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Stock Spirits Group PLC
08 August 2018

Stock Spirits Group PLC

Results for the six months ended 30 June 2018

8 August 2018: Stock Spirits Group PLC ("Stock Spirits" or the "Company" or the "Group"), 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 six months ended 30 June 2018.

FINANCIAL HIGHLIGHTS

- Total revenue €124.1 million, an increase of +5.3% (2017: €117.8 million restated for IFRS 15 [1])
- Operating profit €18.0 million, an increase of +9.7% (2017: €16.5 million)
- Profit after tax €12.7 million, an increase of +8.6% (2017: €11.7 million)
- Basic EPS 6.38 € cents per share, an increase of +9.1% (2017: 5.85 € cents per share)
- Interim dividend 2.50 € cents per ordinary share, an increase of 5.0% (2017: 2.38 € cents)
- EBITDA[2] €23.4 million, an increase of 6.2% (2017: €22.0 million)
- EBITDA margin increased from 18.7% to 18.9%
- Leverage[3] at 0.67x; net debt reduced by €14.4 million since December 2017 to €38.7 million

OPERATIONAL HIGHLIGHTS

- Total sales volume slightly ahead at 5.8 million 9 litre cases (2017: 5.7 million)
- Polish business now stabilised, delivering revenue and volume share gain despite pricing remaining highly competitive
- Significant new product development (NPD) investment in largest brands:
    - Poland: re-launch of Żołądkowa de Luxe and Lubelska, a Stock Prestige "World Cup" limited edition, and flavour extensions of Lubelska and Saska
    - Czech Republic: launch of Božkov Republica
- New distribution arrangement in place with Beam-Suntory in the Czech Republic, alongside existing agreement with Diageo, significantly strengthens Czech whisky portfolio
- Distribution agreements signed with Quintessential Brands for Irish whiskey in key markets

Mirek Stachowicz, CEO of Stock Spirits Group, commented:

"In these six months we have delivered growth in volumes, sales revenue, profit, and margins. Despite some challenges in our core markets, and in particular the competitive pricing environment in Poland, we believe that our ongoing focus on investment in our brands, product innovation and premiumisation are working well and we are well positioned to achieve further growth in the second half of the year and beyond ."

Analyst Teach-in

There will be an Analyst Teach-In on Thursday 9 August 2018. If you wish to attend, please contact Powerscourt on stockspirits@powerscourt-group.com

Presentations will be available on the website (https://www.stockspirits.com/investors) after commencement of this session at 1pm.

For further information:

Stock Spirits Group	**+44 (0) 1628 648 500**
Paul Bal, Chief Financial Officer	
Powerscourt	**+44 (0) 207 250 1446**
Rob Greening Lisa Kavanagh	stockspirits@powerscourt-group.com

A copy of this interim results announcement ("announcement") has been posted on www.stockspirits.com. Investors can also address any query to investorqueries@stockspirits.com.

Disclaimer
This announcement may contain statements which are not based on current or historical fact and which are forward looking in nature. These forward looking statements may reflect knowledge and information available at the date of preparation of this announcement and the Company undertakes no obligation to update these forward looking statements. Such forward looking statements are subject to known and unknown risks and uncertainties facing the Group including, without limitation, those risks described in this announcement, and other unknown future events and circumstances which can cause results and developments to differ materially from those anticipated. Nothing in this announcement should be construed as a profit forecast.

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation.

Basis of Preparation
The financial information contained in these interim results does not constitute statutory accounts of Stock

Spirits Group PLC within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for Stock Spirits Group PLC for the year ended 31 December 2017 were delivered to the Registrar of Companies. The auditors have reported on the accounts, their report was:(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 constitute a statement under Section 498(2) or (3) of the Companies Act 2006.

Notes to editors:

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 world class production facilities in Poland and 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 €274.6m and operating profit before exceptional expenses of €44.8m.

For more information please visit www.stockspirits.com.

INTERIM MANAGEMENT REPORT

Overview

We are pleased to deliver our interim results, which confirms what we said earlier this year, that our Polish business has stabilised and is slowly moving into growth. As a Group, we have grown our volumes, our sales revenue, our profits and our margins. As we have previously signalled, this is notwithstanding the increased investment behind our brands. Our cash generation remains strong, further strengthening the Group's financial position. This progress has been organically-driven, leveraging the careful investment we have put behind our brands and our capabilities. Positive macroeconomic conditions in a number of our Central European markets have provided further momentum.

The Polish business has produced solid top-line growth, with volumes, market share and sales revenue growing. This has been achieved in what continues to be a very competitive environment without positive pricing development. Our commitment to our brand portfolio, which has seen further investment in the period, has enabled us to improve sales mix. This premiumisation is delivering higher value, as seen through the ongoing success of Stock Prestige, Poland's leading premium vodka. The Trade channel has seen some regulatory developments relating to trading hours and outlet licensing which, although negative for the Group, we do not currently expect to have any material impact.

The Czech business also grew its top line. However, this market has been impacted by certain dynamics in the Trade channel that have tempered its profit growth. Firstly, some of our Trade customers have altered long-established promotional strategies, now choosing to focus on value rather than volume. This has been accompanied by the launch of a number of private label offers. We are confident that our strong brands in the Czech Republic will eventually prevail, demonstrated by the success of recent new product launches such as Božkov Republica and Black Fox, especially in premium On-Trade. Our Czech team has also successfully navigated a number of regulatory issues, including the ban of rum ether. In the period, we extended our partnership with Beam-Suntory to include the Czech and Slovakian markets, alongside existing markets in Poland, Croatia and Bosnia & Herzegovina. This further strengthens our leadership position in the market.

Italy remains a challenging market, but we are committed to a turnaround in our performance, which we believe will provide a better foundation for building a business of scale. Early signs of our three-year programme to invest in the Keglevich brand are encouraging, particularly in the digital space.

All other markets, (which include Slovakia, Bosnia & Herzegovina and Croatia together with our export operations, and the Baltic distillery), have performed ahead of our expectations.

As planned, we continue to invest behind our Polish, Italian and Czech brands. In Poland, this has included a relaunch of Żołądkowa de Luxe to premiumise packaging and improve the taste profile, and the multi-year programme of investment behind Keglevich, Italy's leading vodka, which has in part been funded by further tactical cost savings and by maintaining a "lean" culture. In Czech this included the launch of the Božkov Republica and Black Fox.

Our partners at Quintessential Brands Irish Whiskey Ltd are progressing with the building of their distillery in Dublin with the official opening planned for late 2018. Plans have been drawn up to start distribution of certain brands in all of our key markets. This is an important part of our strategy for further participation in the growing whisky sub-category.

While the issues around bourbon tariffs have been well publicised, during the period we have not experienced any adverse impact, and do not anticipate a material impact in this calendar year. This is something we will continue to monitor.

Our four-pillar strategy - i.e. focusing on Premiumisation, Millennials, Digital and M&A - is providing us with a solid framework for prioritising our resources and efforts in a focused pursuit of further growth opportunities. This discipline is critical, particularly until the pricing environment in Poland becomes more favourable and provides additional contribution to our delivery.

Today, we are announcing an interim dividend of 2.50 € cents per share, representing an increase of 5.0% versus last year's interim dividend of 2.38 € cents per share. This is consistent with our aim of providing progressive dividends, whilst maintaining our ability to build scale through potential future M&A. Our robust balance sheet and continued strong cash generation provide us with the capacity for strategic M&A, if opportunities arise.

Given our previously announced change to a 30 September reporting year-end, we will be reporting on our 9-month results to 30 September 2018 on Wednesday 5 December. At the same time, we will report pro forma and unaudited 12 months results to 30 September 2018, with comparative pro forma unaudited results for the 12 months to 30 September 2017. Based on the trading performance during the first half of the year, the Group remains well-placed to deliver a continued solid performance over this period.

Market Performance[4]:

Poland

Revenue has grown on a reported basis by +5.0%, and on a constant currency basis revenue is €67.1m versus €64.5m last year (as restated for IFRS 15), or growth of +4.0%. Reported EBITDA in H1 was €17.7m versus €16.9m last year. On a constant currency basis EBITDA has increased by €0.6m, with margin of 26.4% slightly below last year (26.5% as restated for IFRS 15).

For the Polish market, total vodka market volumes declined by -1.0% in the six months to end of June 2018 versus +1.2% last year. The decline is driven by the contraction of the clear vodka market by -3.0%, whilst flavoured vodka remains in growth (+5.3% to the end of June). The value of the vodka market also declined versus last YTD by -0.5% (2017: +1.5%), which is possibly a reflection of the relatively higher temperatures experienced so far this year. In marked contrast to the marginally declining overall vodka market, Stock Polska achieved strong growth in both retail volume +7.3% and retail value +5.3% YTD, and is now the fastest growing major player in the vodka market by volume and value YTD.

Pricing of our products remains a key priority, and has been closely monitored to ensure that our brands and pack sizes remain competitive across all Trade channels. There has been no increase YTD in mainstream clear vodka market pricing. Our focus during the period has been on execution in the Trade channels, to ensure our promotional offers, point-of-sale sales activation, trade marketing and sales force training and tools develop in line with the standards we wish to attain. The Polish team is also successfully navigating through recent regulations regarding trading hours and outlet licensing.

We continued to drive innovation of our core brands, launching three new flavours of Saska and two new Lubelska flavours shortly after its relaunch. We also relaunched Żołądkowa de Luxe, our largest clear vodka in impactful new packaging, plus introduced a Stock Prestige "World Cup" limited edition. Within the combined Premium, Super and Ultra-Premium vodka segments we have the fastest growing brand portfolio with overall value growth of +16.9% YTD versus market growth of +3.7%.

In addition to our growth in vodka, we grew volume and value YTD in the fast-growing whisky category, YTD +4.3% volume and +5.2% value with our partners Beam-Suntory, from whom our team were proud to receive the prestigious Fred Noe Award. This is awarded to the distributor that demonstrated game-changing behaviour on Jim Beam, ensuring a long-lasting legacy in the market.

Overall, the actions we have taken are delivering results. At the end of June our total market volume share YTD was 26.8% versus 24.7% last year, and YTD value share was 27.2% versus 25.7% last year. We have started to outperform our main competitor in this period, whilst the third main player in the market has increased its downward trend.

Czech Republic

Revenue has grown on a reported basis by +8.4%, and on a constant currency basis revenue is €31.9m versus €30.9m last year (restated for IFRS 15), growth of +3.4%. Reported EBITDA is consistent with last year, but on a constant currency basis has decreased by €0.4m to €9.6m due to increased advertising and promotional (A&P) investment. On a reported basis EBITDA margin has reduced from 32.4% last year (restated for IFRS 15) to 30.0%.

In the market, total spirits grew both value +8.0% and volume +5.0% YTD driven primarily by the Off-Trade channel. The four core categories which Stock focuses on - Rum, Vodka, Herbal Bitters and Whisky, together accounting for c.77% of total spirits value - all grew value YTD. However, we saw a decline in herbal bitters volume driven primarily by reduced promotional activity in economy and mainstream in a number of major retailers.

In the On-Trade, the smoking ban, introduced in May 2017, has reduced overall outlet numbers and consumption in the economy and mainstream segments.

Given our scale in the main categories, Stock has been impacted by the shift in promotional strategy by the retailers, which impacted total volume YTD by -3.1%. Despite this, our innovation in the premium segment, plus the benefits from previously-acquired brands and execution of our Božkov range strategy, delivered YTD value growth of +3.0%. We also maintained market leadership and achieved value share of 31.6% at YTD June 2018.

Our Božkov brand strategy, offering a wider mix of variants which increased choice and price range for the consumer across the segments, is delivering tangible results. Despite the pressures on total volumes, Stock grew value share YTD of Rum from 58.0% at LYTD to 58.7% at YTD June 2018. The key success YTD in the Rum category was the launch in Q1 of Božkov Republica, which has already achieved 28.8% 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 on a MAT value-share basis and a key growth driver, achieving value growth of +11.5% YTD, well ahead of the total Rum category growth at +8.5%. During the period, the local team has successfully navigated the regulatory issues relating to the rum ether ban.

In the highly competitive vodka category, the continued benefits from the acquisition of the spirits business of Bohemia Sekt in 2016 helped maintain our market value share in the vodka category YTD at 28.2%. This is despite increasing competition from private labels.

Our well-established partnership with Diageo and new distribution agreement with Beam-Suntory, which commenced in Q1 2018, give us, we believe, the strongest Whisky portfolio in the Czech Republic, where we achieved Whisky value share growth from +9.5% LYTD to +10.9% at YTD June 2018.

These successes outweighed a YTD decline in total Herbal Bitters of -14.8% value, driven primarily by the change in retailer promotional strategy as well as some aggressive competitor pricing. Our new Premium Herbal Bitter, Black Fox, launched in Q4 last year, achieved 3.7% value share of Premium Herbal Bitters YTD, counteracting in part the decline on Fernet Stock in Mainstream.

Italy

Revenue has declined from €12.0m last year (as restated for IFRS 15), to €11.5m. EBITDA in Italy is €1.2m versus €2.3m for the same period last year, partly due to investment in Keglevich, with an underlying EBITDA margin of 10.7% versus 19.5% last year (as restated for IFRS 15).

In a difficult market, Stock Italia held volume and value share in our key focus channel, the modern Off-Trade. Stock's total value share YTD is 5.5% (versus 5.8% LYTD) and volume share is 5.8% (versus 6.0% LYTD). We have made volume and value share gains YTD in brandy and clear vodka. However, with the softening of the market and growth of private label, we lost value share in flavoured vodka-based liqueurs and Limoncello from 62.6% to 60.8% and from 20.8% to 20.6% respectively at YTD June 2018.

During Q2 2018, we commenced the relaunch of the Keglevich fruit flavoured range, supported by new packaging and significant investment in a new "Pure Vodka, Pure Fruit" communications campaign via a combination of digital and traditional media. This aims to reach nearly 90% of our millennial target audience between now and December 2018, plus 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 sub-category it leads.

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

Stock 84 brandy's refreshed packaging across the range and improved premium Stock XO range extension have driven YTD value and volume growth ahead of the brandy category. The new XO has achieved value growth of +34.3% YTD in a category declining by -3.6%.

Other Markets

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

Revenue for the period was €13.5m, versus €12.4m in 2017 (as restated for IFRS 15), growth of +8.5%. EBITDA for the six months to the end of June 2018 was €1.6m (€0.7m LYTD).

In Slovakia, performance YTD is in line with our expectations. Our premiumisation strategy in Slovakia is delivering good results. We also saw significant growth in the whisky category through the new distribution agreement with Beam-Suntory. We have increased Jim Beam's value share YTD to 8.6% from 3.2% last year, moving it from number eight to the number four brand in the total value rankings.

Our Baltic distillery is now fully operational and the causes of the incident last year which led to the facility ceasing production of alcohol for a short period have been successfully addressed.

Investment in Irish Whiskey

Our 25% investment in Quintessential Brands Ireland Whiskey Limited is performing to expectations, and the new distillery build in the Liberties area of Dublin is scheduled to be officially opened in late 2018. This development will include a state-of-the-art distillery, alongside a visitor and brand experience centre, providing an exciting brand home for The Dubliner and The Dublin Liberties. The Irish whiskey brands will shortly be rolled-out in all our key markets, allowing the Group greater penetration into the fast-growing whisky sub-category in each market.

Financial Performance

The Group has adopted two new IFRS requirements since 1 January 2018. In adopting IFRS 15 (Revenue from Contracts with Customers) revenue for 2017 has been restated. The impact of the implementation of IFRS 15 for the 6 months to 30 June has been to decrease revenue in 2018 by €2.2m to €124.1m (2017: decrease of €2.0m to €117.8m). This has impacted EBITDA margin, increasing it by 0.4% in 2018 to 18.9% (2017: margin increase of 0.3% to 18.7%). There is no net impact on EBITDA.

There has been no material impact to the Group's financial results from the adoption of IFRS 9 (Financial Instruments). The Group obtains credit insurance in all the key markets in which it operates.

Revenue has grown +5.3% to €124.1m (2017: €117.8m), driven by positive increases across all growth levers, primarily mix +2.7%; FX +1.8% and pricing +0.4%. The mix effect has been strong in Poland, and price has been driven predominantly in the Czech Republic with Božkov Republica. Poland continues to be a highly competitive market place.

The result of the improved pricing and mix on revenue has more than compensated for the marginal increase in cost of goods sold per litre, with a resulting 10bps improvement in gross margin at 49.1%.

Selling expenses have increased in the period by +6.6% as we invest more in A&P behind NPD such as Black Fox and Božkov Republica in Czech, plus the repackaging and repositioning of Keglevich fruit vodka in the Italian market, where a new advertising campaign (digital and media) has recently been launched. This is a multi-year programme of consistent investment behind this brand. Lubelska, Saska, Żołądkowa de Luxe and Stock Prestige also saw higher spend.

Other operating expenses have increased year-on-year but, at 2.5%, are below inflationary levels. Credit losses in the year are minimal. In 2017, our International division suffered a loss in Croatia, deemed as a one-off expense and where the cash has been partially received in 2018.

Operating profit for the period is €18.0m, an increase of +9.7% versus 2017 (€16.5m). EBITDA has improved by +6.2% versus 2017 at €23.4m with an EBITDA margin of 18.9% (2017: €22.0m; 18.7%).

Underlying net finance costs are higher than the prior year, as drawings on our Group financing facility were higher. 2017 benefitted by €0.2m due to a provision release, and 2018 benefitted by €0.2m of exchange gains on borrowings.

As set out in the principal risks and uncertainties and in note 8 of the interim financial statements, the Group is exposed to a number of tax risks in the countries in which it operates. In recent years, the Group has observed developments in relevant Polish 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 positions. The Group takes professional advice and continues to make appropriate provisions where tax liabilities appear likely. The effective tax rate of the Group, at 24.9%, is slightly lower, this reflects the lower UK cost base.

Basic earnings per share are reported as 6.38 € cents for the period versus 5.85 € cents for 2017, a growth of +9.1%.

Cash conversion continues to be a characteristic strength of the business, and in H1 the Free Cash Flow conversion rate (being Free Cash Flow as a % of EBITDA) was 147% (2017: 166%)[5]. At the end of June 2018, net debt was €38.7m, €14.4m lower than at December 2017 (€53.1m), with a leverage of 0.67x (December 2017: 0.94x).

Whilst working capital is always a focus for management, decisions were made in the period to mitigate against certain external risks facing the business. The rum ether issue in Czech is well documented. Ahead of the eventual favourable decision from the EU, it was decided to significantly increase Božkov (tuzemsky local rum) inventory levels. We also increased the level of bourbon products purchased from our distribution partner Beam Suntory in Poland, ahead of any potential tariffs imposed by the EU as a result of the recent trade disagreements with the US. Both of these have driven the increase in inventory levels by €8.7m compared to December 2017. However, this position will unwind in the coming months. We are working with our partners to understand and best manage the financial and commercial impact of the recently implemented bourbon tariffs.

Capital expenditure is marginally higher in H1 2018 versus the prior period as the Group has invested in improvements in its IT infrastructure; making our Group-wide network more resilient and reliable.

The Company purchased 1.2m 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 coming from the various share schemes in place under IFRS 2 (Classification and Measurement of Share-based Payment Transactions).

The Board of Directors has agreed an interim dividend payment of 2.50 € cents per share, an increase of 5% on the prior year interim dividend. The dividend will be paid on 21 September 2018, with a record date of 31 August 2018 (shareholders on the register at the close of business on 30 August 2018). The Euro: Sterling exchange rate will be fixed on the record date.

Outlook

Taking into account our performance in these six months and since the period-end, the Group is on track with its results for the calendar year as a whole. The half-year financial performance was enhanced (€0.8m benefit to reported EBITDA) by positive impacts of foreign currency translation. We have no control over these impacts and if they were to continue to be positive, future year results could be further enhanced by the translation effect.

As previously announced, the Group will be reporting on a 9 month financial period to the end of September 2018. The final period-end results will be announced on 5 December 2018, along with a management presentation of the results. Pro forma unaudited P&L information will be provided for the 12 months to September 2017 and 2018 also on this date.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for at least the next twelve months. For this reason, they continue to adopt the going concern basis in preparing the consolidated financial information of the Group.

Principal Risks and uncertainties

The Board considers the key risks for the Group remain as:

- Economic & Political risk, 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 Europe markets where there is a risk of economic and regulatory uncertainty which can directly or indirectly impact the consumption of alcohol. Political, economic and legal systems and conditions in emerging economies are generally less predictable. The recent introduction of global trade tariffs increases the uncertainty and risk. The extent of the economic and political instability created by Brexit remains difficult to predict. However, the United Kingdom is not a material source of earnings for the Group.

- Taxes - Increases in taxes, particularly increases to excise duty rates and VAT, could adversely affect the demand for the Group's products. The Group may be exposed to tax liabilities resulting from tax audits in any of the key countries in which it operates. The Group has in the past faced, currently faces and may in the future face, audits and other challenges brought by tax authorities which, if successful, could result in material tax payments being required. 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.

- 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.

- Marketplace & 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.

Further detail on the principal risks and uncertainties affecting the business activities of the Group are set out on pages 20 to 25 in the Stock Spirits Group Annual Report 2017, a copy of which is available on the Company's website at www.stockspirits.com. In the view of the Board there is no material change in these risks in respect of the remaining six months of the year.

Responsibility statement of the Directors in respect of the half-yearly financial report

We confirm to the best of our knowledge:

The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU

The interim management report includes a fair review of the information required by:

a) DTR 4.2 7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

b) DTR 4.2 8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Board of Directors

The Board of Directors as at 8th August 2018 is as follows: 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), and Diego Bevilacqua (Independent Non-Executive Director).

For and on behalf of the Board of Directors:

Mirek Stachowicz Chief Executive Officer	David Maloney Chairman

8th August 2018

Independent Review Report to Stock Spirits Group PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the Interim Condensed Consolidated Income Statement, Interim Condensed Consolidated Statement of Comprehensive Income, Interim Condensed Consolidated Statement of Financial Position, Interim Condensed Consolidated Statement of Changes in Equity, Interim Condensed Consolidated Statement of Cash Flows, and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Simon Haydn-Jones (Senior Statutory Auditor)
For and on behalf of KPMG LLP
Chartered Accountants
Reading
8 August 2018

Interim condensed consolidated income statement

For the six months ended 30 June 2018

	Notes	*Six months ended 30 June 2018 Unaudited €000*	*Six months ended 30 June 2017 Unaudited Restated* €000*
Revenue	5	124,059	117,821
Cost of goods sold		(63,183)	(60,130)
Gross profit		60,876	57,691
Selling expenses		(27,755)	(26,041)
Other operating expenses		(14,896)	(14,533)
Impairment loss on trade and other receivables		(70)	(666)
Share of loss of equity-accounted investees, net of tax	12	(106)	-
Operating profit		18,049	16,451
Finance income	7	214	447
Finance costs	7	(1,363)	(1,247)
Profit before tax		16,900	15,651
Income tax expense	8	(4,203)	(3,957)
Profit for the period		12,697	11,694
Attributable to:			
Equity holders of the Parent		12,697	11,694
Earnings per share, (Euro cents), attributable to equity holders of the Parent			
Basic	9	6.38	5.85
Diluted	9	6.33	5.78

* 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 interim condensed consolidated financial statements. Accordingly, revenue and selling expenses presented for 2017 has been restated. Refer to note 3 for further details.

Interim condensed consolidated statement of comprehensive income

For the six months ended 30 June 2018

	Six months ended 30 June 2018 Unaudited €000	*Six months ended 30 June 2017 Unaudited €000*
Profit for the period	12,697	11,694
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	(7,057)	6,260
	5,640	17,954
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Re-measurement gains on employee severance indemnity	4	-
Total comprehensive income for the period, net of tax	5,644	17,954

Interim condensed consolidated statement of financial position

As at 30 June 2018

30 June *31*

	Notes	2018 Unaudited €000	December 2017 Audited €000
Non-current assets			
Intangible assets - goodwill		45,940	45,940
Intangible assets - other	10	306,514	311,614
Property, plant and equipment	11	46,110	50,871
Investment in equity accounted investee	12	17,282	17,160
Deferred tax assets		1,810	4,151
Other assets		4,688	4,770
		422,344	434,506
Current assets			
Inventories		31,756	23,101
Trade and other receivables		115,001	163,162
Other assets		135	-
Current tax assets		983	715
Cash and cash equivalents	13	50,383	61,341
		198,258	248,319
Total assets		620,602	682,825
Non-current liabilities			
Financial liabilities	14	88,665	114,048
Other financial liabilities		1,692	2,600
Deferred tax liabilities		46,853	47,501
Provisions		1,056	1,051
Trade and other payables		335	416
		138,601	165,616
Current liabilities			
Trade and other payables		65,600	73,915
Financial liabilities	14	-	48
Other financial liabilities		1,314	83
Income tax payable		7,530	8,395
Indirect tax payable		61,629	79,256
Provisions		1,168	1,203
		137,241	162,900
Total liabilities		275,842	328,516
Net assets		344,760	354,309

Interim condensed consolidated statement of financial position

As at 30 June 2018

	Notes	*30 June 2018* *Unaudited* *€000*	*31 December 2017* *Audited* *€000*
Capital and reserves			
Issued capital	16	23,625	23,625
Share premium	16	-	183,541
Merger reserve		99,033	99,033
Consolidation reserve		5,130	5,130
Own share reserve	16	(3,370)	(306)
Other reserve	16	10,961	11,277
Foreign currency translation reserve	16	8,772	15,829
Retained earnings		200,609	16,180
Total equity		344,760	354,309
Total equity and liabilities		620,602	682,825

Interim condensed consolidated statement of changes in equity

For the six months ended 30 June 2018

	Issued	*Share*	*Merger*	*Consolidation*	*Own share*	*Other*	*Foreign currency translation*	*Retained*	*Total*

	capital €000	premium €000	reserve €000	reserve €000	reserve €000	reserve €000	reserve €000	earnings €000	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	-	-	-	-	-	-	-	11,694	11,694
Other comprehensive income	-	-	-	-	-	-	6,260	-	6,260
Total comprehensive income	-	-	-	-	-	-	6,260	11,694	17,954
Share-based payment compensation charge	-	-	-	-	-	987	-	-	987
Dividends	-	-	-	-	-	-	-	(10,892)	(10,892)
Balance at 30 June 2017 (unaudited)	**23,625**	183,541	**99,033**	**5,130**	**(356)**	**10,322**	**13,779**	**21,554**	**356,628**
Loss for the period	-	-	-	-	-	-	-	(365)	(365)
Other comprehensive income/(expense)	-	-	-	-	-	-	2,050	(5)	2,045
Total comprehensive income/(expense)	-	-	-	-	-	-	2,050	(370)	1,680
Share-based payment compensation charge	-	-	-	-	-	955	-	-	955
Dividends	-	-	-	-	-	-	-	(4,838)	(4,838)
Own shares acquired for incentive schemes	-	-	-	-	(116)	-	-	-	(116)
Own shares utilised for incentive schemes	-	-	-	-	166	-	-	(166)	-
Balance at 31 December 2017 (audited)	23,625	183,541	99,033	5,130	**(306)**	11,277	15,829	16,180	354,309
Profit for the period	-	-	-	-	-	-	-	12,697	12,697
Other comprehensive (expense)/income	-	-	-	-	-	-	(7,057)	4	(7,053)
Total comprehensive (expense)/income	-	-	-	-	-	-	(7,057)	12,701	5,644
Share-based payment compensation credit	-	-	-	-	-	(316)	-	-	(316)
Dividends	-	-	-	-	-	-	-	(11,345)	(11,345)
Own shares acquired for incentive schemes	-	-	-	-	(3,532)	-	-	-	(3,532)
Own shares utilised for incentive schemes	-	-	-	-	468	-	-	(468)	-
Cancellation of share premium	-	(183,541)	-	-	-	-	-	183,541	-
Balance at 30 June 2018 (unaudited)	**23,625**	-	**99,033**	**5,130**	**(3,370)**	**10,961**	**8,772**	**200,609**	**344,760**

Interim condensed consolidated statement of cashflows

For the six months ended 30 June 2018

	Notes	*Six months ended 30 June 2018 Unaudited €000*	*Six months ended 30 June 2017 Unaudited €000*
Operating activities			
Profit for the period		12,697	11,694
Adjustments to reconcile profit for the period to net cashflows:			
Income tax expense recognised in income statement	8	4,203	3,957
Interest expense and bank commissions	7	1,363	1,239
Loss on disposal of tangible and intangible assets		2	4
Other financial income	7	(64)	(447)
Depreciation of property, plant and equipment	11	4,574	4,940
Amortisation of intangible assets	10	687	653
Net foreign exchange (gain)/loss	7	(150)	8
Share-based compensation (credit)/charge		(316)	987
Share of loss of equity-accounted investees, net of tax	12	106	-
(Decrease)/increase in provisions		(30)	179
		23,072	23,214
Working capital adjustments			
Decrease in trade receivables and other assets		48,108	27,431
Increase in inventories		(8,655)	(3,524)
Decrease in trade payables and other liabilities		(26,202)	(9,276)
		13,251	14,631
Cash generated by operations		36,323	37,845
Income tax paid		(3,074)	(3,567)
Net cashflow from operating activities		33,249	34,278
Investing activities			
Interest received	7	64	195
Payments to acquire intangible assets	10	(867)	(493)
Purchase of property, plant and equipment	11	(1,067)	(813)

Net cashflow from investing activities		(1,870)	(1,111)
Financing activities			
Repayment of borrowings	14	(23,901)	(44,603)
Interest paid		(1,427)	(1,245)
Purchase of own shares	16	(3,532)	-
Dividends paid to equity holders of the parent		(11,345)	(10,892)
Net cashflow from financing activities		(40,205)	(56,740)
Net decrease in cash and cash equivalents		(8,826)	(23,573)
Cash and cash equivalents at the start of the period		61,341	74,956
Effect of exchange rates on cash and cash equivalents		(2,132)	(1,450)
Cash and cash equivalents at the end of the financial period	13	50,383	49,933

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2018

1. Corporate information

The interim condensed consolidated financial statements of Stock Spirits Group PLC (the Company) and its subsidiaries (the Group) for the six months ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 8 August 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, is involved in the production and distribution of branded spirits in Central and Eastern Europe.

2. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared on a going concern basis in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2017, with the exception of the application of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. This is the first set of the Group's financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in note 3.

The financial information contained in this interim statement, which is unaudited, does not constitute statutory accounts as defined by the Companies Act 2006. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017. The annual financial statements of the Group were prepared in accordance with IFRS as adopted by the European Union and can be found on the Group's website at www.stockspirits.com.

The financial information for the six months ended 30 June 2018 and the comparative financial information for the six months ended 30 June 2017 has not been audited, but has been reviewed. The comparative figures for the financial year ended 31 December 2017 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report was (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.

Having made appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future. Accordingly it is appropriate to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

The consolidated financial information is presented in Euros ('€'). The closing foreign exchange rates used to prepare these financial statements are as follows:

	30 June 2018	*30 June 2017*	*31 December 2017*
PLN	4.37	4.23	4.17
CZK	26.00	26.19	25.55
GBP	0.89	0.88	0.89
CHF	1.16	1.09	1.17

3. Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statement are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, 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 in the period to 30 June 2018, but were either not applicable to or did not have a material impact on the Group:

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 IFRS 40: Transfers of Investment Properties
Annual Improvements to IFRS Standards 2014 - 2016 Cycle - minor amendments to IFRS 1 and ISA 28
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

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

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.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Sale of goods

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.

As such, revenue from the sale of goods is recognised when control is transferred to the customer. i.e. when all the following conditions are satisfied:

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

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

Revenue is reduced for estimated customer returns, 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

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 interim condensed consolidated financial statements. Accordingly, the information presented for 2017 has been restated.

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. These were previously recorded as selling expenses. Following the adoption of IFRS 15 these costs are treated as a reduction to revenue. There is no further impact to the nature, timing or satisfaction of performance obligations.

There has been no restatement of the interim consolidated statement of financial position or interim condensed 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 interim condensed consolidated statement of cashflows.

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

For the six months ended 30 June 2017 €'000	**As reported in 2017**	**Adjustments**	**Restated**
Revenue	119,811	(1,990)	117,821

Gross profit	59,681	(1,990)	57,691
Selling expenses	(28,031)	1,990	(26,041)
Operating profit	16,451	-	16,451
Profit before tax	15,651	-	15,651
Profit for the period	11,694	-	11,694
Total comprehensive income for the period	17,954	-	17,954

Impact on external revenue reported in segmental analysis - 2017 comparatives

For the six months ended 30 June 2017 €'000	**As reported in 2017**	**Adjustments**	**Restated**
Poland	63,985	(63)	63,922
Czech Republic	29,831	(385)	29,446
Italy	12,714	(710)	12,004
Other Operational	13,281	(832)	12,449
Corporate	-	-	-
Total	119,811	(1,990)	117,821

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 six months ending 30 June 2018 for each of the lines affected. There was no material impact on the Group's interim statement of financial position or interim statement of cash flows for the six month period ended 30 June 2018.

Impact on the income statement and consolidated statement of comprehensive income

For the six months ended 30 June 2018 €'000	**As reported**	**Adjustments**	**Amounts before adoption of IFRS 15**
Revenue	124,059	2,224	126,283
Gross profit	60,876	2,224	63,100
Selling expenses	(27,755)	(2,224)	(29,979)
Operating profit	18,049	-	18,049
Profit before tax	16,900	-	16,900
Profit for the period	12,697	-	12,697
Total comprehensive income for the period	5,644	-	5,644

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. 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.

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.

4. Use of estimates and judgements

The preparation of the interim financial information requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses. These are discussed on page 121 of the Group's 2017 annual financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both the current and future periods.

5. 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 require 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 EBITDA reported to the chief operating decision-maker to assess performance is based on operating profit and excludes intra-Group profits, depreciation and amortisation.

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

	For the six months ended 30 June 2018 *€000*	*For the six months ended 30 June 2017* *€000*
Profit before tax	16,900	15,651
Share of loss of equity-accounted investees, net of tax	106	-
Net finance charges	1,149	800
	18,155	16,451
Depreciation and amortisation (note 10,11)	5,261	5,593
EBITDA	23,416	22,044
EBITDA margin	18.9%	18.7%

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.

30 June 2018	*Poland* *€000*	*Czech Republic* *€000*	*Italy* *€000*	*Other Operational* *€000*	*Corporate* *€000*	*Total* *€000*
External revenue	67,088	31,929	11,536	13,506	-	124,059
EBITDA	17,741	9,577	1,235	1,597	(6,734)	23,416

30 June 2017 - restated	*Poland* *€000*	*Czech Republic* *€000*	*Italy* *€000*	*Other Operational* *€000*	*Corporate* *€000*	*Total* *€000*
External revenue	63,922	29,446	12,004	12,449	-	117,821
EBITDA	16,863	9,545	2,339	742	(7,445)	22,044

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 0.3% to 18.7%.

Disaggregation of revenue is by operating segment only. This also equates to primary geographical market. Revenue other than from sales of branded spirits represents a very small proportion of total revenue. Products are largely transferred at a point in time and so there is limited variance in the timing of revenue recognition.

Seasonality

Sales of spirits beverages are somewhat seasonal, with the fourth calendar quarters accounting for the highest sales volumes. The volume of sales may be affected by both weather conditions and public holidays.

6. Free cashflow

The Group defines free cashflow as net 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. Free cashflow conversion is free cashflow as a percentage of EBITDA.

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

Free cashflow is a supplemental measure of the Group's performance and liquidity that is not required to be presented in accordance with IFRS.

For the six *For the six*

	months ended 30 June 2018 €000	months ended 30 June 2017 €000
Cash generated from operations	36,323	37,845
Payments to acquire property, plant and equipment	(1,067)	(813)
Payments to acquire intangible assets	(867)	(493)
Free cashflow	34,389	36,539
Free cashflow conversion	146.9%	165.8%

7. Finance costs and income

	For the six months ended 30 June 2018 €000	*For the six months ended 30 June 2017 €000*
Finance income:		
Foreign currency exchange gain	150	-
Interest income	64	447
Total finance income	214	447
Finance costs:		
Interest payable on bank overdrafts and loans	790	703
Bank commissions, guarantees and other payables	336	337
Other interest expense	237	199
Foreign currency exchange loss	-	8
Total finance costs	1,363	1,247
Net finance costs	1,149	800

8. Income taxes

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total earnings for the full 9 month reporting period to 30 September 2018. The major components of income tax expense in the interim condensed consolidated income statement are:

	For the six months ended 30 June 2018 €000	*For the six months ended 30 June 2017 €000*
Current income tax		
Current income tax charge	2,029	1,901
Tax credit relating to prior periods	(39)	(197)
Deferred income tax		
Relating to the origination and reversal of temporary differences	2,213	2,253
Total tax expense	4,203	3,957

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.

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 €6,848,000 (2017: €7,514,000) in relation to transfer pricing risks where it is not probable that tax positions taken will be accepted. The reduction is mainly due to the payment of the tax assessed in the Czech Republic as explained below.

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.

During 2017, a tax judgement was made against the Group's Czech subsidiary, Stock Plzen-Bozkov s.r.o. and therefore provisions were made for income tax due of €636,000 and associated interest and penalties of €631,000. The tax and penalties were paid in May 2018, notwithstanding this, Stock Plzen-Bozkov are vigorously contesting the assessment.

Settlement has been reached on the inquiry into the Group's subsidiary, Baltic Distillery GmbH's 2015 corporate tax return, and the subsidiary has agreed to pay tax of €298,000 and interest of €33,000. This is fully covered in our 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. 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 which gave rise to tax deductible costs in the form of the amortisation of intellectual property ("IP") assets. 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.

Although our transfer pricing is performed on an arms' length basis, it is management's view that there is significant risk of further assessments regarding intercompany transactions and thus a provision is carried for this eventuality.

9. 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.

Details of the earnings per share are set out below:

	For the six months ended 30 June 2018	*For the six months ended 30 June 2017*
Basic earnings per share		
Profit attributable to the equity shareholders of the Company (€'000)	12,697	11,694
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	198,884	199,937
Basic earnings per share (€ cents)	6.38	5.85
Diluted earnings per share		
	12,697	11,694
Profit attributable to the equity shareholders of the Company (€'000)		
Weighted average number of diluted ordinary shares adjusted for the effect of dilution ('000)	200,586	202,217
Diluted earnings per share (€ cents)	6.33	5.78
Reconciliation of basic to diluted ordinary shares		
Weighted average number of ordinary shares ('000)	200,000	200,000
Effect of own shares held ('000)	(1,116)	(63)
Basic weighted average number of ordinary shares ('000)	198,884	199,937
Effect of options ('000)	1,702	2,280
Diluted weighted average number of ordinary shares ('000)	200,586	202,217

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

10. Intangible assets - other

	Brands	*Customer Relationships and Trademark*	*Software*	*Total*
	€000	*€000*	*€000*	*€000*
At 1 January 2018, cost, net of accumulated amortisation	307,122	1,035	3,457	311,614
Additions	-	-	867	867
Amortisation expense	-	(59)	(628)	(687)
Foreign currency adjustment	(5,219)	-	(61)	(5,280)
At 30 June 2018, cost, net of accumulated amortisation	301,903	976	3,635	306,514

	Brands	*Customer Relationships and Trademark*	*Software*	*Total*
	€000	*€000*	*€000*	*€000*
At 1 January 2017, cost, net of accumulated amortisation	298,660	1,042	3,051	302,753
Additions	207	110	1,059	1,376
Disposals	-	-	(60)	(60)
Transfers	-	-	513	513
Amortisation expense	-	(115)	(1,203)	(1,318)
Foreign currency adjustment	8,255	(2)	97	8,350
At 31 December 2017, cost, net of accumulated amortisation	307,122	1,035	3,457	311,614

11. Property, plant and equipment

The movement in property, plant and equipment for the six-month period ended 30 June 2018 was as follows:

	Land and buildings	*Technical equipment*	*Other equipment*	*Assets under construction*	*Total*
	€000	*€000*	*€000*	*€000*	*€000*
At 1 January 2018, cost, net of accumulated depreciation	24,328	23,125	2,867	551	50,871

Additions	151	824	381	(113)	1,243
Transfers	57	83	5	(145)	-
Disposals	(1)	-	(1)	-	(2)
Depreciation expense	(482)	(2,613)	(1,479)	-	(4,574)
Foreign currency adjustment	(609)	(734)	(38)	(47)	(1,428)
At 30 June 2018, cost, net of accumulated depreciation	23,444	20,685	1,735	246	46,110

	Land and buildings	*Technical equipment*	*Other equipment*	*Assets under construction*	*Total*
	€000	*€000*	*€000*	*€000*	*€000*
At 1 January 2017, cost, net of accumulated depreciation	23,640	25,197	5,031	1,837	55,705
Additions	501	1,132	514	1,563	3,710
Transfers	33	1,948	434	(2,928)	(513)
Disposals	-	(558)	(78)	-	(636)
Depreciation expense	(1,055)	(5,638)	(3,201)	-	(9,894)
Foreign currency adjustment	1,209	1,044	167	79	2,499
At 31 December 2017, cost, net of accumulated depreciation	24,328	23,125	2,867	551	50,871

12. 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 investment, 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 June 2018 has been revised to €2,719,000, with €1,240,000 being included in current financial liabilities and €1,479,000 in non-current financial liabilities.

The Group's share of the loss of Quintessential Brands Ireland Whiskey Limited for the period is €106,000 (31 December 2017: loss of €331,000). There has been a corresponding reduction in the carrying value of the investment.

13. 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 period/year as shown in the cash flow statement can be reconciled to the related items in statement of financial position as follows:

	30 June 2018	*31 December 2017*
	€000	*€000*
Cash and bank balances	50,383	61,341

Cash and cash equivalents are denominated in the following currencies:

	30 June 2018	*31 December 2017*
	€000	*€000*
Sterling	2,429	1,445
Euro	8,742	7,883
Polish Zloty	14,621	24,610
Czech Koruna	19,288	21,958
Other currencies	5,303	5,445
Total	50,383	61,341

14. Financial liabilities

	Current 30 June 2018	*Non-current 30 June 2018*	*Current 31 December 2017*	*Non-current 31 December 2017*
	€000	*€000*	*€000*	*€000*
Unsecured - at amortised cost				
HSBC loan	-	88,824	-	114,191
Cost of arranging bank loan	-	(159)	(53)	(143)
Interest payable	-	-	101	-
	-	88,665	48	114,048

As well as the revolving credit facility (RCF) drawings of €88,824,000 as at 30 June 2018 (31 December 2017: €114,191,000), an additional €10,551,000 (31 December 2017: €14,250,000) of the RCF was utilised for customs guarantees in Italy and Germany. These custom guarantees reduce the available RCF facility but do not constitute a balance sheet liability.

15. Financial assets and 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 June 2018

	Financial assets and liabilities at amortised cost €000	*Total book value €000*
Financial assets:		
Cash	50,383	50,383
Trade and other receivables	108,857	108,857
Customs deposits	4,823	4,823
Financial liabilities:		
Interest-bearing loans and borrowings:		
(i) Finance lease obligations	(287)	(287)
(ii) Floating rate borrowings - banks	(88,665)	(88,665)
Trade and other payables	(62,096)	(62,096)
Contingent consideration	(2,719)	(2,719)

As at 31 December 2017

	Loans and receivables €000	*Amortised cost €000*	*Total book value €000*
Financial assets:			
Cash	61,341	-	61,341
Trade and other receivables	160,224	-	160,224
Customs deposits	4,770	-	4,770
Financial liabilities:			
Interest-bearing loans and borrowings:			
(i) Finance lease obligations	-	(192)	(192)
(ii) Floating rate borrowings - banks	-	(113,995)	(113,995)
Trade and other payables	-	(72,285)	(72,285)
Contingent consideration	-	(2,491)	(2,491)

16. Authorised and issued share capital and reserves

Share capital of Stock Spirits Group PLC

	30 June 2018	*31 December 2017*
Number of ordinary shares		
Ordinary shares of £0.10 each, issued and fully paid	200,000,000	200,000,000
Ordinary shares (€000)	23,625	23,625

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 cancellation of the Share Premium was approved by shareholders at the Annual General Meeting held on 22 May 2018.

Other reserve

Other reserves include the credit to equity for equity-settled share-based payments. The credit for the period ended 30 June 2018 was €316,000 (31 December 2017: charge of €1,942,000).

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 the half year ended 30 June 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 June 2018 the Group held 1,691,991 of the Company's shares (31 December 2017: 822,246).

On the exercise of options in the period €468,000 was credited to the own share reserve, with the corresponding charge to retained earnings.

The EBT holds the shares at cost.

Foreign currency translation reserve

	30 June 2018 €000	*31 December 2017 €000*
Foreign currency translation reserve	8,772	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.

17. Dividend

An interim dividend of 2.50 Euro cents per ordinary share has been declared by the Board in respect of the half year ended 30 June 2018 and will be paid on 21 September 2018. The dividend payable has not been recognised as a liability at 30 June 2018.

18. Related party transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. There were no other related party transactions during the six month period ended 30 June 2018 (30 June 2017: €nil), as defined by International Accounting Standard No 24 'Related Party Disclosures', except for key management compensation and transactions with Quintessential Brands Ireland Whiskey Limited and its related entities.

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 June 2018. There were no such transactions in 2017.

June 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 S.r.l.	2	8	-	-
Stock d.o.o.	-	52	-	30
Stock Slovensko s.r.o.	-	32	-	-
	2	92	-	30

The related party transactions for the year ended 31 December 2017 as defined by International Accounting Standard No 24 'Related Party Disclosures' are disclosed in note 31 of the Stock Spirits Group PLC Annual Report for the year ended 31 December 2017.

19. Commitments for capital expenditure

Commitments for the acquisition of property, plant and equipment as of 30 June 2018 are €429,000 (30 June 2017: €35,000).

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[1] The adoption of IFRS15 in the year has resulted in a restatement of prior year financials. See note 3 in the Unaudited Interim Condensed Consolidated Financial Statements

[2] We have referenced EBITDA, a non-GAAP measure in the financial highlights section. For details of the reconciliation of EBITDA to GAAP financial numbers please refer to notes 5 and 6 in the Unaudited Interim Condensed Consolidated Financial Statements

[3] Leverage is the ratio of net debt to EBITDA

[4] Note: All market data for Poland, Czech and Slovakia as per Nielsen June 2018; for Italy as per IRI June 2018

[5] See note 6 in the Unaudited Interim Condensed Consolidated Financial Statements for a calculation of Free Cash Flow and a calculation of the conversion rate

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