schemes vesting or purchased into the employee benefit trust in the last quarter of 2017 or 2016, nor did options outstanding materially differ over that period.

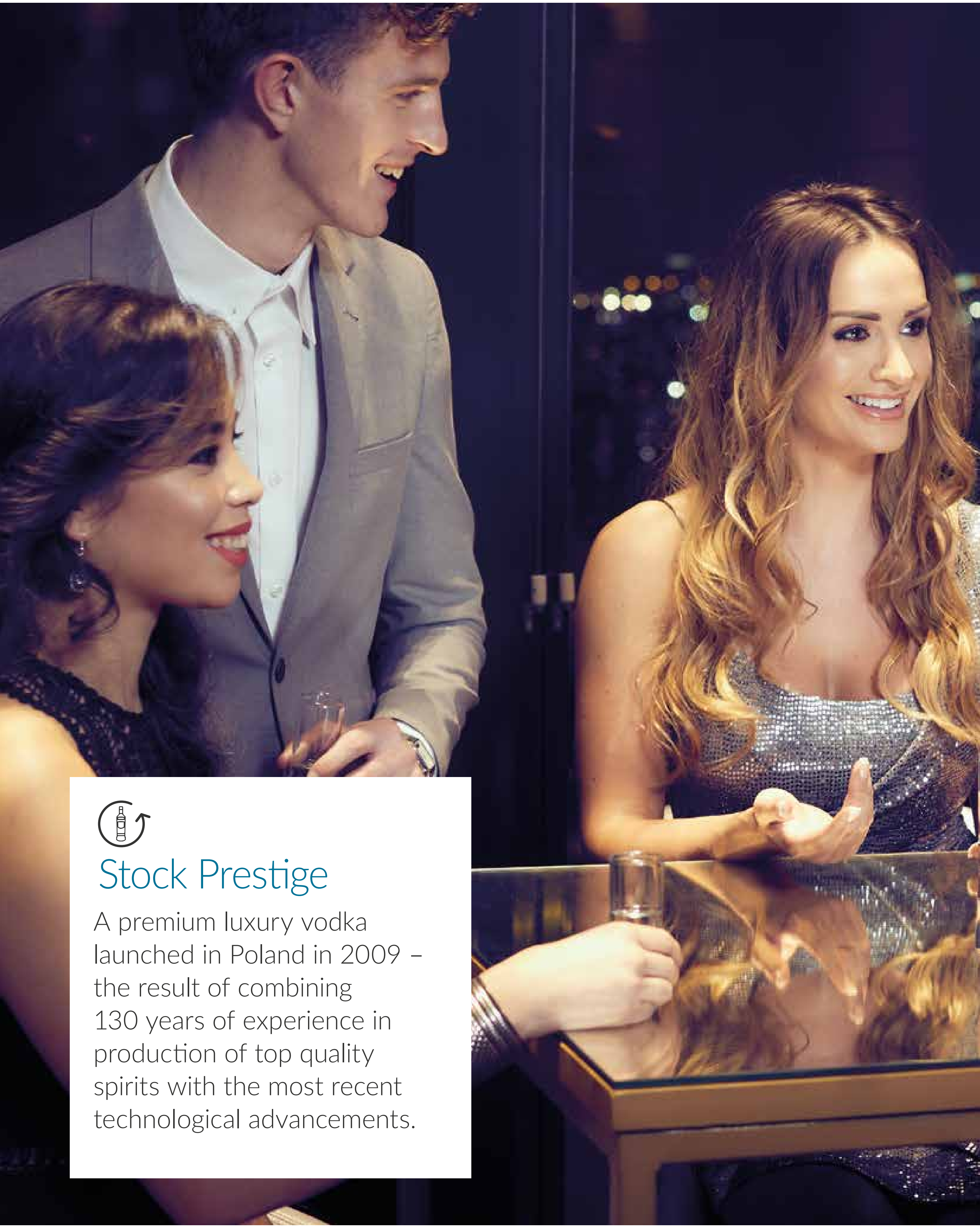
2018	Statutory reported 9 mth Sept 2018	Proforma 12 mth Sept 2018
Basic earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	19,283	33,230
Weighted average number of ordinary shares in issue for basic earnings per share (000)	198,690	198,690
Basic earnings per share (€cents)	9.71	16.72
Diluted earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	19,283	33,230
Weighted average number of diluted ordinary shares adjusted for the effect of dilution (000)	199,606	199,606
Diluted earnings per share (€cents)	9.66	16.65

2017	Statutory reported 12 mth Dec 2017	12 mth Dec 2017 (excluding exceptionals)	Proforma 12 mth Sept 2017
Basic earnings per share			
Profit attributable to the equity shareholders of the Company (€000)	11,329	30,929	29,200
Weighted average number of ordinary shares in issue for basic earnings per share (000)	198,104	198,104	198,104
Basic earnings per share (€cents)	5.72	15.61	14.74
Diluted earnings per share			
Profit attributable to the equity shareholders of the Company (€000)	11,329	30,929	29,200
Weighted average number of diluted ordinary shares adjusted for the effect of dilution (000)	199,467	199,467	199,467
Diluted earnings per share (€cents)	5.68	15.51	14.64

8. Net debt and leverage: Net debt is defined as the net of balances reported as cash and cash equivalents, loans and borrowings and finance leases. Refer to note 30 in the financial statements for a calculation of net debt as at 30 September 2018.

Leverage, being net debt divided by 12 months adjusted EBITDA, is an important measure for the efficient capital structure of the Group at a point in time, to support organic and inorganic growth. This is also an important measure for both our banks and shareholders. Leverage at 30 September 2018 has therefore been calculated using the net debt value (€31,583,000) divided by proforma adjusted EBITDA 2018 (€59,363,000) = 0.53.

As leverage has been reported as at 31 December 2017 (0.94, see note 30 in the financial statements), there is felt to be no need for a comparative calculation as at 30 September 2017.



Stock Prestige

A premium luxury vodka launched in Poland in 2009 – the result of combining 130 years of experience in production of top quality spirits with the most recent technological advancements.

Financial Statements

Consolidated income statement

for the period ended 30 September 2018

	Notes	9 months to 30 September 2018 €000	Year to 31 December 2017 Restated[1] €000
Revenue	5	193,766	269,837
Cost of goods sold		(100,374)	(137,394)
Gross profit		93,392	132,443
Selling expenses		(42,541)	(56,044)
Other operating expenses		(21,968)	(29,629)
Impairment loss on trade and other receivables		(501)	(1,658)
Share of loss of equity-accounted investees, net of tax	22	(166)	(331)
Operating profit before exceptional expense		28,216	44,781
Exceptional expense	8	–	(14,900)
Operating profit		28,216	29,881
Finance income	9	249	681
Finance costs	9	(1,938)	(3,253)
Profit before tax		26,527	27,309
Income tax expense	13	(7,244)	(11,280)
Exceptional tax expense	8, 13	–	(4,700)
Profit for the period		19,283	11,329
Attributable to:			
Equity holders of the Parent		19,283	11,329
Earnings per share, (€cents) attributable to equity holders of the Parent			
Basic	14	9.71	5.72
Diluted	14	9.66	5.68

1. The Group has adopted IFRS 15 using the full retrospective method, and therefore the requirements of IFRS 15 have been applied to each period presented in the consolidated financial statements. Accordingly, revenue and selling expenses presented for 2017 have been restated. Refer to note 3 for further details

Consolidated statement of comprehensive income

for the period ended 30 September 2018

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Profit for the period	19,283	11,329
Other comprehensive (expense)/income:		
Other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences arising on translation of foreign operations	(1,914)	8,310
	17,369	19,639
Other comprehensive income/(expense) not to be reclassified to profit or loss in subsequent period:		
Re-measurement gains/(losses) on employee severance indemnity	4	(5)
Total comprehensive income for the period, net of tax	17,373	19,634
Attributable to:		
Equity holders of the Parent	17,373	19,634

Consolidated statement of financial position

as at 30 September 2018

	Notes	30 September 2018 €000	31 December 2017 €000
Non-current assets			
Intangible assets – goodwill	15	45,940	45,940
Intangible assets – other	16	311,129	311,614
Property, plant and equipment	18	47,265	50,871
Investment in equity-accounted investee	22	16,994	17,160
Deferred tax assets	13	589	4,151
Other assets	21	4,742	4,770
		426,659	434,506
Current assets			
Inventories	19	30,711	23,101
Trade and other receivables	20	119,238	163,162
Other assets	21	135	–
Current tax assets	13	863	715
Cash and cash equivalents	32	50,143	61,341
		201,090	248,319
Total assets		627,749	682,825
Non-current liabilities			
Financial liabilities	23	81,300	114,048
Other financial liabilities	24	2,692	2,600
Deferred tax liabilities	13	47,421	47,501
Provisions	25	1,082	1,051
Trade and other payables	27	287	416
		132,782	165,616
Current liabilities			
Trade and other payables	27	72,080	73,915
Financial liabilities	23	16	48
Other financial liabilities	24	66	83
Income tax payable	13	8,149	8,395
Indirect tax payable	26	62,058	79,256
Provisions	25	717	1,203
		143,086	162,900
Total liabilities		275,868	328,516
Net assets		351,881	354,309

	Notes	30 September 2018 €000	31 December 2017 €000
Capital and reserves			
Issued capital	28	23,625	23,625
Share premium	28	–	183,541
Merger reserve	28	99,033	99,033
Consolidation reserve	28	5,130	5,130
Own share reserve	28	(3,370)	(306)
Other reserve	28, 34	11,406	11,277
Foreign currency translation reserve	28	13,915	15,829
Retained earnings		202,142	16,180
Total equity		351,881	354,309
Total equity and liabilities		627,749	682,825

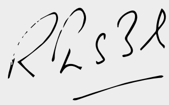
Notes 1 to 37 are an integral part of the consolidated financial statements.

The consolidated financial statements of Stock Spirits Group PLC, registered number 08687223, on pages 102 to 161, were approved by the Board of Directors and authorised for issue on 5 December 2018 and were signed on its behalf by:

Mirek Stachowicz

Chief Executive Officer

5 December 2018



Paul Bal

Chief Financial Officer

5 December 2018

Consolidated statement of changes in equity

for the period ended 30 September 2018

	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 2017	23,625	183,541	99,033	5,130	(356)	9,335	7,519	20,752	348,579
Profit for the period	–	–	–	–	–	–	–	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
Profit for the period	–	–	–	–	–	–	–	19,283	19,283
Other comprehensive (expense)/income	–	–	–	–	–	–	(1,914)	4	(1,910)
Total comprehensive (expense)/income	–	–	–	–	–	–	(1,914)	19,287	17,373
Share-based compensation credit (note 34)	–	–	–	–	–	129	–	–	129
Dividends (note 29)	–	–	–	–	–	–	–	(16,398)	(16,398)
Own shares acquired for incentive schemes (note 28)	–	–	–	–	(3,532)	–	–	–	(3,532)
Own shares utilised for incentive schemes (note 28)	–	–	–	–	468	–	–	(468)	–
Cancellation of share premium (note 28)	–	(183,541)	–	–	–	–	–	183,541	–
Balance at 30 September 2018	23,625	–	99,033	5,130	(3,370)	11,406	13,915	202,142	351,881

Consolidated statement of cashflows

for the period ended 30 September 2018

	Notes	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Operating activities			
Profit for the period		19,283	11,329
Adjustments to reconcile profit for the period to net cashflows:			
Income tax expense recognised in income statement	13	7,244	15,980
Interest expense and bank commissions	9	1,938	3,169
(Gain)/loss on disposal of tangible assets		(19)	538
Other financial income	9	(93)	(681)
Depreciation of property, plant and equipment	18	6,424	9,894
Amortisation of intangible assets	16	1,042	1,318
Impairment of goodwill	8	–	14,900
Net foreign exchange (gain)/loss	9	(156)	84
Share-based compensation	34	129	1,942
Share of loss of equity-accounted investees, net of tax	22	166	331
(Decrease)/increase in provisions		(455)	775
		35,503	59,579
Working capital adjustments			
Decrease/(increase) in trade receivables and other assets		43,817	(30,505)
Increase in inventories		(7,610)	(1,443)
(Decrease)/increase in trade payables and other liabilities		(20,316)	25,988
		15,891	(5,960)
Cash generated by operations		51,394	53,619
Income tax paid	13	(4,458)	(6,959)
Net cashflows from operating activities		46,936	46,660
Investing activities			
Interest received	9	93	681
Payments to acquire intangible assets	16	(1,075)	(1,376)
Proceeds from sale of property, plant and equipment		33	98
Purchase of property, plant and equipment	18	(2,449)	(3,710)
Purchase of equity-accounted investee	22	–	(15,000)
Net cashflow from investing activities		(3,398)	(19,307)
Financing activities			
Repayment of borrowings	23	(32,015)	(20,128)
Interest paid		(1,773)	(3,147)
Purchase of own shares	28	(3,532)	(116)
Dividends paid to equity holders of the parent	29	(16,398)	(15,730)
Net cashflow from financing activities		(53,718)	(39,121)
Net decrease in cash and cash equivalents		(10,180)	(11,768)
Cash and cash equivalents at the start of the period		61,341	74,956
Effect of exchange rates on cash and cash equivalents		(1,018)	(1,847)
Cash and cash equivalents at the end of the period	32	50,143	61,341

Notes to the consolidated financial statements

at 30 September 2018

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 5 December 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 period ended 30 September 2018.

The Group has positive adjusted free cashflow. The Group has a €200,000,000 revolving credit facility available to it. As at 30 September 2018 €81,443,000 (2017: €114,191,000) was drawn, and a further €10,551,000 (2017: €14,250,000) was utilised for customs guarantees in Italy and Germany, thereby leaving access to funds of €108,006,000 (2017: €71,559,000) 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 €32,710,000 (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 a 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 2018 noted below.

New/Revised standards and interpretations adopted in 2018

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

IFRS 9 Financial Instruments

This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities.

The adoption of IFRS 9 has not impacted the Group's accounting policies related to financial liabilities, however financial assets classified as loans and receivables under IAS 39 are now measured at amortised cost. These include cash and cash equivalents, trade and other receivables and customs deposits.

Financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets relates solely to the new impairment requirements, as described further below. The requirements of IFRS 9 have been adopted without restating comparative information, but are recognised in the opening balance sheet at 1 January 2018.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model.

ECLs are based on the difference between the contractual cashflows due in accordance with the contract, and all the cashflows that the Group expects to receive over the life of the asset. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

There has not been a material impact to the Group's interim condensed consolidated financial statements as a consequence of adopting IFRS 9.

The provision for bad debts is not considered to be a critical accounting judgement or key source of estimation uncertainty. While the actual level of debt collected may differ from the estimated levels of recovery this is not expected to be by a material amount. In addition to applying the ECL model, each subsidiary evaluates the collectability of trade receivables at each balance sheet date and makes any specific provisions where there is objective evidence of impairment.

Notes to the consolidated financial statements continued

at 30 September 2018

3. Accounting policies continued

New/Revised standards and interpretations adopted in 2018 continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 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. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

Contracts entered into by the Group generally include a single performance obligation, being supply of goods to the customer.

The impact of IFRS 15 to the Group is in respect of the presentation of payments made to customers to support promotions and marketing activities, which do not represent a distinct service under IFRS 15. These were previously recorded as selling expenses.

Under IAS 18, there was limited guidance regarding the classification of such items. IFRS 15 clarified that if the consideration payable to a customer did not represent a payment for a distinct good or service, these should be treated as a reduction of the transaction price. Other advertising and promotional spend undertaken by the Group remain included in selling expenses in the Consolidated Income Statement.

Under the new standard, revenue from the sale of goods is recognised at the point in time at which control is transferred to the customer. This is consistent with the application of our existing accounting policies and, therefore, there is no related transition adjustment.

There is no further impact to the nature, timing or satisfaction of performance obligations.

The Group has adopted IFRS 15 using the full retrospective method, and therefore the requirements of IFRS 15 have been applied to each period presented in the consolidated financial statements. Accordingly, the information presented for 2017 has been restated.

There has been no restatement of the consolidated statement of financial position or consolidated statement of changes in equity as the impact of IFRS 15 is limited to a reclassification of such payments for promotions and marketing activities from selling expenses to revenue. There is also no impact to the comparatives included in the consolidated statement of cashflows.

In relation to the disaggregated revenue disclosure requirements of IFRS 15, the Group considers the segmental disclosures in note 6 to the Financial Statements to be sufficient to depict how revenues across the Group may be affected by economic factors.

Impact on the income statement and consolidated statement of comprehensive income – 2017 comparatives

For the year ended 31 December 2017 €000	As reported in 2017	Adjustments	Restated
Revenue	274,601	(4,764)	269,837
Gross profit	137,207	(4,764)	132,443
Selling expenses	(60,808)	4,764	(56,044)
Operating profit	29,881	–	29,881
Profit before tax	27,309	–	27,309
Profit for the period	11,329	–	11,329
Total comprehensive income for the year	19,634	–	19,634

Impact on external revenue reported in segmental analysis – 2017 comparatives

For the year ended 31 December 2017 €000	As reported in 2017	Adjustments	Restated
Poland	147,654	(158)	147,496
Czech Republic	68,817	(1,105)	67,712
Italy	28,115	(1,891)	26,224
Other Operational	30,015	(1,610)	28,405
Corporate	–	–	–
Total	274,601	(4,764)	269,837

As above there is no impact on operating profit.

The following table summarises the impact of adopting IFRS 15 on the income statement and consolidated statement of comprehensive income for the 9 months ending 30 September 2018 for each of the lines affected. There was no material impact on the Group's statement of financial position or statement of cashflows for the 9 month period ended 30 September 2018.

Impact on the income statement and consolidated statement of comprehensive income

For the 9 months ended 30 September 2018 €000	As reported	Adjustments	Amounts before adoption of IFRS 15
Revenue	193,766	3,631	197,397
Gross profit	93,392	3,631	97,023
Selling expenses	(42,541)	(3,631)	46,172
Operating profit	28,216	–	28,216
Profit before tax	26,527	–	26,527
Profit for the period	19,283	–	19,283
Total comprehensive income for the period	17,373	–	17,373

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to trade and other receivables are presented separately in the statement of profit and loss and other comprehensive income. The comparative period has been restated accordingly, with impairment losses being reallocated from Other operating expenses.

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

- IFRIC Interpretation 22: Foreign Currency Transactions and Advance Considerations
- Amendments to IFRS 2: IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4: Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014–2016 Cycle: minor amendments to IFRS 1 and IAS 28
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7: Disclosure Initiative.

Notes to the consolidated financial statements continued

at 30 September 2018

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]
IFRS 16: Leases	1 January 2019
IFRS 17: Insurance Contracts	1 January 2021
Amendments to IFRS 9: Financial Instruments	1 January 2019
Amendments to IAS 19: Employee Benefits	1 January 2019
Amendments to IAS 28: Investments in Associates and Joint Ventures	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle: minor amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	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, with the possible exception of IFRS 16, as explained below.

IFRS 16 Leases

A project in relation to IFRS 16 Leases has been initiated in 2018 to determine the full financial impact of the new standard. The standard will have an impact on the Group's financial statements and this will be reported in next year's Annual Report and Accounts. The Group does not intend to apply the new standard before 1 January 2019 and hence will adopt this new standard in the financial year 1 October 2019 to 30 September 2020.

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 periods to 30 September 2018 and 31 December 2017. Control is achieved when the Group is exposed to, 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 all of the following:

- 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 period are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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 period as the Parent Company and are based on consistent accounting policies. All intra-Group 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.

Notes to the consolidated financial statements continued

at 30 September 2018

3. Accounting policies continued

Business combinations continued

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

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.

Contracts entered into by the Group generally include a single performance obligation, being supply of goods to the customer. As such, revenue from the sale of goods is recognised at the point in time at which control is transferred to the customer i.e. when all the following conditions are satisfied:

- the customer has taken delivery and legal title to the goods sold
- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods
- the amount of revenue can be measured reliably and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

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, rebates and other similar allowances to customers, 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 purchased and sales growth
- Marketing services – which include merchandising, slotting and listing fees
- Sales support for promotional activities – which include payments to customers, distributors and external agencies.

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.

Notes to the consolidated financial statements continued

at 30 September 2018

3. Accounting policies continued

Foreign currencies continued

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:

	2018	2017
PLN	4.28	4.17
CZK	25.70	25.55
GBP	0.89	0.89
CHF	1.13	1.17

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 period 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 difference 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.

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 off-set only if a legally enforceable 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 period 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

Notes to the consolidated financial statements continued

at 30 September 2018

3. Accounting policies continued

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 so are not amortised, but are tested for impairment annually and 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.

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 €32,710,000 (PLN 140,000,000) of invoices (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.

Notes to the consolidated financial statements continued

at 30 September 2018

3. Accounting policies continued

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.

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 is 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.

Notes to the consolidated financial statements continued

at 30 September 2018

3. Accounting policies continued

Share-based payments continued

Equity-settled transactions continued

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 is 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, recognises the IFRS 2 cost in its income statement with a credit to equity to reflect the deemed capital contribution from the Parent Company.

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 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 if 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 as 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.

Notes to the consolidated financial statements continued

at 30 September 2018

4. Critical accounting judgements and key sources of estimation uncertainty continued

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 has 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 in certain of the Group's cash-generating units, as further explained in note 17. 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.

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, are 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 amounts 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.

Revenue recognition

In line with common business practices, the Group negotiates a variety of sales incentive arrangements with customers across a number of geographies, and revenue is measured net of such items.

For sales incentive arrangements where there is uncertainty in amounts due to customers, for example in respect of annual retrospective volume rebates and accruals relating to regional chains in Poland, management makes estimates related to customer performance, sales volume and agreed terms, to determine total amounts earned and to be recorded in deductions from revenue.

The estimation of these incentives is an area of judgment, with varying complexity, depending on the nature of the arrangements. The carrying value of amounts held where outcomes are not yet finalised is €18.8m (2017: €14.7m), although the potential impact of any changes over the next 12 months is not expected to be material.

5. Revenue

An analysis of the Group's revenue is set out below:

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Revenue from the sale of spirits, gross of excise taxes	557,221	789,535
Other sales	3,039	3,025
Excise taxes	(366,494)	(522,723)
Revenue	193,766	269,837

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 and exceptional items.

Notes to the consolidated financial statements continued

at 30 September 2018

6. Segmental analysis continued

The Group has presented a reconciliation from profit before tax per the consolidated income statement to Adjusted EBITDA below:

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Profit before tax	26,527	27,309
Share of loss of equity-accounted investees, net of tax	166	331
Net finance charges	1,689	2,572
	28,382	30,212
Depreciation and amortisation (note 11)	7,466	11,212
EBITDA	35,848	41,424
Exceptional expense (note 8)	–	14,900
Adjusted EBITDA	35,848	56,324

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.

2018	Poland €000	Czech Republic €000	Italy €000	Other Operational €000	Corporate €000	Total €000
External revenue	105,648	49,220	17,592	21,306	–	193,766
Adjusted EBITDA	27,477	13,601	1,739	2,846	(9,815)	35,848

2017 – restated	Poland €000	Czech Republic €000	Italy €000	Other Operational €000	Corporate €000	Total €000
External revenue	147,496	67,712	26,224	28,405	–	269,837
EBITDA after exceptional expense	37,738	21,818	(8,583)	4,899	(14,448)	41,424
Exceptional expense (note 8)	–	–	14,900	–	–	14,900
Adjusted EBITDA	37,738	21,818	6,317	4,899	(14,448)	56,324

External revenue by operating segment in 2017 has been restated for the impact of IFRS 15. Refer to note 3 for further details. There is no impact to EBITDA by operating segment, however as a consequence of the restatement of revenue, EBITDA margin has improved by 0.4% to 20.9%.

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 is 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

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Operating profit	28,216	29,881
Exceptional expense	–	14,900
Share of results of equity-accounted investees, net of tax	166	331
	28,382	45,112
Depreciation and amortisation (note 11)	7,466	11,212
Adjusted EBITDA	35,848	56,324
Adjusted EBITDA margin	18.5%	20.9%

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

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Cash generated from operations	51,394	53,619
Payments to acquire property, plant and equipment	(2,449)	(3,710)
Payments to acquire intangible assets	(1,075)	(1,376)
Proceeds from sale of property, plant and equipment	33	98
Free cashflow	47,903	48,631
Adjusted free cashflow conversion	133.6%	86.3%

8. Exceptional items

In 2018, the Group has no exceptional items (2017: exceptional expenses of €14,900,000 and exceptional tax charge of €4,700,000).

During 2017, the impairment review for goodwill identified the need to impair the goodwill held for the Italian brands by €14,900,000. Due to the size of the impairment and the nature of the transaction, it was disclosed as an exceptional expense. See note 17.

Due to a change in tax legislation in Poland during the year to 31 December 2017, tax amortisation on our Polish brands ceased to be available. This resulted in a significant one-off deferred tax charge of €4,700,000, which was 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 30 September 2018

9. Finance income and costs

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Finance income:		
Foreign currency exchange gain	156	–
Interest income	93	681
Total finance income	249	681
Finance costs:		
Interest payable on bank overdrafts and loans	1,200	1,384
Foreign currency exchange loss	–	84
Bank commissions, guarantees and other payables	514	788
Other interest expense	224	997
Total finance costs	1,938	3,253
Net finance costs	1,689	2,572

10. Staff costs

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Wages and salaries	22,576	29,096
Social security costs	4,329	5,273
Other pension costs	1,375	1,552
Termination benefits	74	1,632
Long-term incentive plan (note 25)	(19)	28
Share-based compensation	149	2,284
	28,484	39,865

Other pension costs relate primarily to the Group's contributions to defined contribution pension plans. Also included is €170,000 (2017: €239,000) 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 period

	9 months to 30 September 2018 No.	Year to 31 December 2017 No.
Production and logistics	442	436
Sales	354	353
Other	207	191
	1,003	980

11. Operating profit

Operating profit for the period has been arrived at after charging/(crediting):

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Costs of inventories recognised as an expense	100,374	137,394
Advertising, promotion and marketing costs	16,006	24,486
Indirect costs of production	6,315	8,543
Logistics costs	4,267	5,530
Operating lease payments	3,668	4,356
Legal and professional fees	3,333	3,595
(Gain)/loss on disposal of intangible and tangible assets	(19)	538
Net foreign exchange loss/(gain)	431	(123)
Exceptional expenses (note 8)	–	14,900
Depreciation and amortisation – production cost	3,847	5,690
Depreciation and amortisation – selling cost	2,018	3,266
Depreciation and amortisation – administration cost	1,601	2,256
Total depreciation and amortisation	7,466	11,212

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:

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Fees payable for:		
Audit of the Parent and Group financial statements	368	284
Local statutory audits for subsidiaries	392	392
Audit-related assurance services	61	54
Total	821	730

Notes to the consolidated financial statements continued

at 30 September 2018

13. Income taxes

(i) Income tax recognised in profit or loss:

Income tax expense:	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Tax expense comprises:		
Current tax expense	3,455	5,826
Tax expense relating to prior year	327	213
Deferred tax charge	3,367	5,219
Other taxes	95	22
Total tax expense	7,244	11,280

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Exceptional tax expense:		
Deferred tax charge	–	4,700

There have been no tax charges to other comprehensive income.

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Profit before tax	26,527	27,309
Accounting profit multiplied by United Kingdom combined rate of corporation tax 19.00% (2017: 19.25%)	5,040	5,257
Expenses not deductible for tax purposes		
– Goodwill impairment (note 17)	–	2,868
– Other	1,189	1,363
Tax losses for which no deferred tax is recognised	964	1,384
Deferred tax not previously recognised	(351)	–
Effect of difference in tax rates	16	248
Tax charge relating to prior year	327	213
Taxable profit relieved against brought forward losses	(36)	(75)
Other taxes	95	22
Income tax expense reported in the income statement	7,244	11,280
Exceptional tax expense – impact of post-IPO corporate restructuring	–	4,700
Total tax charge	7,244	15,980
Effective tax rate	27.3%	58.5%

Post-IPO corporate restructuring

Post-IPO the Group completed corporate restructuring transactions which gave rise to 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 was no longer deductible for tax purposes. This resulted in an exceptional tax charge of €4,700,000 in the year to 31 December 2017. The charge is considered exceptional because it is a significant transaction resulting from the change in tax legislation.

(ii) Income tax recognised in the balance sheet:

Current tax liability:

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Tax prepayments as of 1 January	715	411
Current tax liability as of 1 January	(8,395)	(8,926)
Tax charge relating to prior year	(327)	(213)
Payments in period	4,458	6,959
Current tax expense	(3,455)	(5,826)
Other taxes	(95)	(22)
Interest on open tax enquiries	(199)	–
Foreign exchange adjustment	12	(63)
Net current tax liability	(7,286)	(7,680)
Analysed as:		
Tax prepayment as of end of period	863	715
Current tax liability as of end of period	(8,149)	(8,395)
	(7,286)	(7,680)

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 alcohol and finished goods between Group companies. 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.

In 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 €8,001,000 (2017: €7,514,000) in relation to matters where it is probable that tax positions taken by the Group will not be accepted.

Tax risks include those in respect of our Italian business, Stock S.r.l. The Italian tax authorities have open inquiries covering the years 2006–2010. Rulings from the Second Court have resulted in a net increase in provisions in the period of €1,123,000 including associated interest of €199,000. The Group will continue to challenge these rulings.

During 2017, a tax judgement was made against the Group's Czech subsidiary, Stock Plzeň-Božkov s.r.o., and therefore provisions were made as at 31 December 2017 for income tax due of €636,000 and associated interest and penalties of €631,000. These amounts were paid during 2018 such that the provision as at 30 September 2018 is €nil. Notwithstanding these payments, Stock Plzeň-Božkov is vigorously contesting the assessment.

Notes to the consolidated financial statements continued

at 30 September 2018

13. Income taxes continued

(ii) Income tax recognised in the balance sheet: continued

Settlement has been reached during the period on the inquiry into the 2015 corporate tax return for the Group's German subsidiary, Baltic Distillery GmbH, with agreement to pay tax of €298,000 and interest of €33,000. These amounts were fully covered in brought forward provisions.

In 2016, the Group's Polish subsidiary, Stock Polska Sp. z.o.o., received notification from the Polish tax authorities of the commencement of an inquiry covering its 2013 corporate income tax return. To date, there has been no formal assessment although written enquiries were received in March 2018 and in October 2018, and most recently in late November 2018 after the balance sheet date.

The enquiries cover a number of items, the most significant of which relates to corporate restructuring transactions carried out in Poland around the time of the IPO in 2013 which gave rise to tax deductible costs in the form of the amortisation of intellectual property ('IP') assets claimed in tax returns up to 2017. The Group obtained individual tax rulings relevant for the restructuring process prior to implementation. Whilst it is the case that there could be a risk of material exposure arising from this inquiry, the Group does not consider there to be any basis to the challenge on this matter by the Polish tax authority and has thus responded to them accordingly. No provision has been recorded in relation to the IP inquiry since, at this stage, the Group considers it to be highly unlikely that any liability will ultimately crystallise. The amount of tax in relation to the amortisation of the IP assets and other related matters in 2013 is some €3,300,000. Although not subject to any enquiry at this stage, tax deductions claimed in respect of these matters in each of the years 2014 to 2017 are in the range between €5,800,000 and €6,300,000. These sums exclude penalty interest that would be applied and calculated from the year concerned up to the current day. The interest rate as published by the Polish Ministry of Finance that could be applied is in the range of 8% and 13% on the years between 2013 and the current day. Management considers that ultimately it is probable that the tax position taken will be sustained, and therefore no provision has been recognised for this issue. Nevertheless, in some circumstances the Group may have to pay over sums assessed as due by the authorities and then seek their recovery as appeals processes run their course.

The other element of these written enquiries in Poland is in relation to historical transfer pricing arrangements between Group companies during the years 2013 to 2016. A provision of €3,684,000 in relation to this and other transfer pricing issues is held as at 31 December 2017 and 30 September 2018.

Although our transfer pricing is performed on an arms' length basis, it is management's view that there is risk of further assessments regarding intercompany transactions in certain jurisdictions, and thus a provision is carried for this eventuality. Although provisions are based on management's assessment of the most likely or expected outcome, there is a reasonable possibility of material changes to these estimates over the next 12 months.

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 the 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 €45,834,000 as at 30 September 2018 (31 December 2017: €32,298,000) that are available indefinitely for off-set 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:

2018	1 January 2018 €000	(Charged)/ credited to income €000	Translation difference €000	30 September 2018 €000
Temporary differences:				
Brands	(55,085)	(54)	124	(55,015)
Accrued liabilities	7,956	(1,812)	(204)	5,940
Other assets and liabilities	3,779	(1,501)	(35)	2,243
	(43,350)	(3,367)	(115)	(46,832)
Deferred tax asset	4,151	(3,469)	(93)	589
Deferred tax liability	(47,501)	102	(22)	(47,421)
	(43,350)	(3,367)	(115)	(46,832)

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)

Brands

Deferred tax liability 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 30 September 2018 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.

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14. Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the period attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period. 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 period 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:

	9 months to 30 September 2018	Year to 31 December 2017
Basic earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	19,283	11,329
Weighted average number of ordinary shares in issue for basic earnings per share (000)	198,690	198,104
Basic earnings per share (€cents)	9.71	5.72
Diluted earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	19,283	11,329
Weighted average number of diluted ordinary shares adjusted for the effect of dilution (000)	199,606	199,467
Diluted earnings per share (€cents)	9.66	5.68
Adjusted basic earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	19,283	11,329
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)	19,283	30,929
Weighted average number of ordinary shares in issue for adjusted basic earnings per share (000)	198,690	198,104
Adjusted basic earnings per share (€cents)	9.71	15.61
Adjusted diluted earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	19,283	11,329
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)	19,283	30,929
Weighted average number of diluted ordinary shares adjusted for the effect of dilution (000)	199,606	199,467
Adjusted diluted earnings per share (€cents)	9.66	15.51

Reconciliation of basic to diluted ordinary shares

	9 months to 30 September 2018 000	Year to 31 December 2017 000
Issued ordinary shares	200,000	200,000
Effect of own shares held	(1,310)	(1,896)
Basic weighted average number of ordinary shares	198,690	198,104
Effect of options	916	1,363
Diluted weighted average number of ordinary shares	199,606	199,467

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

	30 September 2018 €000	31 December 2017 €000
Cost:		
As at 1 January	77,340	77,340
As at period end	77,340	77,340
Accumulated impairment:		
As at 1 January	31,400	16,500
Impairment charge	–	14,900
As at period end	31,400	31,400
Carrying amount at period end	45,940	45,940

See note 17 for details of the impairment of goodwill.

Notes to the consolidated financial statements continued

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16. Intangible assets – other

2018	Brands €000	Customer Relationships and Trademarks €000	Software €000	Total €000
Cost:				
As at 1 January 2018	307,122	1,624	21,885	330,631
Additions	–	–	1,111	1,111
Disposals	–	–	(177)	(177)
Net foreign currency exchange differences	(521)	–	(38)	(559)
As at 30 September 2018	306,601	1,624	22,781	331,006
Amortisation:				
As at 1 January 2018	–	589	18,428	19,017
Amortisation expense	–	88	954	1,042
Disposals	–	–	(177)	(177)
Transfers	–	(51)	51	–
Net foreign currency exchange differences	–	–	(5)	(5)
As at 30 September 2018	–	626	19,251	19,877
Carrying amount – As at 30 September 2018	306,601	998	3,530	311,129

2017	Brands €000	Customer Relationships and Trademarks €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.

Included in transfers in 2017 was €513,000 for assets which were previously classified as assets under construction, which were subsequently reclassified as software.

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.

- 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 €6,418,000 (2017: €6,627,000).

Amortisation relating to software is included within other operating expenses in the consolidated income statement. Amortisation relating to customer relationships and trademarks 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
30 September 2018					
Carrying amount of brands	205,580	54,445	44,125	2,451	306,601
Carrying amount of goodwill	34,516	7,732	2,212	1,480	45,940
Value-in-use headroom	78,030	8,403	442,881		

	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		

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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 outcome

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 9.6% (2017: 10.7%) and cashflows beyond the three-year period are extrapolated using a 2.0% (2017: 2.5%) 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	8.5%	9.0%	9.6%	10.0%	10.5%
EBITDA delivery	**€000**	**€000**	**€000**	**€000**	**€000**
–10%	93.0	70.8	47.0	34.8	19.9
–5%	111.2	87.7	62.5	49.6	33.9
0%	129.4	104.7	78.1	64.4	47.9
5%	147.6	121.6	93.6	79.3	61.9
10%	165.8	138.5	109.1	94.1	75.8

The impact of a one percentage point decrease in the long-term growth rate applied in the terminal value calculation would be reduction in headroom of €29.1m.

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 2017 the carrying amount of the assets of the Italian CGU were determined to be higher than its recoverable amount, and an impairment loss of €14.9m was recognised during 2017. The impairment loss was fully allocated to goodwill and included as an exceptional expense (note 8).

Following the impairment loss recognised in 2017, recoverable amount was equal to the carrying amount.

The pre-tax discount rate applied to cashflow projections in 2018 is 13.3% (2017: 13.5%) and cashflows beyond the three-year period are extrapolated using a 1.7% (2017: 1.7%) growth rate.

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%**	**13.3%**	**14.0%**	**14.5%**
EBITDA delivery	**€000**	**€000**	**€000**	**€000**	**€000**
–10%	5.8	2.9	1.2	(2.2)	(4.5)
–5%	9.7	6.6	4.8	1.2	(1.2)
0%	13.6	10.3	8.4	4.6	2.0
5%	17.4	14.0	12.0	8.0	5.3
10%	21.3	17.7	15.6	11.3	8.6

The impact of a one percentage point decrease in the long-term growth rate applied in the terminal value calculation would be an impairment of €5.4m.

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 10.0% (2017: 10.3%) and cashflows beyond the three-year period are extrapolated using a 2.4% (2017: 1.7%) 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

2018	Land and buildings €000	Technical equipment €000	Other equipment €000	Assets under construction €000	Total €000
Cost:					
As at 1 January 2018	35,568	55,477	16,192	551	107,788
Additions	274	1,252	471	1,579	3,576
Disposals	(1)	(1,907)	(463)	(2)	(2,373)
Transfers	57	85	5	(147)	–
Foreign currency adjustment	(219)	(279)	(29)	(26)	(553)
As at 30 September 2018	35,679	54,628	16,176	1,955	108,438
Depreciation:					
As at 1 January 2018	11,240	32,352	13,325	–	56,917
Depreciation expense	719	3,847	1,858	–	6,424
Disposals	–	(1,884)	(475)	–	(2,359)
Foreign currency adjustment	65	135	(9)	–	191
As at 30 September 2018	12,024	34,450	14,699	–	61,173
Carrying amount: As at 30 September 2018	23,655	20,178	1,477	1,955	47,265

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

€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.

The net book value of assets held under finance leases amounts to €254,000 (2017: €164,000).

The gross carrying value of fully depreciated property, plant and equipment that are still in use is €32,584,000 (2017: €26,542,000).

19. Inventories

	30 September 2018 €000	31 December 2017 €000
Raw materials	5,912	5,004
Work in progress	2,648	3,324
Finished goods and merchandise	24,234	16,992
Provision for obsolescence	(2,083)	(2,219)
	30,711	23,101

During the period ended 30 September 2018, inventories with a total value of €598,000 (2017: €1,347,000) were written off. This amount does not include the impact to the income statement for provisions made during the period. All write-offs were incurred as part of normal activities.

20. Trade and other receivables

	30 September 2018 €000	31 December 2017 €000
Trade receivables	112,728	159,249
Allowance for doubtful debts	(5,213)	(5,379)
	107,515	153,870
Other debtors and prepayments	11,723	9,292
	119,238	163,162

The movement on the allowance for doubtful debts is set out below.

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
As at start of period	(5,379)	(4,737)
Charge for the period	(377)	(963)
Amounts utilised	443	494
Foreign currency adjustment	100	(173)
As at end of period	(5,213)	(5,379)

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 €32,710,000 (PLN 140,000,000) of invoices (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 Inter-bank 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.

Notes to the consolidated financial statements continued

at 30 September 2018

20. Trade and other receivables continued

In 2018 and 2017, the factoring facility was not utilised.

Trade receivables are denominated in the following currencies:

	30 September 2018 €000	31 December 2017 €000
Polish Złoty	85,596	119,090
Euro	11,579	19,819
Czech Koruna	8,061	12,129
Other currencies	2,279	2,832
	107,515	153,870

At the end of the period, the analysis of trade receivables that were past due but not impaired is as follows:

	30 September 2018 €000	31 December 2017 €000
Overdue 0–30 days	12,064	13,055
Overdue more than 30 days	7,605	6,895
	19,669	19,950

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 2018 revenue from this customer amounted to €38,897,000 (2017: €48,108,000).

21. Other assets

	Current 30 September 2018 €000	Non-current 30 September 2018 €000	Current 31 December 2017 €000	Non-current 31 December 2017 €000
Customs deposits	135	4,742	–	4,770

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 investee

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 was calculated as €2,491,000, and goodwill of €425,000 was recognised. The fair value of the cash consideration at 30 September 2018 is not considered to have changed with the contingent liability of €2,491,000 being included in non-current financial liabilities.

The Group's share of the loss of Quintessential Brands Ireland Whiskey Limited for the period is €166,000 (31 December 2017: loss of €331,000). There has been a corresponding reduction in the carrying value of the investment.

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 30 September 2018. 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 30 September 2018.

	30 September 2018 €000	31 December 2017 €000
Net assets		
Non-current assets	60,701	58,356
Current assets and liabilities	12,530	9,166
Non-current liabilities	(6,955)	(583)
Net assets (100%)	66,276	66,939
Group's share of net assets (25%)	16,569	16,735
Goodwill	425	425
Carrying value of investment in associate at end of period	16,994	17,160

	9 months to 30 September 2018 €000	17 July to 31 December 2017 €000
Revenue (100%)	2,252	1,321
Loss from continuing operations (100%)	(662)	(1,324)
Total comprehensive income (100%)	(662)	(1,324)
Group's share of loss from continuing operations (25%)	(166)	(331)
Group's share of total comprehensive income (25%)	(166)	(331)
Carrying value of investment in associate brought forward	17,160	17,491
Share of loss from continuing operations (25%) during the period	(166)	(331)
Carrying value of investment in associate carried forward	16,994	17,160

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23. Financial liabilities

	Current 30 September 2018 €000	Non-current 30 September 2018 €000	Current 31 December 2017 €000	Non-current 31 December 2017 €000
Unsecured – at amortised cost				
HSBC loan[1]	–	81,443	–	114,191
Cost of arranging bank loan[2]	–	(143)	(53)	(143)
Interest payable	16	–	101	–
Total	16	81,300	48	114,048

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 original term of the RCF facility was 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 changes.

   As well as RCF drawings of €81,443,000 as at 30 September 2018 (2017: €114,191,000), an additional €10,551,000 (2017: €14,250,000) of the RCF was utilised for customs guarantees in Italy and Germany. These customs 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 two years to November 2022. The other 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 facility. Fees for the extension of the facility until 2022 are being amortised over the loan period. The balance of the fees remaining is €143,000 (2017: €196,000).

The following table shows the distribution of loan principal balances in Euros.

	30 September 2018 €000	31 December 2017 €000
Stock Polska Sp. z.o.o.	15,187	34,293
Stock Plzeň-Božkov s.r.o.	41,556	50,998
Stock S.r.l.	20,000	9,000
Stock Slovensko s.r.o.	700	900
Baltic Distillery GmbH	4,000	4,000
Stock Spirits Limited	–	15,000
	81,443	114,191

No security is provided to the lenders under the RCF facility as at 30 September 2018 (2017: nil security provided).

Reconciliation of movement of financial liabilities

	€000
As at 1 January 2018	114,096
Repayment of loans	(32,015)
Interest charge	1,135
Interest paid	(1,220)
Amortisation of arrangement fees	53
Foreign exchange on loan repayments	(733)
As at 30 September 2018	81,316

24. Other financial liabilities

	Current 30 September 2018 €000	Non-current 30 September 2018 €000	Current 31 December 2017 €000	Non-current 31 December 2017 €000
Finance leases	66	201	83	109
Contingent consideration	-	2,491	–	2,491
	66	2,692	83	2,600

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 (2017: €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 30 September 2018.

25. Provisions

	Employee benefits and pensions €000	Employee severance indemnity €000	Interest and penalties on open tax enquiry €000	Legal and contract related provisions €000	Other provisions €000	Total €000
As at 1 January 2018	599	153	631	417	454	2,254
Arising during the period	72	220	32	12	223	559
Utilised/released	(44)	(214)	(627)	–	(90)	(975)
Movement in provision following revaluation	(19)	–	–	–	–	(19)
Net foreign currency exchange differences	(12)	–	(4)	–	(4)	(20)
As at 30 September 2018	596	159	32	429	583	1,799
– Current	138	–	32	307	240	717
– Non-current	458	159	–	122	343	1,082

Notes to the consolidated financial statements continued

at 30 September 2018

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 2018 12,324 LTIP options were exercised (2017: nil 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 valuations of the present value of the severance indemnity obligation were carried out at 30 September 2018 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 2.83% p.a. (2017: 1.92% p.a.), inflation 2.00% p.a. (2017: 2.00% p.a.), revaluation rate 75% of inflation rate + 1.5 points = 3.00% p.a. (2017: 3.00% p.a.).

The amounts recognised in the consolidated statement of financial position are as follows:

	30 September 2018 €000	31 December 2017 €000
Defined benefit obligation – 1 January	153	219
Interest cost	2	1
Benefits paid	–	(86)
Defined benefit obligation	155	134
Other	4	19
Non-current provision	159	153

(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 2014/15/16 tax assessments in Germany. During the year, the amount which was provided in 2017 for the 2011 tax assessment in the Czech Republic was paid in full.

(iv) Legal and contract related provisions:

These 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 period 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:

These relate primarily to sales agent indemnity fees and other various miscellaneous provisions. Provisions are recognised where a legal or constructive obligation exists at the period 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

	30 September 2018 €000	31 December 2017 €000
Excise taxes	50,708	65,931
VAT	11,350	13,325
	62,058	79,256

27. Trade and other payables

	30 September 2018 €000	31 December 2017 €000
Trade payables	32,214	33,146
Accruals	35,358	37,398
Social security and staff welfare costs	1,970	1,839
Other payables	2,825	1,948
	72,367	74,331
– Current	72,080	73,915
– Non-current	287	416

28. Authorised and issued share capital and reserves

Share capital of Stock Spirits Group PLC

Number of shares	30 September 2018	31 December 2017
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 1 January 2017 and 1 January 2018	200,000,000	23,625	183,541
Cancellation of share premium	–	–	(183,541)
At 30 September 2018	200,000,000	23,625	–

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at shareholders' meetings.

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at 30 September 2018

28. Authorised and issued share capital and reserves continued

Share premium

It was confirmed on 12 June 2018 by the High Court of Justice of England and Wales that the Share Premium Account has been cancelled, crediting the sum of €183,541,000 to retained earnings. This amount is now considered to be distributable. The Share Premium Cancellation was approved by shareholders at the Annual General Meeting held on 22 May 2018.

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.

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. During 2018, 1,200,000 shares have been purchased by the EBT on behalf of the Group, in order to satisfy the vesting of options under the current share schemes. This has resulted in an increase in the own share reserve of €3,532,000. At 30 September 2018, the Group held 1,691,991 of the Company's shares (31 December 2017: 822,246).

On the exercise of options in the year, €468,000 was credited to the own share reserve (2017: €166,000), with the corresponding charge to retained earnings.

The EBT holds the shares at cost.

Other reserve

Other reserves includes the credit to equity for equity-settled share-based payments. See note 34 for full details. The charge for the period ended 30 September 2018 was €129,000 (2017: €1,942,000). On the exercise of Top-Up and Substitute option agreements in the period, €468,000 was debited to retained earnings with the corresponding credit to the own share reserve (2017: exercise of Jointly Owned Equity (JOE) Share Subscription Agreements and Top-Up option agreements: €166,000).

Foreign currency translation reserve

	30 September 2018 €000	31 December 2017 €000
Foreign currency translation reserve	13,915	15,829

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

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2018: 2.50 €cents per share (2017: 2.38 €cents per share)	5,025	4,760
Proposed dividends on ordinary shares:		
Final cash dividend for 2018: 6.01 €cents per share (2017: 5.72 €cents per share)	11,946	11,437

Dividend payments included in the consolidated cashflow statement of €16,398,000 (2017: €15,730,000) reflect 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 dividend on ordinary shares is subject to approval at the AGM and is not recognised as a liability as at 30 September 2018.

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 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.

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at 30 September 2018

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 which, at the end of 30 September 2018, 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
30 September 2018		
Euro	–50/+50	124/(124)
Polish Złoty	–50/+50	76/(76)
Czech Koruna	–50/+50	208/(208)
31 December 2017		
Euro	–50/+50	145/(145)
Polish Złoty	–50/+50	171/(171)
Czech Koruna	–50/+50	255/(255)

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	2018 €000	2017 €000
EUR–PLN	+ 5%	70	34
	– 5%	(77)	(38)
EUR–CZK	+ 5%	175	115
	– 5%	(193)	(127)
EUR–GBP	+ 5%	2	(708)
	– 5%	(2)	783

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 accounts receivable which are past due.

The carrying amount of accounts receivable is reduced by an allowance for doubtful debts 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 of 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 30 September 2018 and 31 December 2017 is the carrying amounts as illustrated in notes 23 and 32. The Group's maximum exposure for financial guarantees is noted in note 24 and in the liquidity table overleaf.

Notes to the consolidated financial statements continued

at 30 September 2018

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 tables below summarise the maturity profile of the Group's undiscounted financial liabilities at 30 September 2018 and 31 December 2017:

As at 30 September 2018

Financial liabilities	Less than one year €000	Between two and five years €000	Total €000
Interest-bearing loans and borrowings (note 23)	–	81,443	81,443
Interest payable on interest-bearing loans	1,588	4,971	6,559
Other financial liabilities (note 24)	66	201	267
Trade and other payables (note 27)	69,845	133	69,978
Contingent consideration (note 24)	–	2,491	2,491
	71,499	89,239	160,738

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 30 September 2018, and the interest rates and margins applicable at this time.

The Group has €108,006,000 of undrawn facilities available to it under the terms of the RCF (31 December 2017: €71,559,000). 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 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

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 covenant requirements on the third party debt are met.

The Group regards its total capital as follows:

	2018 €000	2017 €000
Net debt	31,583	53,143
Equity attributable to the owners of the Company	351,881	354,309
	383,464	407,452

Net debt is calculated as follows:

	2018 €000	2017 €000
Cash and cash equivalents (note 32)	50,143	61,341
Floating rate loans and borrowings (note 23)	(81,459)	(114,292)
Finance leases (note 24)	(267)	(192)
Net debt	(31,583)	(53,143)

	2018 €000	2017 €000
Adjusted EBITDA (note 7)	35,848	56,324
Net debt/Adjusted EBITDA (Leverage)	0.88	0.94

Notes to the consolidated financial statements continued

at 30 September 2018

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 30 September 2018

	Financial assets and liabilities at amortised cost €000	Total book value €000
Financial assets:		
Cash	50,143	50,143
Trade and other receivables	114,083	114,083
Customs deposits	4,877	4,877
Financial liabilities:		
Interest-bearing loans and borrowings:		
(i) Finance lease obligations	(267)	(267)
(ii) Floating rate borrowings – banks	(81,300)	(81,300)
Trade and other payables	(69,978)	(69,978)
Contingent liabilities (note 24)	(2,491)	(2,491)

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 liabilities (note 24)	–	(2,491)	(2,491)	(2,491)

At 30 September 2018 and 31 December 2017 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 period to 31 December 2017 or 30 September 2018, 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 56 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 was included in general and administrative and other operational expenses in the consolidated income statement.

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Short-term employee benefits	5,294	5,342
Social security costs	330	443
Post-employment benefits	209	306
Share-based compensation (note 34)	632	1,845
Termination benefits	–	730
	6,465	8,666

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 30 September 2018, no Directors (2017: nil) had any retirement benefits accrued under either money purchase schemes or under defined benefit schemes.

In 2018 no Director (2017: 1) 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.

The following table provides the total amount of transactions that have been entered into with Quintessential Brands Ireland Whiskey Limited and its related entities for the period to 30 September 2018. There were no such transactions in 2017.

Subsidiaries:	Sales of goods/services €000	Purchases of goods/services €000	Amounts owed by related parties €000	Amounts owed to related parties €000
Stock Plzeň-Božkov s.r.o.	–	31	–	31
Stock S.r.l.	4	8	–	5
Stock d.o.o.	5	67	5	15
Stock Slovensko s.r.o.	5	32	5	-
	14	138	10	51

Notes to the consolidated financial statements continued

at 30 September 2018

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 the statement of financial position as follows:

	30 September 2018 €000	31 December 2017 €000
Cash and bank balances	50,143	61,341

Cash and cash equivalents are denominated in the following currencies:

	30 September 2018 €000	31 December 2017 €000
Sterling	2,030	1,445
Euro	9,814	7,883
Czech Koruna	18,254	21,958
Polish Złoty	14,887	24,610
Other currencies	5,158	5,445
Total	50,143	61,341

33. Group structure and acquisition details

Details of Group undertakings as of 30 September 2018 and 31 December 2017 are as follows:

Group company	Country of incorporation and registered office address	Relation	Proportion of voting rights shares held 30 September 2018	31 December 2017
Stock Spirits (UK) Limited	England[3]	Subsidiary	100%	100%
Stock Plzeň-Božkov s.r.o.[1]	Czech Republic[5]	Subsidiary	100%	100%
Stock S.r.l.[1]	Italy[7]	Subsidiary	100%	100%
F.lli Galli, Camis & Stock A.G.[1]	Switzerland[8]	Subsidiary	100%	100%
Stock Polska Sp. z.o.o.[1]	Poland[4]	Subsidiary	100%	100%
Stock International s.r.o.[1]	Czech Republic[5]	Subsidiary	100%	100%
Stock Spirits Group Services AG[1]	Switzerland[8]	Subsidiary	100%	100%
Stock BH d.o.o.[1]	Bosnia[9]	Subsidiary	100%	100%
Stock d.o.o.[1]	Croatia[10]	Subsidiary	100%	100%
Baltic Distillery GmbH[1]	Germany[11]	Subsidiary	100%	100%
Stock Slovensko s.r.o.[1]	Slovakia[6]	Subsidiary	100%	100%
Stock Finance (Euro) Limited[1]	England[2,3]	Subsidiary	–	100%
Stock Finance (Złoty) Limited[1]	England[2,3]	Subsidiary	–	100%
Stock Finance (Koruna) Limited[1]	England[3]	Subsidiary	100%	100%

All shareholdings in subsidiaries are represented by Ordinary shares.

1. Wholly owned held indirectly through subsidiary undertakings
2. In connection with an internal corporate reorganisation, Stock Finance (Euro) Limited and Stock Finance (Złoty) Limited were liquidated in July 2018
3. The registered office is Solar House, Mercury Park, Wooburn Green, Buckinghamshire, HP10 0HH, United Kingdom
4. The registered office is ul Spoldzielcza n.6 Lublin 20-402, Poland
5. The registered office is Palirenska 641/2, PSC 32600, Czech Republic
6. The registered office is Galvaniho 7/A Bratislava – mestská časť Ružinov 821 04, Slovakia
7. The registered office is Tucidide 56 bis, 20 134 Milan, Italy
8. The registered office is Domanda Verurraltungs GmbH, Baarerstrasse 43, 6302 Zug
9. The registered office is Džemala Bijedića 185, Ilidža, 71000 Sarajevo, Bosnia Herzegovina
10. The registered office is Josipa Lončara 3, 10000 Zagreb, Croatia
11. The registered office is Baltic Distillery GmbH, Gartenweg 1, 18334 Dettmannsdorf

Notes to the consolidated financial statements continued

at 30 September 2018

34. Share-based compensation

Share options issued at IPO

Post-IPO awards were valued by reference to the share price at admission to the London Stock Exchange.

The Group 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.

	30 September 2018	31 December 2017
Exercisable options		
Number outstanding	458,501	758,501
Weighted average exercise price	£nil	£nil
Expiration period	5 years	6 years

The movements in the awards outstanding during the period were as follows:

	Number
At 1 January 2018	758,501
Exercised	(300,000)
Outstanding at 30 September 2018	458,501
Exercisable at 30 September 2018	458,501

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 2018 plan, financial targets are based 50% on EPS targets and 50% on cashflow conversion.

The performance period is usually three financial years beginning with the financial year in which the award is granted. The vesting period for grants made under the 2018 scheme is 2.72 years with an exercise period of 7.28 years to reflect the impact of the change in year-end to 30 September from 31 December. The exercise price of PSP options is £nil.

Awards were granted over 382,661 shares on 14 March 2018 (2017: 1,611,583 shares). An additional 4,521 options were also issued under the 2017 PSP scheme. The Executive Directors are required to hold the shares (other than those sold to sell to cover tax and social security due on exercise) for a period of two years from the date of vest. These new options were valued using the Black-Scholes model. Dividends accrue to the participants prior to option exercise.

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. These options were valued using the Black-Scholes model. Dividends accrue to the participants prior to option exercise.

The performance period for the 2017 PSP scheme 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 granted under this scheme is £nil.

The compensation expense recognised in relation to these awards is based on the fair value of the awards at grant date.

Further information on the PSP is set out in the Directors' Remuneration Report on pages 71 to 86.

The principal assumptions made in measuring the fair value of PSP awards were as follows:

	2018 PSP Holding period	2018 PSP No holding period	2017 PSP
Principal assumptions			
Fair value at grant date	209.8 pence	259.0 pence	187.0 pence
Share price on grant date	259.0 pence	259.0 pence	187.0 pence
Expected life of the awards	2.72 years	2.72 years	3 years
Risk free rate interest rate	0.82%	0.82%	0%
Dividend yield on the Company's shares	0%	0%	n/a
Volatility of the Company's shares	36.39%	36.39%	n/a
TSR correlation (SSG PLC vs comparators)	n/a	n/a	n/a

Due to the limited historic data available at the time of the 2017 scheme being issued, Stock Spirits Group PLC 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:

	Number
At 1 January 2018	2,614,863
Granted	387,182
Forfeited	(207,916)
Lapsed	(1,058,236)
Outstanding at 30 September 2018	1,735,893
Exercisable at 30 September 2018	–

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 (RSA):

On 14 March 2018, awards were granted over 453,897 shares (2017: 534,419 shares). An additional 2,261 options were also issued under the 2017 RSA scheme.

Participation in the 2018 RSA is restricted to the senior management team, excluding Executive Directors. Vesting is dependent upon continued employment as at the date of the announcement of the 2020 results and an underpin that Adjusted EBITDA in 2020 is greater than Adjusted EBITDA in 2017. No dividends accrue to the Plan participants prior to exercise. The exercise price of RSU options is €nil.

Participation in the 2017 RSA was 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. Vesting is dependent upon continued employment as at the date of the announcement of the 2018 results. No dividends accrue to the Plan participants prior to exercise. The exercise price of 2017 RSA options is £nil.

Notes to the consolidated financial statements continued

at 30 September 2018

34. Share-based compensation continued

Restricted Stock options (RSA): continued

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.

Further information on the RSA is set out in the Directors' Remuneration Report on pages 71 to 86.

The principal assumptions made in measuring the fair value of RSA awards were as follows:

	2018 RSA	2017 RSA
Principal assumptions		
Fair value at grant date	236.8 pence	172.8 pence
Share price on grant date	259.0 pence	187.0 pence
Expected life of the awards	2.72 years	1.72 years
Risk free rate interest rate	0.82%	0%
Dividend yield on the Company's shares	3.3%	n/a
Volatility of the Company's shares	36.39%	n/a

The movements in the awards outstanding during the period were as follows:

	Number
At 1 January 2018	479,465
Granted	456,158
Lapsed	–
Outstanding at 30 September 2018	935,623
Exercisable at 30 September 2018	–

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 have lapsed in 2018 as the financial targets were not met during the performance period.

The movement in the awards under this scheme during the year are as follows:

	Number
At 1 January 2018	1,000,000
Lapsed	(1,000,000)
Outstanding at 30 September 2018	–
Exercisable at 30 September 2018	–

Deferred Annual Bonus Plan:

In respect of 2017 an annual bonus was paid to Mirek Stachowicz of 32.1% of salary. 25% of the bonus earned was deferred into shares. Options over 13,661 shares were awarded. The exercise price of the options is €nil. Dividends accrue prior to exercise. The vesting period is two financial years from the date of grant with an exercise period of eight years.

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 awards were as follows:

	2018 DABP
Principal assumptions	
Fair value at grant date	243.0 pence
Share price on grant date	243.0 pence
Expected life of the awards	2.0 years
Risk free rate interest rate	0.83%
Dividend yield on the Company's shares	0%
Volatility of the Company's shares	29.75%

Share-based compensation expense

The expense recognised in other operational expenses for employee services received during the period is shown in the following table:

	9 months to 30 September 2018 €000	Year to 31 December 2017 €000
Total share-based compensation expense recognised in Statement of Changes in Equity	129	1,942
Total cash-settled share-based compensation awards recognised in liabilities	20	342
Share-based compensation (note 10)	149	2,284

The total value of cash-settled share-based compensation awards recognised in liabilities at 30 September 2018 is €125,000 (2017: €342,000). These represent employer's social security on share options and accrued dividend equivalents.

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:

	2018 €000	2017 €000
Within one year	5,005	4,977
After one year but not more than five years	12,267	12,778
More than five years	2,801	4,076
	20,073	21,831

The total charge under operating leases as of 30 September 2018 was €3,668,000 (2017: €4,356,000).

36. Commitments for capital expenditure

Commitments for the acquisition of property, plant and equipment as of 30 September 2018 are €656,000 (2017: €511,000).

37. Events after the balance sheet date

Further correspondence was received from the Polish tax authorities in relation to its inquiry covering the 2013 tax return of the Group's Polish subsidiary. Refer to note 13 for further details.

Company statement of financial position

at 30 September 2018

	Notes	30 September 2018 £000	31 December 2017 £000
Non-current assets			
Investments	3	256,341	256,301
Other receivables	4	31	66
		256,372	256,367
Current assets			
Other receivables and prepayments	5	15,173	15,414
Cash and cash equivalents	6	1,223	656
		16,396	16,070
Total assets		272,768	272,437
Non-current liabilities			
Trade and other payables	7	91	130
Current liabilities			
Trade and other payables	8	2,047	2,006
Total liabilities		2,138	2,136
Net assets		270,630	270,301
Capital and reserves			
Issued share capital	9	20,000	20,000
Share premium	9	–	155,428
Own share reserve	9	(3,000)	(272)
Merger reserve	9	83,837	83,837
Share-based compensation reserve	9, 12	9,136	9,021
Retained earnings		160,657	2,287
		270,630	270,301

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 162 to 177, were approved by the Board of Directors and authorised for issue on 5 December 2018 and were signed on its behalf by:

Mirek Stachowicz
Chief Executive Officer

5 December 2018

Paul Bal
Chief Financial Officer

5 December 2018

Company statement of cashflows

for the 9 month period ended 30 September 2018

	Notes	9 months to 30 September 2018 £000	Year to 31 December 2017 £000
Operating activities			
Profit for the period		17,809	169
Adjustments to reconcile profit to net cashflows:			
Other financial income		(264)	(334)
Interest expense		169	238
Share-based compensation	12	36	568
		17,750	641
Working capital adjustments			
Decrease/(increase) in trade receivables and other assets		510	(2,137)
Increase/(decrease) in trade payables and other liabilities		44	(352)
		554	(2,489)
Net cashflows from operating activities		18,304	(1,848)
Investing activities			
Interest received		–	22
Net cashflow from investing activities		–	22
Financing activities			
Interest paid		(142)	(238)
Dividends paid to equity holders	10	(14,481)	(13,634)
Purchase of own shares	9	(3,114)	(102)
Net cashflow from financing activities		(17,737)	(13,974)
Net increase/(decrease) in cash and cash equivalents		567	(15,800)
Cash and cash equivalents at the start of the period		656	16,456
Cash and cash equivalents at the end of the period	6	1,223	656

Company statement of changes in equity

at 30 September 2018

	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 2017	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
Profit for the period	–	–	–	–	–	17,809	17,809
Total comprehensive income	–	–	–	–	–	17,809	17,809
Share-based compensation charge (note 12)	–	–	–	115	–	–	115
Own shares acquired for incentive schemes (note 9)	–	–	–	–	(3,144)	–	(3,144)
Own shares utilised for incentive schemes (note 9)	–	–	–	–	416	(386)	30
Dividends (note 10)	–	–	–	–	–	(14,481)	(14,481)
Cancellation of share premium (note 9)	–	(155,428)	–	–	–	155,428	–
Balance at 30 September 2018	20,000	–	83,837	9,136	(3,000)	160,657	270,630

Notes to the Parent Company financial statements

at 30 September 2018

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 5 December 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 that there are no material uncertainties which 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 9 month period ended 30 September 2018 (2017: 12 months to 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 period has been disclosed in the statement of changes in equity.

New/Revised standards and interpretations adopted in 2018

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

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers
- IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration
- Clarification to IFRS 15: Revenue from Contracts with Customers
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4: Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014–2016 Cycle: minor amendments to IFRS 1 and IAS 28
- Amendment to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7: Disclosure Initiative

Notes to the Parent Company financial statements continued

at 30 September 2018

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]
IFRS 16: Leases	1 January 2019
IFRS 17: Insurance Contracts	1 January 2021
Amendments to IFRS 9: Financial Instruments	1 January 2019
Amendments to IAS 19: Employee Benefits	1 January 2019
Amendments to IAS 28: Investments in Associates and Joint Ventures	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle: minor amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	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 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 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.

3. Investments

	£000
Carrying value at 1 January 2018	256,301
Increase in investments from share-based payments	40
Carrying value at 30 September 2018	256,341

See note 33 to the consolidated financial statements.

4. Other receivables due in more than one year

	30 September 2018 £000	31 December 2017 £000
Cost of arranging bank loans > 1 year	31	66

Notes to the Parent Company financial statements continued

at 30 September 2018

5. Other receivables and prepayments

	30 September 2018 £000	31 December 2017 £000
Amounts owed by subsidiary undertakings	14,844	15,295
Other debtors and prepayments	301	104
Cost of arranging bank loans < 1 year	28	15
	15,173	15,414

No security has been granted over other receivables.

6. Cash and cash equivalents

	30 September 2018 £000	31 December 2017 £000
Cash and bank balances	1,223	656

7. Trade and other payables: amounts falling due after more than one year

	30 September 2018 £000	31 December 2017 £000
Other payables	91	130

Other payables falling due after more than one year represents social security costs of £91,000 (2017: £130,000) in relation to the Share Plans.

8. Trade and other payables

	30 September 2018 £000	31 December 2017 £000
Trade payables	92	143
Accruals	1,063	1,285
VAT and social security	216	346
Amounts due to subsidiary undertakings	501	7
Other payables	175	225
	2,047	2,006

Other payables includes £146,000 (2017: £225,000) which represents Employer's social security costs in relation to share-based compensation.

9. Authorised and issued share capital and reserves

The movements in called up share capital and share premium accounts are set out below:

	Number of Ordinary shares	Ordinary shares £	Share Premium £
At 1 January 2017 and 1 January 2018	200,000,000	20,000,000	155,428,080
Cancellation of share premium	–	–	(155,428,080)
At 30 September 2018	200,000,000	20,000,000	–

Share premium

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 per share. Also included in share premium was capitalised listing costs, which were incurred directly in connection with the registration and distribution of shares.

It was confirmed on 12 June 2018 by the High Court of Justice of England and Wales that the Share Premium Account has been cancelled, crediting the sum of £155,428,080 to retained earnings. This amount is now considered to be distributable. The Share Premium Cancellation was approved by shareholders at the AGM held on 22 May 2018.

Own share reserve

The own share reserve comprises the cost of the Company's shares, which are held by the Employee Benefit Trust (EBT) on behalf of the employees until the options are exercised. During the 9 months ended 30 September 2018, 1,200,000 shares have been purchased by the EBT on behalf of the Group, in order to satisfy the vesting of options under the current share schemes. This has resulted in an increase in the own share reserve of £3,144,000. At 30 September 2018 the EBT held 1,691,991 of the Company's shares (2017: 822,246).

On the exercise of options in the period £416,000 (2017: £41,000) was credited to the own share reserve.

The EBT holds the shares at cost.

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.

Share-based compensation reserve

Share-based compensation reserve includes the credit to equity for equity-settled share-based payments. See note 12 for full details. The equity charge for the period ended 30 September 2018 was £115,000 (2017: £1,729,000).

10. Distributions made and proposed

	9 months to 30 September 2018 £000	Year to 31 December 2017 £000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2018: 2.50 €cents (2.25 Sterling pence) per share (2017: 2.38 €cents (2.19 Sterling pence))	4,474	4,350
Proposed dividends on ordinary shares:		
Final cash dividend for 2018: 6.01 €cents (5.35 Sterling pence) per share (2017: 5.72 €cents (4.85 Sterling pence))	10,632	9,697

Notes to the Parent Company financial statements continued

at 30 September 2018

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 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 30 September 2018 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; 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 30 September 2018	Financial assets and liabilities at amortised cost £000	Total book value £000
Cash and cash equivalents (note 6)	1,223	1,223
Other receivables (note 4,5)	14,921	14,921
Trade and other payables (note 7,8)	(1,873)	(1,873)

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)

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 30 September 2018

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)	–	(1,809)	(64)	–	(1,873)

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)

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, Stock Spirits Group extended its RCF with its banking club by a further two years to November 2022. The other 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 30 September 2018

12. Share-based compensation

Share options issued at IPO

Post-IPO awards were valued by reference to the share price at admission to the London Stock Exchange.

The Group 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.

	30 September 2018	31 December 2017
Exercisable options		
Number outstanding	458,501	758,501
Weighted average exercise price	£nil	£nil
Expiration period	5 years	6 years

The movements in the awards outstanding during the period were as follows:

	Number
At 1 January 2018	758,501
Exercised	(300,000)
Outstanding at 30 September 2018	458,501
Exercisable at 30 September 2018	458,501

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 2018 plan, financial targets are based 50% on EPS targets and 50% on cashflow conversion.

The performance period is usually three financial years beginning with the financial year in which the award is granted. The vesting period for grants made under the 2018 scheme is 2.72 years with an exercise period of 7.28 years to reflect the impact of the change in the year-end to 30 September from 31 December. The exercise price of PSP options is £nil.

Awards were granted over 382,661 shares on 14 March 2018 (2017: 1,611,583 shares). An additional 4,521 options were also issued under the 2017 PSP scheme. The Executive Directors are required to hold the shares (other than those sold to sell to cover tax and social security due on exercise) for a period of two years from the date of vest. These new options were valued using the Black-Scholes model. Dividends accrue to the participants prior to option exercise.

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. These options were valued using the Black-Scholes model. Dividends accrue to the participants prior to option exercise.

The performance period for the 2017 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 granted under this scheme is £nil.

The compensation expense recognised in relation to these awards is based on the fair value of the awards at grant date.

Further information on the PSP is set out in the Directors' Remuneration Report on pages 71 to 86.

The principal assumptions made in measuring the fair value of PSP awards were as follows:

	2018 PSP Holding period	2018 PSP No holding period	2017 PSP
Principal assumptions			
Fair value at grant date	209.8 pence	259.0 pence	187.0 pence
Share price on grant date	259.0 pence	259.0 pence	187.0 pence
Expected life of the awards	2.72 years	2.72 years	3 years
Risk free rate interest rate	0.82%	0.82%	0%
Dividend yield on the Company's shares	0%	0%	n/a
Volatility of the Company's shares	36.39%	36.39%	n/a
TSR correlation (SSG PLC vs comparators)	n/a	n/a	n/a

Due to the limited historic data available at the time of the 2017 scheme being issued, Stock Spirits Group PLC expected volatility was based on the historic volatilities of the companies in the TSR comparator group.

The movements in the awards outstanding during the period were as follows:

	Number
At 1 January 2018	2,614,863
Granted	387,182
Forfeited	(207,916)
Lapsed	(1,058,236)
Outstanding at 30 September 2018	1,735,893
Exercisable at 30 September 2018	–

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 (RSA):

On 14 March 2018, awards were granted over 453,897 shares (2017: 534,419 shares). An additional 2,261 options were also issued under the 2017 RSA scheme.

Participation in the 2018 RSA is restricted to the senior management team, excluding Executive Directors. Vesting is dependent upon continued employment as at the date of the announcement of the 2020 results and an underpin such that Adjusted EBITDA in 2020 is greater than Adjusted EBITDA in 2017. No dividends accrue to the Plan participants prior to exercise. The exercise price of 2018 RSA options is £nil.

Notes to the Parent Company financial statements continued

at 30 September 2018

12. Share-based compensation continued

Restricted Stock options (RSA) continued

Participation in the 2017 RSA 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. Vesting is dependent upon continued employment as at the date of the announcement of the 2018 results. No dividends accrue to the Plan participants prior to exercise. The exercise price of 2017 RSA 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.

Further information on the RSA is set out in the Directors' Remuneration Report on pages 71 to 86.

The principal assumptions made in measuring the fair value of RSA awards were as follows:

	2018 RSU	2017 RSU
Principal assumptions		
Fair value at grant date	236.8 pence	172.8 pence
Share price on grant date	259.0 pence	187.0 pence
Expected life of the awards	2.72 years	1.72 years
Risk free rate interest rate	0.82%	0%
Dividend yield on the Company's shares	3.3%	n/a
Volatility of the Company's shares	36.39%	n/a

The movements in the awards outstanding during the period were as follows:

	Number
At 1 January 2018	479,465
Granted	456,158
Lapsed	–
Outstanding at 30 September 2018	935,623
Exercisable at 30 September 2018	–

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 have lapsed in 2018 as the financial targets were not met during the performance period.

The movement in the awards under this scheme during the year are as follows:

	Number
At 1 January 2018	1,000,000
Lapsed	(1,000,000)
Outstanding at 30 September 2018	–
Exercisable at 30 September 2018	–

Deferred Annual Bonus Plan:

In respect of 2017 an annual bonus was paid to Mirek Stachowicz of 32.1% of salary. 25% of the bonus earned was deferred into shares. Options over 13,661 shares were awarded. The exercise price of the options is £nil. Dividends accrue prior to exercise. The vesting period is two financial years from the date of grant with an exercise period of eight years.

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 awards were as follows:

	2018 DABP
Principal assumptions	
Fair value at grant date	243.0 pence
Share price on grant date	243.0 pence
Expected life of the awards	2.0 years
Risk free rate interest rate	0.83%
Dividend yield on the Company's shares	0%
Volatility of the Company's shares	29.75%

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:

	2018 £000	2017 £000
Equity-settled share-based compensation expense recognised in Statement of Changes in Equity	115	1,729

The expense recognised in other operational expense in respect of the Directors of Stock Spirits PLC during the period is shown in the following table:

	2018 £000	2017 £000
Equity-settled share-based compensation expense	75	496
Cash-settled share-based compensation expense	(39)	72
Share-based compensation	36	568

13. Subsidiaries

The principal subsidiary undertakings of the Company and their details are set out in note 33 to the consolidated financial statements.

Notes to the Parent Company financial statements continued

at 30 September 2018

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:

2018	Sales of goods/ services £000	Purchases of goods/services £000	Amounts owed by related parties £000	Amounts owed to related parties £000
Subsidiaries:				
Stock Spirits (UK) Limited	549	–	61	493
Stock Polska Sp. z.o.o.	–	–	39	8
Stock Finance (Koruna) Limited	–	–	6	–
	549	–	106	501

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 Plzeň-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

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 has 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 period, key management personnel did not owe the Company any amounts (2017: nil).

Executive and Non-Executive Directors received remuneration for their services to the Company as follows:

	9 months to 30 September 2018 £000	Year to 31 December 2017 £000
Short-term employee benefits	1,628	2,030
Social security costs	77	114
Post-employment benefits	80	10
Termination benefits	–	379
Share-based compensation	135	568
	1,920	3,101

As at 30 September 2018 no Directors (2017: nil) had any retirement benefits accrued under either money purchase schemes or under defined benefit schemes.

In 2018 no Directors (2017: 1) made any 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.

Syramusa

Inspired by a time honoured secret recipe handed down from generation to generation by Sicilian families. Limoncello Syramusa's elegant bottle is inspired by the classic shapes of Hellenic amphorae.

Additional information

Shareholders' information

Financial calendar

Annual General Meeting: 14 February 2019

Results announcement

Interim Results – for the period ending 31 March 2019: 14 May 2019

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 share certificate.

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.

Corporate Brokers

J.P. Morgan Cazenove

25 Bank Street
London, E14 5JP

Numis Securities Ltd

The London Stock Exchange Building
10 Paternoster Square
London, EC4M 7LT

Legal Advisers

Slaughter & May

1 Bunhill Row
London, EC1Y 8YY

Independent Auditors

KPMG LLP

Arlington Business Park
Theale
Reading, RG7 4SD

Registrars

Link Asset Services

34 Beckenham Road
Beckenham
Kent, BR3 4TU
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:

Paul Bal
Chief Financial Officer
Email: investorqueries@stockspirits.com
Tel: +44 1628 648500
Fax: +44 1628 521366

Stock Spirits Group PLC

Registered office:
Solar House
Mercury Park
Wooburn Green
Buckinghamshire, HP10 0HH
United Kingdom
Registered in England
Company number 08687223

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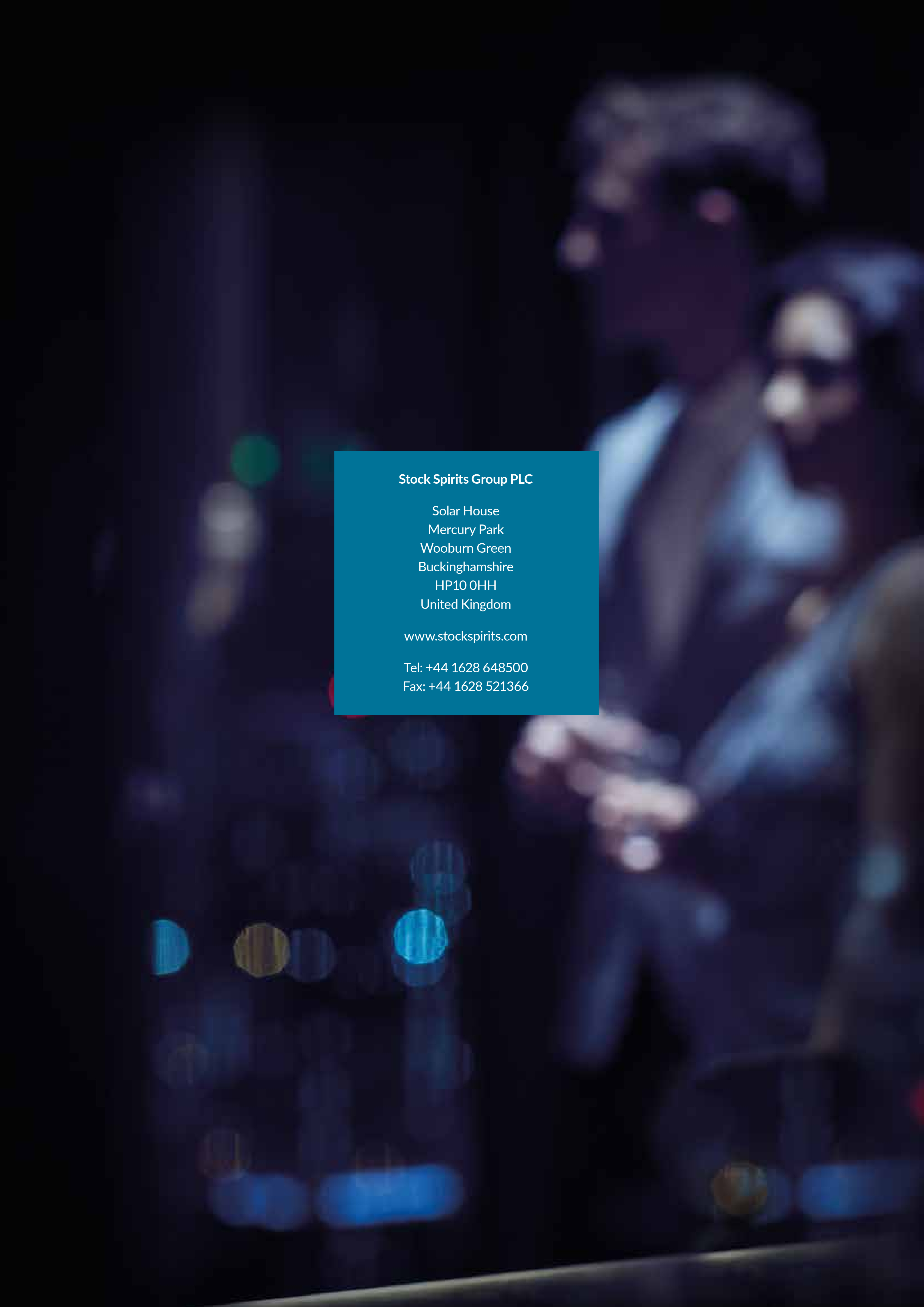

Stock Spirits Group PLC

Solar House
Mercury Park
Wooburn Green
Buckinghamshire
HP10 0HH
United Kingdom

www.stockspirits.com

Tel: +44 1628 648500
Fax: +44 1628 521366