Stock Spirits Group PLC

Preliminary results for the year ended 31 December 2017

A year of stabilisation and turnaround

7 March 2018: Stock Spirits Group PLC ("Stock Spirits" or the "Company"), a leading owner and producer of premium branded spirits and liqueurs that are principally sold in Central and Eastern Europe, announces its results for the year ended 31 December 2017.

Financial highlights

- Revenue up +5.2% to €274.6 million (2016: €261.0 million), and +3.0% on a constant currency basis
- Adjusted EBITDA[1] +9.7% to €56.3 million (2016: €51.4 million)
- Profit for the year €11.3 million (2016: €28.4 million), following exceptional charges relating to Italian business impairment of €14.9m and Polish deferred tax of €4.7m
- Basic EPS €0.06 per share (2016: €0.14 per share)
- Adjusted basic EPS +14.3% to €0.16 per share (2016: €0.14 per share)
- Closing net debt of €53.1 million (2016: €59.7 million), with leverage less than 1x
- Proposed final dividend of 5.72 €cents per share[2] (2016: 5.45 €cents per share), giving a total dividend in respect of 2017 of 8.10 €cents per share (2016: 7.72 €cents per share, excluding the special dividend)

Operational highlights

- Total sales volume increase of 6.5% to 13.1 million 9 litre cases (2016: 12.3 million)
- Poland performance stabilised, although market remains highly competitive
- 25% Irish whiskey investment in Quintessential Brands completed in July
- New distribution agreements signed with Beam-Suntory (Czech and Slovakia) and Beluga Group (Croatia and Bosnia)
- New product launches included Black Fox premium herbal bitters brand in Czech, and flavour developments for the Saska range in Poland
- Appointment of new CFO, Paul Bal, in November 2017

[1] Stock Spirits Group uses alternative performance measures as key financial indicators to assess underlying performance of the Group. Details of the basis of calculation for Adjusted EBITDA, Adjusted EBITDA margin and Adjusted free cash flow conversion can be found in note 5. Adjusted EPS can be found in note 9

[2] Subject to shareholder approval at the AGM on 22 May, the final dividend will be paid on 25 May based on the record date of 4 May 2018

Commenting on the results, Mirek Stachowicz, Chief Executive Officer, said:

"2017 was a year of stabilisation for Stock Spirits, and one in which we embedded the significant changes accomplished in 2016. Turning around the performance in our largest market, Poland, was the Group's top priority during the year and, through a combination of strategic investment, realigned pricing and numerous other operational initiatives, we believe that the business has now stabilised. As a result, we are delighted to be reporting today that we have delivered growth in volume, revenue, market share, profitability and cashflow across the Group during the year.

In addition, a strategic review undertaken during the year has made it clear that there is a greater need than ever before to focus on our brands in order to keep pace with the changing needs and tastes of our end consumers. As a result, continuing to premiumise our brands, becoming more relevant to millennials, investing in digital marketing, and carrying out strategic M&A, are all areas of priority. This renewed focus, as well as the improvements that we are making across all areas of our operations, mean that we continue to feel well positioned to achieve sustainable long-term growth."

ENDS

Analyst presentation

Management will be hosting a presentation for analysts at 9.00am today at Numis Securities, London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT. If you would like to attend, please contact Powerscourt on the details below.

A webcast of the presentation will also be available via www.stockspirits.com and a recording made available shortly afterwards.

For further information:

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A copy of this preliminary results announcement ("announcement") has been posted on www.stockspirits.com.

Investors can also address any query to investorqueries@stockspirits.com.

About Stock Spirits Group

Stock Spirits is one of Central and Eastern Europe's leading branded spirits and liqueurs businesses, and offers a portfolio of products that are rooted in local and regional heritage. With core operations in Poland, the Czech Republic, Slovakia, Italy, Croatia and Bosnia & Herzegovina, Stock also exports to more than 50 other countries worldwide. Global sales volumes currently total over 100 million litres per year.

Stock has production facilities in Poland, the Czech Republic and Germany, and its core brands include products made to long-established recipes such as Stock 84 brandy, Fernet Stock bitters and Limonce, as well as more recent creations like Stock Prestige and Żołądkowa de Luxe vodkas.

Stock is listed on the main market of the London Stock Exchange. For the year ended 31 December 2017 it delivered total revenue of €274.6 million and operating profit before exceptional expenses of €44.8m.

For further information, please visit www.stockspirits.com

CHAIRMAN'S STATEMENT

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

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

Given our operational progress we are better able to return to the other key element of our IPO strategy which is growth through mergers and acquisitions (M&A). During 2017, we continued to review 'bolt-on' opportunities and we were pleased to announce our 25% investment in premium Irish whiskey brands, The Dubliner and The Dublin Liberties in July this year. Now that Poland has been stabilised, we return to looking at larger, more strategic opportunities to deliver enhanced growth and shareholder value for the future.

Dividend

I am also pleased to announce our proposed final dividend for the year of 5.72 €cents per share (2016: 5.45 €cents per share). This takes the total dividends paid for the year to 8.10 €cents per share (2016: 19.62 €cents per share, which also included a special dividend of 11.90 €cents per share). The adjusted free cash flow conversion of the company continues to be a strength and at 86.3% (2016: 94.1%) remains robust. The dividend policy has been revisited and the Board is moving from the 35% of net free cash flow (free cash flow after investments) approach outlined at IPO, in favour of progressive dividends where cash flow permits. We also reiterate our commitment to return surplus cash to shareholders should no meaningful capital investment or M&A opportunities arise.

People

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

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

The Board would like to thank Mr Pankevicz for his contribution to the Company over the last 2 years and wish him well for the future.

Governance

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

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

Looking ahead

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

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

CHIEF EXECUTIVE'S STATEMENT

2017 was a year of stabilisation and turnaround, producing encouraging tangible results. Stabilisation involved embedding changes set in motion since 2016 and some of this change enabled the re-allocation of resource to the front-end of the business.

Turning around Poland was 2017's top priority, through a combination of aligned pricing, a restructured sales team and driving efficiencies across the entire organisation. We invested in Poland, and we are seeing positive results.

Group financial performance

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

Turnaround in Poland

Revenue for Poland in 2017 was €147.7m, an increase of €10.8m versus 2016, with Adjusted EBITDA of €37.7m a growth of €1.8m from 2016. In 2017 this division represented 54% of Group revenue.

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

Whilst these results are encouraging, we remain vigilant and the market, though stable, remains highly competitive. The economy supported growth, with rising average incomes. Though the Government will restrict Sunday trading in 2018, we expect limited impact.

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

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

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

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

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

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

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

Progress in the Czech Republic

Revenue in the Czech Republic for 2017 was €68.8m, an increase of €5.6m versus 2016, with Adjusted EBITDA of €21.8m, growth of €2.2m from 2016. In 2017 this division represented 25% of Group revenue.

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

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

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

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

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

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

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

Challenges in Italy

Revenue for Italy in 2017 was €28.1m, a decrease of €1.3m versus 2016, with Adjusted EBITDA of €6.3m a decrease of €0.6m from 2016. In 2017 this division represented 10% of Group revenue.

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

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

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

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

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

Other markets

The regional report for “Other” markets includes Slovakia, Bosnia, Croatia, Baltic distillery and our export activities. Revenue for Other markets in 2017 was €30.0m, a decrease of €1.5m versus 2016, with Adjusted EBITDA of €4.9m a decrease of €0.2m from 2016. In 2017 this division represented 11% of Group revenue.

Strong results in Slovakia

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

To penetrate the premium profit pool further, we signed a distribution agreement with Beam-Suntory here also. Combining our distribution capability and Beam-Suntory’s strong investment in Jim Beam, we delivered pleasing results. With the Jim Beam, Distell and Quintessential Brands Irish Whiskey portfolios under our distribution, we now have a range of brands covering the rapidly growing whisky category.

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

Croatia and Bosnia

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

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

Innovations

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

Operations and supply chain

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

Sales and operations planning development was a major enabler of improved performance, integrating all disciplines and markets to drive us forward. Our operations team won awards in Poland: BRC Food and IFS Food Certification (the first spirits producer to gain both accreditations), and ‘Employer – Organiser of Safe Work (from PIP, the State Labour Inspectorate).

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

Technology

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

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

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

Our people

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

Our partners

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

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

Our strategy

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

M&A

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

Outlook

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

CHIEF FINANCIAL OFFICER’S STATEMENT

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

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

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

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

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

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

For performance management purposes, the Group uses Adjusted EBITDA as a key measure. The combination of improved revenue performance and benefits from the restructuring initiatives reflect delivery of the turnaround plans outlined over the past two years; Adjusted EBITDA rose 9.7% to €56.3m (2016: €51.4m).

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

Finance income and expense and taxation

Net finance income and expense was broadly similar to the prior year at an underlying cost of around €2.6m as the financing facilities are unchanged. However, in 2016 there was a foreign exchange gain on intercompany loans of €1.5m which resulted in the reported net cost of €1.0m.

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

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

Exceptional items

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

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

Both items are non-cash adjustments.

Earnings per share

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

Irish whiskey investment

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

Cash flow and working capital

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

As stated in previous years, the peak trading period just prior to the year-end can make material differences to cash flow. Due to a combination of increased trading levels in Poland, and leveraging our cash flow capability for commercial advantage, we saw increased trade receivables at year-end.

This increase has been largely offset by an increase in payables due to a focus on using the Group's scale in negotiating better commercial terms with our suppliers everywhere.

Dividend

The Board has proposed a dividend to shareholders which represents a progressive underlying increase year-on-year. An interim dividend was paid in September 2017 of 2.38 €cents per share, an increase of 4.8% compared to the 2016 interim dividend of 2.27 €cents per share. A final dividend is proposed of 5.72 €cents per share in 2017, an increase on the 2016 final dividend of 5.0% (2016: 5.45 €cents per share). The 2017 dividend pay-out represents an underlying 4.9% year-on-year increase. Given the Irish whiskey investment of €15.0m, a special dividend is not proposed this year. Nevertheless, the total distribution of 8.10 €cents represents almost double the pay-out implied by the Group's dividend reference point since IPO of 35% of net free cash flow. In the interest of our shareholders, the Board has decided to no longer consider dividends in such terms, and instead pay progressive underlying dividends subject to there being sufficient distributable reserves and adequate cash generation.

Net debt and maturity profile

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

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

Foreign exchange

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

A net positive FX gain of €0.4m was reported within Adjusted EBITDA during the year. This has arisen on the appreciation of the Polish Złoty and Czech Koruna.

Change of year-end

As already announced, the year-end moves to 30 September in 2018.

Accordingly, the Group will report a nine month period for 2018 (from 1 January to 30 September), and thereafter a normal 12 month period, starting from 1 October 2018 to 30 September 2019. However, in order to assist with the understanding of the underlying performance, it is intended to include proforma 12 month reporting (with comparatives) with the 30 September 2018 results. The interim results for the six months to 30 June 2018 will be published as usual.

Changes in accounting policies

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

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

Equity structure

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

Directors' responsibility statement

Each of the Directors, whose names and functions are listed below, confirms that:

To the best of their knowledge, the consolidated financial statements and the Company financial statements, which have been prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis; and to the best of their knowledge, the announcement includes a fair summary of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces.

Directors

David Maloney, Chairman

Mirek Stachowicz, Chief Executive Officer

Paul Bal, Chief Financial Officer

John Nicolson, Senior Independent Non-Executive Director

Mike Butterworth, Independent Non-Executive Director

Tomasz Blawat, Independent Non-Executive Director

Diego Bevilacqua, Independent Non-Executive Director

Randy Pankevicz, Non-Independent Non-Executive Director

7 March 2018

Consolidated income statement

for the year ended 31 December 2017

	Notes	2017 €000	2016 €000
Revenue	3	274,601	260,974
Cost of goods sold		(137,394)	(128,714)
Gross profit		137,207	132,260
Selling expenses		(60,808)	(61,305)
Other operating expenses		(31,287)	(30,819)
Share of loss of equity-accounted investees, net of tax	10	(331)	-
Operating profit before exceptional expense		44,781	40,136
Exceptional expense	6	(14,900)	-
Operating profit		29,881	40,136
Finance income	7	681	1,703
Finance costs	7	(3,253)	(2,668)
Profit before tax		27,309	39,171
Income tax expense	8	(11,280)	(10,734)
Exceptional tax expense	8	(4,700)	-
Profit for the year		11,329	28,437
Attributable to:			
Equity holders of the Parent		11,329	28,437
Earnings per share, (Euros) attributable to equity holders of the Parent	9		
Basic		0.06	0.14
Diluted		0.06	0.14

Consolidated statement of financial position

As at 31 December 2017

	Notes	31 December 2017 €000	31 December 2016 €000
Non-current assets			
Intangible assets - goodwill		45,940	60,840
Intangible assets - other		311,614	302,753
Property, plant and equipment		50,871	55,705
Investment in equity accounted investee		17,160	-
Deferred tax assets	8	4,151	13,255
Other assets		4,770	4,533
		434,506	437,086
Current assets			
Inventories		23,101	21,658
Trade and other receivables		163,162	131,396
Other assets		-	1,500
Current tax assets	8	715	411
Cash and cash equivalents	11	61,341	74,956
		248,319	229,921
Total assets		682,825	667,007
Non-current liabilities			
Financial liabilities		114,048	134,168
Other financial liabilities		2,600	113
Deferred tax liabilities	8	47,501	45,933
Provisions		1,051	946
Trade and other payables		416	49
		165,616	181,209
Current liabilities			
Trade and other payables		73,915	53,352
Financial liabilities		48	33
Other financial liabilities		83	174
Income tax payable	8	8,395	8,926
Indirect tax payable		79,256	74,200
Provisions		1,203	534
		162,900	37,219
Total liabilities		328,516	318,428
Net assets		354,309	348,579
Capital and reserves			
Issued capital		23,625	23,625
Share premium		183,541	183,541
Merger reserve		99,033	99,033
Consolidation reserve		5,130	5,130
Own share reserve		(306)	(356)
Other reserve		11,227	9,335
Foreign currency translation reserve		15,829	7,519
Retained earnings		16,180	20,752
Total equity		354,309	348,579
Total equity and liabilities		682,825	667,007

Consolidated statement of cash flows

for the year ended 31 December 2017

	Notes	*2017* *€000*	*2016* *€000*
Operating activities			
Profit for the year		11,329	28,437
Adjustments to reconcile profit for the year to net cash flows:			
Income tax expense recognised in income statement	8	15,980	10,734
Interest expense and bank commissions	7	3,169	2,668
Loss on disposal of tangible assets		538	185
Other financial income	7	(681)	(220)
Depreciation of property, plant and equipment		9,894	9,739
Amortisation of intangible assets		1,318	1,485
Impairment of goodwill	6	14,900	-
Net foreign exchange gain	7	84	(1,483)
Share-based compensation		1,942	81
Share of loss of equity-accounted investees, net of tax		331	-
Increase/ (decrease) in provisions		775	(323)
		59,579	51,303
Working capital adjustments			
Increase in trade receivables and other assets		(30,505)	(1,596)
(Increase)/ decrease in inventories		(1,443)	6,058
Increase in trade payables and other liabilities		25,988	5,140
		(5,960)	9,602
Cash generated by operations		53,619	60,905
Income tax paid	8	(6,959)	(6,831)
Net cash flows from operating activities		46,660	54,074
Investing activities			
Interest received		681	220
Payments to acquire intangible assets		(1,376)	(5,838)
Proceeds from sale of property, plant and equipment		98	-
Purchase of property, plant and equipment		(3,710)	(6,727)
Purchase of equity- accounted investees		(15,000)	-
Net cash flow from investing activities		(19,307)	(12,345)
Financing activities			
Repayment of borrowings		(20,128)	-
New borrowings raised		-	2,712
Interest paid		(3,147)	(2,571)
Purchase of own shares		(116)	-
Dividends paid to equity holders of the parent		(15,730)	(37,427)
Net cash flow from financing activities		(39,121)	(37,286)
Net (decrease)/ increase in cash and cash equivalents		(11,768)	4,443
Cash and cash equivalents at the start of the year		74,956	75,806
Effect of exchange rates on cash and cash equivalents		(1,847)	(5,293)
Cash and cash equivalents at the end of the year	12	61,341	74,956

Notes to the Preliminary Announcement

For the year ended 31 December 2017

1. Corporate information

The preliminary statement of results was approved and authorised for issue by the Board of Directors of Stock Spirits Group PLC (the Company) on 7 March 2018. The financial information for the year ended 31 December 2017 contained in this statement does not constitute the Group's statutory financial statements for the year ended 31 December 2017 or 2016 but is derived from the Group's 2017 financial statements. The audit report was unqualified and did not contain a statement under s498(2), s498(3) and s498(4) of the Companies Act 2016.

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. Basis of preparation

These financial statements are consistent with the consolidated financial statements of the Group for the year ended 31 December 2017.
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.

3. Revenue

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

	2017	*2016*
	€000	*€000*
Revenue from the sale of spirits, gross of excise taxes	794,299	733,257
Other sales	3,025	4,166
Excise taxes	(522,723)	(476,449)
Revenue	274,601	260,974

4. 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.

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

	2017 €000	2016 €000
Profit before tax	27,309	39,171
Share of loss of equity-accounted investees, net of tax	331	-
Net finance charges	2,572	965
	30,212	40,136
Depreciation and amortisation	11,212	11,224
EBITDA	41,424	51,360
Exceptional expense (note 6)	14,900	-
Adjusted EBITDA	56,324	51,360

Total assets and liabilities are not disclosed as this information is not provided by segment to the chief operating decision-maker on a regular basis.

	Poland	*Czech Republic*	*Italy*	*Other Operational*	*Corporate*	*Total*
2017	*€000*	*€000*	*€000*	*€000*	*€000*	*€000*
External revenue	147,654	68,817	28,115	30,015	-	274,601
EBITDA after exceptional expense	37,738	21,818	(8,583)	4,899	(14,448)	41,424
Exceptional expense	-	-	14,900	-	-	14,900
Adjusted EBITDA	37,738	21,818	6,317	4,899	(14,448)	56,324
Memo note:						
Group wide costs included within Corporate costs are:						
Group insurance costs					(665)	
Group audit fee					(269)	
Restructuring and one-off costs					(1,698)	
FX impact within Corporate costs					(11)	
Included within the regional and Corporate segments are:						
Performance share plan costs/share-based compensation	636	166	215	305	962	2,284

	Poland	*Czech Republic*	*Italy*	*Other Operational*	*Corporate*	*Total*

2016	*€000*	*€000*	*€000*	*€000*	*€000*	*€000*
External revenue	136,890	63,175	29,401	31,508	-	260,974
Adjusted EBITDA	35,873	19,655	6,883	5,088	(16,139)	51,360
Memo note:						
Group wide costs included within Corporate costs are:						
Group insurance costs					(685)	
Group audit fee					(273)	
Restructuring and one-off costs					(3,099)	
FX impact within Corporate costs					212	
Included within the regional and Corporate segments are:						
Performance share plan costs/share-based compensation - excluding one-off adjustments	(203)	18	(15)	(49)	(825)	(1,074)
- one-off adjustments	17	14	31	66	1,490	1,618

5. Adjusted EBITDA and Free Cash Flow

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 cash flow conversion are supplemental measures of the Group's performance and liquidity that are not required to be presented in accordance with IFRS.

The directors use the Adjusted EBITDA and Adjusted free cash flow conversion as the performance measures of the business. They remove significant items that would otherwise distort comparability.

The use of these alternative performance measures is consistent with how institutional investors consider the performance of the Group. These measures are not defined in IFRS and thus may not be comparable to similarly titled measures by other companies.

Adjusted EBITDA

	2017 €000	2016 €000
Operating profit	29,881	40,136
Exceptional expense	14,900	-
Share of results of equity-accounted investees, net of tax	331	0
	45,112	40,136
Depreciation and amortisation	11,212	11,224
Adjusted EBITDA	56,324	51,360
Adjusted EBITDA margin	20.5%	19.7%

The Group defines free cash flow 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 cash flow conversion is free cash flow as a percentage of Adjusted EBITDA.

Free cash flow	2017 €000	2016 €000
Cash generated from operations	53,619	60,905
Payments to acquire property, plant and equipment	(3,710)	(6,727)
Payments to acquire intangible assets	(1,376)	(5,838)
Proceeds from sale of property, plant and equipment	98	-
Free cash flow	48,631	48,340
Adjusted free cash flow conversion	86.3%	94.1%

6. Exceptional items

In 2017, the Group has exceptional expenses and an exceptional tax charge (2016: €nil).

The impairment review for goodwill identified the need to impair the goodwill held for the Italian brands by €14,900,000. Due to the nature of the size of the impairment and the nature of the transaction, it is disclosed as an exceptional expense.

Due to a change in tax legislation in Poland, tax amortisation on our Polish brands is no longer available. This has resulted in a significant one-off deferred tax charge of €4,700,000, which has been classified in accordance with our accounting policies as an exceptional charge.

7. Finance income and costs

	2017 *€000*	*2016* *€000*
Finance income:		
Foreign currency exchange gain	-	1,483
Interest income	681	220
Total finance income	681	1,703
Finance costs:		
Interest payable on bank overdrafts and loans	1,384	1,777
Foreign currency exchange loss	84	-
Bank commissions, guarantees and other payables	788	557
Other interest expense	997	334
Total finance costs	3,253	2,668
Net finance costs	2,572	965

In 2016, Finance income included €1,483,000 foreign currency exchange gain on intercompany loans.

8. Income taxes

(i) Income tax recognised in profit or loss:

Income tax expense:	*2017*	*2016*
	€000	*€000*
Tax expense comprises:		
Current tax expense	5,826	6,991
Tax expense/ (credit) relating to prior year	213	(393)
Deferred tax charge	5,219	4,132
Other taxes	22	4
Total tax expense	11,280	10,734

	2017	2016
Exceptional tax expense:	€000	€000
Deferred tax charge	4,700	-

There have been no tax charges to other comprehensive income.

	2017	*2016*
	€000	*€000*
Profit before tax	27,309	39,171
Accounting profit multiplied by United Kingdom combined rate of corporation tax 19.25% (2016: 20.00%)	5,257	7,834
Expenses not deductible for tax purposes		
- Goodwill impairment	2,868	-
- Other	1,363	852
Tax losses for which no deferred tax is recognised	1,384	1,578
Effect of difference in tax rates	248	296
Impact of post-IPO corporate restructuring	-	639
Tax charge/ (credit) relating to prior year	213	(393)
Taxable profit relieved against brought forward losses	(75)	(76)
Other taxes	22	4
Income tax expense reported in the income statement	11,280	10,734
Exceptional tax expense - impact of post-IPO corporate restructuring	4,700	-
Total tax charge	15,980	10,734
Effective tax rate	58.5%	27.4%

Post-IPO corporate restructuring

Post-IPO the Group completed corporate restructuring transactions which gave rise to a significant deferred tax assets which were being amortised over a five-year period. Due to tax legislation changes in Poland, from 1 January 2018, amortisation on these items is no longer deductible for tax purposes. This has resulted in an exceptional tax charge of €4,700,000. The charge is considered exceptional because it is a significant transaction resulting from the change in tax legislation.

The 2016 current tax expense includes €820,000 relating to liquidation of Stock Wodka Polska S.A.

(ii) Income tax recognised in the balance sheet:

Current tax liability:

	2017	2016
	€000	€000
Tax prepayments as of 1 January	411	3,569
Current tax liability as of 1 January	(8,926)	(12,277)
	(8,515)	(8,708)
Tax (charge)/ credit relating to prior year	(213)	393
Payments in year	6,959	6,831
Current tax expense	(5,826)	(6,991)
Other taxes	(22)	(4)
Foreign exchange adjustment	(63)	(36)
Net current tax liability	(7,680)	(8,515)
Analysed as:		
Tax prepayment as of 31 December	715	411
Current tax liability as of 31 December	(8,395)	(8,926)
	(7,680)	(8,515)

Transfer pricing

The Group is an international drinks business and, as such, transfer pricing arrangements are in place to cover the recharging of management and stewardship costs, as well as the sale of finished goods between Group companies.

Tax inspections

The Group has undertaken a review of potential tax risks and current tax assessments, and whilst it is not possible to predict the outcome of any pending enquiries, adequate provisions are considered to have been included in the Group accounts to cover any expected estimated future settlements.

Common with many groups operating across multiple jurisdictions, certain tax positions related to intercompany transactions may be subject to challenge by the relevant tax authority. The Group has recognised provisions totalling €7,514,000 (2016: €7,341,000) in relation to transfer pricing risks where it is not probable that tax positions taken will be accepted.

The most significant relates to tax risks in respect of our Italian business, Stock S.r.l. The Italian tax authorities have open enquiries covering the years 2006 – 2010. During 2017, no cash prepayments were made in respect of the open enquiries (2016: €1,045,000). Any prepayments are returnable to Stock S.r.l. should the rulings be found in favour of the Company.

The Group's Czech subsidiary, Stock Plzen Bozkov s.r.o. received a tax assessment relating to 2011 from the Czech tax authorities in February 2017. During the year, the tax judgement has not been found in the Company's favour and hence provisions have been made for income tax due of €636,000 and penalties and interest of €631,000.

Management continue to vigorously defend each of the companies' positions through the appeals process in both cases.

In July 2016, the Group's Polish subsidiary, Stock Polska Sp. z.o.o., received notification from the Polish tax authorities of the commencement of a standard enquiry covering its 2013 corporate income tax return. To date no tax assessment has been received in respect of this open enquiry, however the Group anticipates initial findings from this enquiry will be communicated within the next 12 months.

In October 2017, the Group's German subsidiary, Baltic Distillery GmbH, received notification from the German tax authorities of the commencement of a standard enquiry covering its 2015 corporate income tax return. To date no final tax assessment has been received in respect of this open enquiry, however the Group anticipates initial findings from this enquiry will be communicated within the next 12 months.

Although our transfer pricing is performed on an arms' length basis, it is management's view that there is significant risk of further disputes with tax authorities regarding intercompany transactions and thus a provision has been made for this eventuality.

Additional provisions, including in respect of the matters noted above, of €2,118,000 were recorded during 2017 (2016: nil).

Whilst it is the case that there could be a risk of a material exposure arising from ongoing enquiries in respect of positions taken other than those related to transfer pricing discussed above, the Group considers this to be unlikely and accordingly have made no provision in relation to these risks.

In respect of tax years no longer subject to enquiries or audit, where the relevant statute of limitations has expired, and in cases where management's estimation of the most likely future settlement has changed, tax provisions of €1,945,000 (2016: nil) were released to profit and loss.

Impact of Brexit

On 29 March 2017, the UK government invoked Article 50 of the Treaty of Lisbon, notifying the European Council of its intention to withdraw from the EU. There is an initial two-year timeframe for the UK and EU to reach an agreement on the withdrawal and the future UK and EU relationship, although this timeframe can be extended. At this stage, there is significant uncertainty about the withdrawal process, its timeframe and the outcome of the negotiations about the future arrangements between the UK and the EU. As a result, there is significant uncertainty over the period for which the existing EU laws for member states will continue to apply to the UK and which laws will apply to the UK after an exit. Following the negotiations between the UK and the EU, the UK's tax status may change and this may impact the Group, for example as it relates to distributions from subsidiaries over which no tax is currently payable due to the EU Parent Subsidiary Directive. However, at this stage the level of uncertainty is such that it is impossible to determine if, how and when that tax status will change.

(iii) Unrecognised tax losses

The Group has tax losses which arose in the UK of €32,298,000 as at 31 December 2017 (2016: €31,167,000) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. A deferred tax asset has not been recognised in respect of these losses as it is not sufficiently probable that the losses will be utilised in the relevant entities.

(iv) Deferred tax balances

The exceptional tax expense is included in the amount charged in 2017 on the Brands.

Deferred tax assets and liabilities arise from the following:

2017	*1 January 2017* *€000*	*(Charged)/ credited to income* *€000*	*Translation difference* *€000*	*31 December 2017* *€000*
Temporary differences:				
Brands	(42,687)	(11,145)	(1,253)	(55,085)
Accrued liabilities	4,475	3,685	(204)	7,956
Other assets and liabilities	5,534	(2,459)	704	3,779
	(32,678)	(9,919)	(753)	(43,350)
Deferred tax asset	13,255	(9,670)	566	4,151
Deferred tax liability	(45,933)	(249)	(1,319)	(47,501)
	(32,678)	(9,919)	(753)	(43,350)

2016	*1 January 2016* *€000*	*(Charged)/ credited to income* *€000*	*Translation difference* *€000*	*31 December 2016* *€000*
Temporary differences:				
Brands	(36,766)	(5,544)	(377)	(42,687)
Accrued liabilities	2,914	1,647	(86)	4,475
Other assets and liabilities	5,847	(235)	(78)	5,534
	(28,005)	(4,132)	(541)	(32,678)
Deferred tax asset	17,770	(4,133)	(382)	13,255
Deferred tax liability	(45,775)	1	(159)	(45,933)
	(28,005)	(4,132)	(541)	(32,678)

Brands

Deferred tax liability arising on the difference is based on the difference between the accounting and tax book values of brands, and calculated using the appropriate substantively enacted tax rate.

(v) Change in tax rates

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) was substantively enacted on 15 September 2016. A further reduction to 17% (effective from 1 April 2020) was also substantively enacted on this date. The deferred tax asset or liability at 31 December 2017 has been calculated based on the appropriate tax rates. There are no UK deferred tax assets or liabilities to which this new rate will be applied.

9. Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Adjusted earnings per share amounts exclude the impact of the significant items that would otherwise distort comparability and distort understanding of the underlying performance of the Group.

Details of the earnings per share are set out below:

	2017 *000*	*2016* *000*
Basic earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	11,329	28,437
Weighted average number of ordinary shares in issue for basic earnings per share	198,104	199,851
Basic earnings per share (€)	0.06	0.14
Diluted earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	11,329	28,444
Weighted average number of diluted ordinary shares adjusted for the effect of dilution	200,787	200,399
Diluted earnings per share (€)	0.06	0.14
Adjusted basic earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	11,329	28,437
Exceptional expense	14,900	-
Exceptional tax charge	4,700	-
Profit attributable to the equity shareholders of the Company before exceptional expenses and exceptional tax charges(€)	30,929	28,437
Weighted average number of diluted ordinary shares adjusted for the effect of dilution	198,104	199,851
Adjusted basic earnings per share (€)	0.16	0.14
Adjusted diluted earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	11,329	28,437
Exceptional expense	14,900	-
Exceptional tax charge	4,700	-
Profit attributable to the equity shareholders of the Company before exceptional expenses and exceptional tax charges(€)	30,929	28,437
Weighted average number of diluted ordinary shares adjusted for the effect of dilution	200,787	200,399
Adjusted diluted earnings per share (€)	0.15	0.14

Reconciliation of basic to diluted ordinary shares

	000	000
Issued Ordinary shares	200,000	200,000
Effect of Own shares held	(1,896)	(149)
Basic weighted average number of Ordinary shares	198,104	199,851
Effect of options	2,683	548
Diluted weighted average number of Ordinary shares	200,787	200,399

There have been no transactions involving the Group's ordinary shares between the reporting date and the date of authorisation of these financial statements.

10. Investment in equity-accounted investees

On 17 July 2017, Stock Spirits entered into an agreement with Quintessential Brands Group for the acquisition of a 25% equity interest in Quintessential Brands Ireland Whiskey Limited for a cash consideration of up to €18,333,000. Consideration comprised of an initial cash payment of €15,000,000 for 25% of the equity interest, and a contingent consideration of up to €3,333,000 which is payable over a five year period, subject to performance conditions.

The fair value of the contingent cash consideration at the acquisition date has been calculated as €2,491,000.

Based on the fair value of assets and liabilities of the investee at the acquisition date, goodwill of €425,000 was recognised.

The Group's share of the loss of Quintessential Brands Ireland Whiskey Limited for the period is €331,000.

The principal place of business of Quintessential Brands Ireland Whiskey Limited is Dublin, Ireland.

The following table summarises the financial information of Quintessential Brands Ireland Whiskey Limited as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies, as at 31 December 2017. The table also reconciles the summarised financial information to the carrying value of the Group's interest in Quintessential Brands Ireland Whiskey Limited, and the results for the period from acquisition of the investment to 31 December 2017.

	2017
	€000
Net assets -	
Non-current assets	58,356
Current assets and liabilities	9,166
Non-current liabilities	(583)
Net assets (100%)	66,939
Group's share of net assets (25%)	16,735
Goodwill	425
Carrying value of investment in associate at 31 December 2017	17,160
Revenue (100%)	1,321
Loss from continuing operations (100%)	(1,324)
Total comprehensive income (100%)	(1,324)
Group's share of loss from continuing operations (25%)	(331)
Group's share of total comprehensive income (25%)	(331)
Carrying amounts of investment at acquisition date	17,491
Share of loss from continuing operations (25%)	(331)

Carrying amounts of interest in associate at 31 December 2017	17,160

11. Risk management

Capital risk management

The primary objective of the Group's capital management is to ensure that it has the capital required to operate and grow the business at a reasonable cost of capital without incurring undue financial risks. The Board periodically reviews its capital structure to ensure it meets changing business needs.

In addition, the Directors consider the management of debt to be an important element in controlling the capital structure of the Group. The Group may carry significant levels of long term structural and subordinated debt to fund investments and acquisitions and has arranged debt facilities to allow for fluctuations in working capital requirements. There have been no changes to the capital requirements in the current period.

Management manage capital on an ongoing basis to ensure that covenants requirements on the third party debt are met.

The Group regards its total capital as follows.

	2017	*2016*
	€000	*€000*
Net debt	53,143	59,735
Equity attributable to the owners of the Company	354,309	348,579
	407,452	408,314

Net debt is calculated as follows

	2017	*2016*
	€000	*€000*
Cash and cash equivalents (note 12)	61,341	74,956
Floating rate loans and borrowings	(114,292)	(134,404)
Finance leases	(192)	(287)
Net debt	(53,143)	(59,735)

	2017	*2016*
	€000	*€000*
Adjusted EBITDA (note 5)	56,324	51,360
Net debt/ Adjusted EBITDA (Leverage)	0.94	1.16

12. Cash and cash equivalents

For the purposes of the cash flow 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 cash flow statement can be reconciled to the related items in statement of financial position as follows:

	2017	*2016*
	€000	*€000*

Cash and bank balances	61,341	74,956

Cash and cash equivalents are denominated in the following currencies:

	2017 €000	2016 €000
Sterling	1,445	21,649
Euro	7,883	8,960
Czech Koruna	21,958	21,918
Polish Zloty	24,610	16,578
Other currencies	5,445	5,851
Total	61,341	74,956

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.

Risk 1 - Economic and political change, including Brexit

The Group's results are affected by overall economic conditions in its key geographic markets and the level of consumer confidence and spending in those markets. The Group's operations are primarily in Central and Eastern European markets where there is a risk of economic and regulatory uncertainty. In the Group's experience, the local laws and regulations in the region where it operates are not always fully transparent, can be difficult to interpret and may be applied and enforced inconsistently. In addition, the Group's strategy involves expanding its business in several emerging markets, including in certain Central and Eastern European countries that are not members of the European Union. Political, economic and legal systems and conditions in emerging market economies are generally less predictable. The extent of the economic and political instability created by Brexit remains difficult to predict.

Risk rating

High

Change in 2017

Brexit uncertainty continues, though the impact on our business is limited so far: the ongoing weakening of Sterling following Brexit has had a favourable impact on translation of results of our UK business.

How we manage and mitigate

We monitor and analyse economic indicators and consumer consumption trends, which in turn influences our product portfolio and new product development. The majority of countries that we currently operate in are part of the European Union, and therefore are subject to EU regulation. We monitor the economic conditions within each market and review our product portfolio, route to market and adjust our position accordingly. We continue to monitor the impact of Brexit and will react promptly as we consider appropriate. Given that we do not produce or export from the UK, we continue to believe the impact of Brexit upon the Group will not be significant.

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 in the past faced, currently faces and may in the future face, audits and other challenges brought by tax authorities. Changes in tax laws and related interpretations and increased enforcement actions and penalties may alter the environment in which the Group does business. In addition, certain tax positions taken by the Group are based on industry practice and external tax advice and/or are based on assumptions and involve a significant degree of judgment.

Risk rating

High

Change in 2017

In addition to the ongoing tax inspections in Italy, Czech and Poland that were disclosed in last year's Annual Report & Accounts, during 2017, our German subsidiary received notification from the German tax authorities of the commencement of a tax audit covering its 2014 and 2015 corporate income tax return. To date, no tax assessment has been received in respect of this open audit.

How we manage and mitigate

Through our membership of local market spirits associations we seek to engage with local tax and customs authorities as well as government representatives and, where appropriate, provide informed input to the unintended consequences of excise increases e.g. growth of illicit alcohol and potential harm to consumers. The Group engages the services of a professional global firm of tax advisors and undertakes regular audits of our own tax processes, documentation and compliance. We aim to operate the business in a tax-efficient and compliant manner at all times. We make appropriate provisions where tax liabilities appear likely.

Risk 3 - Strategic transactions

Key objectives of the Group are: (i) the development of new products and variants; and (ii) expansion, in the Central and Eastern European region and certain other European countries, through the acquisition of additional businesses. Unsuccessful launches or failure by the Group to fulfil its expansion plans or integrate completed acquisitions could have a material adverse effect on the Group's growth potential and performance.

Risk rating

High

Change in 2017

Our NPD process has delivered successful innovations, including Black Fox herbal bitter liquer in Czech during 2017. We continuously seek to strengthen our portfolio. During 2017, we acquired a 25% stake in Quintessential Brands Ireland Whiskey Ltd, giving us significant equity interest in the fast growing Irish whiskey category.

How we manage and mitigate

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.

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.

Risk rating

Medium

Change in 2017

Overall, there has been little change in consumer preferences during 2017, although our Keglevich brand continues to suffer from ongoing changes in its target consumers' habits resulting from poor macro-economic conditions in Italy.

How we manage and mitigate

The Group undertakes extensive consumer research and has a track record of successful new product development to constantly meet changing consumer needs. We have developed a range of lower alcohol products and feel confident that we have the expertise to continue to develop products that meet and satisfy consumer needs.

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 or of a company acquired by the Group, could have an adverse effect on the Group's operations. The Group may also not be successful in attracting and retaining such individuals in the future.

Risk rating

Medium

Change in 2017

During the year we continued to strengthen our management team with new appointments in digital marketing, NPD, operations, legal and finance.

How we manage and mitigate

The Group operates a competitive remuneration policy that aims to retain, motivate and, where necessary, attract key individuals. We have developed leadership framework to guide our talent management and a formal succession planning process to mitigate the risk of losing key personnel.

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.

Risk rating

Medium

Change in 2017

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.

How we manage and mitigate

The Group has mechanisms and strategies in place to mitigate the damage of profit erosion but there is no assurance they may work in the economies and competitive environments in which we operate. We constantly review our distribution channels and our customer relationships. We understand the changing nature of the trade channels and customer positions within those channels. We trade across all channels and actively manage our profit mix by both channel and customer. We have well-established credit control policies and procedures and we put in place trade receivables insurance where it is cost effective to do so.

Risk 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.

Risk rating
Medium

Change in 2017
During the year, the majority of foreign exchange exposure reported within operating profit arose on the devaluation of the British Pound, which reduced corporate office costs on a translated basis.

How we manage and mitigate
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.

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.

Risk rating
Medium

Change in 2017
During 2017, we experienced an equipment malfunction in our German distillery, which resulted in the temporary shut down of production at that site. However, contingency plans were enacted, and no disruption was caused to our business.

How we manage and mitigate

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.

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.

Risk rating
Medium

Change in 2017
Preparations for the implementation of the EU General Data Protection Regulations in May 2018 are in progress. The EU is currently considering regulatory changes that would prohibit or restrict the use of a particular rum aroma that is currently used in our Bozkov tuzemsky product in Czech Republic. Through the Czech spirits industry association and the relevant Czech government departments, we have closely monitored and participated in the process and, although the final outcome is not yet clear, we do not anticipate a significant impact upon our business.

How we manage and mitigate

The Group has established clear processes and controls to monitor compliance with laws and regulations, and changes to them, and also any litigation action. We operate a detailed anti-bribery and anti-trust policy and process. Regular update training is conducted across the business and we undertake regular reviews to assess the adequacy and effectiveness of our policy and processes.

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 offset the extra costs or may cause a decline in sales volumes.

Risk rating
Medium

Change in 2017
Our cost optimization initiatives in procurement, including more centralized purchasing, have allowed costs of goods to remain largely flat.

How we manage and mitigate

Where possible and appropriate the Group will negotiate term contracts for the supply of core raw materials and services on competitive terms to manage pricing fluctuations.

Risk 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.

Risk rating
Medium

Change in 2017
Significantly lower finance costs continued during 2017 as a result of the refinancing of bank facilities in 2015.

How we manage and mitigate

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.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2017 or 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the registrar of companies, and those for 2017 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.