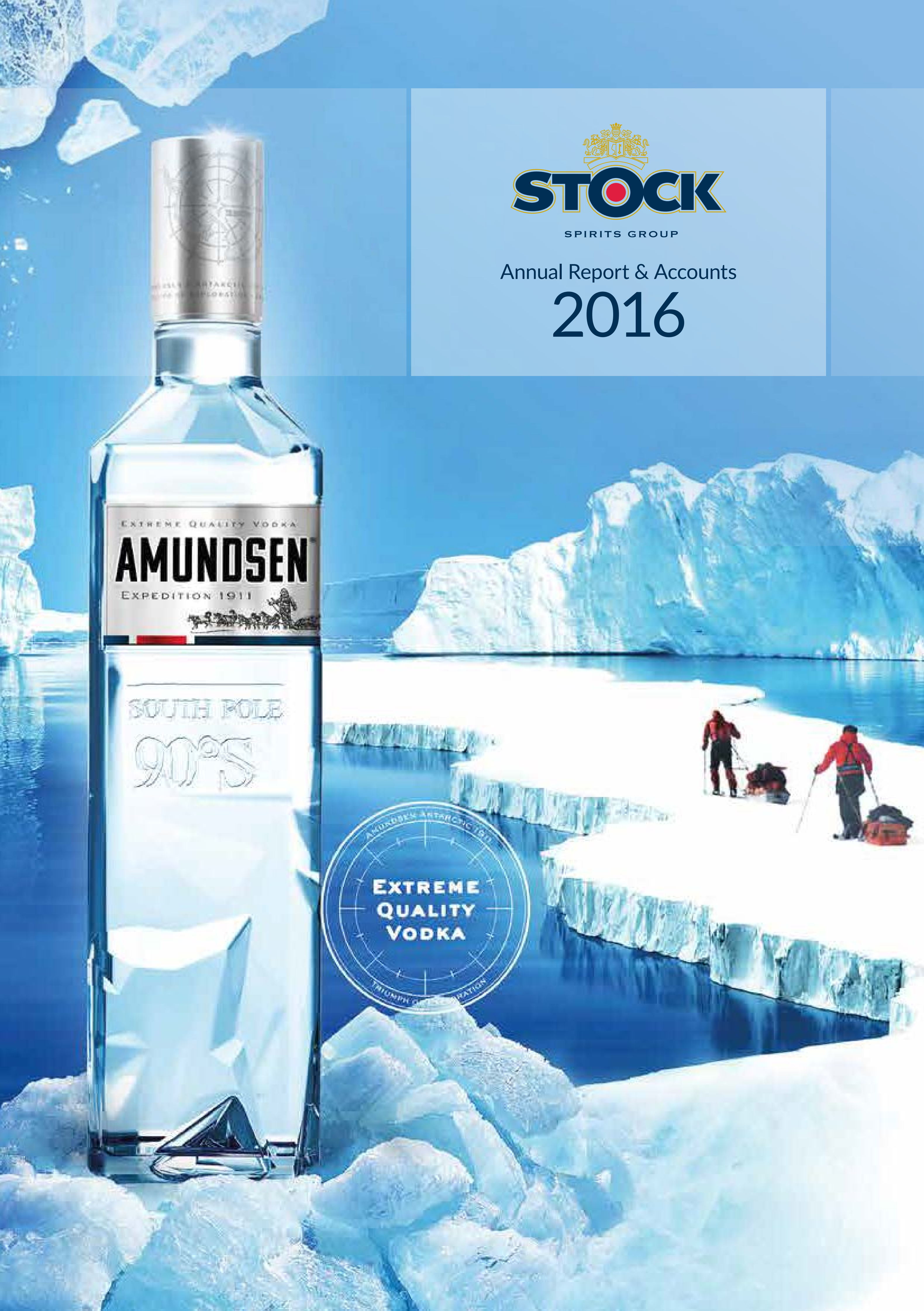
STOCK

SPIRITS GROUP

# Annual Report & Accounts 2016



STOCK
SPIRITS GROUP

# Our goal is to become Central and Eastern Europe's leading spirits company, commanding a major stake in each of our core operating markets and making our presence felt in the wider global market.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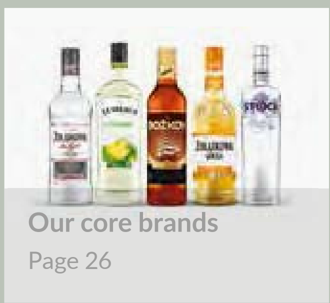
**Our core brands**
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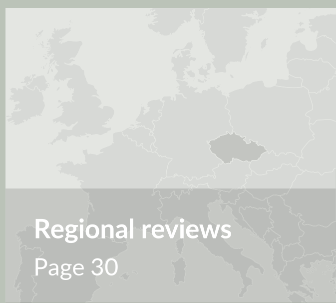
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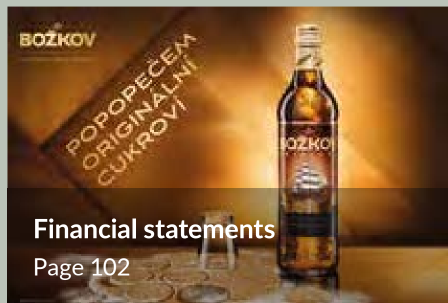

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Overview

# Financial highlights

**12.3m**
9 litre cases
(2015: 11.8 million 9 litre cases)

**€261.0m**
Total net sales revenue
(2015: €262.6 million)

**€40.1m**
Operating profit
(2015: €41.7million)

**€28.4m**
Profit for the year
(2015: €19.4 million)

**19.62€cents**
Dividend per share for 2016[2]
(2015: 5.80 €cents)

**14€cents**
Basic earnings per share
(2015: 10 €cents)

**€51.5m**
Adjusted EBITDA[1]
(2015: €53.7 million)

**€40.3m**
Adjusted EBIT[1]
(2015: €42.7 million)

## We have more than 40 brands and export internationally to more than 40 countries worldwide.

For more information
www.stockspirits.com

1. Stock Spirits Group uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. These include adjusted EBITDA, adjusted EBIT and adjusted free cash flow. The narrative in the Annual Report & Accounts is based on these alternative measures and an explanation is set out in note 7 to the consolidated financial statements included in the Annual Report & Accounts
2. Special dividend of 11.9 €cents paid on 27 July 2016, interim dividend of 2.27 €cents paid on 26 September 2016 and proposed final dividend for 2016 of 5.45 €cents

# Strategic review


STOCK
Prestige
Lemon Sour
STOCK
Prestige
WORLDWIDE SINCE 1884
STOCK
Prestige
Cranberry
STOCK
Sparkling
VODKA
LIMITED EDITION
WWW.PIJODPOWIEDZIALNIE.PL


LOVÍME
SPOLU
6X DISTILLED
AMUNDSEN
CRANBERRY
AMUNDSEN
PREMIUM VODKA
GRAPEFRUIT
NOVINKY
GRAPEFRUIT
CRANBERRY
AMUNDSEN
6×DISTILLED
IMPORTED
BLACKBERRY
CHERRY

**With a stronger Board and key local management now in place, we have begun to make progress and are in a position to deliver sustainable levels of growth and profit.**

Strategic review

# Chairman's statement

## As Chairman of Stock Spirits Group PLC, I am pleased to present our Annual Report and Accounts for the year ended 31 December 2016.

2016 was a year of great change at Stock Spirits, especially at Board and Senior Management level. Whilst our major market of Poland remains a challenging trading environment and highly competitive, management have been focussed on the stabilisation of our performance in this market. While there is much work to do, the initial signs are positive and I am pleased with our financial performance and strong cash flow.

During the year, there were a number of changes to the Board, not least the appointment of a new Chief Executive Officer (CEO) after the retirement of Chris Heath in April 2016. I will discuss the full Board changes in the Governance section later in my statement, but I was personally delighted that the Board approved the appointment of Mirek Stachowicz in August 2016. Mirek had stepped in as Interim CEO, upon Chris's retirement, from his position as a Non–Executive Director (NED) on the Board.

As I referenced in my statement last year, I initiated a review of Group Strategy, as well as a full 'root and branch' review of the Polish market and our business in that country, at the end of 2015. Mirek will provide a detailed update on Poland in his statement and I have provided an update on the conclusions of the Group Strategic Review below:

- The Board determined and re-validated during the year, that the existing strategy outlined at the time of the IPO should not be fundamentally changed, although the prioritisation of some activities should be adjusted due to the need to focus on the stabilisation of our Polish business
- We listened to shareholders' views on the appetite for larger merger and acquisition deals (M&A) at the beginning of the year and, whilst management were focussed on sorting out issues in Poland, we stated that the Group would only undertake 'bolt-on' acquisitions in current markets. I am pleased to report that in October, the Group completed its first bolt-on acquisition post IPO: a €5m acquisition of a spirits business in the Czech Republic to bolster the vodka offering to our customers and consumers and to enter the gin category (see the Czech Republic regional review on page 34 for more detail)
- We stated our aim at the end of last year to strengthen our distribution platforms which will help to diversify and strengthen our product portfolios. In 2016 we completed new distribution agreements in Italy and Slovakia with Distell and with Synergy in Poland (see the regional review section on pages 30 to 37). We also renewed the Beam contract in Poland
- We said that we would assess a number of opportunities to deliver cost savings. In August we announced the closure of our Swiss office, with the redundancy of the position of the Chief Operating Officer (COO). In addition we have re-tendered Group contracts for tax, public relations and other advisory services during the year and a new logistics provider in Italy was appointed to commence from 1 January 2017
- A number of assets have been identified which we feel are intrinsically undervalued. We stated last year that if we are unable to deliver an enhancement in the value of these assets in the short term, we will seek other opportunities to realise their intrinsic value, which may result in their disposal. Work on opportunities to enhance value continues

Strategic review

# Chairman's statement continued

- With regard to shareholder returns, we stated that, should the business not announce a meaningful M&A transaction in the near term, the Board would increase the dividend and distribute surplus cash to shareholders. A special dividend was declared in June 2016 of 11.9 €cents per share with a commitment to distribute 100% of adjusted net free cash flow in 2016. The Board is recommending a final dividend payable in respect of the full year 2016 of 5.45 €cents per share (2015: 4.55 €cents). The total dividend payable in respect of 2016 will be 19.62 €cents per share (2015: 5.8 €cents). While the dividend policy remains unchanged at 35% of adjusted net free cash flow, we also reiterate our commitment to return surplus cash should no meaningful M&A opportunity arise. This, of course, will also be impacted by how successful our turnaround actions in Poland are.

**People**

During the year, we saw the completion of the recruitment of all senior management positions in local markets, including the important role of Managing Director of our major market, Poland (see Poland regional review section for more detail on page 30). This means that we now have Managing Directors appointed in all markets in the Group. Our people are key assets of the business and I would like to recognise the commitment of all our employees and thank them for their ongoing contribution and support.

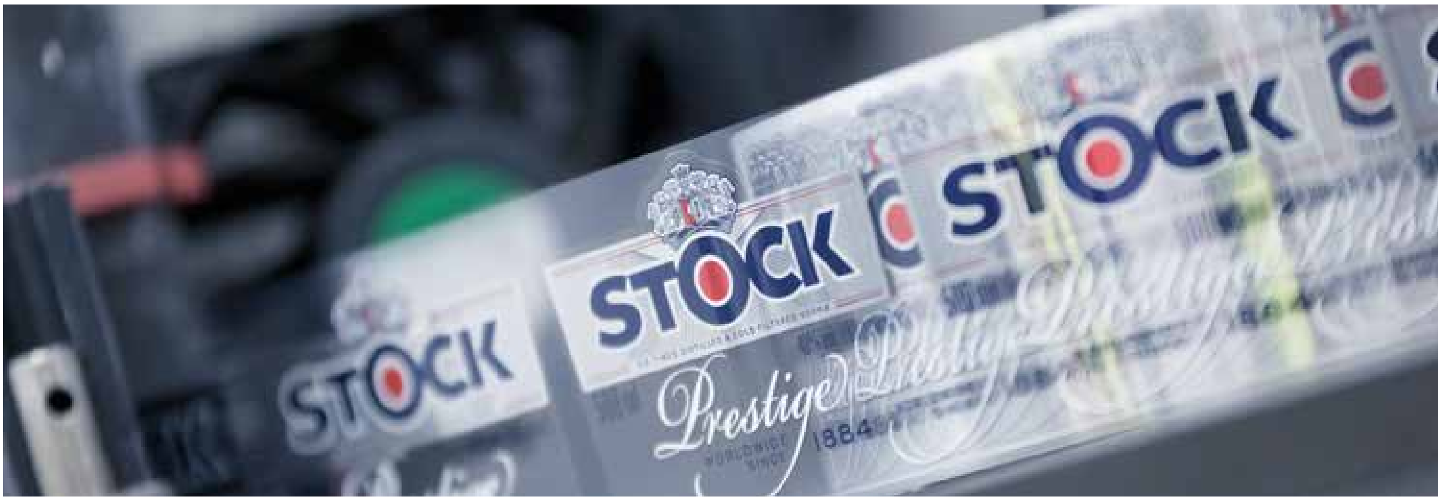
In line with the Corporate Governance Code, the Directors' remuneration policy will be put to shareholder vote at the forthcoming AGM, and a number of changes have been proposed. The proposed changes are contained within the Directors' remuneration report of this report (see pages 75 to 90). Executive Directors' and Senior Managers' interests remain fully aligned with shareholders.

**Governance**

Turning now to the Board changes, I would like to personally wish Chris Heath well in his retirement and thank him for his service to the Company. Chris served as Chief Financial Officer (CFO) from 2007 and as CEO from 2009 until his retirement in April 2016. Following a detailed assessment of both internal candidates and external candidates identified by an international search firm, I was delighted that the Board unanimously decided in August that our colleague, Mirek Stachowicz, should be appointed as CEO. Mirek had been working as Interim CEO since April.

There were a number of other Board changes during the year:

- In May 2016, at the AGM, two Non-Independent NEDs, Randy Pankevicz and Alberto da Ponte, were appointed. In January 2017, we were very saddened to announce the untimely death of Alberto
- In October, Andrew Cripps stepped down from the Board and as Chairman of the Audit Committee. I would like to thank Andrew for his personal support to me and his contributions during his three years' service on the Board. With his departure, John Nicolson was appointed Senior Independent Director (SID) and therefore adds to his responsibilities as Chairman of the Remuneration Committee. Mike Butterworth joined the Board and was appointed as Andrew's replacement to the Chair of the Audit Committee. Mike brings considerable experience as a former PLC Finance Director and has held various NED roles since 2012. Mike also sits on the Remuneration and Nomination Committees
- Also in October, two further Independent NEDs were appointed. Tomasz Blawat replaced Mirek Stachowicz as an Independent NED. Tomasz, who is a Polish national, is currently Managing Director of Carlsberg in Poland and also has experience working for Procter & Gamble and ING. He joined the Audit and Remuneration Committees. In addition, Diego Bevilacqua joined the Board as an Independent NED and was appointed to the Nomination and




Remuneration committees. Diego brings over 40 years' experience working in the international food and beverage sector gained from his time at Metro and Unilever.

I believe that the Group enters the new year with a significantly strengthened and experienced Board and I welcome all my new colleagues as we face our challenges together.

All Board Committee compositions are fully compliant with the Corporate Governance Code, see page 61 of this report for further details. The Board and its Committees have met regularly throughout the year and an independent, external Board evaluation has been undertaken (see page 60).

During the year, following implementation in Poland at the end of 2015, the review of our internal controls around key business processes was successfully rolled out to the remaining countries across the Group, providing comfort to the Board with regard to the control environment in these markets.

More details on our Corporate Governance are provided later in the report, as well as the reports from the Chairmen of our Remuneration, Audit and Nomination committees. I thank the Executive Directors and NEDs with whom I serve for their support and insight in helping to run the Group as effectively as possible.

### Looking ahead

Externally, one matter which is front of mind for all businesses based in the UK is the implications of the UK exit from the European Union (Brexit). The Group operates predominantly in Poland and the Czech Republic. The implications of Brexit on the Group, are not considered to be material at this stage. However, we continue to monitor progress on the exit of the UK from the EU and what that might entail for the Group and we will seek to mitigate against these risks as they arise.

Just over a year ago, I said that the Board and I were fully committed to turning around the fortunes of the Group and returning it to sustainable long term growth. With a stronger Board and key local management now in place, I believe we have begun to make progress and are in a position to deliver sustainable levels of growth and profit and to develop in the future. There are still opportunities and risks to manage, particularly in Poland where we are at the beginning of a journey, but I believe with our talented people and our award-winning brands, we are in a position to deliver on this objective.

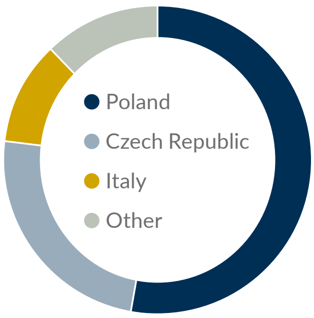
**David Maloney**
Chairman
8 March 2017

## 2016 Net sales revenue

(Total number and comparative 2015)

€261.0m

2015: €262.6m




See **Page 30** for our regional reviews


NEVYMĚKNEM
CHLAPI SKLÍZÍ SPOLU
FERNET
STOCK
CRANBERRY
FERNET
STOCK
S MÁTOU
FERNET
STOCK
HRUŠKA
FERNET
FERNET
PIJSROZUMEM.CZ | MUJFERNET.CZ

Strategic review

# Chief Executive Officer's statement

## Having been appointed to the role of CEO for the Group during 2016, I am pleased to be presenting my first CEO statement.

We have, I believe, successfully navigated a challenging year for the Group. The key priorities during the year have been the turnaround of the Polish business and putting the Group back on track to deliver the strategy agreed at the time of the IPO. We have made tangible progress on both of these key priorities.

Since my appointment as Interim CEO in April, I have committed the majority of my attention to the turnaround of our Polish business. Additionally, I implemented a number of initiatives, in order to accelerate change across the entire Group. These included development of people capability, organisation structure review and strengthening of management processes; review of the UK Head Office; detailed review of the Group cost base; revision of the new product development (NPD) processes; product range reduction across all the markets (SKU rationalisation); reduction of waste through operations efficiency; and revenue growth in key profit pools through distribution agreements. All of these projects have yielded positive results during 2016, with further benefits to accrue in 2017.

### Group financial performance

We have recorded full year volume of 12.3 million cases. We have recorded growth in both volume and net sales revenue. Full year volume of 12.3 million cases is 0.5 million cases, 4.2%, ahead of 2015, whilst net sales revenue has recorded a 1.2% increase to €261.0m (on a constant currency basis).

Adjusted Group EBITDA is €51.5m in 2016. Whilst this is below the result of last year, removing the net impact of one-off items (CEO pay in lieu of notice, CEO recruitment, NED recruitment, additional AGM costs, closure of Swiss office and PSP adjustments) would result in a reported adjusted EBITDA of €53.0m.

The profit for the year is €28.4m, a significant increase versus 2015 of €19.4m.

Our cash flow generation is a key focus area for the business and remains strong. Against our commitment to return 100% of net free cash flow to shareholders for 2016, this will result in dividends totalling €39.2m being paid to shareholders in respect of 2016.

Taking into consideration our small acquisition in the Czech Republic of €5m, as described on page 12, our year end net debt was €59.7m, versus €57.2m at the end of 2015.

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

### Polish 'root and branch' review

To reiterate elements I presented at the half year and the progress we have made in the second half of the year, here is a summary of the actions taken in 2016 against the outputs of the root and branch review. Further detail is given later in the regional review covering Poland:

- We have reallocated internal marketing funds (previously allocated to new product development) across the Group to fully support pricing of our core brands, principally Żołądkowa de Luxe, particularly in the important Traditional Trade channel to make them more competitive
- We replaced the entire senior Polish management team with external hires in the course of 2016. The one exception is the Marketing Manager role, where an internal candidate is currently undertaking the role

Strategic review

# Chief Executive Officer's statement continued

- We changed the way in which we build capability in the salesforce. We recruited externally experienced sales personnel to increase our capability in the second half of the year. We also recruited externally the Senior National Key Account Manager and brought in-house the Category Management specialist role, rather than rely on third parties
- We have refocused the sales force to concentrate on the customer relationships with the wholesalers, who supply the Traditional Trade channel, by using more effective promotional tools and implementing new pricing architecture that is expected to reduce channel conflicts between the Traditional and Modern Trade channels
- We adapted our route to market by aligning the sales force with the smaller purchasing groups for the Traditional Trade, which are growing in importance in this market. We have also managed to increase the number of sales calls made by sales people by changing the sales force priorities and redesigning sales routes
- We altered sales force incentives to better align the sales force activity with the financial performance of the Group
- We have created a sales analysis team and initiated the implementation of a new Salesforce Automation System, to be fully functional by the end of H1 2017
- We signed a new distribution agreement with Synergy Company for the ultra-premium Beluga vodka collection and extended the agreement with Beam Suntory (for more detail, see 'Targeting growing profit pools with distribution brands' section on page 13) increasing our presence in the important premium segments. Leveraging this, we have significantly strengthened the position of our own brands, Amundsen Expedition and Stock Prestige, in these fast growing segments. Consequently, we were the fastest growing major player in these segments and I am very pleased to report that Stock Prestige again became a millionaire brand.

Work continues to fully implement all of the initiatives from the root and branch review. The actions taken so far have only been in place for part of a year, and I am confident that with the changes in place for a full 12 month period the benefits will be considerable in 2017.

### Other markets

In the Czech Republic, we completed the recruitment of the Senior Management Team (MD, FD and Sales Director) and the team have been in place since the early part of the year. Our Božkov brand is the single largest spirits brand in the Czech Republic commanding 54%[1] market share in its category. As a major brand leader, it was facing increased price competition and the entire category risked commoditisation. We took the decision to launch a new variant called Božkov Tradicini, and reposition the old product under the name Božkov Original. This has increased our consumer offering and, in turn, has supported the premiumisation of Božkov Original. Although this has resulted in a decline in overall market share, this has been more than offset by an increase in overall value and profitability of the brand. Also, to capture further share of the rum category, we launched a new white rum variant under the Božkov brand.

The expansion of our Božkov portfolio places the business on a firm footing going into 2017 and we were delighted to receive the accolade of "most trusted alcohol brand" for Božkov in a massive independent consumer survey.

Our financial results for Czech support the actions we have taken with a growth in EBITDA of 6.0% to €19.6m.

Our Italian business has made progress and grown share in both limoncello and brandy[2] categories through targeted promotional activity. Although we have also grown our share in the important flavoured vodka, category this is against the backdrop of significant decline in this category[2]. A review is underway to consider all the opportunities to arrest this decline. We re-tendered our logistics services in Italy and

implemented a successful change of provider at the year end, which will deliver cost savings in 2017. The decline in flavoured vodka has impacted the results of this market and we have recorded a reduction in EBITDA during 2016.

The team in Slovakia continue to make good progress and record growth in profit and market share. The business has overseen another successful year for the Golden brand, supported by the new products launched in the last two years. Furthermore, new variants added to the Fernet range during 2015, have continued to grow the brand equity of this leading bitters brand.

Our international markets and export operation has also recorded good profit growth during the year, and continues to benefit from the Beam distribution contracts in Croatia and Bosnia, which have facilitated the launch of Amundsen Expedition vodka in these markets during 2016.

### Progress towards strategic goals and M&A

As set out in the Chairman's statement on pages 5 to 7, we continue our focus on the tenets of the strategic review undertaken in 2015 (see box).

It is worth emphasising that expansion within Central and Eastern Europe outside our existing geographies remains part of our strategy, but is not a priority at this stage.

In line with this strategy, in October we announced the acquisition of the spirits business comprising Nordic Ice vodka, Pražská vodka and Dynybyl gin from Bohemia Sekt s.r.o. This was our first acquisition since we listed on the London Stock Exchange and is a positive step forward for Stock Spirits. The brands and production are being integrated into our existing portfolio in the Czech Republic, and strengthen our positions in the vodka and gin categories. The rationale for the acquisition was to gain further access to the growing vodka category in Czech with established brands. All the synergies, generated primarily from production and procurement efficiencies, will be reinvested behind the brands, and therefore the contribution from these brands is not expected to be material in the short term.

**The strategy for growth that we are pursuing has six key, interlocking aspects:**

1. Further develop the Group's strong brand portfolio in current markets
2. Continue to invest in attractive markets with strong growth potential
3. Utilise purchasing and production capabilities to deliver quality products with a competitive cost advantage
4. Expand distribution capability in current and new markets
5. Continue to invest in people and develop management talent
6. Pursue the significant opportunities for acquisitions across Central and Eastern Europe.

### People, organisation and team engagement

Whilst David has mentioned the changes at Board level in his statement, during 2016 we have completed the appointment of the full Senior Management Team in Poland. We now have on board, Marek Sypek as Managing Director, who has a great track record in FMCG and Private Equity and Piotr Dziarski as Sales Director, who has specific alcoholic beverage industry experience in Poland. Both were appointed in June 2016. Earlier in the year saw Bradley Holder appointed as Finance Director, with experience in Poland at both Coke and Pepsi, and later in the year we appointed Jagoda Palider as HR Director, who joined us from TJX Europe in the UK.

1. Nielsen, total Czech Republic, total off-trade, total spirits, MAT volume December 2016
2. IRI retail sales data, total Italy, total modern trade and discounters, total spirits, MAT volume December 2016

Strategic review

# Chief Executive Officer's statement continued

With the appointment of new Managing Directors in Czech (Jan Havlis), in early 2016, Italy and International (Michael Kennedy in 2015) we have completed the task to appoint very capable Managing Directors to all markets.

Shortly after taking the role of Interim CEO, I undertook a review of the organisation structure and concluded that the current size of the Group, and immediate priorities, did not warrant the role of COO. The role was therefore made redundant, and Ian Croxford, who had undertaken the role for the past nine years, left the Group. I would like to thank Ian Croxford for his service and wish him well for the future.

We have made further changes to the organisation in 2017, to simplify the business, transfer activities from our Head Office to the markets and deliver savings. Logistics and Customer Service are now integrated within local market teams (previously part of Group operations), and we have restructured the commercial operations in Italy and the UK.

Restructuring opportunities to simplify, de-layer the business and empower the key employees will remain my ongoing focus as I see this as a key competitive advantage in the future.

I have made a number of changes that have allowed executives to make more, and faster, decisions in their specific areas of responsibility. In a break from past practices, I ensured that the personal bonus objectives became transparent to all senior team members, shared among them and aligned towards the strategic goals. I radically increased the amount of interaction between the senior team members by changing the way we work. I believe these changes have improved the level of motivation and sense of ownership among the senior team.

One of the key reasons for unsatisfactory performance of the Group since the IPO was the senior management turnover. To ensure that senior management are motivated to deliver against the many challenges we face at a time of significant internal change, the Board has implemented new retention plans and reward mechanisms. These are based on restricted stock awards, in addition to the normal long term remuneration mechanisms, and aim to retain the key senior management and align their interests with shareholders.

### Communications with shareholders

Following my appointment, I had conversations with all our major investors in excess of 30 meetings. I would like to take this opportunity to thank our shareholders for committing their valuable time to these sessions. Whilst I took careful note of all the feedback received during these meetings, it is my responsibility to strike the right balance among the diverse views and recommendations, putting them to the best use for the benefit of all the shareholders.

### Review of the location and size of the Head Office

I instigated a thorough review of our Group Head Office, covering all aspects of its size, role, functions, location and tax implications associated with any relocation. The conclusion was that whilst the complete move of the Head Office to Warsaw would result in annual operating cost savings the return was not compelling, as only half of the savings would produce an attractive return within the next three years. This is due to the existing contractual arrangements, the regulatory environment in the UK and Poland, and the considerable tax risk, further exacerbated by uncertainty around Brexit.

Furthermore, the resulting business disruption and diversion of management focus that would arise from a relocation, given the loss of expertise with the need to recruit the entire Head Office and a large part of the Senior Management Team in Poland, would seriously compromise our ability to deliver our strategy, including the turnaround of the Polish business.


The outcome of the review was presented to the full Board in November and it was unanimously resolved to retain the existing Head Office in the UK, and continue to seek opportunities to deliver cost savings with attractive returns, but without compromising the ability of the Group to deliver its strategy.

### Cost savings review

I initiated a number of initiatives to review the cost base across the Group.

In August, we announced the closure of our Swiss operation. At the time, we expected the savings from this closure to be €1.5m in a full year and we fully expect this saving to be delivered.

Across all markets there has been a focus on reducing our underlying cost base, with every opportunity taken to action cost savings. From a logistics re-tender in Italy, termination of consultants in Poland and a commercial reorganisation in Czech during the year, the cost base has been placed under intense scrutiny.

We have re-tendered all Group professional services, seeking opportunities to retain access to high quality professional advisors at a lower cost. For corporate tax, employment tax and internal audit we have retained the services of internationally renowned professional advisors with engagement now delivered via their offices in Warsaw, thereby reducing the blended hourly rates on these services going forwards. We have changed our providers for public relations, corporate website and professional advisors to the Remuneration Committee. We have renegotiated our service agreements for corporate law and company secretarial requirements. We also changed the provider for travel services and, coupled with a change to the travel policy for the Board and senior executive management, have already realised savings from this activity. As mentioned earlier, we have implemented further cost saving initiatives in early 2017, as this remains a key focus area.

### Targeting growing profit pools with distribution brands

Working towards our commitment to strengthen our premium portfolio, in July we announced two new distribution partnerships, with the Synergy Group in Poland for the ultra-premium Beluga vodka collection and with Distell International in Italy and Slovakia for a number of their premium brands, including Amarula, Black Bottle and Scottish Leader. This objective was further endorsed later in the year with the extension of the Beam Suntory agreement in Poland, which sees an expanded portfolio of premium spirits including some of the world's most sought after Japanese whiskies.

We continue working on other distribution opportunities in the market segments and geographies that are of high interest to us strategically.

### New product development (NPD)

Given the very high number of new product launches in 2015, and the need to focus upon implementation of the root and branch initiatives in Poland, we slowed down the pipeline of new products being launched in 2016. This allowed us to embed the successful brand launches from 2015, and focus the 2016 new product activity around core brands and premiumisation opportunities. Marketing funds specifically planned for other new product launches were reallocated to provide support for the core brand pricing initiatives in Poland.

NPD was an area where we suffered a setback in the last year, when we had a dispute over the Saska brand's intellectual property rights, due to mistakes made in the product launch in 2015. This prevented us from utilising the full portfolio of our flavoured vodka and vodka-based liqueur brands including Lubelska, Żołądkowa Gorzka and Saska to deliver their full potential in Q4. Nevertheless, we managed to keep the leadership of the flavoured vodka category and, by February 2017 the situation with Saska was resolved. With Saska now firmly back on the market, we can now focus upon the development of our flavoured vodka portfolio.


Strategic review

# Chief Executive Officer's statement continued

Partly to prevent such mistakes from happening again, we carried out a complete review of the NPD process. The primary objective was to ensure there is a good balance between satisfying changing consumer needs, sales force priorities, as well as internal supply chain and inventory efficiencies. Historically, this balance hasn't always been delivered. I believe that the process going forwards will produce more targeted innovations and reduce our obsolete inventory provisions, which in the past three years significantly impacted our financial results.

## Operations efficiency

I have implemented a review of the processes for demand planning and inventory management in order to focus on eliminating waste. This included the roll-out of an improved sales and operations planning (S&OP) process across the Group and a comprehensive stock keeping unit (SKU) rationalisation project. As a result of the latter, we have ceased production of a significant number of under-performing SKUs. This initiative is expected to have a negligible effect on our future contribution margin but, importantly will improve supply chain planning and inventory efficiency. Positive results have already been generated, with a reduction in year-end inventory compared to the prior year of €6m, despite growing sales volumes. I expect this review to deliver more benefit in 2017.

2016 saw more focus on IT projects, including the implementation of a Group-wide single network and a strengthening in our cyber security environment, achieving the UK Government Cyber Essentials Scheme certification.

Other IT investments included the automation of our Customs registers and a new warehouse management system in Poland and in Italy, a new integrated electronic data interface (EDI) to our new logistics provider and a sales force customer relationship management (CRM) solution.

For the future, I see IT as an important element within our businesses and we will invest more in this area than historically.

During the year, we completed our investment in production flexibility capability at our plant in Lublin as well as investment in our infrastructure specifically targeting health and safety initiatives. Our manufacturing base is well invested, and I expect that we will only continue to invest in maintenance and health and safety initiatives.

## Outlook

Since taking over as CEO I have pursued an intensive agenda of change. My focus on Poland continues unabated, and will remain so until I am happy that the business is able to deliver sustainable top line and profit growth. The focus in 2017 will continue to be on the turnaround of the Polish business and making sure that the Group delivers on its strategic objectives. To facilitate this, we will remain focused on delivering cost savings, driving profit and cash and developing our people to build a highly motivated team.

I believe the business is in a much stronger position than it was 12 months ago. Whilst I don't underestimate the size of the task we face, we have already implemented some very difficult decisions and delivered positive results from the actions we have taken, so I am confident in the future of the Group.

My confidence is further reinforced by the fact that the bulk of the work we have completed so far was put in place during the second half of the year, with some of the key initiatives only coming on stream in Q4 2016 and Q1 2017. More importantly, the new management teams in Czech, and especially Poland, are only now emerging from their inevitable team-building processes and will show their full potential in 2017. I look forward to working with them, and the entire team, to meet expectations of the stakeholders of the Stock Spirits Group.

**Mirek Stachowicz**
Chief Executive Officer
8 March 2017

1. Nielsen, total Czech Republic, total off-trade, total spirits, MAT volume December 2016
2. IRI retail sales data, total Italy, total modern trade and discounters, total spirits, MAT volume December 2016


Strategic review

# Group at a glance

| Market Position[1] | 2016 Net sales revenue (Total number and comparative 2015) | |
|---|---|---|
| **Group** Stock Spirits Group is head-quartered in the UK | €261.0m 2015: €262.6m | 100% |
| **Poland** No. 2 in spirits with 25.3% market share • Vodka and vodka-based liqueurs | €136.9m 2015: €137.2m | 53% |
| **Czech Republic** No. 1 in spirits with 34.2% market share • Vodka and vodka-based liqueurs, rum[2], whisky, gin and herbal bitters | €63.2m 2015: €63.1m | 24% |
| **Italy** No. 1 in vodka-based liqueurs and limoncello with 4.3% total spirits market share • Vodka-based liqueurs • Limoncello and brandy | €29.4m 2015: €32.0m | 11% |
| **Other** Slovakia, Croatia, Bosnia and Herzegovina. International exports: USA, Germany, Canada, UK, Slovenia and other Balkan countries amongst others | €31.5m 2015: €30.3m | 12% |

1. Poland: Nielsen, total Poland, total off-trade, total vodka, flavoured vodka & vodka-based liqueurs MAT volume December 2016. Czech Republic: Nielsen, total Czech Republic, total off-trade, total spirits MAT volume December 2016. Italy: IRI retail sales data, total Italy, total modern trade and discounters, total spirits MAT volume December 2016

**We have some truly outstanding, award winning brands supported by well invested production facilities and an exceptional distribution network and more importantly, we have an incredible team of people.**

## Core Brands

We have more than 40 brands and export internationally to more than 40 countries worldwide

## Headcount

876

Average full-time equivalents

| Core Brands | | Headcount |
|---|---|---|
| Żołądkowa de Luxe<br>Lubelska<br>Żołądkowa Gorzka<br>Stock Prestige<br>1906 |  | 493 |
| Fernet Stock<br>Božkov<br>Amundsen |  | 187 |
| Keglevich<br>Limoncè<br>Stock Original |  | 54 |
| Keglevich<br>Golden<br>Stock 84<br>Fernet Stock Citrus<br>Hammerhead |  | 142 |

2. In the Czech Republic, the 'rum' category of the spirits market includes traditional rum, which is a spirit drink made from sugar cane, and so-called 'local rum', known as 'Tuzemak' or 'Tuzemsky', which is made from sugar beet. As used in this Report, 'rum' refers to both traditional and local rum, while 'Czech rum' refers to local rum


Strategic review

# Our business model

## Global FMCG best practices

### Procurement

**Group buying power**
The Group operates a central buying function with the objective of sourcing raw materials on the most competitive terms

**Multi-location sourcing options**
The Group has c. 382m litres of bottling capacity at its two bottling sites (located in Poland and the Czech Republic) in addition to an ethanol alcohol distillery providing around 52% of the Group's alcohol requirements

**Quality improvement**
We constantly aim to ensure that product quality is of the highest standard and we seek to consistently improve wherever the opportunity arises, whether this is new packaging or improved liquids

### Operations

**Targeted capital investment**
The Group has well invested facilities in Poland and Czech. Focus is now on maintenance and ensuring health and safety infrastructure is at the appropriate standards

**Training**
We provide regular training on both operational processes as well as English language courses for our employees

**World-class practices**
We operate to the highest professional standards across our production environment

### Business processes

**Performance management**
We have cascaded accountability for shareholder value and profitability throughout the Group

**Working capital management**
We monitor our investment in working capital and ensure that we have efficient and sufficient working capital to support the business. We have started to make improvements in our production planning processes to deliver the maximum efficiency of working capital utilisation

**Systems**
The Group has invested in its IT systems and will continue to do so to ensure they support the business. Focus of IT investment will be within our commercial functions across markets

**Efficient balance sheet**
The Group retains an efficient capital structure to support both the organic and inorganic strategy. Our cash flow is strong and together with an efficient financing strategy we are well positioned for the requirements of the business in the coming years.

**Cost reduction across the business**
The Group strives to reduce cost in all areas of spend, without compromising the quality of what we produce or how we operate

### Portfolio expansion

**Professional key account management**
We train our sales teams to operate world-class account management processes

**Wholesale and on-trade coverage**
We employ dedicated sales teams serving the differing needs of on-trade, off-trade and wholesale customers

**Customer and consumer insight**
Marketing activity is carefully planned and monitored to ensure maximum effectiveness, particularly in Poland where we operate in a 'dark' market

**World-class brand management**
We maintain detailed long-term brand plans for all our core brands and measure our performance against these plans

## Our Five "Millionaire" Brands[1]:


1. A "millionaire" brand is one which sold more than one million 9 litre equivalent cases during the calendar year

## Local insights

### Sales & marketing

**Portfolio analysis**
We undertake detailed reviews of our product portfolio to ensure that we have profitable products that meet consumer needs at all price points and have added premium third party brands

**Effective and efficient NPD**
We operate an NPD process to bring high quality, profitable products to market expediently. We are focussing on ensuring that NPD will enhance our core product range

**Financial resources**
We ensure that our brands enjoy appropriate levels of marketing support

### Consumer insight

**Consumer trends**
We undertake extensive market research to understand emerging consumer trends globally as well as in our individual local markets, and seek to develop new products that match these trends ahead of our competitors

**Consumption occasions**
Stock Spirits' local marketing teams regularly interview consumers to understand what products they prefer to purchase and consume on various occasions and how they wish to enjoy their drinks

**Consumer motivation**
We have developed a deep understanding of consumer motivation with particular focus on younger adult drinkers to sustain future revenue streams

### A leading spirits business in Central and Eastern Europe

**We have more than 40 brands and export internationally to more than 40 countries worldwide**

We have fully owned operations in Poland, Czech Republic, Italy, Slovakia, Croatia and Bosnia & Herzegovina

**#1** in Poland in flavoured vodka and vodka-based liqueurs[1]

**#1** in the Czech Republic in spirits, bitters, rum and vodka[2]

**#1** in Italy in vodka-based liqueurs and limoncello[3]

### Distribution Brands

Poland

Italy and Slovakia

Czech

Croatia and Bosnia

1. Nielsen Poland, total off-trade volume MAT December 2016
2. Nielsen Czech Republic, total off-trade volume MAT December 2016
3. IRI retail sales data Italy, total off-trade volume MAT December 2016

# Measuring our success against strategy

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

Strategic review

# Strategy and Key Performance indicators

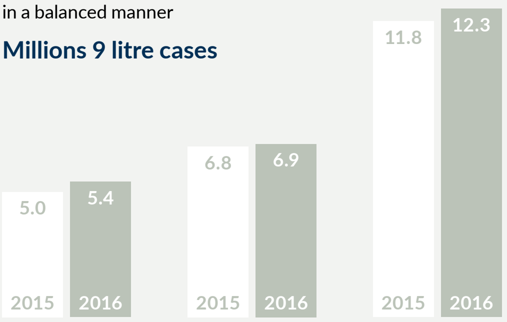
## € Financial Performance

We focus on a number of financial measures to ensure that our strategy successfully delivers increased value for our shareholders

### Volumes of product sold

**Why we measure it:**
To ensure that we are growing the business in a balanced manner

**Millions 9 litre cases**




### Net sales revenue

**Why we measure it:**
To ensure that we are growing the Net sales revenue of the business

**Net sales revenue**

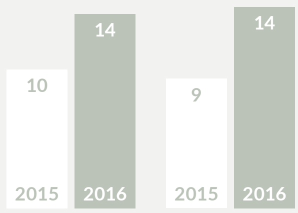
**€261.0m**

2015: €262.6.m

### EPS

**Why we measure it:**
To provide a measure of underlying shareholder value

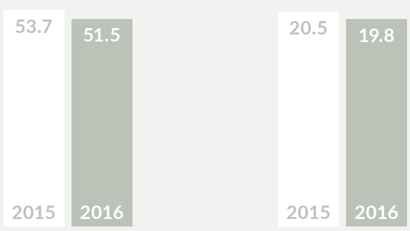
**EPS (basic)** **EPS (diluted)**




### Adjusted EBITDA & adjusted EBITDA margin[1]

**Why we measure it:**
To track the underlying performance of the business and ensure that sales growth is translated into profit

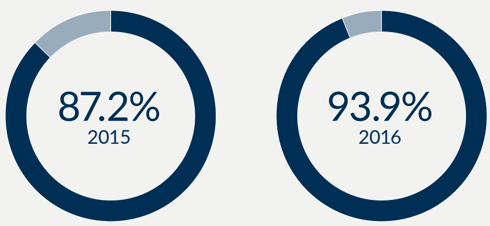
**Adjusted EBITDA[1] €m** **Adjusted EBITDA margin[4] %**




### Adjusted free cash flow conversion[1]

**Why we measure it:**
To ensure that we are converting profit into cash

**Adjusted free cash flow as % of adjusted EBITDA[1]**




1. Stock Spirits Group uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. These include adjusted EBITDA, adjusted EBIT and adjusted free cash flow. The narrative in the Annual Report & Accounts is based on these alternative measures and an explanation is set out in note 7 to the consolidated financial statements included in the Annual Report & Accounts
2. Net debt is defined as bank borrowings plus finance leases less cash and cash equivalents


## Financial Strength

### Leverage

**Why we measure it:**

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

**Net debt[2]: adjusted EBITDA[1]**

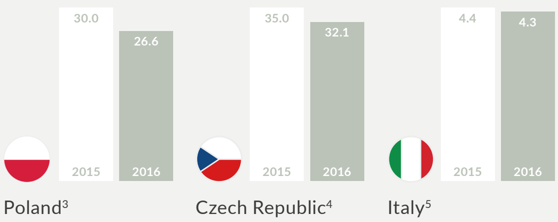

**The Group retains very strong liquidity, significant headroom in our borrowings and a robust balance sheet, providing us with the financial strength to take the business forward.**

## Market Position

### Value market share

**Why we measure it:**

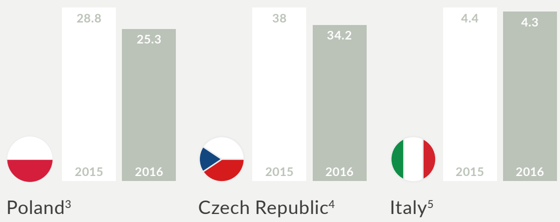
To ensure that we measure our underlying market position relative to our competitors




### Volume market share

**Why we measure it:**

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




3. Nielsen, total Poland, total off-trade, total vodka, flavoured vodka & vodka-based liqueurs MAT volume and value December 2016
4. Nielsen, total Czech Republic, total off-trade, total spirits, MAT volume and value December 2016
5. IRI retail sales data, total Italy, total modern trade and discounters and C&C, total spirits, MAT value and volume December 2016

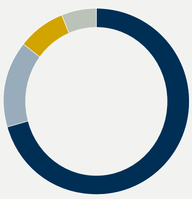
# Overview of Stock Spirits Group

Strategic review

# Our markets

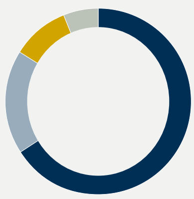
## Existing markets

### Poland



- 70.6% vodka
- 15.1% flavoured vodka and vodka-based liqueurs
- 8.2% whisk(e)y
- 6.1% others

Volume share of total spirits market 2015[1]



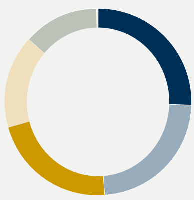
- 66% traditional trade
- 18% discounters
- 10% supermarkets
- 6% hypermarkets

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

**€3.0bn**

2016 total off-trade total spirits retail value[3]

### Czech Republic



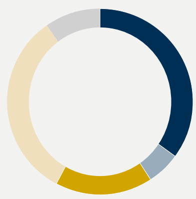
- 25.8% vodka
- 23.4% rum
- 21.6% others
- 16.0% herbal bitters
- 13.3% liqueurs

Volume share of total spirits market 2015[4]

**€0.4bn**

2016 total off-trade total spirits retail value[5]

### Italy



- 35.0% others
- 6.0% lemon liqueurs
- 16.8% brandy
- 32.5% bitters
- 9.6% vodka

Volume share of total spirits market 2015[6]

**€1.2bn**

2016 total off-trade total spirits retail value[7]

1. IWSR total Poland, total off and total on trade, total spirits MAT Volume December 2015
2. Nielsen total Poland, total off trade, total vodka, favoured vodka and vodka based liqueurs MAT Volume December 2016
3. Nielsen total Poland, total off trade, total spirits and spirit based RTD's MAT Value November 2016
4. IWSR total Czech Republic, total off and total on trade, total spirits MAT Volume December 2015
5. Nielsen total Czech Republic, total off trade, total spirits MAT Value December 2016
6. IWSR total Italy, total off trade and on trade, total spirits MAT Value December 2015
7. IRI total Italy, total modern trade, discounters and cash & carries total spirits MAT Value December 2016
8. IWSR 2015 data

Note: A "coverage factor" of 1.18 x has been applied by management to the Nielsen traditional trade data. The coverage factor is derived from the historical difference between IWSR data and Nielsen data. Management considers that IWSR data more accurately represents the traditional trade in Poland.


Liquore di Limoni
Limoncè
Liquore di Limoni
Limoncè

The combination of our aspirational brands, wide range of innovative tastes, breadth of alcohol by volume options and flexible packaging formats mean Stock Spirits is well placed to grow sustainably.



# Spirits market overview

Spirits market performance in Central and Eastern Europe is linked to gradual demographic shifts, fluctuations in local economies with their associated impact on consumer confidence and disposable income, plus changes in the regulatory environment.

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

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

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

### Desire for affordable luxury

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

### Diversification of drinking occasions

The number and variety of drinking occasions in Central and Eastern Europe is changing over time, with a gradual increase in “on the go” and “out of home” drinking occasions accompanying social change.

These evolving drinking occasions are a growing part of consumption routines and are opening up opportunities for different formats and pack sizes. For example, ready to drink products are enabling consumers to replicate out of home drinking experiences in a convenient, practical format on the go or at home. In home drinking is also diversifying with a move from traditional meal associated usage to contemporary needs such as connoisseurship, by choosing higher quality spirits as a reward at the end of the day.

### Increased spirits consumption amongst females and younger adults

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

### Growing confidence in local provenance

Immediately after the collapse of the old regimes in Central and Eastern Europe, there were a limited number of high quality brands of local provenance available, plus a perception that international brands were superior coupled with a historical suspicion of inconsistent quality and counterfeiting. Now that the new economies are

longer established and memories of the old regimes are fading, there is a resurgence of pride in local achievements, provenance and culture and a dawning recognition that local brands can be as good or superior to imported ones. Local spirits remain the vast majority of spirits volume in Central and Eastern Europe and there is a noticeable trend to drink better quality exponents of those local spirits from trusted brands and manufacturers. The fact that many of these markets are "dark" i.e. marketing communications are strictly regulated and limited, makes it difficult for imported brands to steal share through the deployment of heavyweight advertising investment in the fashion often witnessed in other markets. In this context, affordable, high quality local brands with authenticity and provenance are well placed to act as a bridge to the fulfilment of rising consumer aspirations.

### Increasing international mobility

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

### Raised awareness of health and social responsibility

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

### Spirits well placed to grow value sustainably

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

## Stock Spirits' core brands include five "millionaire brands" and leading brands in vodka, flavoured vodka, rum[6], brandy and herbal bitter liqueurs.

Strategic review

# Core Brands

### Żołądkowa De Luxe

Launched in 2008 as a clear vodka "De Luxe" range extension to the well-known Żołądkowa brand. Produced using selected grains, a six-stage distillation process and filtration over natural carbon to ensure an exceptionally smooth, high quality vodka, De Luxe rapidly became popular amongst discerning Polish vodka drinkers.

Żołądkowa De Luxe is the number three brand by volume and value in the Polish vodka market[1], the 11th biggest vodka brand in the world by volume, selling in excess of 36 million equivalent 9 litre cases since its launch in 2008[2] and the biggest-selling vodka by volume in the Stock Spirits portfolio[1].


### Żołądkowa Gorzka

Produced since 1950 to an unchanged recipe, Żołądkowa Gorzka is a traditional Polish vodka-based flavoured liqueur, made using the time honoured practice of infusing herbs in alcohol. Its distinctive aroma and lightly bitter-sweet taste have made it a household name in Poland and one of Stock Spirits' flagship products.

Żołądkowa Gorzka is the third largest brand by volume and value[1], in the flavoured vodka and vodka-based flavoured liqueurs category in Poland and has achieved "millionaire brand" status, selling over one million 9 litre equivalent cases, consistently every year since 2000[2].

### Lubelska

The number two brand by volume and value in the Polish flavoured vodka and vodka-based flavoured liqueurs category[1], with a range of seven flavours and a "Three Grains" clear vodka.

Launched in 2009, Lubelska was developed to meet the growing desire for innovation and novelty and has been a continuous trend-setter in flavour innovation, developing a contemporary range of flavours in a variety of formats which express the colourful, fun and lively personality of the brand.

The brand achieved "millionaire" status within two years of its launch and has achieved sales well in excess of a million equivalent 9 litre cases every year since[2].

### Sources

1. Nielsen, Poland, total off trade, MAT December 2016
2. IWSR 2015
3. Nielsen, Czech Republic, total off trade, MAT December 2016
4. IRI Italy, total off trade, MAT December 2016
5. Nielsen Slovakia, total off trade, MAT December 2016
6. In the Czech Republic, the 'rum' category includes traditional rum, which is a spirit drink made from sugar cane, and what is typically referred to as 'local rum' known as 'Tuzemak' or 'Tuzemsky', which is made from sugar beet. As used in this report, 'rum' refers to both traditional and local rum

## 1906

An outstanding clear vodka made through a process of quadruple distillation and created to honour the 100th anniversary of the opening of our first spirit production plant, Rektyfikacja Lubelska, in the city of Lublin in Poland.

1906 is the second biggest brand by volume and value[1] in the economy sector in Poland[1] and is sold in over twenty countries around the world[2].

## Stock Prestige

A premium luxury vodka, launched in 2009, which combines 130 years of experience of producing top quality spirits with the most recent technological advancements, including a six-step distillation process with additional chilled filtration.

Stock Prestige achieved volume and value growth ahead of the Polish vodka category during 2016, growing its share[1] and regaining "millionaire brand" status[2].

Available in clear, cranberry, lemon, grapefruit and lemon sour flavours. In 2016, the brand introduced an innovative premium sparkling vodka variant to expand its presence in celebratory usage occasions.


## Božkov

Božkov is another of our 'millionaire' brands. The Božkov range includes rum[6], vodka, vodka-based flavoured liqueurs, gin and other flavoured liqueurs such as apple, apricot, cherry and peppermint.

Božkov Tuzemský, a Czech domestic rum, is the best selling member of the Božkov range, being the number one spirits brand by volume and value in the Czech Republic[2].

Božkov Vodka is the number four spirits brand[2] and number one vodka brand by volume and value in the Czech Republic[3].

## Keglevich Clear & Keglevich Flavours

Keglevich Clear Vodka is 100 per cent pure grain vodka produced using an original recipe which, legend has it, derived from its founder, Count Keglevich, in 1882.

With a smooth and balanced taste, Keglevich Clear is the best selling vodka brand by volume in Italy[2] and the number one clear vodka brand by volume and value in the Italian Off Trade[4].

Keglevich is also available in a range of fruit flavoured, vodka-based liqueurs which built brand leadership through their ability to appeal to young adults with unique, new and unexpected flavours.

Keglevich Flavours are the number one brand by volume and value in the Italian vodka-based liqueurs and flavoured vodka category[4].

## Stock Spirits' core brands reflect our commitment to quality and over 130 years of distilling expertise.

Strategic review

# Core Brands continued

### Limoncè

In 1994, Stock Spirits decided to make Limoncè, then a regional Italian lemon liqueur, available nationally.

Bursting with fragrance and flavour and made to a traditional Italian recipe using only lemons from Sicily, Limoncè has since become the best-selling limoncello brand by volume not just in Italy[5] but in the world[2].

Limoncè is available in a range of variants, including: Classic Limoncè, Limoncè Crema and Limoncè Amaro, and is best served ice cold as an after-dinner digestif.

### Golden Ice

Fruit Spirits is the second biggest spirits category in Slovakia[5].

Stock Spirits identified an opportunity to build on its Golden brand's established equity and to grow the category by introducing an innovative "ice" product concept to fruit spirits, inspired by "iced wines" which offer greater sweetness and a fuller flavour, to enhance perceived quality and taste.

Golden Ice Pear, Ice Plum, Ice Apple and Ice Grape offer a new twist on a traditional Slovak recipe and have helped Golden to become the number one brand in fruit spirits, outgrowing the category in both volume and value in 2016[5].


### Stock Brandy Range

Lionello Stock's story began in Trieste in 1884, where he started producing what later became the best-selling brandy of Italian origin in the world – Stock 84 brandy.

Long maturation in oak vats creates an unmistakable character that has been its hallmark for more than 130 years and it is accompanied in the range by Stock Original Brandy and Stock XO.

Stock Brandy is the number one imported brandy by volume in Croatia, Bosnia, Serbia, Slovenia, Montenegro and Macedonia and the second best-selling brandy by volume in Poland and Austria[2] as well as being the second biggest brand by volume and value in its homeland of Italy[4].

### Sources

1. Nielsen, Poland, total off trade, MAT December 2016
2. IWSR 2015
3. Nielsen, Czech Republic, total off trade, MAT December 2016
4. IRI Italy, total off trade, MAT December 2016
5. Nielsen Slovakia, total off trade, MAT December 2016

## Amundsen Expedition

In 2015, Stock Spirits launched a new expression of its Amundsen Vodka brand into the fast growing top-premium vodka segment.

Created to honour the achievement of the famous Amundsen Expedition which set out in 1911 to conquer the South Pole, this new, top-premium vodka celebrates the spirit of adventure and the pristine, primal purity of the South Pole.

Made using crystal clear glacial water, Amundsen Expedition is best served almost frozen, chilled to 0°C, to bring out the extreme purity, exceptional smoothness and a characterful flavour.


## Amundsen

Amundsen is a premium quality vodka made from the finest six-times-distilled grain spirit and purified water that is filtered several times through natural carbon filters to soften the liquid to an ideal level. This complex process results in a crystal purity, fine flavour and neutral aroma.

Amundsen is also available in a range of vodka-based flavoured liqueurs and more recently, it has also become available in Slovakia in a choice of full-strength flavours.

Amundsen Flavours are made from pure, natural ingredients and top-quality, crystal clear vodka. The flavours in the range are not too sweet and they have a natural colour hue and fresh fruit taste.

## Fernet Stock

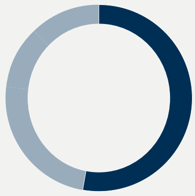
Fernet Stock Original is a classic Czech herbal bitter liqueur, first produced in 1927 and made from a carefully guarded secret recipe based on 14 herbs sourced from across the globe.

Fernet Stock is the best-selling Herbal Bitter brand by volume and value in the Czech Republic[3] and Fernet Stock Citrus, a combination of classic Fernet Stock and citrus fruits, is the best-selling herbal bitter by volume and value in Slovakia[5].

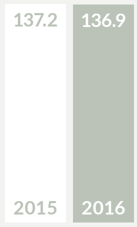
More recently, Fernet Stock has launched in several new, innovative flavours designed to broaden usage amongst current herbal bitters drinkers, to encourage trial amongst new consumers and to secure Fernet Stock's position as the number one herbal bitter brand in the Czech Republic and Slovakia for the future.

With the new management team in place, all the right building blocks are now in place to deliver even more improvements.

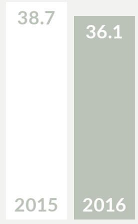
53%
% of Group Net sales revenue



€136.9m
Net sales revenue €m




€36.1m
EBITDA €m




Strategic review – Regional reviews

# Poland

Poland continues to be the Group's largest market in net sales and profit terms and the turnaround of the business performance remains the highest priority for the Group

We have seen considerable change in the Polish competitive environment during 2016, in part driven by changes that we have implemented.

Following a period of well documented market share losses, and full recognition that the pricing of our core brands was uncompetitive, 2016 has seen the business implement the recommendations of the root & branch review, which was documented in our 2015 Annual Report and Accounts.

The vodka market, which has returned to growth in 2016 (+3.2% volume, +3.5% value[1]), has witnessed very aggressive pricing over the last two years driven by competitors, with mainstream clear vodka, the largest part of the market (by volume), being the main target.

The highest priority activity for Stock Spirits was the execution of changes to the pricing architecture for key pack formats by trade channel for each of our core brands, and especially our mainstream clear vodka brands. We commenced the pricing changes at the end of Q1, with further changes implemented in Q2. As a consequence, the impact of the price changes are only visible in the H2 results, both market share and financial performance.

To mitigate the financial impact of the pricing changes the Group reallocated marketing spend, which would otherwise have been directed to a number of planned new product launches, and cost savings were actioned.

The results of the activity so far are positive. Our volume and value market share in H2 grew versus H1, and we grew faster during this period than our two key competitors[2]. In financial terms, our net sales on a constant currency basis grew by 3.9%, in spite of the additional pricing activity. EBITDA, on a constant currency basis, has fallen by 2.9%. On a translated basis net sales were €136.9m and EBITDA was €36.1m.

### Economic & regulatory environment

There have been a number of changes introduced by the Government which have played a role in stimulating changes to consumer spending patterns, including in the vodka market and, in line with emerging trends in other markets, this has accelerated consumers' desire for affordable luxury products, resulting in consumers trading up to more premium products.

During the year, the Government set out plans to introduce a retail tax, which was introduced in September 2016, but then immediately had to be withdrawn as a result of EU intervention. The Polish Government is expected to issue an amended plan in 2017.

### Management changes

At the half year, we announced changes in our local management team in Poland. All the major roles have seen new appointments in the year:

- Marek Sypek was appointed as Managing Director of Poland in June 2016. With a proven track record in FMCG both in blue chip companies and in Private Equity backed businesses, he joined us from Agros-Nova Holding where he was CEO
- Piotr Dziarski, Sales Director was appointed in June 2016 and is responsible for sales in traditional and modern trade channels. He has 25 years of experience in the FMCG industry
- Bradley Holder was appointed Finance Director in February 2016. He has over 20 years of consumer goods experience in Eastern Europe, with The Coca-Cola Company and previously in PepsiCo
- Jagoda Palider was appointed as HR Director in October 2016, with 20 years of broad, multi-sector experience as a HR Director both in Poland and internationally.

**#2**
Stock Spirits is number two in the market with 25.3%[1] market share

**4th**
Poland is the fourth[7] largest vodka market in the world by value

**85.7%**
Vodka, flavoured vodka and vodka-based liqueurs account for 85.7%[7] of the spirits market

## Core brands

As discussed earlier, we invested resources to reduce the prices of our core brands, to remain relevant to consumers in such a highly competitive environment. We have managed, with our wholesaler partners, to carefully narrow the on-shelf price gap in the traditional trade for Żołądkowa de Luxe by an average of 5%[8] to our nearest competitors over the year to December 2016. More competitive pricing on our other core brands has assisted us in growing faster since June 2016 than any of our other competitors in the total vodka market[1].

Furthermore, we recorded growth across the year in the important price segments. In premium vodka, Stock Prestige recorded volume growth of 8.4% and 6.6% in value[5]. In top-premium vodka, a segment in strong growth, Amundsen Expedition grew in excess of 100% in both volume and value although from a small base[6].

By the end of December 2016 we had managed to grow our market share by 1.2% in volume and 1.0% in value, since the end of June 2016[2]. Whilst our market shares ended the year slightly lower than the end of 2015, we are satisfied with the progress we have made in H2 and believe this confirms that the actions we have taken are starting to work.

## Root and branch review

In addition to the progress highlighted in the CEO report, more specific actions have been executed in the following areas, since the end of June:

- We have increased the number of regional sales teams from three to four, to provide more focused coverage of the market
- We have replaced all of the regional sales managers with experienced sales professionals including the National Sales Director, four regional Sales Directors and the National Key Account Manager
- A significant proportion of the sales force have been replaced. This change has taken time and, during H2, meant that we operated with a number of vacancies
- We have brought category management in-house. In a dark market such as Poland, this is a key activity that needs to be under our full control
- We recruited our own in house team for business analytics, to ensure we can analyse market data more expediently
- A new incentive program has been rolled out across the sales force to better align sales performance with top line business performance
- The steps for our sales calls have been fundamentally changed to improve the time the sales person spends with a customer
- Routing of sales calls has also been changed. This has improved the efficiency of the sales person and has led to a natural increase in the number of calls the sales person can complete in a day and thereby increased coverage of the distribution base
- We commenced the implementation of a new sales force automation (SFA) tool which will help transfer orders from stores to wholesalers and assist with monitoring product rotation and promotional activities. This will be fully implemented during H1 2017
- We established a sales academy to provide high quality in-house training for our sales people
- We terminated contracts with a number of external consultants, with the savings reinvested in our own in-house category management and business analytics teams.

There is still more work to undertake on the root and branch review findings, but significant progress has been made in 2016. The benefits of the changes introduced in 2016 will manifest in 2017 and beyond, and still further opportunity exists with completion of the remaining findings.

Strategic review – Regional reviews

# Poland continued

## NPD

As discussed in the CEO Report, we reduced the number of new product launches in 2016. Our new product activity has changed focus and will concentrate on development of core brands and premiumisation opportunities. Aligned to our change of focus for NPD we launched Żołądkowa de Luxe Pepper (launched in early 2016) to support our primary mainstream clear vodka brand, and we refreshed the packaging of our flavoured vodka Lubelska brand.

In May we were delighted to announce that Amundsen Expedition was awarded three Golden Stars by the International Taste & Quality Institute (iTQi). As this accolade is only given to products deemed as 'exceptional' by the judging panel, this is a great testament to the skills and dedication of our team.

The early success of the Saska brand, a new flavoured vodka brand we launched in 2015, was halted following a legal issue. This has now been resolved and sales of Saska have been resumed in 2017.

The new NPD process, together with the rationalisation of the number of products we sell and the improvements to the supply chain and production processes, will deliver real benefit to the Poland business. The impact of the changes we have made has resulted in one off inventory provisions, and more detail is given in the financial review on pages 43 to 47.

## Distribution brands

In July, we introduced a new distribution partner to the business, Synergy from Russia, and now distribute the ultra-premium Beluga vodka.

One of the fastest growing segments of the vodka market is ultra-premium, recording 9.5% volume and value growth[3] in 2016. We are delighted that the early performance of Beluga has shown growth in excess of the segment growth, with volume growth of 46.0% and value growth of 53.5%[3]. We also renewed our on-going contractual relationship with Beam Suntory in Poland during the year, building on the partnership fostered between the parties since 2014.

We have continued to grow our share of the whiskey category, with the Beam Suntory portfolio, and against a category growth of 15.3% in volume terms and 13.3% value, Beam Suntory has grown by 25.7% in volume and 27.8% in value[4].

The continued use of agency partners adds weight to our premium portfolio and a great platform on which to launch our own premium brands.

## Future outlook

In the last quarter of 2016, both of our major competitors announced changes to their organisations. Significant financial difficulties resulted in the announcement of a chapter 11 bankruptcy process and financial restructuring for Roust Inc.

Marie Brizard Wines and Spirits (MBWS) announced their decision to move distribution of all their brands in the Traditional Trade channel to Eurocash, a large wholesaler and retailer with effect from 2017.

Both of these changes will impact the competitive environment but it is still too early to assess what the impact will be. We expect this to be more visible in the second half of 2017 as the structural changes for both companies will take time to embed.

2016 has been a year of significant change in our Polish business. Given the steps taken, and the early positive results yielded so far, we believe that as the benefits of the changes delivered so far are optimised, and further actions are implemented, there is cause for more confidence in our ability to meet the objective to turn around the performance in this key market.

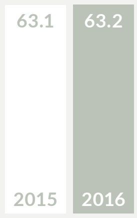
1. Nielsen December 2016 MAT total Polish vodka category
2. Nielsen December 2016 YTD H1 vs H2 2016 total Polish vodka category
3. Nielsen December 2016 MAT total Polish ultra-premium vodka category
4. Nielsen December 2016 MAT total Polish whisk(e)y category
5. Nielsen December 2016 MAT total Polish premium vodka category, Stock Prestige Regular
6. Nielsen December 2016 MAT total Polish top-premium vodka category
7. IWSR 2015
8. Nielsen December 2016 vs December 2015 small format Polish vodka 50cl pack size


CZYSTY SMAK
NATURY
LUBELSKA
BIAŁA
TRZY ZBOŻA
WÓDKA
Tajemnicą receptury wódki Lubelska Trzy Zboża jest staranny dobór trzech rodzajów zbóż, których charaktery wzajemnie się przenikają, tworząc niepowtarzalny oryginalny smak.
40% obj.
500 ml
NIEPOWTARZALNY SMAK
STARANNIE DOBRANE
TRZY RODZAJE ZBÓŻ
ORYGINALNA WÓDKA CZYSTA
NOWE OPAKOWANIE
WWW.LUBELSKA.PL
WWW.PIJODPOWIEDZIALNIE.PL
INFORMACJA HANDLOWA

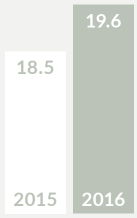
In October 2016 we completed our first M&A transaction, post IPO, in Czech.

24%
% of Group Net sales revenue

€63.2m
Net sales revenue €m




€19.6m
EBITDA €m






# Czech Republic

The Czech Republic continues to be the second largest market for the Group in terms of profit and continues to hold its market leadership position in the overall spirits category and in our key categories of rum[1], vodka and herbal bitter liqueurs.

The overall market saw growth in volume and value terms, however, our Czech business saw a marginal decline in share at 34.2% and 32.1%[2] in volume and value respectively. This was driven by changes to the architecture of our Božkov rum brands which is discussed later.

However, our financial results show year on year growth, as we managed the volume decline with improved pricing and more premium sales mix. Net sales rose slightly to €63.2m and EBITDA rose by €1.1m to €19.6m.

With the first year results after the appointment of Jan Havlis, the new Managing Director and Petr Kasa as Finance Director in the market, it is pleasing to see growth in EBITDA for the period.

### Core brands

As stated in the CEO Report on pages 9 to 15, our Božkov rum brand, which commands 54%[2] market share in its category, saw strong price competition in the marketplace. In order to premiumise the brand and halt the commoditisation of the category, we introduced a new brand variant called Božkov Tradicini. This overall change in brand architecture has resulted in some volume decline, this has been more than offset by an increase in brand value and profitability. Having embedded this change, this has strengthened the brand equity and now positions us for profitable market share growth going forwards.

The introduction of new variants of pear and mint to the Fernet range in prior years continue to deliver incremental volumes, margin and increased share in the category. We also continue to increase our share of vodka with Amundsen and our presence in the vodka category will be enhanced by the acquisition made in the year, as described below.

### M&A

In October 2016, we completed our first M&A transaction post IPO of the Group; the Czech business undertook a €5m acquisition of the spirits business, comprising Pražská and Nordic Ice vodkas and Dynybyl gin from Bohemia Sekt. This acquisition was in line with our stated objective of adding ‘bolt-on’ acquisitions in to markets where we currently have size and strength. The brands had been part of a wider wine based portfolio with the previous owners, who stated that they were divesting of the brands to concentrate on wine. The natural fit for the brands is within a strong spirits portfolio, and they broadened Stock Spirits’ vodka offering where we needed a broader portfolio to offer the trade and to access the growing vodka category, while introducing a new category in terms of gin. In the short term, all synergies delivered from these brands will be reinvested behind the brands to improve their appeal to the consumer and improve packaging and liquid quality. Consequently, the contribution from these brands will not be material in the short term.

### NPD

We have taken the time to embed the prior year new product launches with our portfolio so there has been less NPD in the market during 2016 than in prior years. This is in part due to Group funds being reallocated to support pricing initiatives in Poland.

In line with more focused new product launches targeted around core brands and premiumisation, we launched Božkov white rum to complement our existing rum portfolio and to extend our reach into this growing category.

### Distribution brands

The Diageo portfolio continues to develop under our management, Johnnie Walker has shown value growth double that of the category[2] in the year and Captain Morgan continues to lead the premium segment of the rum category. We were pleased to receive in an award during the year in the Event Management category for the Captain Morgan Mobile Bar created by our marketing team.

**2nd**
Czech Republic is the second largest market for the Group

**#1**
Stock Spirits has market leadership[2] positions in all the main categories

**65%**
Vodka, vodka based liqueurs, herbal bitters and rum[1] account for approximately 65%[3] of the total Czech Republic spirits sales by volume

Johnnie Walker continues to grow both volume and value share in the market place and it is pleasing to see that the volume growth is second only to the market leader in the category. The overall whisk(e)y category in the market continues to be very attractive, with growth in volume and value at 9.5% and 9.4% respectively, significantly above the average for the total market[2].

### Regulatory changes

The smoking ban in all on trade outlets e.g. restaurants, bars and pubs, which was due to come into force in 2016, has been delayed until June 2017. We still anticipate two impacts from this: the closure of some small outlets and a change from on trade to home consumption which will switch sales from our wholesalers to the supermarkets, and may have a small margin impact.

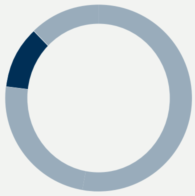
The compulsory introduction of electronic cash machines in retail outlets was implemented in December 2016, so there has been minimal impact to the results for the period, although we expect there will be more of an impact in 2017. Together with the smoking ban, this will put more pressure on smaller outlets and it is anticipated that some will close. We also expect price rises in the on trade which, again, may drive sales to the off trade.

We will continue to monitor the effects of these changes and mitigate the risks as far as is possible.

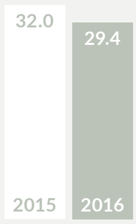

Acquired brands

1. In the Czech Republic the 'rum' category of the spirits market includes traditional rum, which is a spirit drink made from sugar cane, and what is widely referred to as 'local rum', known as 'Tuzemak' or 'Tuzemsky', which is made from sugar beet. As used in this Report, 'rum' refers to both traditional and local rum, while 'Czech rum' refers to local rum
2. Nielsen MAT to December 2016 total Czech off-Trade
3. IWSR 2015

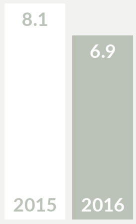
11%
% of Group Net sales revenue



€29.4m
Net sales revenue €m




€6.9m
EBITDA €m




Strategic review – Regional reviews

# Italy

Italy is our third market in terms of turnover and profit. It also remains highly fragmented from a supply perspective, with many small producers and a lack of consolidation which has been witnessed in other Western European markets. The Italian market as a whole continues to be a tough market in which to operate and, with continuing issues in the country's banking sector and the recent resignation of the President, the market is expected to remain depressed in the short term.

Young adult unemployment remains high at 40%[1] and within certain categories in the spirits market, their change in consumption habits is having an impact, particularly in night clubs and other on-trade outlets. However, there is an increase in premium and craft products, reflecting similar trends sweeping through other markets.

The spirits market has grown marginally in volume by 0.7% in 2016 and value by 2.3%; many categories are in decline, but the market has experienced growth in whisky, gin and aperitivi[2].

Our Italian business retains leading positions in the categories in which it operates with its own brands.

We have had successes in brandy after brand building activities in the last few years, Stock 84, (number two in the brandy category), has grown volume by 6.1%[3], whilst the overall category declined by 1.9%. Limoncé has also outperformed the category with 1.9% growth in volume and 6.6% in terms of value[3].

Keglevich, as a younger adult drink, has suffered from the change in consumer habits. It has seen a decline of 7.9%, versus an overall category decline of 9.6%[3]. During the year, we undertook qualitative research to develop strategies to arrest the decline and are currently evaluating our portfolio options.

To access the growth in premium, Amundsen Expedition was launched in the on-trade during the year at a price point above Keglevich Dry, with initial positive trade feedback. Also, we signed a distribution agreement with Distell to gain a foothold in the growing whisky category as well as an agreement to distribute the premium Spanish gin, Nordés.

With the contraction of Keglevich volumes, reported EBITDA is down 14.9% on the prior year at €6.9m.

We continue to challenge ourselves in ensuring our overheads are well controlled and optimised. At the half year results, we announced that we had appointed a new logistics provider for this market. The transfer to this new provider took place on 1 January 2017 and is expected to generate significant savings in our transport costs. In order to facilitate the transition, a new electronic data interchange (EDI) solution was implemented with the new logistics provider, enabling the swift transfer of data between the parties. The transition required a temporary additional excise duty guarantee to move duty bonded inventory from the old to the new provider. This is discussed in more detail in the Finance Section of this report on pages 43 to 47.

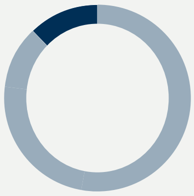
During the year, the team successfully implemented a new sales force customer relationship management (CRM) tool, allowing better control and visibility of sales visits and negotiations with customers. This will improve flexibility and control over promotions and pricing offered to the trade, and improved analytics for management.

### Duty and VAT increases

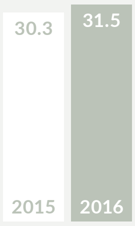
It was reported last year that there was a potential VAT increase to 24% planned for 1 January 2017. In December 2016, the Italian Government postponed this increase until 2018.

1. IWSR Country Report 2016
2. IRI total Italy, all channels total spirits MAT December 2016
3. IRI total Italy, total off-trade, MAT December 2016

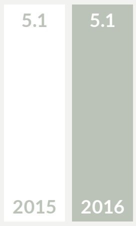
12%
% of Group Net sales revenue



€31.5m
Net sales revenue €m




€5.1m
EBITDA €m




Strategic review – Regional reviews

# Other

The regional report for "Other" markets includes Slovakia, Bosnia, Croatia, our export activities and our distillery in the Baltic region.

In 2016, we delivered an increase in net sales revenue to €31.5m while EBITDA remained flat at €5.1m. Our businesses in both Slovakia and International exports have delivered year on year growth. However our Baltic Distillery has incurred a higher level of maintenance spend, resulting in no overall growth for this reported segment.

In Slovakia, the total company has grown volume and value ahead of the spirits market during the year[1]. This has been achieved by focusing on the growing category of vodka and investing in Amundsen and Amundsen Expedition, which has generated incremental volume and extended the premium portfolio.

Recent innovations with new variants of Golden Ice, our fruit based spirit brand, have yielded positive growth.

At the economy end of vodka, our Polish 1906 brand has been generating traction in Slovakia versus competitor brands, with a volume increase of 5.5%, well above the category growth rate of 1.7%[2].

We have also completed a distribution agreement with Distell in Slovakia, adding more weight to the premium portfolio and the particularly attractive whisk(e)y market which shows growth of 4.3%[1].

We have continued to grow our International and export business. With the successful integration of the Beam Suntory portfolio in Bosnia and Croatia in 2015, this has provided a platform for the successful launch of Amundsen Expedition in these markets.

In early 2017 we undertook a reorganisation of our route to market in the UK. During Q2 2017, Distell UK will commence distribution of our products in the UK.

We are delighted with this change which will position our spirits brands as part of an established portfolio and assist their development.

1. Nielsen MAT to end December 2016, Slovakia, total spirits, total off-trade
2. Nielsen MAT to end December 2016, Slovakia, total vodka, total off-trade

Strategic review

# Operations

We believe that our efficient and low cost flexible supply chain and facilities continue to be an area of competitive strength and we maintained investment in this area. During 2016, we commissioned our new high speed bottling line in Poland. This strategic investment enables greater bottling and packaging flexibility, in addition to the capability to produce a wider range of value added products, and complements our 2014/15 investment in liquid production and storage capability, whilst increasing flexibility to deliver and the future growth potential in our product portfolio.

Our investment in facilities and infrastructure continued, including further improvements in our fire, health and safety systems. We also continued our investment in the capability of people, in the form of focused training, resulting in low staff rotation, greater flexibility, enhanced ways of working and improved productivity.

We have commenced a detailed review of our supply chain, procurement and production processes. Overall efficiency and productivity levels have improved in all locations, resulting in to a lower level of inventories at the year end.

Our production base is now well invested and future investment in this area will be focused around maintenance and regulatory requirements.

In January 2017, we transferred the logistics and customer service functions from the central Group team to the local market teams. This decentralisation is expected to improve speed and enhance relationships with customers.

Within logistics, we implemented a fully integrated warehouse management system in Lublin, Poland at the new warehouse which was built and leased in 2015. This was also part of the wider project of enhancing our controls and processes to improve inventory and working capital management. Another aspect of this wider project was the SKU rationalisation project, referred to earlier in this report, resulting in the removal of products from both our production plants in Lublin and Plzeň.

We also invested in our technology platform, moving onto a single group-wide network and with the implementation of new firewalls, standards and controls to improve our resilience to cyber security risk and enable the Group to achieve the UK Government Cyber Essentials Scheme certification.

We have initiated a roll-out across the Group of a sales and operations planning process based on the Future Master IT tool. This aims to improve demand planning accuracy, reduce finished goods stock and decrease obsolete stock. The planning organisation was restructured to reflect the increased importance of the role in the Group.

Development of our business applications continued across the IT landscape, with the most significant changes delivered in Poland and Italy. In Poland the automation of our Customs registers was completed. In Italy our change in logistics partner required a full EDI implementation, in parallel with the development the new sales force CRM tool that was launched in January 2017. This will be rolled out to other markets in the future, starting with Poland in 2017.

Going forwards, capital spend will be directed towards improving our IT platforms to help support and drive our commercial capabilities.

We continue to support our people through training and development, so that they can both grow professionally and meet the evolving challenges of our industry.

Strategic review

# Our People

### Overview

Our people remain a core strength to the Group and they have continued to show energy and support during another challenging year.

In August 2016, following a period as Interim CEO, Miroslaw Stachowicz was formally appointed as CEO to replace Chris Heath, who retired from the business. As we reported in our half year results announcement, we have closed our Swiss operation with our COO, Ian Croxford, leaving the business. The structure of the rest of the Group remains largely unchanged from 2015, employing 876 people across our markets and in our Group Head Office. During 2016, we continued to invest in standards and competencies, particularly in the Commercial and Sales area and in Operations, and we have developed a sales academy in Poland. The academy has 13 modules and there are two training days per module. Modules 1 and 2 were completed in 2016 by over 200 sales employees. The training is aimed at providing insight into target consumers and selling techniques to support our brands.

In Operations, the Stock Academy in Lublin continues to deliver further training in technical, health and safety, communication skills and other training requirements. As in previous years, English language courses continue to be very popular amongst the workforce, with 20 employees attending English language courses during 2016.

### Recruitment

As mentioned, a key focus for the business during 2016 was the recruitment of a number of new Senior Management positions, particularly in Poland. This activity has taken time to select the right candidates with the skills to move the business to its next stage of development.

The new members of the Senior Team have a strong FMCG background, local market expertise and substantial experience at senior levels in blue-chip organisations. Their depth of experience and commercial skills will assist in leading the business forward.

### 'One Stock'

'One Stock' is our programme of cultural and organisational change to support the Group's strategy and help to integrate the business further in 2017. The programme aims to roll out, across the Group, best practice in internal communication, employee engagement, leadership development, succession planning and development of core capabilities by function.

Together with a full management team, a new leadership framework and academy is being piloted in the Czech Republic before it is rolled out to the rest of the Group.

### Awards

In June, Stock Polska, was recognised as one of the best foreign employers in Poland by the All-Poland Alliance of Trade Unions. Not only was this a great achievement for the team at Stock Polska, but it was also an industry first for the award, which has historically only been presented to government representatives and never to a business. Stock Polska was also awarded a special prize for establishing safe and proper work conditions.

Strategic review

# Corporate responsibility

## Business and ethics

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

The Group has a Speak-Up hotline available in all countries where the Group has operations. The Speak-Up line was upgraded in 2016 and can be used by any employee in the Group or by third parties and allows them to report any incidents or inappropriate behaviours in their own language. The confidentiality of the information reported is correctly protected. The Group has also carried out full refreshment training on the basic principles of our Code as well as the Speak-Up line, so it is well known and, in the case of the Speak-Up line, can be used, as needed, by any employee in the organisation.

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

## Alcohol and society

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

### Czech Republic and Slovakia

Our companies in these markets are founding members of "Fórum PSR", which brings together the countries' major spirits producers and distributors to work against alcohol abuse. The forum focuses primarily on preventive and educational projects targeting the serving of alcohol to minors, drink-driving and excessive drinking. Additionally, we are actively introducing the 'PSR, (drink responsibly)' platform within our media, in-store and other brand communication. Forum members have also pledged to observe a code of conduct that strictly regulates their advertising activities. Stock Spirits Group is a member of the Spirits Trade Association in the Czech Republic. This Association was active during 2016 in supporting the local government in its ongoing efforts to implement a strong regulatory environment in the spirits industry.

### Poland

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

### Italy

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

## Environment

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

### Poland

During 2016, we continued our environmental and safety awareness campaigns in our main factory in Lublin, using

**Stock Spirits Group considers that having good corporate governance is an essential element of achieving our overall objectives and acting as a responsible organisation.**

mascots named "Sztokus" and "Sztosia". The aim of the campaign is to raise the eco-awareness of Stock personnel and employees of external partners and to reduce our environmental impact as a business and to promote a series of specific health and safety initiatives.

The campaign is carried out at several levels:

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

In 2016, the amount of waste we produced increased by 40%, driven by the write-off of obsolete packaging materials following the product range review referred to in the financial review section of this annual report and accounts. Excluding the effect of that write-off, our waste decreased by 6% and we were able to recycle 98% of the waste we produced on site. Electricity increased by 17%, due to a full year of operation of our new warehouse compared to a part year in 2015. We reduced gas usage by 51% due to less alcohol rectification in Lublin and reduced water by 7% compared to last year due to increased training, focus and more accurate monitoring.

### Czech Republic

In 2016, employees received training in waste reduction, improving recycling efficiency and chemical management processes. Following the success of our "Sztokus" and "Sztosia" campaigns in Poland, we introduced local equivalents – Štokácek and Štokinka – as part of our environmental and safety campaigns in the Czech Republic during 2016. Štokácek and Štokinka are the carrier mascots for these campaigns which are intended to raise awareness and are part of a continued drive towards health and safety and environmental excellence at Stock Spirits. These initiatives continue to help drive our safety and environment improvement culture.

## Workplace

We continue to support our people through training and development, so that they can both grow professionally, and meet the evolving challenges of our industry.

## Diversity

The success of a business depends on its people, therefore we are committed to providing every employee and potential employee with equal opportunity in all areas of employment. The Group recognises the communities in which it operates and the benefits of having a diverse workforce at all levels. The Group takes its responsibilities with regard to equality and diversity seriously and expects all employees to observe this also.

The Senior Management Teams in our markets comprise predominately of local nationals who understand the cultures in which we operate. We have a recruitment policy to ensure that we recruit high calibre individuals matched to the requirements of the role we wish them to undertake, irrespective of gender, age, race, religion, sexual orientation, national origin or disability. As a consumer-focused business, we recognise the value that a diverse mix of employees provides us with, particularly in terms of consumer insights.

As an example of our diversity, at 31 December 2016 we had a diverse mix of age with 18% under 30 (14% in Poland and 22% in Plzeň) and 15% over 50 years old (13% in Plzeň and 17% in Poland), and in the bottling area most of the shift leader are women (3 out of 3 in Plzeň and 3 out of 4 in Poland). In our production plant in Czech Republic 61% of the managerial positions are held by women.

As at 31 December 2016, at Board level, 88% (7 out of 8) Directors are male, while at Senior Management level 67% (6 out of 9) are male and across the Group 58% (539 out of 934) of all employees are male.

## Human rights

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


FERNET
HERBAL LIQUEUR
FERNET
Herbal
LIQUEUR
Original recipe, made from a blend of 30 carefully selected herbs, unites genuine bitter flavours and deep natural aromas.
1,0 L
32%VOL
NEW
Herbs never felt so good

Strategic review

# Financial review

- Net sales revenue of €261.0m versus €262.6m in 2015
- Operating profit of €40.1m, a decrease of 3.8% from 2015
- Net finance costs of €1.0m, a decrease of €9.3m
- Profit for the year €28.4m versus €19.4m in 2015
- Closing leverage at the end of December 2016 1.16 (2015: 1.07)
- Diluted EPS of 14 €cents per share (2015: 9 €cents per share).

2016 has been a challenging year for the Group with highly competitive trading conditions continuing in Poland, management changes and an array of commercial initiatives and restructuring activities. The financial results show profit for the year of €28.4m and reflect continuing strong cash flow delivery.

Following the root and branch review in Poland, we recognised the need to initiate a number of activities, pricing on core brands was a key activity. At the interim results we stated that we had implemented changes across a number of core brands to bring pricing closer in line with major competitors, and this had limited impact in the first half but would impact the second half financial performance.

To help offset the negative impact of the pricing changes, and given the significant number of new product launches in 2015, new product activity was reduced in 2016 versus our original plans, with greater focus around core brand activity. Funds that had been planned for some of the 2016 new product launches were reallocated to support the Polish pricing activity.

Following the change of CEO, the Group undertook a major review of its cost base and implemented a number of cost savings, which further helped to offset the pricing impact in Poland. This included the closure of the Swiss office, and the termination of the COO role, in addition to an array of other cost saving initiatives as outlined in the CEO statement.

The business delivered higher volumes in 2016, against the backdrop of a very poor Q1 in 2015, and following the pricing initiatives implemented in Poland in 2016, volumes grew 4.9% in 2016. Net sales revenue of €261.0m has declined by €1.6m versus 2015 in spite of higher volumes sold. This is due to the investment in pricing in Poland, particularly impacting the second half of the year and translation effect of foreign exchange (primarily devaluation of the Polish Złoty) which alone reduced net sales revenue by €4.8m, versus 2015. On a constant currency basis net sales revenue has grown by 1.2%.

In the second half of the year the business undertook a full product range review and took the decision to cease production of our under-performing products. During 2017, the eliminated products will have less than 1% impact on gross margin but will significantly improve forecasting, planning and inventory management. This has contributed to additional inventory provisions at the year end, which have been recorded within cost of goods sold (see note 19 of the accounts for further information). Further, changes were made to production and planning processes with a greater focus on inventory efficiency. After accounting for the inventory provisions, cost of goods per case was broadly in line with 2015.

Selling costs show a decrease versus 2015 due to the reallocation of funds in respect of new product launches with reinvestment in pricing in Poland, as explained earlier.


The Group made a small acquisition in the second half of the year financed from existing cash.



# Financial review continued

Likewise, other operating expenses reflect a decrease versus the prior year, whilst at the same time including a number of costs that have been incurred to undertake restructuring measures and change of management. These costs relate to items which we expect to be of a non-recurring or exceptional nature, and have not been shown as either exceptional or non-recurring:

- Redundancy costs of the COO and closure of the Swiss office – net cost of €1.1m
- Recruitment costs of the new CEO, Polish Managing Director and new Board members, higher than expected costs for the 2015 AGM, pay in lieu of notice costs of the former CEO and other restructuring costs – net cost of €2.0m.

The Group re-tendered a number of professional services, resulting in change, aimed at either reducing cost or improving the quality of service (or both). This activity has delivered tangible savings in 2016 and we expect further benefits to be delivered during 2017.

The Group did not make any performance share plan awards in 2016. Furthermore, the Group wrote back a provision relating to share options vesting at the time of the IPO and the full cost of the EPS element of the 2015 performance share plan awards, has the effect of €1.6m. The latter adjustment was made in line with the provisions of IFRS 2 and certainty that the performance conditions, set at the time of the award, will not be achieved. The Remuneration Committee have disclosed the awards being proposed to Executive Directors for 2017.

Operating profit has decreased to €40.1m from €41.7m in 2015. If the net impact of the one-off costs (€1.5m net cost) are taken into consideration then operating profit was largely unchanged from last year. Reported profit, for the year has increased from €19.4m to €28.4m.

For internal purposes the Group uses EBITDA to measure the performance of the business. The adjusted EBITDA for the Group for the full year 2016 is €51.5m (2015: €53.7m) after taking into consideration €0.5m of positive foreign exchange impact versus 2015. The devaluation of GB Pound more than offsets the negative impact of the devaluation of the Polish Złoty on the Group results. Details of these adjustments are contained within note 7 to the accounts.

The Group's primary trading markets are in Central and Eastern Europe, with the Head Office in the UK and a small percentage of trading within the UK. Currently, the Group does not expect any material impact on the outcome of the exit of the UK from the European Union. This will continue to be monitored in line with all primary risks that the Group faces.

### Non-recurring and exceptional costs

In 2016 there have been no exceptional costs, and non-recurring costs of €0.2m are associated with the impairment of fixed assets. Non-recurring expenses in 2015 were also incurred on the impairment of fixed assets.

The reported EBITDA has been adjusted to remove the impact of these costs and a reconciliation is shown in note 7 to the accounts.

### Finance income and expense and taxation

Finance income of €1.7m (2015: €2.4m) shows a decrease from last year due to a lower gain on foreign exchange of €1.5m (2015: €2.0m) which has arisen on intercompany loans and the impact from the devaluation of the currencies these loans are denominated in. These loans have now been fully discharged.

As commented in last year's report, the Group refinanced its bank facilities in November 2015 and negotiated a new facility. This has resulted in significantly lower finance costs to the Group of €1.0m (2015: €10.3m). In 2015 unamortised bank charges relating to the previous facility accounted for €4.3m of the prior year finance expense, and by its nature this cost has not recurred in 2016.

Our tax charge, as detailed in note 13 of the accounts, reflects a number of factors: the current year tax expense, provisions for prior year tax expense and the amortisation


of a deferred tax asset (created following corporate restructuring at the time of the IPO in 2013).

The current year tax expense of €6.6m, shows an increase from 2015 (€5.9m) primarily due to higher taxable profits. In reaching the calculation of current year tax expense the Group includes an amount of Group expenses which are not tax deductible, and based upon the belief that these expenses will never be considered tax deductible, do not recognise any deferred tax asset on this tax loss. This treatment is consistent with 2015 for these expense type items.

In 2016 there has been no further increase in the provisions that the Group carries in respect of outstanding and potential tax risks arising from open tax audits and investigations. We believe that the level of provision already held for tax investigations and assessments is adequate, given the level of risk we face. The most significant risks continue to relate to our Italian business and further information is provided in note 13 of the accounts. Resolution of the outstanding tax investigations and assessments in Italy is taking considerable time, where our tax affairs have not been closed since 2005. The process is proving to be both lengthy and costly, and we expect will take further time to complete.

In the Czech Republic we have received a tax assessment for €1m in respect of the tax year 2011, and are defending the company's position as we do not believe the grounds for the assessment are valid. No provision has been made in respect of this assessment. In line with normal process, we have received a notification in Poland by the tax authorities of a standard enquiry relating to the tax year 2013. This enquiry remains open and no assessment has been received.

The deferred tax asset will continue to be amortised through the profit and loss account, however it should be noted that we do not expect to benefit from any continuing deduction for tax payments beyond 2017 for the restructuring undertaken in Poland at the time of the IPO in respect of intellectual property amortisation.

### Cash flow

We have again reported very strong cash flow during the year. The changes to the production process, and termination of a number of products, as discussed earlier, have resulted in improving the efficiency of our inventory and reduced working capital. Together with reduced finance expenses, we have generated adjusted net free cash flow of €48.3m (2015: €46.9m) and a free cash flow conversion of 93.8% (2015: 87.2%).

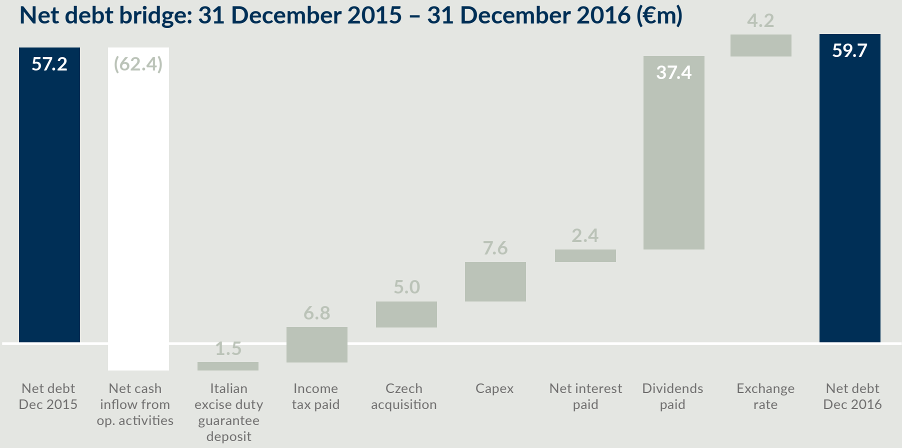
The Group made a small acquisition in the second half of the year acquiring the spirits business of Bohemia Sekt in the Czech Republic. The acquisition cost was €5m plus costs, and was financed from existing cash.

The Group has not undertaken any material M&A activity in 2016 and as committed to shareholders in June 2016, will return 100% of adjusted net free cash flow generated in 2016 as dividends. Accordingly the Group announced and paid a special dividend of 11.9 €cents per share, followed by the normal interim dividend. As a consequence the Group paid out dividends during the year of 4.55 €cents per share as a final dividend in respect of financial year 2015, the special dividend of 11.9 €cents per share and an interim dividend of 2.27 €cents per share in respect of the financial year 2016. Total dividends paid in 2016 were 18.72 €cents.

### Working capital

The Group is subject to material movements in working capital through seasonal trends and the timing of sales during the month of December. The key influence is the payment of excise duty in Poland which is remitted to the tax authorities 25 days after despatch. As a consequence, the excise duty on sales made in the first week of December will be paid by the year end, whereas the receivable balance will continue to reflect the duty and VAT collectible from the customer. This can cause significant movements in the closing year end working capital. For the year end December 2016, trading in the first week of December was consistent with the prior year and the movement in working capital was not impacted by the timing of sales.

Net debt bridge: 31 December 2015 – 31 December 2016 (€m)




**Net debt bridge (€m)**
The bridge summarises the key movements in net debt during the period ending December 2016.

Strategic review

# Financial review continued

As already stated, activity has been undertaken to improve the efficiency of inventory, with a reduction in the product range and changes to production and planning processes. This has delivered a significant improvement to the level of inventory the Group held at the year end, with inventory recording a €6m reduction versus 2015.

The Groups focus upon cash generation will continue to review opportunities to improve the efficiency of working capital across the Group.

### Net debt and financing

In November 2015 the Group concluded the arrangement of a new bank facility comprising of a multi-currency, unsecured, €200m revolving credit facility (RCF). The former facility was repaid in full. The RCF provides the Group with increased flexibility allowing us to amend our levels of debt according to the seasonality of cash flow. The RCF carries lower margins which has significantly benefited our financial performance in 2016 and will continue to do so in future years. As shown in note 30 to the accounts, if the net debt were to remain unchanged from the year end throughout 2017, the interest charge would be €1.9m. Further details of the RCF are provided in note 23 of the accounts. The Group has retained the factoring facility and in line with last year, is permitted to draw up to €50m.

Net debt has been impacted by €1.5m of temporary additional excise duty guarantees to support the transfer of duty bonded goods to a new logistics provider in Italy. The change of provider follows a tender process and secures cost savings in 2017. The transfer of goods has now been fully completed and documentation has been submitted to the tax authorities for the repayment of the additional excise duty guarantee deposit.

The strong cash flow during the year resulted in net debt of €59.7m at the end of December 2016, a slight increase (after taking into consideration the small brand acquisition and the additional temporary excise duty guarantee deposit) from €57.2m in 2015, and leverage of 1.16x from 1.07x in 2015.

See net debt bridge chart above.

There remains sufficient headroom within the current bank facilities to support our strategy going forwards, as we retain headroom within the new RCF and in addition to the factoring facility of €50m.

All debt continues to be drawn in local currency to provide flexibility in facilities and a natural hedge for cash flow and balance sheet protection.

### Debt maturity profile

No changes were made to the Group's bank facilities during 2016 following the refinancing in November 2015. The RCF has a term of five years from November 2015 and is not subject to any amortisation profile. Debt can be drawn and repaid at the Group's discretion without penalty or charge. Further details can be found in note 23.

At the end of December 2016, €14.7m of the RCF is utilised to back excise duty guarantees in Italy and Germany. This utilisation reduces the available balance of the RCF but does not constitute drawings against the facility, and as such this utilisation is not disclosed as a liability in the balance sheet.

The year end utilisation includes €1.5m of temporary excise duty guarantees drawn in cash to cover the transfer of inventory from the former logistics operator in Italy to the new logistics operator and will be cancelled.

### Foreign exchange

The Group remains exposed to the impact of foreign currency exchange with the major trading currencies being the Polish Złoty and the Czech Koruna. The Group where possible aims to match currency cash flows, liabilities and assets through normal commercial business arrangements.

An example of this is all external third party debt is drawn in local currency. There are no hedging instruments in place to manage transaction exposure, where this arises.

The other currency that the Group is exposed to from non-trading activity is GB Pound. Our exposure to fluctuations in the Swiss Franc have now been removed following the closure of the Swiss office. Exposures to GB Pound are as a result of operations and bank balances arising in our UK based Head Office. We are limited on the natural hedging that is available to manage this exposure, given the non-trading activity within the Head Office operation.

The majority of exposure during 2016 reported within operating profit, has arisen on the devaluation of the Polish Złoty largely offset by the devaluation of GB Pound which has reduced the costs of the Head Office operation and translation impacts upon working capital reported in these entities.

The Group will continue to monitor its foreign currency exposures and where necessary to appropriately manage risk and will implement hedging arrangements.

The Polish Złoty has recorded further devaluation during 2016. The Czech National Bank have stated that the stability mechanism that has been in place for a period of time will continue during 2017, and at this point in time we do not see a significant foreign exchange risk arising from the Czech Koruna. The table below shows the stated currency versus the Euro.

| | Dec 2016 Closing Rate | 2016 Average Rate | 2015 Average Rate |
|---|---|---|---|
| Polish Złoty | 4.39 | 4.36 | 4.19 |
| Czech Koruna | 26.97 | 27.03 | 27.24 |
| GB Pound | 0.85 | 0.80 | 0.73 |
| Swiss Franc | 1.08 | 1.09 | 1.07 |

### Equity structure
There has been no change to the equity structure of the business in 2016 and it remains 200 million issued shares with a nominal value of £0.10 each.

### Earnings per share
On a fully diluted basis the earnings per share at the end of December 2016 was €0.14 per share versus €0.09 per share in 2015.

In 2015, EPS was impacted by the accelerated amortisation of bank fees, reported in finance expenses, of €4.3m (a non-cash item). If this item is excluded the adjusted earnings per share in 2015 would have been €0.11 per share.

### Change of Year End
Given that a significant percentage of the Groups sales, 31% in 2016 (34% in 2015), occurs during Q4, due to the strength of the Christmas and New Year holidays, this has made forecasting full year profit very difficult, and can have a significant impact upon full year cash flow according to the timing of sales in the final month. In line with many other companies faced with this seasonal trading peak, the Board have taken the decision to move the Year End away from this critical trading period, to the end of September in 2018. Accordingly, we will report a full 12 month period for 2017, a nine month period for 2018 (from January to end of September), followed by a normal 12 month period from October 2018.

Further information will be provided in the coming 18 months to assist with the comparative periods' financial performance.

**Lesley Jackson**
Chief Financial Officer
8 March 2017

# Risk management

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. If any of these risks occur, Stock Spirits Group's 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.



## Principal risks and viability statement

| Risk description and impact | Change in 2016 | How we manage and mitigate | Risk rating |
|---|---|---|---|
| **Economic and political change, including Brexit**<br>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.<br>The extent of the economic and political instability created by Brexit remains difficult to predict. | Brexit is clearly creating some uncertainty, though the impact on our business is limited so far: the weakening of Sterling following Brexit has had a favourable impact on translation of results from our UK businesses.<br>The recent attempt by the government in Poland to introduce a retail sector tax, which was subsequently suspended following intervention from the European Commission, illustrate this risk. | We monitor and analyse economic indicators and consumer consumption trends, which in turn influences our product portfolio and new product development.<br>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.<br>We continue to monitor the impact of Brexit and will react promptly as we consider appropriate. | |
| **Taxes**<br>Increases in taxes, particularly increases to excise duty rates and VAT, could adversely affect demand for the Group's products.<br>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.<br>The Group may be exposed to tax liabilities resulting from tax audits: the Group has in the past faced, currently faces and may in the future face, audits and other challenges brought by tax authorities. Changes in tax laws and related interpretations and increased enforcement actions and penalties may alter the environment in which the Group does business. In addition, certain tax positions taken by the Group are based on industry practice and external tax advice and/or are based on assumptions and involve a significant degree of judgement. | In addition to the ongoing tax inspections in Italy and Czech that were disclosed in last year's Annual Report & Accounts, during 2016, our Polish subsidiary 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. | 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.<br>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. | |

**Risk level change key**

- HIGHER
- LOWER
- LEVEL
- NEW RISK

**Risk rating key**

- HIGH
- MEDIUM
- LOW

| Risk description and impact | Change in 2016 | How we manage and mitigate | Risk rating |
|---|---|---|---|
| **Strategic transactions**<br>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. | Level<br>Our NPD process has delivered successful innovations and, whilst our focus during 2016 was on embedding previous new products and limited new products, we continuously seek to strengthen our portfolio.<br>During 2016, we had to resolve a dispute relating to intellectual property rights in our Saska brand. | 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. | High |
| **Consumer preferences**<br>Shifts in consumer preferences may adversely affect the demand for the Group's products and weaken the Group's competitive position. A decline in the social acceptability of the Group's products may also lead to a decrease in the Group's revenue. In some countries in Europe, the consumption of beverages with higher alcohol content has declined due to changing social attitudes towards drinking (see Spirits Market Overview section). | Level<br>Overall, there has been little change in consumer preferences during 2016, although our Keglevich brand suffered from changes in its target consumers' habits resulting from poor macro-economic conditions. | 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. | Medium |
| **Talent**<br>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 in the international alcoholic beverages and FMCG industries 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. | Lower<br>During the year we strengthened our management team and now have full senior management teams in place in all markets. | The Group operates a competitive remuneration policy that aims to retain, motivate and, where necessary, attract key individuals. Our recruitment of several high calibre managers during 2016, as referred to in the CEO's statement, is evidence of our ability to attract talented individuals. We have developed a leadership framework to guide our talent management and a formal succession planning process to mitigate the risk of losing key personnel. | Medium |



# Principal risks and viability statement continued

| Risk description and impact | Change in 2016 | How we manage and mitigate | Risk rating |
|---|---|---|---|
| **Marketplace and competition**<br>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 over the last two years (see CEO's Statement). Changes in the Group's distribution channels may also have an adverse effect on the Group's profitability and business.<br><br>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.<br><br>The Group is also dependent on a few key products in a limited number of markets which contribute a significant portion of its revenue. | ↑<br>In Poland, we implemented price reductions on a number of core products to restore their competitive position and reallocated advertising and promotion spend across the group to provide further support for Poland. | 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.<br><br>We constantly review our distribution channels and our customer relationships. We understand the changing nature of the trade channels and customers positions within those channels. We trade across all channels and actively manage our profit mix by both channel and customer.<br><br>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. | ● (red) |
| **Exchange rates**<br>The Group's business operations and results reported in Euros are subject to risks associated with fluctuations in currency exchange rates.<br><br>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.<br><br>The Group's non-trading activities are conducted through its Head Office in the UK and, until its closure in October 2016, a service centre based in Switzerland and are mainly transacted in GB Pounds and, until that closure, Swiss Francs.<br><br>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.<br><br>See Financial Review section for more detail about the impact of foreign exchange. | ↑<br>During the year, the majority of foreign exchange exposure reported within operating profit arose on the devaluation of the Polish Złoty, but was largely offset by the devaluation of the British Pound, which reduced head office costs on a translated basis. Our exposure to fluctuations in the Swiss Franc was removed with the closure of the Swiss office. | The Group aims to hedge transaction risk by matching cash flows, assets and liabilities through normal commercial business arrangements where possible. For example all debt is currently drawn in local currency by market.<br><br>For locations where we have non-trading activities, there is a limitation on the natural hedging that is available to cover currency exchange risk.<br><br>We monitor currency exposure as an integral part of our monthly review process and, where appropriate, will implement hedging instruments. | ● (amber) |

**Risk level change key**

- HIGHER
- LOWER
- LEVEL
- NEW RISK

**Risk rating key**

- HIGH
- MEDIUM
- LOW

| Risk description and impact | Change in 2016 | How we manage and mitigate | Risk rating |
|---|---|---|---|
| **Disruption to operations or systems**<br>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. | Level<br>During 2016, we obtained Cyber Essentials level 1 accreditation, in line with the UK government-backed cyber assurance framework. | 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.<br>We also have well-established and tested Business Continuity and Disaster Recovery policies. Our information and management control systems are subject to internal audit following a risk-based methodology. We also periodically engage independent specialists to assess and test the security and resilience of our network against hacking and other cyber threats, which include penetration testing. | Medium |
| **Laws and regulations**<br>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 the Czech Republic of a ban on smoking indoors and mandatory cash registers for hotels, restaurants and bars (HORECA), the changes in law impact the Group indirectly.<br>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 laws and any violation of such laws could have a material adverse effect on its reputation and business. | Level<br>The Czech government announced an extension of the smoking ban, which will prohibit the use of separate smoking rooms, with effect from summer 2017. | The Group has established clear processes and controls to monitor compliance with laws and regulations, and changes to them, and also any litigation action. The Audit Committee report explains the major ongoing project that was started in 2015, and which is now almost complete, designed to embed comprehensive controls within the key business processes across all our businesses. We operate a detailed anti-bribery and anti-corruption 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. | Medium |

Risk level change key

- HIGHER
- LOWER
- LEVEL
- NEW RISK

Risk rating key

- HIGH
- MEDIUM
- LOW



# Principal risks and viability statement continued

| Risk description and impact | Change in 2016 | How we manage and mitigate | Risk rating |
|---|---|---|---|
| **Supply of raw materials**<br>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. | HIGHER<br>No significant change, with costs of goods remaining largely flat during the year. | Where possible the Group will negotiate term contracts for the supply of core raw materials and services on competitive terms to manage pricing fluctuations. | MEDIUM |
| **Funding and liquidity**<br>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.<br><br>Higher interest rates and more stringent borrowing requirements could increase the Group's financing charges and reduce profitability. | LOWER<br>Significantly lower finance costs during 2016 as a result of the refinancing of bank facilities in 2015. | The Group maintains a strong focus on cash, our future requirements for funding and the overall external market for financing. We undertake regular and detailed reviews of both short-term and longer-term liquidity requirements by market, including our growth ambitions. We are confident that we have the appropriate processes and relationships in place to respond to any unexpected liquidity needs and have not only secured lower cost and more flexible re-financing during 2015, but have also placed ourselves in the best position to access funding in the longer term. | MEDIUM |


## Viability statement

The Directors have assessed the viability of the Group over a three-year period and confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due. The Directors have determined that the three-year period to December 2019 is an appropriate period over which to provide its viability statement, after taking into consideration a number of factors, including that the Group's strategic planning process covers a three-year period and that the spirits industry is considered to be non-cyclical.

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

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

## Approval of Strategic Report

The Strategic Report comprising pages 5 to 53 to was approved and signed on behalf of the Board.

**Mirek Stachowicz**
Chief Executive Officer
8 March 2017

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

Governance

# Directors and Company Secretary

## David Maloney
Non-Executive Chairman

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

## Mirek Stachowicz
Chief Executive Officer

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

## Lesley Jackson
Chief Financial Officer

Lesley joined Stock Spirits Group in 2011 as Chief Financial Officer. A fellow of the Institute of Chartered Accountants, Lesley has more than 20 years of experience in the drinks industry. She has held senior finance positions in Scottish & Newcastle, and was Group Chief Financial Officer of publicly listed United Breweries in India and latterly, Group Finance Director at William Grant & Sons.

## John Nicolson
Senior Independent Non-Executive Director

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

## Mike Butterworth
Independent Non-Executive Director

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

## Board structure

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

### Diego Bevilacqua
Independent Non-Executive Director

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

### Tomasz Blawat
Independent Non-Executive Director

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

### Randy Pankevicz
Non-Independent, Non-Executive Director

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

### Elisa Gomez de Bonilla
Company Secretary*

Elisa joined the Group in 2008 from Beam Inc where she was Associated General Counsel for International for two and a half years. Prior to this, she worked at Allied Domecq for seven years, as a Senior Legal Advisor to the European Legal Team, having previously worked in private practice, at an international law firm in Spain.

* On maternity leave until April 2017, with Margarita Minguez acting as General Counsel and Steve Weatherley acting as Company Secretary during this absence.

Alberto da Ponte was appointed to the Board as a Non-Independent, Non-Executive Director at the AGM held on 23 May 2016. On 21 January 2017, Alberto passed away.

Our Senior Management Team has vast experience in the alcoholic beverages industry and FMCG companies.



# Senior Management

## Richard Hayes
Group Sales & Marketing Director

Richard began working with the Group in May 2012. Previously, he worked at Warburtons Bakery, where he held the Marketing Director role for five years and led the marketing, innovation, insight and customer service teams. He has also held UK and international marketing roles at major multi-nationals including Allied Domecq, Kraft and Nabisco and a former British brewery, Courage Brewery.

## Elisa Gomez De Bonilla
General Counsel

See page 57.

## Dorothy Lowry
Group Human Resources Director

Dorothy joined the Group in January 2015. She has held a number of senior level human resources positions across a variety of sectors operating in the UK, Continental Europe, North America and Asia Pacific. She was previously the Group HR Director of Devro Plc. She is a Member of the Chartered Institute of Personnel and Development.

## Marek Sypek
Managing Director, Poland

Marek joined the Group as Managing Director, Poland in June 2016. With previous experience in FMCG, he joined us from Agros-Nova Holding where he was CEO. Before joining Agros-Nova, Marek was Group Managing Director of Central & Eastern Europe at Johnson & Johnson and prior to that, General Manager at BIC Polska, overseeing operations in Poland, Ukraine, Czech Republic and Slovakia from 2001 to 2005.

## Roman Pocs
Managing Director, Slovakia

Roman joined the Group in January 2011 as Country Manager for Stock Slovakia, having acquired over 20 years of commercial experience working for well-known FMCG companies such as Henkel, Gillette, Sodexho and Bongrain.

## Michael Kennedy
Managing Director, Italy & International

Michael joined Stock Spirits in April 2015 and brings with him over 12 years' experience in the drinks industry. He joined Drambuie in July 2002 as Regional Director, Southern Europe, taking on Latin America and Global Travel Retail, before being promoted to Chief Executive Officer in 2011. He left in 2015 after completing the sale of the business to William Grants. He previously held various commercial roles at Mars UK and Marks and Spencer.

## Jan Havlis
Managing Director, Czech Republic

Jan joined Stock Plzeň–Božkov in February 2016 and brings with him over 10 years' experience in the FMCG business. Jan started his career in 2004 in the marketing department at EMCO (Czech Republic) before joining Procter & Gamble in 2005 as Customer Team Logistics Manager (Czech Republic & Slovakia). He went on to hold a variety of logistics and commercial roles at Procter & Gamble including Warehousing & Transportation Manager for Central Europe South and Country Manager of Cyprus, Malta and Iceland.

# Governance



Amundsen Expedition vodka stvorena je u čast legendarne ekspedicije na Južni pol kojom je 1911. osvojen Antarktik, najhladnije i najjužnije mjesto na Zemlji.
90°S
THE SOUTH POLE
Šest puta destilirana, oplemenjena strašću, jamči najvišu razinu mekoće i čistoće.


EXTREME QUALITY VODKA
AMUNDSEN
EXPEDITION 1911
SOUTH POLE
90°S

Governance

# Chairman's Letter

**Dear Shareholders**

I am pleased to present our Corporate Governance report for the year ended 31 December 2016. As you can read in more detail in the Audit Committee Report, we have continued to strengthen the governance policies, controls and processes to support the growth strategy of the Group during this year, and the years to come.

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

During the year Chris Heath (CEO) retired from the Board and Andrew Cripps (Senior Independent NED) resigned and I would like to thank them both for their contribution. Following the AGM in May 2016, Randy Pankevicz and Alberto da Ponte were appointed to the Board as Non-Independent NEDs, and we were very saddened that Alberto passed away on 21 January 2017. In October 2016, Mike Butterworth, Diego Bevilacqua and Tomasz Blawat were appointed to the Board as Independent NEDs. The Board of Stock Spirits Group PLC now comprises myself as Chairman, four Independent NEDs, one Non-Independent NED and two Executive Directors. Elisa Gomez De Bonilla, our General Counsel and Company Secretary left for a period of maternity leave and has been replaced on an interim basis by Margo Minguez as acting General Counsel and Steve Weatherley as acting Company Secretary.

As Chairman of the Board, I work with the Company Secretary to set the agenda for Board meetings. These are structured to ensure that sufficient time is spent on important matters, and all Directors have the opportunity to contribute. During the year, the Board has reviewed and evaluated strategy and considered potential opportunities in our current territories as well as expansion into other territories. Alongside strategy, the Board regularly reviews, among other things, the performance of each of the markets and considers the principal risks and associated procedures and processes to mitigate them. This year the Board has continued to dedicate a special focus to the situation in Poland and has been monitoring very closely the performance of this business. Further detail on the principal risks can be found on pages 48 to 53.

In the second half of the year, we commissioned Seamus Gillen of Value Alpha Limited to conduct an independent, external evaluation of the Board. The evaluation was conducted according to the guidance in the UK Corporate Governance Code. The outcomes from the external evaluation are shown on page 65. I believe regular and appropriate Board and Committee evaluation is an area that is fundamental to improving Board effectiveness and ensuring objectives can be met.

Next year we will carry out an internal evaluation to review the effectiveness of individual Directors, the processes under which the Board operates and the quality, timeliness and appropriateness of information submitted by management. Your Board regularly meets with Group Management, both at Board and Board Committee meetings and in other routine meetings, which enables the NEDs to gain a good understanding of the business and what is happening on the ground. We believe that this is an essential requirement for Directors.

We have set out, in the following pages, details of how the Company has applied the main principles of the 2014 version of the UK Corporate Governance Code and its compliance with the various provisions.

**David Maloney**
Chairman

8 March 2017

Governance

# Corporate governance framework

The Corporate Governance report forms part of the Directors' report.

## Introduction

This report explains key features of the Company's governance structure to provide a greater understanding of how the main principles of the UK Corporate Governance Code, published in 2014 by the Financial Reporting Council ('the Code'), have been applied, and to highlight areas of focus during the year. The report also includes items required by the Disclosure and Transparency Rules. A copy of the Code can be obtained at www.frc.org.uk.

## Compliance with the UK Corporate Governance Code

The Company has complied with the provisions of the Code in this financial year, with the exception of Rule B1.2, as the Company did not have at least half the Board comprising of Independent NEDs between April and October 2016; and C3.1 and D3.1 as the Company did not have at least three Independent NEDs on the Audit Committee and Remuneration Committee between April and October 2016. The number of independent NEDs decreased from three to two in April 2016, when Mirek Stachowicz (formerly Independent NED) began service as Interim CEO. The company commenced a process of recruiting independent NEDs and Tomasz Blawat, Diego Bevilacqua and Mike Butterworth were appointed in October 2016.

## Governance overview

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

## Requirements of the Listing Rules

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

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

# Corporate governance framework continued

## How the Board works

### The Board

The Company is led and controlled by the Board. The names, responsibilities and details of the current Directors appointed to the Board are set out on pages 56 and 57. The Board agrees the strategic direction and governance structure that will help achieve the long-term success of the Company and deliver shareholder value. The Board takes the lead in areas such as strategy, financial policy and ensuring the Company maintains a sound system of internal control. The Board's full responsibilities are set out in the 'Matters Reserved for the Board' and are available on the Company's website www.stockspirits.com

### Role of the Chairman

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

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

### Role of the Chief Executive Officer (CEO)

Mirek Stachowicz is the CEO. Mirek replaced Chris Heath, who retired in April 2016. Through delegation from the Board, he is responsible for executive management of the Group, including the implementation of the Group's strategic objectives. In fulfilling his duties, the CEO is supported by the Senior Management Team, whom he also leads (biographies for the Senior Management Team can be found on pages 58 and 59.

### Interaction between the Chairman and the CEO

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

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

### Role of the Senior Independent Director (SID)

Following Andrew Cripps' resignation in October 2016, John Nicolson was appointed as the SID in October 2016. John is available to shareholders if they have concerns that the normal channels of Chairman, CEO or other Executive Directors have failed to resolve, or for which such channels of communication are inappropriate. The SID also acts as an internal sounding board for the Chairman, and serves as intermediary for the other Directors, with the Chairman, when necessary. While there were no requests from shareholders or Directors for access to the SID during the reporting period, the role of the SID is considered to be an important check and balance in the Group's governance structure. In accordance with the Code, neither the Chairman nor the SID are employed as executives of the Group.

### Non-Executive Director independence

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

## Board meeting attendance

During the year ended 31 December 2016, there were nine scheduled Board meetings. The table below summarises the attendance of the Directors:

| Director | Meetings eligible to attend | Meetings attended |
|---|---|---|
| David Maloney | 9 | 9 |
| Chris Heath[1] | 4 | 4 |
| Mirek Stachowicz | 9 | 9 |
| Lesley Jackson | 9 | 9 |
| John Nicolson | 9 | 8 |
| Andrew Cripps[2] | 8 | 8 |
| Randy Pankevicz[3] | 4 | 4 |
| Alberto da Ponte[4] | 4 | 3 |
| Mike Butterworth[5] | 1 | 1 |
| Diego Bevilacqua[5] | 1 | 1 |
| Tomasz Blawat[5] | 1 | 1 |

1. Retired as a Director on 18 April 2016
2. Resigned as a Director on 24 October 2016
3. Appointed as a Director on 23 May 2016
4. Appointed as a Director on 23 May 2016, passed away on 21 January 2017
5. Appointed as a Director on 24 October 2016

Where Directors are unable to attend meetings, they receive the papers scheduled for discussion at the relevant meetings, giving them the opportunity to raise any issues and give any comments to the Chairman in advance of the meeting.

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

## Board composition, qualification and independence

The Board is committed to high standards of corporate governance and as such, its composition, members' experience, balance of skills and effectiveness are regularly reviewed to ensure the right mix of people on the Board and its committees. Following the retirement of Chris Heath on 18 April 2016 and the appointment of Mirek Stachowicz as CEO on 10 August 2016 (having acted as Interim CEO since April 2016); the appointment of Alberto da Ponte (passed away on 21 January 2017) and Randy Pankevicz on 23 May 2016; the resignation of Andrew Cripps and the appointment of Mike Butterworth, Diego Bevilacqua and Tomasz Blawat on 24 October 2016, the Board now comprises eight Directors: a Chairman (who, for the purposes of the Code, was independent on appointment); a SID; three Independent NEDs; one Non-Independent NED and two Executive Directors.

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

# Corporate governance framework continued

### Appointment and tenure

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

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

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

### Director induction and training

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

As the internal and external business environment changes, it is important to ensure the Directors' skills and knowledge are refreshed and updated regularly. Accordingly the Chairman, with the assistance of the Company Secretary, ensures that regular updates on corporate governance, regulatory and technical matters are provided to Directors at Board meetings. Operational site visits and meetings with Senior Management in local teams were also organised during the year. In this way, Directors keep their skills and knowledge relevant so as to enable them to continue to fulfil their duties effectively.

### Information and support available to Directors

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

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

### Director re-election

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

### Directors' conflicts of interest

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

### Board evaluation and effectiveness

The effectiveness and performance of the Board is vital to our continuing success.

In the second half of the year, the Company commissioned Seamus Gillen of Value Alpha Limited to conduct an independent, external evaluation of its Board. The evaluation was conducted according to the guidance in the UK Corporate Governance Code. Neither Seamus Gillen nor Value Alpha Limited have any other connection with the Company.

The evaluation process consisted of face-to-face interviews with Board members, Senior Management and the Company's brokers, and a Board (and Audit Committee) observation. The interviews were conducted by means of a questionnaire, involving both quantitative and qualitative data collection and were conducted on a confidential and anonymous basis.

The evaluation took place following a recent history of Board and Executive changes. Since then, the Board had embarked on a series of steps – including Board refreshment and Executive Management renewal – to improve the operations of both the Board and the business. The analysis confirmed that the Board was technically and behaviourally strong and was on a trajectory of continual improvement.

Following the completion of the exercise, the Board had expressed its determination to build on the progress already made, focusing on the areas the evaluation considered a priority for performance improvement. These included strengthening the Board's capability in relation to management succession planning and promoting a stronger culture of value creation in the Board and throughout the company.

For 2017, an internal evaluation of the performance of the Board, its Committees and the Chairman will take place. The process of evaluation will be undertaken by the Company Secretary under the direction of the Chairman.

### Shareholder engagement

Primary responsibility for shareholder relations rests with the CFO, Lesley Jackson. She ensures there is effective communication with shareholders on matters such as governance and strategy, and is responsible for ensuring the Board understands the views of major shareholders on such matters.

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

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

The Chairman met with the Company's largest shareholders and he is always available to meet individual shareholders on request. In addition, he is available to meet shareholders at the Company's AGM.

The Company notes that, at the 2016 AGM, a significant number of votes were cast against the following resolutions: to re-elect Mr David Maloney as a director; to authorise the directors to allot ordinary shares; to dis-apply pre-emption rights (which was not passed); and to authorise the Company to buy back its own shares. The Company discussed these resolutions with shareholders and understands the reasons for the votes cast against them.

The Company also notes that a significant number of votes were cast against the three resolutions that were requisitioned by Western Gate Private Investments Limited: to elect Alberto da Ponte as a director; to elect Randy Pankevicz as a director; and to conduct a further board level review of M&A strategy and not implement any M&A projects until such strategy is presented to and approved by the shareholders (which was not passed).

### Annual General Meeting (AGM)

The Company's AGM will take place at 11.30am on Tuesday, 23 May 2017 at the offices of Numis at The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The notice of the AGM can be found on our website www.stockspirits.com, and in a booklet that is being issued at the same time as this Report. The Notice of the AGM sets out the business of the meeting and an explanatory note on all resolutions. Separate resolutions are proposed in respect of each substantive issue.

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

Governance

# Corporate governance framework continued

## Committees

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

## Disclosure Committee

The Committee consists of the Chief Executive Officer, Chief Financial Officer, General Counsel and at least one NED.

### Role of the Disclosure Committee

The Disclosure Committee assists the Board in discharging its responsibilities for the identification of 'inside information' and makes recommendations about how and when the Group should disclose such information. In doing so, the Committee considers all relevant transactions, projects and other circumstances that could potentially give rise to inside information. The Committee is also responsible for analysing market expectations and rumours relating to the Group's performance, and for monitoring the materiality of any variance between the Group's performance and its own forecasts.

### Activity of the Disclosure Committee

During the year ended 31 December 2016, the Disclosure Committee discussed matters by email, especially with regards to share dealings of permanent insiders and persons discharging managerial responsibilities (PDMRs). No meeting was required during 2016 as the full Board was present when the necessary disclosures were issued in 2016.

## Internal controls

### Risk management and internal control

The Board recognises its responsibility to present a balanced and understandable assessment of the Group's position and prospects, and has responsibility for ensuring that management maintain an effective system of risk management and internal control, and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. As part of this process, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten the Group's business model, future performance, solvency and liquidity. The principal risks identified, and the actions that the Group takes to mitigate them, are shown on pages 48 to 52.

### Internal control framework

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

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

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

### Effectiveness of internal controls

The Board has reviewed the effectiveness of our risk management and internal control process, including financial reporting, to ensure it remains robust. The review covered all material controls, including financial, operational and compliance controls, in the financial period to 31 December 2016 and the period to the approval of this Annual Report & Accounts (ARA). Further details are set out in the Audit Committee Report on pages 68 to 72.

**David Maloney**
Chairman
8 March 2017

Governance

# Audit Committee report

**Having joined the Board as a NED and Audit Committee Chairman in October 2016, I am pleased to report on the role and activities of the Audit Committee for the year.**

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

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

The Committee has complied with the Competition and Markets Authority Order on Statutory Audit Services for Large Companies for the year ended 31 December 2016, having completed a formal competitive tender process for the appointment of the external auditor during the year ended 31 December 2014.

### Composition of the Committee

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

| | |
|---|---|
| Andrew Cripps[1] | Chairman and SID |
| Mike Butterworth[2] | Chairman and Independent NED |
| Mirek Stachowicz[3] | Independent NED |
| John Nicolson | Independent NED |
| Tomasz Blawat[2] | Independent NED |

1. Resigned as NED and Audit Committee Chairman on 24 October 2016, and was replaced by Mike Butterworth
2. Appointed 24 October 2016
3. Stepped down as NED on 18 April 2016 when he became Interim CEO

During the year ended 31 December 2016, the Audit Committee held five meetings. The table below summarises the attendance:

| | Meetings eligible to attend | Meetings attended |
|---|---|---|
| Andrew Cripps[1] | 4 | 4 |
| Mike Butterworth[2] | 1 | 1 |
| Mirek Stachowicz[3] | 2 | 2 |
| John Nicolson | 5 | 5 |
| Tomasz Blawat[2] | 1 | 1 |

1. Stepped down as Audit Committee member on 24 October 2016
2. Appointed 24 October 2016
3. Stepped down on 18 April 2016 when he became Interim CEO

In addition Alberto da Ponte and Randy Pankevicz attended all meetings by invitation.

All the members of the Committee are independent. Mike Butterworth is a qualified accountant and the Board is satisfied that he brings recent and relevant financial experience to the Committee, as recommended by the Corporate Governance Code, having served as CFO of a FTSE 250 company for eight years until December 2012.

Elisa Gomez de Bonilla (General Counsel and Company Secretary) served as Secretary to the Committee with the exception of one meeting where Steve Weatherley (Acting Company Secretary) acted as Secretary to the meeting. The Chairman of the Company, CEO, CFO, Head of Internal Audit, Risk and Compliance, and audit engagement partner from our external auditor generally attend our Audit Committee meetings by invitation. We also ask other members of Senior Management to present to the Committee as appropriate.

Committee meetings are planned so as to enable review of trading statements, the half-yearly report and the ARA, with additional meetings taking place as necessary. The Committee met five times during 2016.

**Responsibilities and role of the Audit Committee**

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

- The effectiveness of the Group's internal control and risk management, including control over financial reporting
- The effectiveness of internal audit, including co-ordination with the activities of external audit
- The Group's policies and procedures relating to business conduct, including whistle-blowing arrangements and fraud-prevention and detection procedures
- The Group's overall approach to ensuring compliance with laws, regulations and policies
- The appointment of the external auditor, including a tender selection process where appropriate, as well as terms of engagement and remuneration
- The scope of the external audit, its findings and the effectiveness of the audit process
- The overall relationship with the external audit firm, including the provision of non-audit services to ensure that independence and objectivity are maintained
- The integrity of the financial statements, including a review of the significant accounting policies and financial reporting judgements
- Whether, taken as a whole, the ARA is fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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

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

**Main activities of the Committee during the year**

**Internal controls and risk management**

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

At each meeting, the Committee reviewed progress on a major project, that was initiated in 2015, to develop and implement more comprehensive controls across the business. This has involved cross functional teams across our principal markets challenging and redeveloping procedures and controls to ensure they are effective and not open to misuse. The process of implementing and embedding this enhanced control framework commenced in Poland at the end of 2015 and was implemented in our principal markets in Poland and Czech, as well as our smaller markets in Italy and Slovakia, during 2016.

In addition, the Committee reviewed a number of matters relevant to the financial structure of the Group. These included the adequacy of the Group's financing facilities, updates on the Group's risk-management and insurance programmes, the availability of distributable reserves within the Company and its ability to pay dividends. As mentioned in last year's Audit Committee report, a resolution to regularise the distributable reserves position of the Company was put to the AGM and was duly passed. Internal controls have been enhanced to rigorously check that reserves are technically distributable going forward.

Governance

# Audit Committee report continued

### Internal audit

The remit of internal audit is to undertake financial, operational and strategic audits across the Group using a risk-based methodology. In line with our usual practice, internal audit prepared an inventory of the key auditable control and risk areas across the Group, informed by the Principal Risks identified in our ARA and the latest quarterly risk registers prepared by our businesses, which drove priorities for the internal audit plan for 2016. This plan contained audits and reviews focused on areas identified as having the most risk to the business, covering all parts of the Group down to individual sites, processes and activities, and all aspects of the business.

During 2016, the main focus of internal audit activity was on extensive auditing post-implementation of the controls project referred to above in our principal markets. The results of the post-implementation audits were reported to the Committee, as it continued to provide strong oversight for this important project. In addition, the Committee received internal audit reports on the design and operating effectiveness of controls around excise duty management, and was updated on the Group's accreditation under the UK government's Cyber Essentials scheme, following a recommendation from an internal audit of cyber security performed in 2015. In each case, the audits confirmed the general sufficiency of controls and proposed areas for improvement. Results were graded, and where improvements were identified, appropriate remedial actions were agreed with the management concerned with the Committee ensuring that these are followed up. We considered the internal control issues raised in internal audit reports that we received during the year, the adequacy of internal audit resources and the effectiveness of the internal audit function. The Committee also held a session with the Head of Internal Audit without other members of management being present. Given the importance of the major internal controls project referred to above, for the 2016 internal audit plan, the Committee agreed with the recommendation that the internal audit team focus audits on providing assurance over compliance with the comprehensive programme of controls implemented by that project.

### Whistle-blowing

Part of our remit is to oversee the Group's processes for handling reports from whistle-blowers. Our Code of Business Conduct encourages all employees to report any potential improprieties in financial reporting or other matters. We have an independent compliance hotline ('Speak-Up') operated by an external agency. This is available to all employees, suppliers, customers and other stakeholders, in each of the languages used throughout the Group and, subject to legal requirements, callers can remain anonymous if they wish. All contacts received are reported to and reviewed by the Audit Committee. Where appropriate, our legal and/or internal audit teams may be asked to investigate issues and report to us on the outcome.

The Committee also received regular updates from the Group General Counsel on significant litigation and disputes.

### Review of ARA and preliminary results announcement

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

## Significant issues considered in relation to the ARA

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

### Revenue recognition

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

### Carrying value of intangible assets

The Group's policies on accounting for separately acquired intangible assets and goodwill on acquired businesses, such as the acquisition in October 2016 of the spirits business from Bohemia Sekt s.r.o for €5 million, are set out in note 3 to the consolidated financial statements. Goodwill on acquisitions and acquired intangible assets, such as brands, which are judged to have indefinite lives are initially recorded at fair value, and are subject to testing for impairment at each balance sheet date. As is customary, such testing involves estimation of the future cash flows attributable to the asset, or cash-generating unit of which it is part, and discounting these future cash flows to today's value. The Committee has reviewed the key assumptions behind these valuations, notably the expected development of future cash flows and the discount rates used, as well as considering reasonable sensitivities to these estimates and concluded that these support the carrying values set out in notes 15 and 16.

### Taxation

As is normal, the Group has a number of outstanding tax assessments, and regularly undertakes reviews to assess tax risks across the Group – for example, risks associated with VAT and transfer pricing. As described in note 13 to the consolidated financial statements, we continue to dispute a tax assessment relating to 2011 received by the Group's Czech subsidiary in February 2016, and the Italian tax authorities continue their enquiries into the Group's Italian subsidiary for the years 2006-2010. The Group has undertaken a review of potential tax risks and current tax assessments, and while it is not possible to predict the outcome of any pending enquiries, the Committee concur with management's assessment of the additional provisions made during the year.

### Going concern

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

### External audit

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

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

Before concluding our recommendation on the ARA in March 2017, we reviewed a report from KPMG on the findings from their audit with particular attention on key issues arising out of the audit, including their views on critical estimates and judgements, key assumptions, clarity of disclosures and proposed audit adjustments. We discussed these with management and satisfied ourselves that the issues raised had been properly dealt with. We received and considered confirmation of the independence and objectivity of the auditors, and reviewed the effectiveness of the audit process by interrogation of management and auditors. The Committee also sought assurance from management that all appropriate matters had been brought to the auditors' attention.

# Audit Committee report continued

### Non-audit services policy and auditor independence

We have a policy on non-audit services provided by the external auditors. Specific approval must be sought from the Audit Committee for:

- Single or linked advice from our auditors, the cost of which is likely to exceed €50,000 in the financial year
- Employment into control positions of individuals who have worked directly on the external audit in the previous two years.

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

The total fees paid to KPMG for audit services for the year were €666,000 and audit-related assurance services fees amounted to €65,000. The audit-related assurance services work entirely comprised of a half year interim review, agreed upon procedures in respect of the Group's distributable reserves, and detailed observations related to the implementation of controls in the Czech Republic that arose during the course of their audit procedures. We are satisfied that this audit-related assurance services work did not detract from the objectivity and independence of our external auditors. Further details of the fees paid to the external auditor are set out in note 12.

### Governance

The Committee has reported in accordance with its Terms of Reference and in particular has recommended to the Board the adoption of these ARA and the proposal to reappoint KPMG LLP as independent auditors at the AGM. A formal evaluation of the effectiveness of the Committee was carried out during the year (see page 65); based upon the results of that evaluation, the Committee believes that it has operated effectively during the year.

**Mike Butterworth**
Chairman of the Audit Committee

8 March 2017

Governance

# Nomination Committee report

**I am pleased to present the report of the Nomination Committee for 2016.**

## Composition of the Committee

As previously mentioned Andrew Cripps resigned on 24 October 2016. Mike Butterworth and Diego Bevilacqua joined the Committee on 24 October 2016 and the members of the Committee are:

| | |
|---|---|
| David Maloney | Chairman |
| John Nicolson | SID |
| Mike Butterworth | Independent NED |
| Diego Bevilacqua | Independent NED |

During the year ended 31 December 2016, the Nomination Committee held six meetings. The table below summarises the attendance:

| | Meetings eligible to attend | Meetings attended |
|---|---|---|
| David Maloney | 6 | 6 |
| Andrew Cripps[1] | 5 | 5 |
| John Nicolson | 6 | 6 |
| Mike Butterworth[2] | 1 | 1 |
| Diego Bevilacqua[2] | 1 | 1 |

1. Andrew Cripps resigned on 24 October 2016
2. Mike Butterworth and Diego Bevilacqua were appointed to the Committee on 24 October 2016

In addition Alberto da Ponte and Randy Pankevicz attended all meetings by invitation.

John Nicolson, Mike Butterworth and Diego Bevilacqua, Independent NEDs and David Maloney, Chairman of the Board, met the independence criteria in 'The Code' on appointment. Elisa Gomez de Bonilla (General Counsel and Company Secretary) served as Secretary to the Committee, except for one meeting where Steve Weatherley (Acting Company Secretary) acted as Secretary to the meeting. The CEO generally attends our Committee meetings by invitation. We also ask other members of the Senior Management Team, such as the Group HR Director, to present to the Committee during the year.

## Responsibilities and roles of the Committee

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

# Nomination Committee report continued

The Nomination Committee takes into account the provisions of the UK Corporate Governance Code 2014 (the Code) and any regulatory requirements that are applicable to the Company. It ensures that external evaluations of the Board are carried out according to the applicable regulations. The full Terms of Reference of the Committee are available on our website www.stockspirits.com.

**Main activities of the Committee during the year**

The Committee met in March 2016 to determine Directors' independence or non-independence for the purpose of recommending to the Board the reappointment of Directors at the AGM.

In November 2016 the Committee met to discuss succession planning of Senior Management, both in terms of permanent succession and also short-term cover for senior roles. The Board recognises that effective succession planning is fundamental to Board effectiveness. By ensuring there is development of talented personnel to move into Senior Management positions where appropriate, and to provide cover for such positions, this helps to mitigate the risks associated with unforeseen events such as the departure of a key individual, and also assists in promoting diversity. The necessary plans for short-term cover for senior roles were discussed and agreed on. As outlined in last year's Annual Report, a formal permanent succession plan has been developed and this was enhanced. The Committee considers that it is an area of continuous review and focus and will continue working on it during 2017.

A key focus of the Committee has also been to discuss the future organisation structure of the Group. As the Board discusses the future strategy of the Group, any decisions will inevitably impact on the optimum structure. We will continue to discuss this topic through 2017.

Following the retirement of Chris Heath in April 2016, the Nomination Committee agreed to recommend the appointment of Mirek Stachowicz as Interim CEO whilst the search for a new CEO was being undertaken. Following an external search by Odgers, the Committee agreed a short list of candidates with them and a number of interviews were conducted by the members of the Nomination Committee and other Board Directors. Following the final interviews with candidates, the Nomination Committee proposed to the Board, and the Board unanimously agreed, to appoint Mirek Stachowicz as CEO of the Company in August 2016.

During the appointment process of the CEO, the Committee also identified the key skills and experience required of the proposed new NEDs. Following an external search by Spencer Stuart, the Committee agreed a short list with them, and a number of interviews were conducted by the members of the Nomination Committee and all other NEDs. The CEO and CFO then also held the interviews with the recommended candidates and once confirmed, the Nomination Committee proposed to the Board and the Board agreed to appoint Mike Butterworth, Diego Bevilacqua and Tomasz Blawat, as new NEDs of the Company.

In accordance with the recommendation for FTSE 350 companies set out in the Code, all of the Company's Directors will stand for re-election at the forthcoming AGM. The biographical details of the current Directors can be found on pages 56 and 57. The Committee considers that the performance of each of the Directors standing for re-election continues to be effective and that they each demonstrate commitment to their role, including commitment of time for Board and Committee meetings and any other duties.

The Corporate Responsibility section on pages 40 to 41 of the report explains the Group's approach to diversity, including gender diversity percentages.

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

**David Maloney**
Chairman of the Nomination Committee
8 March 2017

Governance

# Directors' remuneration report

## Committee Chairman Statement

I am pleased to present our Remuneration Report for the year together with details of our new Policy which will be put to shareholders for a binding vote at our forthcoming AGM. Our previous policy was adopted at our 2014 AGM with a vote in favour of more than 97%. We have used this opportunity to review the appropriateness of the Policy in the context of our strategy, a new CEO and new members of our Senior Management Team, market conditions and performance since IPO. With this in mind we are proposing some changes, which are not a radical overhaul of our Policy, which will support alignment with shareholders.

These changes are detailed in the Policy and are summarised as follows:

- Annual awards under the PSP in 2014 and 2015 for Executive Directors were 140% of salary. It was our intention as stated in the 2015 Remuneration Report, to make an award at the same level in 2016. In fact, no award was made in 2016 due to a combination of a new CEO being appointed, other changes to our management and focus upon the turnaround of our Polish business. Recognising the change in our share price and market capitalisation of the company since that quantum was set, the Committee is reducing the normal annual maximum award from 200% to 125% of salary. The maximum award in exceptional circumstances is being reduced from 300% to 250% of salary
- Performance measures under the PSP were EPS growth and relative TSR. The Committee considers that relative TSR is not an appropriate measure as it could lead to windfall gains. There is not a sensible comparator group against which the performance of Stock Spirits Group should be measured and it lacks line of sight for our Management team. We have an ethos that broadly the same incentive structure should apply across our Executive Directors and our Senior Management Team. For these reasons, the Committee has decided to replace the TSR element of the PSP with a cash conversion measure. Cash is a critical measure across the Group and our ability to deliver and maintain strong cash conversion is highly valued by shareholders. EPS growth will continue to be the other measure within the PSP for the Executive Directors, with equal weightings for both elements. Further details of the targets which will apply to our 2017 PSP award are detailed on page 76. PSP awards granted in 2017 and future years will be subject to a two year holding period after vesting
- The quantum and structure of the annual bonus will be maintained, incorporating a deferral of 25% of any bonus into shares which must be held for two years and which continues to build alignment with our shareholders
- The shareholding guideline will be increased to 200% of salary. Mirek Stachowicz has personally acquired 75,388 shares since his appointment as CEO and Lesley Jackson has an interest in approximately 1% of our shares, demonstrating their personal alignment with shareholders and to the long term success of this business.

Governance

# Directors' remuneration report continued

### Out-turn for 2016

Whilst we were pleased with the financial performance for the year, we were below the internal targets set for bonus purposes. This has resulted in no annual bonus being paid to the Directors of the Company and they will not receive salary increases in 2017. However, in recognition of their hard work and achievements, the Committee has agreed to pay some discretionary bonuses to a small number of top-performing people within the management teams in the markets and central functions (below the Executive Director level) and to apply salary increases in 2017 for the rest of the organisation in line with the average price index for 2016 in the relevant countries.

The exit arrangements for Chris Heath were determined under our existing remuneration policy. Chris received salary and benefits under his contractual terms. No bonus was awarded for the year and his 2014 and 2015 PSP awards are expected to lapse taking into account performance against the targets set.

Mirek Stachowicz was appointed CEO on 10 August after acting as Interim CEO following Chris Heath's departure. His salary was set at £425,000. This is lower than Chris Heath's salary (which was set at £490,000 at the IPO). His bonus and PSP awards will be in line with the remuneration policy. He was not granted any awards on recruitment or any "buy-out" arrangements.

Although the Committee had originally agreed to make a PSP award of 140% of salary to the CFO and new CEO in 2016, no 2016 awards were in fact made. Instead an additional award will be made as part of the 2017 PSP grant as detailed below.

### Remuneration for 2017

The CFO's salary will remain at £318,000 for 2017. This is the level at which it was set at the time of the IPO. The CEO's salary will also remain at £425,000 for 2017.

No changes are proposed to the maximum annual bonus opportunity (which will remain at 140% of salary) or the ordinary bonus deferral (which will remain at 25% of the bonus earned, with the deferral continuing to be for two years). Details of the targets and performance against them will be published in our 2017 Directors' Remuneration Report.

For 2017, subject to approval of our proposed changes to the Policy, the Committee will make awards under the PSP based on EPS and cash conversion performance targets as set out on pages 89 and 90. The award will be 175% of salary for 2017 only. This has been set to reflect the fact that no award was made under the PSP in 2016 due to a combination of a new CEO being appointed, other changes to our management and focus upon the turnaround of our Polish business. The Committee did not consider that an award equal to twice the normal award under the new Policy (i.e. 250%) was appropriate in the current environment. The Committee considers that a maximum PSP award which amounts to 125% for 2017 and an additional 50% to reflect that no 2016 PSP award was granted, is appropriate. The same performance targets will apply to both elements of the award which will vest after the end of a three year performance period, and then be subject to a two year holding period.

No changes are proposed in respect of fees for 2017 for the NEDs or the Chairman.

We are making minor changes to the rules of the PSP, which require shareholder approval at the AGM. These changes are to make the operation and administration of the PSP simpler and will not change the quantum or the way in which, or period over which, we assess performance. At present, awards vest no earlier than the third anniversary of the date of grant; while awards will continue to be subject to a three year performance period, they will be capable of vesting following the assessment of the performance conditions, so that if a grant is deferred the subsequent vesting will not be. The individual limits on awards are currently applied to awards in a financial year, going forwards these limits will be applied "in respect of" a financial year.

We remain committed to a responsible approach to Executive pay as I trust that this Remuneration Report demonstrates and hope that you will support our resolutions on remuneration at the forthcoming AGM.

**John Nicolson**
Chairman of the Remuneration Committee
8 March 2017

# Governance

### Role of the Remuneration Committee

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

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

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

# Directors' remuneration policy

This part of the report sets out the Directors' Remuneration Policy which will be subject to a binding vote at the 2017 AGM and take effect from the end of that meeting. The policy is determined by the Company's Remuneration Committee (the "Committee").

The Company's first Directors' Remuneration Policy was approved at the AGM held on 13 May 2014, with over 97% of the votes cast in favour of it, and took effect from that date.

In accordance with the applicable regulations, the Company is required to seek approval for a new Directors' Remuneration Policy at the 2017 AGM. We have used this opportunity to review the appropriateness of the Policy in the context of our strategy, a new CEO and new members of our Senior Management Team, market conditions and performance since IPO. With this in mind we are proposing some changes, which are not a radical overhaul of our Policy, which will support alignment with shareholders.

In summary, the differences between the Policy approved at the 2014 AGM and the proposed Policy are as follows:

- The shareholding guideline for Executive Directors has been increased from 100% of salary to 200% of salary.
- The limit on participation in the PSP has been reduced from 200% of salary to 125% of salary (and from 300% of salary to 250% of salary in exceptional circumstances). The limits will be applied to grants "in respect of" a particular financial year
- PSP awards will be subject to a two year holding period after vesting. Although the 2017 PSP awards are intended to be granted before the proposed Policy becomes effective following the 2017 AGM, we will apply that holding period to these awards. This holding period will be structured either as an additional period before the vested shares can be acquired, or as a requirement that any shares acquired pursuant to the award should be retained for the holding period (subject to sales to cover tax liabilities arising on the acquisition of the shares)
- While we have not changed the intention as to the deferral of bonuses into shares (25% of any bonus is intended to be deferred), we have introduced administrative flexibility so that we can choose not to defer amounts below £5,000 and to pay bonuses in cash in the event of cessation of employment
- We will continue to assess performance conditions for the PSP over a three year period, but for operational flexibility have introduced the flexibility to vest awards following the assessment of those conditions (but with the award or shares then subject to a further two year holding period, as referred to above), rather than on the third anniversary of grant
- Other minor amendments have been made to the policy to aid its administration, to reflect the changes referred to above and to reflect changes in practice since the Policy was approved at the 2014 AGM.

Governance

# Directors' remuneration report continued

### Remuneration structure

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

| Element | Purpose and link to strategy | Operation | Maximum opportunity | Performance measures |
|---|---|---|---|---|
| **Salary** | To provide salaries that are sufficient to attract and retain experienced and capable Executives who can drive the business forward.<br>In considering the base salary (and other elements of remuneration) of Executive Directors, the Committee takes due regard of the pay and conditions of the workforce generally. | Salaries are paid in equal monthly instalments and are normally reviewed on an annual basis. | No maximum salary has been set. However, any increase will normally be within the range of increases (in percentage terms) awarded to the wider workforce.<br>Increases may be awarded above the level awarded to other employees in appropriate circumstances, which include but are not limited to:<br>• A change in the scope of the role<br>• An increase in the complexity or size of the business<br>• To take account of the individual's performance in the role, which can include aligning a newly appointed Executive Director's salary with the market over time<br>• To take account of changes in market practice. | Not applicable, but the performance of the individual is taken into account when determining the amount of any increase. |
| **Benefits** | To operate a competitive benefits structure that aids in the recruitment and retention of our Directors. | Benefits currently provided include private medical cover, critical illness cover, life insurance, an annual car allowance and allowances to cover tax and legal advice to reflect the nature and location of the role.<br>Additional benefits may be provided as appropriate to take into account the nature and location of the role. | There is no maximum value of benefits that may be provided, but the Committee monitors the overall cost of the benefit provision on a periodic basis. The current benefit cover includes:<br>• Critical illness cover of 75% of salary<br>• Life assurance of 4x salary<br>• Car allowance of £12,000 p.a.<br>• Private medical benefits.<br>Critical illness cover, life assurance and private medical cover are provided through third party providers and therefore the cost to the Company and the value to the Executive Director may vary from year to year. | Not applicable. |
| **Retirement benefits** | Provide a competitive means of long-term retirement saving for Executives. | The Company will provide a monthly cash allowance in lieu of a contribution to a pension scheme or contribute an amount to a money-purchase pension scheme. | Up to 15% of salary. | Not applicable. |

| Element | Purpose and link to strategy | Operation | Maximum opportunity | Performance measures |
|---|---|---|---|---|
| **Annual Bonus Plan (ABP) and Deferred Annual Bonus Plan (DABP)** | Rewards achievement of annual financial objectives or other performance measures which support the delivery of the Company's strategy while encouraging a long-term focus through the use of deferred share awards. | The annual bonus may be paid in cash or in deferred shares (under the DABP). The Committee's current intention is for 25% of any bonus to be deferred under the DABP. However, under the rules of the ABP, the Committee may decide to satisfy up to 100% of the annual bonus in shares.<br>Where the amount of the bonus to be deferred into shares is less than £5,000, the Committee may pay the whole bonus in cash.<br>Any deferred shares will be granted in the form of nil (or nominal) cost options or conditional awards, and will normally be subject to a two year vesting period. Dividend equivalents may be payable on the deferred share awards in respect of dividends paid over the period from grant of the award to vesting calculated on such basis as the Committee shall determine, which may assume the reinvestment of dividends into shares.<br>Clawback and, in the case of deferred share awards, malus provisions, will apply as referred to below. | Maximum annual bonus (including cash and deferred shares) of 140% of salary. | The performance targets used for the annual bonus will be set by the Committee at the start of each financial year. The metrics and weightings used may vary from year to year to reflect changing business priorities. The measures will be based on financial performance and the individual Key Result Areas (KRAs) for each Executive, with at least 50% of the bonus opportunity being based on financial targets.<br>In the case of financial performance measures, there is no minimum bonus payment for threshold performance, with up to 50% of the maximum opportunity paid for target performance increasing to the full potential being paid for maximum performance. In the case of non-financial performance measures, the bonus will be earned between 0% and 100% based on the Committee's assessment of the extent to which the relevant metric has been achieved. |
| **Performance Share Plan (PSP)** | Encourages sustained performance, assists with retention, incorporates long-term incentives into the remuneration package and aligns Directors' interests with shareholders' interests. | At the discretion of the Committee, Executive Directors will receive awards of shares in the form of nil (or nominal) cost options or conditional awards, which will usually vest following the assessment of performance conditions measured over a period typically of at least three years.<br>Awards will be subject to a two year holding period following vesting, taking the form of either: (1) an additional period before the vested shares can be acquired; or (2) a requirement that any shares acquired pursuant to the award should be retained for the holding period (subject to sales to cover tax liabilities arising on the acquisition of the shares).<br>Dividend equivalents may be payable in respect of dividends over the period from grant to vest (or if the holding period is structured as an additional period before the vested shares can be acquired, from grant to the date on which those shares become capable of acquisition) calculated on such basis as the Committee shall determine, which may assume the reinvestment of dividends into shares.<br>Clawback and malus provisions will apply, as referred to below. | Maximum PSP award opportunity of 125% of salary (or up to 250% in exceptional circumstances) in respect of a financial year. | The vesting of PSP awards granted to Executive Directors will be subject to performance conditions set by the Committee prior to grant.<br>Performance conditions will be based on financial measures aligned to the Company's strategy which may include, but are not limited to, earnings per share or other earnings based measures, cash conversion or other cash based measures and return based measures. Where more than one performance measure applies, the Committee will determine the weightings of the measures at the time of grant. Awards will vest on a sliding scale from up to 25% for threshold performance rising to 100% for maximum performance. |
| **Shareholding guidelines** | To encourage the Executive Directors to build and maintain shareholdings in the Company. | The Executive Directors are required to retain 50% of the shares (net of tax) vesting under the incentive schemes until the guideline has been achieved. | 200% of salary. | Not applicable |

Governance

# Directors' remuneration report continued

### Further details on the operation of the incentive schemes

#### Annual bonus

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

#### Performance share awards

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

#### Operation of incentive plans

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

### Claw-back provisions

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

### Malus provisions

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

### Differences in policy from the wider employee population

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

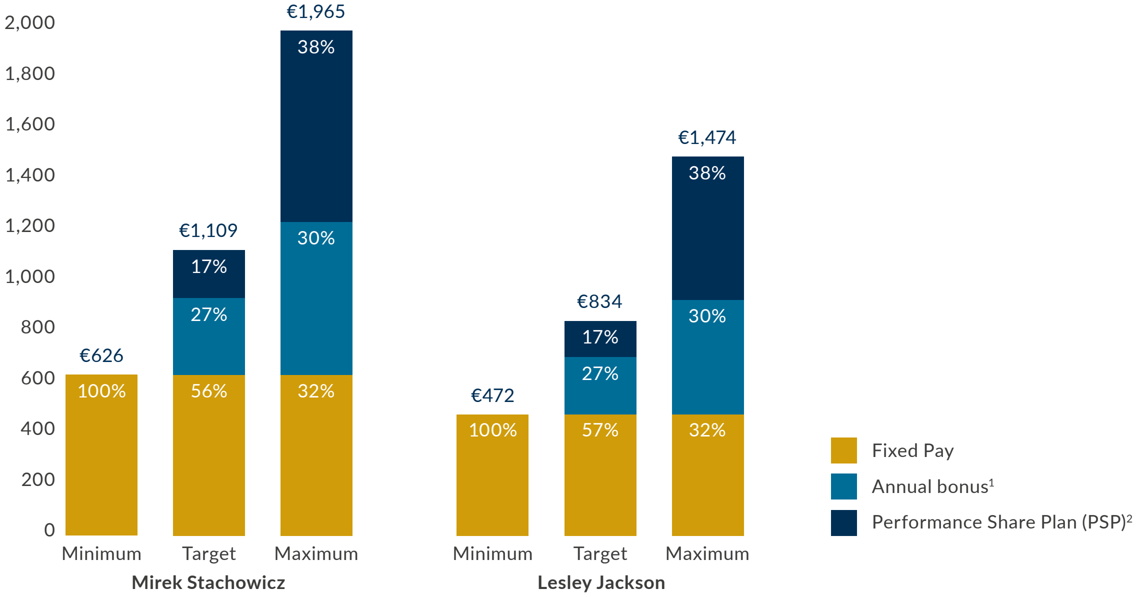
### Non-Executive Directors

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

## Reward scenarios

The chart below shows the potential reward available to the Executive Directors under the remuneration policy. The charts have been updated to show how the policy will be applied in 2017. For illustration, target performance assumes a bonus of 50% of the maximum and threshold vesting under the Performance Share Plan (25% of the maximum). The Directors are paid in Sterling but the chart has been presented in Euros, which is the Group's reporting currency using an exchange rate of 0.80. No assumptions have been made as to possible share price growth or dividends earned in relation to share awards.

### Reward Scenarios (€000)




1. Annual bonus 140% of salary at maximum, assumes bonus of 70% of salary at target
2. Performance share plan (PSP) assumes grant of 175% of salary and threshold vesting (25% of max) at target

## Legacy arrangements

The Committee retains the right to make any remuneration payments or payments for loss of office notwithstanding that they are not in line with this Policy where the terms of the payment were agreed:

- before the Policy came into effect (and, in the case of the terms of a payment agreed on or after 13 May 2014, were in line with the policy approved at the 2014 AGM); or
- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes, the term "payments" includes the satisfaction of awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

In particular, the Committee may satisfy the grant of any PSP award granted to an Executive Director in respect of the Company's 2017 financial year and which is in line with the Policy but granted before the Policy comes into effect.

We have set out below details on certain arrangements that were entered into with Lesley Jackson and Chris Heath prior to admission, and which were fully disclosed in the prospectus. No further awards will be granted under either agreement. Details of the outstanding awards under the agreements are set out below, and further details are provided in the Annual Report on Remuneration.

### Joint ownership equity (JOE) agreements

Prior to admission, Lesley Jackson owned shares in a Group Company under a joint ownership equity arrangement. As part of the corporate reorganisation on admission, these shares were exchanged for shares in the Company, and Lesley Jackson entered into a new agreement (the JOE agreement) in relation to such shares. Under this agreement, Lesley Jackson was granted an option to purchase the interest in shares held by the trustee. Each option is exercisable for five years from the date of admission, and is not subject to performance conditions or forfeiture. Details of the award are set out in the Annual Report on Remuneration. Dividends are payable on the JOE shares, and these are split between the trustee and option holders, according to a predetermined formula in each JOE agreement. Chris Heath entered into a similar agreement, which was exercised during 2016.

Governance

# Directors' remuneration report continued

### Top-up option agreements and substitute option agreement

The top-up option agreements document one-off share-option awards granted to Lesley Jackson and Chris Heath on admission to reward management for bringing the Company to admission. The substitute agreement documents a one-off share award granted to Lesley Jackson on admission in substitution for a commitment over shares in another Group Company given in 2012. These nil-cost options are not subject to forfeiture or performance conditions and are ordinarily exercisable up until the tenth anniversary following grant. Chris Heath was granted a top-up option over 535,137 shares. Lesley Jackson was granted a top-up option over 226,728 shares and a substitute option over 531,773 shares. Dividend equivalents are payable on the vested shares between grant and exercise.

### Service contracts and letters of appointment

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

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

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

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

### Payments for loss of office

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

#### Notice period/pay in lieu

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

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

### Outstanding incentive awards

#### Leavers

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

#### Good leavers

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

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

### Takeovers

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

In the event of a takeover or winding up of the Company (not being an internal reorganisation), vested PSP awards which are subject to a holding period, will be released early to the extent already vested.

In the event of a takeover or winding up of the Company, the Committee may allow bonuses for that financial year to be paid early, subject to: (i) the extent that the performance conditions have been satisfied at that time; and (ii) the pro-rating of the bonus to reflect the reduced period of time between grant and the date of such event, although the Committee can decide to reduce or eliminate the pro-rating of a bonus.

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

### Internal corporate reorganisation

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

### JOE agreements, top-up option agreements and substitute-option agreement

In the event of the Director's loss of office or a change of control, any unexercised option will remain exercisable in accordance with the terms of the relevant agreement until the expiry of the relevant exercise period.

### Other payments and benefits

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

## Recruitment of Directors

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

Governance

# Directors' remuneration report continued

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

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

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

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

### Non-Executive positions by Executive Directors

The Company's policy is to allow the Executive Directors to take only one NED role in another company with prior consent from the Board, which cannot be unreasonably withheld. The Committee may permit an Executive Director to take on additional roles following the giving of notice to terminate his employment with the Company.

### Consideration of shareholder views

The Committee is committed to open and transparent dialogue with shareholders, and seeks major shareholder views in advance of proposing significant changes to its policy. The Committee considers shareholder feedback received in relation to the AGM each year plus, any additional feedback received during any meetings from time to time. When there are material issues relating to executive remuneration or proposed changes in policy, we engage actively with major shareholders to ensure we understand the range of their views. Major shareholders and representative bodies were consulted in respect of our proposed changes to the Remuneration Policy that shareholders are being asked to approve at the AGM in May 2017.

## Annual Report on Remuneration

This part of the report details how the Remuneration Policy approved at the 2014 AGM was implemented during 2016, and how the proposed new Remuneration Policy will be implemented during 2017. This part of the report will be put to an advisory Shareholder vote at the 2017 AGM. The information in this section has been audited where stated.

### Composition of the Remuneration Committee

The members of the Remuneration Committee during the year are set out in the table below. During the year ended 31 December 2016, the Committee held six meetings and attendance is summarised below:

| | | Meetings eligible to attend | Meetings attended |
|---|---|---|---|
| John Nicolson | Chairman and SID | 6 | 6 |
| Andrew Cripps[1] | SID | 5 | 4 |
| Mirek Stachowicz[2] | Independent NED | 4 | 3 |
| Mike Butterworth[3] | Independent NED | 1 | 1 |
| Diego Bevilacqua[3] | Independent NED | 1 | 1 |
| Tomasz Blawat[3] | Independent NED | 1 | 1 |

1. Andrew Cripps resigned on 24 October 2016
2. Mirek Stachowicz stepped down from the Committee on his appointment as Interim CEO on 18 April 2016
3. Mike Butterworth, Diego Bevilacqua and Tomasz Blawat became members of the Committee on 24 October 2016

All members of the Committee are independent.

Elisa Gomez de Bonilla (General Counsel and Company Secretary) served as Secretary to the Committee except for one of the meetings where Steve Weatherley (Acting Company Secretary) served as Secretary, and the Chairman and CEO generally attend our Committee meetings by invitation. We also ask other members of the Senior Management Team (such as the Group HR Director) to present to the Committee during the year.

## Advice provided to the Committee

The Committee appointed Deloitte LLP as its adviser during 2016. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code of Conduct in relation to Executive remuneration consulting in the UK. Deloitte's fees for advice to the Committee during 2016 were £13,100, plus VAT.

During the year and prior to the appointment of Deloitte, the Committee were also advised by New Bridge Street (NBS), its former adviser appointed by the Committee at the time of the IPO. NBS is a founder signatory to the Remuneration Consulting Group's Code of Conduct, and its total fees in relation to Remuneration Committee advice during the year were £4,178 plus VAT.

The Committee reviewed the potential for conflicts of interest and the safeguards against them, and is satisfied that neither Deloitte nor NBS has any such interests, or connections with the Group, that may impair its independence.

## Directors' remuneration (audited)

The table below sets out the total remuneration for the Directors in 2016 and 2015.

The Directors are paid in Sterling, but figures in this report are disclosed in Euros (the Group's reporting currency). The exchange rate used is €1:£0.80 (2015: €1:£0.73) unless otherwise noted.

| | Total amount of salary and fees[1] | | All taxable benefits[2] | | Annual incentive arrangements | | Long-term incentive arrangements | | Pension | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| €'000 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Executive Directors** | | | | | | | | | | | | |
| Chris Heath | 612 | 671 | 22 | 23 | – | – | – | – | 92 | 101 | 726 | 795 |
| Lesley Jackson | 398 | 436 | 19 | 20 | – | – | – | – | 60 | 65 | 476 | 521 |
| Mirek Stachowicz[6] | 360 | – | 11 | – | – | – | – | – | 31 | – | 402 | – |
| **Independent NEDs** | | | | | | | | | | | | |
| Jack Keenan[3] | – | 105 | – | – | – | – | – | – | – | – | – | 105 |
| David Maloney | 213 | 181 | – | – | – | – | – | – | – | – | 213 | 181 |
| Andrew Cripps[5] | 74 | 91 | – | – | – | – | – | – | – | – | 74 | 91 |
| John Nicolson | 84 | 85 | – | – | – | – | – | – | – | – | 84 | 85 |
| Tomasz Blawat[4] | 13 | – | – | – | – | – | – | – | – | – | 13 | – |
| Mike Butterworth[4] | 16 | – | – | – | – | – | – | – | – | – | 16 | – |
| Diego Bevilacqua[4] | 13 | – | – | – | – | – | – | – | – | – | 13 | – |
| Mirek Stachowicz[3] | – | 11 | – | – | – | – | – | – | – | – | – | 11 |
| **Non-Independent NEDs** | | | | | | | | | | | | |
| Alberto da Ponte[4] | 35 | – | – | – | – | – | – | – | – | – | 35 | – |
| Randy Pankevicz[4] | 35 | – | – | – | – | – | – | – | – | – | 35 | – |

1. The salaries of both Chris Heath (prior to his retirement on 18 April 2016) and Lesley Jackson have remained unchanged from 2015. Chris Heath's salary was £490,000 (€612,500) (2015: £490,000 (€671,233)) and Lesley Jackson's current salary is £318,000 (€397,500) (2015: £318,000 (€435,616)). Mirek Stachowicz's current salary is £425,000 (€531,250) In addition, no changes are proposed for 2017
2. Taxable benefits include car allowances, medical and dental insurance
3. Jack Keenan retired from the Board on 18 May 2015, and Mirek Stachowicz joined the Board on 9 November 2015
4. Randy Pankevicz and Alberto da Ponte joined the Board on 23 May 2016, Alberto da Ponte passed away on 21 January 2017. Tomasz Blawat, Mike Butterworth and Diego Bevilacqua joined the Board on 24 October 2016
5. Andrew Cripps resigned from the Board on 24 October 2016
6. Mirek Stachowicz was appointed as Interim CEO on 18 April 2016 and as CEO on 10 August 2016. €20,708 of his 2016 remuneration was for his services at an Independent NED, €137,506 as Interim CEO and €244,257 as CEO

Governance

# Directors' remuneration report continued

### Annual bonus awarded for 2016 (audited)

Due to the performance of the Company during 2016, there was no annual bonus for the Executive Directors for 2016. The bonuses were based on challenging financial and personal targets; 50% of the bonus was based on EBITDA, 30% on cash flow targets and 20% on individual Key Result Areas (KRAs). The Committee has not published the targets, reflecting that no annual bonus has been earned. However in the future, the Company will disclose retrospectively the targets on which the bonus is based.

### Long-term incentives awarded in 2016 (audited)

As discussed in the statement from the Remuneration Committee Chairman on page 75, no long term incentive awards were granted during 2016. It had been the Committee's intention to grant at the level of 140% of salary, but no award was made due to a combination of a new CEO being appointed, other changes to our management and focus upon the turnaround of our Polish business. Our approach to the grant of awards in 2017 takes this into account, as discussed below.

### Outstanding share options (audited)

The following table summarises the Executive Directors' share awards as at 31 December 2016, or if earlier the date of cessation of employment. Mirek Stachowicz does not hold awards under any share plan operated by the Company.

| Type of interest | Date of grant | Performance condition | Interest as at 31 December 2015 | No. shares under award | No. shares under any lapsed portion of the award | Share options as at 31 December 2016 (or, if earlier, the date of cessation of employment) | Vesting date or (for options) exercise period | Exercise price per share (if applicable)(£) |
|---|---|---|---|---|---|---|---|---|
| **Lesley Jackson** | | | | | | | | |
| PSP[1] | 22.04.15 | TSR & EPS | 226,565 | Nil | Nil | 226,565 | 22.04.18 | Nil |
| PSP[2] | 06.05.14 | TSR | 152,309 | Nil | Nil | 152,309 | 06.05.17 | Nil |
| JOE agreement[3] | 21.10.13 | None | 715,449 | Nil | Nil | 715,449 | 21.10.13 – 24.10.18 | 0.001183258 |
| Top-up option agreement[4] | 21.10.13 | None | 226,728 | Nil | Nil | 226,728 | 21.10.13 – 20.10.23 | Nil |
| Substitute option agreement[5] | 21.10.13[c] | None | 531,773 | Nil | Nil | 531,773 | 21.10.13 – 20.10.23 | Nil |
| **Chris Heath** | | | | | | | | |
| PSP[1] | 22.04.15 | TSR & EPS | 349,109 | Nil | Nil | 349,109 | 22.04.18 | Nil |
| PSP[2] | 06.05.14 | TSR | 234,690 | Nil | Nil | 234,690 | 06.05.17 | Nil |
| JOE agreement[3] | 21.10.13 | None | 2,861,795 | Nil | Nil | – | 21.10.13 – 24.10.18 | 0.001183258 |
| Top-up option agreement[4] | 21.10.13 | None | 535,137 | Nil | Nil | 535,137 | 21.10.13 – 20.10.23 | Nil |

1. The performance conditions for the 2015 PSP awards are based on EPS as regards 50% of the awards and TSR as regards 50% of the awards. The EPS performance condition requires growth in fully diluted adjusted EPS of at least 6% per annum for which 25% of this part of the award vests, increasing on a straight-line basis to full vesting of this part of the award for EPS growth of 12% per annum or above. The TSR performance condition assesses the Company's TSR performance relative to a comparator group of 13 international food and beverage companies with 25% of this element of the awards vesting if the Company is ranked at least median against the comparator group, increasing on a straight-line basis for full vesting for upper-quartile performance or above
2. The performance condition for the 2014 PSP awards assesses the Company's TSR performance relative to a comparator group of 13 international food and beverage companies. 25% of the awards will vest if the Company is ranked at least median against the comparator group, increasing on a straight-line basis for full vesting for upper-quartile performance or above. Taking into account performance against the targets set, the awards are expected to lapse
3. The JOE agreements were put in place prior to admission to replace existing JOE arrangements over F shares in another Group company (OCM Luxembourg Holdings S.à.r.l.) which has subsequently been liquidated. The shares were converted on IPO at a rate of 17,886 shares in Stock Spirits Group PLC for each F share held
4. The top-up options are nil-cost options that were granted at IPO. The options were not subject to performance or service conditions and were exercisable immediately on grant
5. The substitute option agreements were put in place on admission to replace a commitment over shares entered into with Lesley Jackson in December 2012

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

On his retirement, Chris Heath received salary and benefits under his contractual terms. No bonus was awarded and his 2014 and 2015 PSP awards are expected to lapse taking into account performance against targets set.

There have been no other payments to past Directors or payments made to Directors for loss of office in the year.

### Directors' share interests (audited)

The table below sets out the Directors' shareholdings and, for the Executive Directors, a summary of their outstanding scheme interests (being the PSP, JOE and option awards). The Executive Directors are subject to shareholding guidelines requiring them to build and maintain a shareholding of a specified level. For 2016, this was 100% of salary. As described in the statement from the Committee Chairman on page 75, under the new Directors' Remuneration Policy for which approval is sought at the 2017 AGM, this will be increased to 200% of base salary. Their achievement against these guideline limits is set out in the table below. It can be noted that Lesley Jackson's shareholding is well above the requirement set out in the guidelines, and Mirek Stachowicz has purchased 92,358 shares since he joined the Group in November 2015. This clearly indicates the alignment of the Executive Directors' interests with those of our shareholders and their high commitment in delivering the results of the Company in line with the Group's strategy.

| | | Outstanding scheme interests | | | Value of shares counting towards the shareholding guideline[1] | |
|---|---|---|---|---|---|---|
| As at 31 December 2016 | Beneficially owned shares | PSP | JOE agreements | Top-up and substitute options | £'000 | % salary |
| **Executive Directors** | | | | | | |
| Mirek Stachowicz[4] | 92,358 | – | – | – | 167 | 39% |
| Lesley Jackson[2] | 219,555 | 378,874 | 715,449 | 758,501 | 1,688 | 531% |
| **NEDs** | | | | | | |
| David Maloney[3] | 60,000 | – | – | – | – | – |
| John Nicolson | – | – | – | – | – | – |
| Mike Butterworth | 18,750 | – | – | – | – | – |
| Diego Bevilacqua | 18,182 | – | – | – | – | – |
| Tomasz Blawat | – | – | – | – | – | – |
| Randy Pankevicz | – | – | – | – | – | – |

1. Only the shares beneficially owned and those shares held pursuant to the JOE agreements count towards the thresholds set out in the share ownership guidelines. Achievement against the guideline is calculated using the year-end share price of £1.805 and expressed as a percentage of current salary
2. All beneficially owned shares are held in the name of Mark Jackson, her husband
3. All of which are held in the name of Agneta Maloney, his wife
4. All of which are held jointly with Katarzyna Lewicka-Stachowicz, his wife

There were no changes in the Directors' shareholdings between 31 December 2016 and the date of this report.

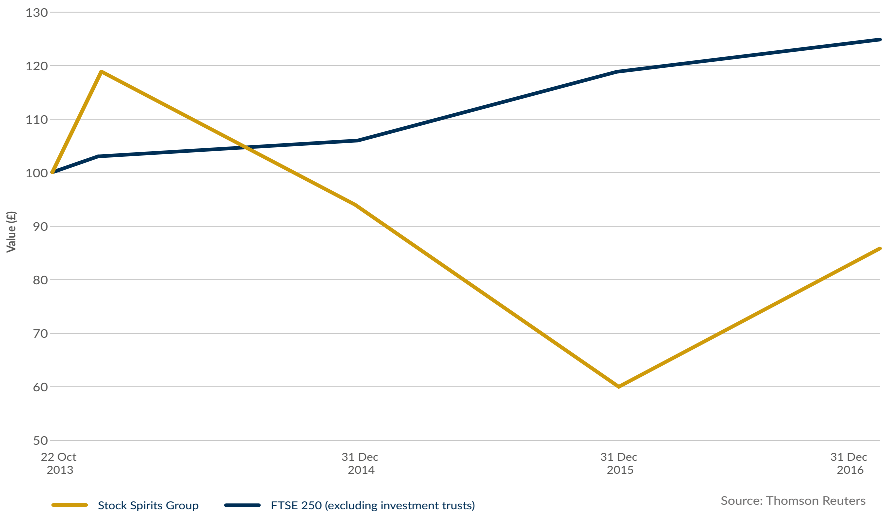
Governance

# Directors' remuneration report continued

### Total shareholder return performance

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

**Total shareholder return**




This graph shows the value, by 31 December 2016, of £100 invested in Stock Spirits Group on 22 October 2013 compared with that of £100 invested in the FTSE 250 Index (excluding investment trusts).

### Total remuneration of Chief Executive Officer (CEO)

The table below shows a summary of the total remuneration received by the CEO since 2012.

| | | | | | 2016[1] | |
|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | Chris Heath | Mirek Stachowicz |
| Single-figure total remuneration (€'000) | 1,306 | 2,846[2] | 717 | 795 | 222 | 382 |
| Total annual bonus pay-out (as % of maximum opportunity) | N/A[2] | N/A[2] | N/A | N/A | N/A | N/A |
| Long-term incentive vesting (as % of maximum opportunity) | N/A | N/A[3] | N/A[3] | N/A[3] | N/A[3] | N/A[3] |

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

### Percentage change in the remuneration of the CEO

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

| % change in: | Chief Executive | All employees[2] |
|---|---|---|
| Base salary | (21.6%)[1] | (0.1%) |
| Benefits[3] | (37.4%)[4] | 11.0% |
| Total annual bonus | 0.0% | 7.4% |

1. Chris Heath's salary for 2016 was paid at the annual rate of £490,000. On his appointment as CEO, Mirek Stachowicz's salary was set at the annual rate of £425,000
2. Also including the COO's remuneration
3. Benefits include car allowance, health and dental cover, and pension contributions/allowances
4. Chris Heath was CEO throughout 2015 and in 2016 from the start of the year until his retirement on 18 April 2016. Mirek Stachowicz was CEO from 18 April 2016 until the end of the year. The change in benefits is calculated as the difference between the benefits figure for Chris Heath in respect of 2015 and the aggregated figure for Chris Heath and Mirek Stachowicz for 2016

## Relative importance of the spend on pay

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

| | 2015 | 2016 | % change |
|---|---|---|---|
| Remuneration paid to all employees (€m)[1] | 33.9 | 36.0 | 6.3 |
| Distributions to shareholders (€m)[2] | 7.5 | 37.4 | 398.2 |

1. Excluding share-based compensation
2. Distributions to shareholders represent dividends paid in each year

## How the Directors' Remuneration Policy will be applied for 2017

As noted in the statement by the Committee Chairman on page 75, at the 2017 AGM we will seek approval for a new Directors' Remuneration Policy. That new Directors' Remuneration Policy is set out on pages 77 to 84 and we have described below how we will apply that policy, subject where relevant, to its approval at the 2017 AGM.

## Base salaries

The CEO's salary was set on recruitment at £425,000 (€531,250), compared to a salary for the former CEO for 2015 of £490,000 (€671,233). No increase is proposed for 2017.

The CFO's salary for 2016 was £318,000 (€397,500) (2015: £318,000 (€435,616)). No increase is proposed for 2017.

## Annual bonus

The annual bonus plan for 2017 will be based on achievement against a range of financial targets and individual KRAs. The KRAs are linked to the financial, strategic and operational performance of the business, and include measures relating to business and sales growth, market share, brand-building and organisational targets. The Annual Bonus will be based 50% on achievement of the EBITDA target, 30% on the cash target and 20% on the KRAs. These performance targets are the key drivers to sustain the growth of the Group, and the individual KRAs ensure that the Executive Directors are committed to the Group's strategy. The forward-looking targets are deemed to be commercially sensitive. The maximum bonus opportunity will be 140% of salary which will be payable only for achieving stretch levels of performance. 25% of any bonus earned for 2017 will be paid in the form of deferred shares.

## Performance Share Plan

As described in the statement by the Committee Chairman on page 75, Performance Share Plan awards for 2017 will be granted at the level of 175% of salary, reflecting that no awards were granted in 2016. The vesting of the awards will be subject to the satisfaction of performance conditions measured over 2017, 2018 and 2019 based on EPS growth (as regards 50% of each award) and cash conversion (as regards 50% of each award), as set out below:

### EPS

| Compound annual growth in EPS[1] over the performance period | Vesting |
|---|---|
| Less than 6% | 0% |
| 6% | 25% |
| Between 6% and 12% | Pro-rata between 25% and 100% |
| 12% or more | 100% |

1. For these purposes, EPS will be defined as fully diluted earnings per share as disclosed in the note 7 subject to such adjustments as the Committee shall determine from time to time

Governance

# Directors' remuneration report continued

### Cash Conversion

| Three year average cash conversion[1] over the performance period | Vesting |
|---|---|
| Less than 75% | 0% |
| 75% | 25% |
| Between 75% and 90% | Pro-rata between 25% and 100% |
| 90% or more | 100% |

1. For these purposes, cash conversion will be calculated as Adjusted free Cash Flow / Adjusted EBITDA (see note 7). On this basis, the cash conversion was 93.8% for this year, 87.2% for 2015 and 44.2% for 2014 giving a three year average cash conversion of 75%. There will also be an underlying requirement for any vesting to occur which will be that, at the time of vesting, the Remuneration Committee must be satisfied with the overall financial performance of the Group. In addition, the cash conversion performance measure shall be subject to a further requirement that an award will not vest by reference to that performance measure unless a further underpin based on EBITDA performance over the performance period is achieved. The application of the cash conversion performance measure to the Executive Directors' awards is subject to shareholder approval of the new Directors' Remuneration Policy, if the new Policy is not approved the awards will revert to the previous performance measures

### Fees for the Chairman and NEDs

In 2017, no change is proposed to the level of fees paid to the Chairman and NEDs.

Shareholding vote at the AGM The Company's current Directors' Remuneration Policy was approved at the 2014 AGM. The voting outcome in relation to the Directors' Remuneration Policy at the 2015 AGM and in relation to the 2015 Annual Report on Remuneration at the 2016 AGM were as follows:

| | Votes for | Votes against | Votes withheld |
|---|---|---|---|
| Directors' Remuneration Policy at the 2014 AGM | 126,856,412 (97.13%) | 3,611,042 (2.87%) | 9,691,139 |
| 2015 Annual Report on Remuneration at the 2016 AGM | 138,983,917 (85.02%) | 24,488,956 (14.98%) | 8,355,395 |

Approved and signed on behalf of the Board.

John R Nicolson

**John Nicolson**
Chairman of the Remuneration Committee
8 March 2017

Governance

# Directors' report

The Corporate Governance report on pages 56 to 90 forms part of the Directors' report.

The Directors' report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Rules, and the Disclosure and Transparency Rules, comprises pages 91 to 95.

### Directors

The Directors in office at the date of this report are shown on pages 56 to 57. All served throughout the year under review, except for Randy Pankevicz and Alberto da Ponte who were appointed as Directors on 23 May 2016; Mike Butterworth, Diego Bevilacqua and Tomasz Blawat, who were appointed as Directors on 24 October 2016; Chris Heath was a Director until he retired on 18 April 2016; Andrew Cripps was a Director until he resigned on 24 October 2016 and Alberto da Ponte was a Director until his death on 21 January 2017.

### Directors' interests in the Company's shares

The interests of the Directors of the Company at 31 December 2016, and their connected persons, in the issued shares of the Company disclosed in accordance with the FCA's Listing Rules, are given in the Remuneration Report on pages 75 to 90. The Remuneration Report also sets out details of any changes in those interests between the year-end and 8 March 2017.

### Powers of Directors

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

Further details of Directors' contracts, remuneration and their interests in the shares of the Company at 31 December 2016 are given in the Directors' Remuneration Report on pages 75 to 90.

### Indemnification of Directors and insurance

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

### Appointment and replacement of Directors

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

### Compensation for loss of office

We do not have arrangements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover. Further information is provided on page 82.

### Political donations

There were no political donations during the period (2015: nil).

### Share capital and control

Details of our issued share capital as at 31 December 2016 can be found in note 28 to the financial statements on page 143. The Company's share capital comprises 200,000,000 ordinary shares, which are listed on the London Stock Exchange. There were no changes to the share capital during the year.

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

Governance

# Directors' report continued

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

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

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

### Particulars of acquisitions of own shares

At the Company's 2016 AGM, shareholders granted the Company authority to make market purchases of up to 20,000,000 ordinary shares of £0.10 each, representing 10% of the issued-share capital. At the Company's forthcoming AGM, Directors will be seeking approval from shareholders to authorise the Company to purchase up to 10% of its existing ordinary share capital. This authority, if approved, will expire on 31 May 2018 or at the Company's 2018 AGM, whichever is earlier; however, it is intended that this authority be renewed each year. For more information on this resolution, refer to the notice of AGM and explanatory notes, which are being sent separately to shareholders entitled to vote at the AGM.

### Substantial share interests

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

| | As at 6 March 2017 | | As at 31 December 2016 | |
|---|---|---|---|---|
| Substantial interests (above 3%) | Shares | % | Shares | % |
| Western Gate Private Investments (PT) | 19,335,871 | 9.67 | 19,335,871 | 9.67 |
| M&G Investment Management Ltd (UK) | 16,126,545 | 8.06 | 16,126,545 | 8.06 |
| Capital Research & Management (US) | 12,356,674 | 6.18 | 15,150,774 | 7.58 |
| Franklin Resources Inc (SG and US) | 10,069,966 | 5.03 | 10,069,966 | 5.03 |
| Columbia Threadneedle Investments (UK) | 9,576,982 | 4.79 | 9,580,031 | 4.79 |
| Aviva Investors (UK) | 9,321,375 | 4.66 | 9,856,302 | 4.93 |
| BlackRock Inc (US and UK) | 8,389,861 | 4.19 | 6,259,471 | 3.13 |
| Old Mutual Plc (US and UK) | 8,369,731 | 4.18 | 8,264,587 | 4.14 |
| Aberdeen Asset Managers Limited (UK) | 7,838,178 | 3.92 | 7,783,424 | 3.89 |
| Heronbridge Investment Management (UK) | 7,631,827 | 3.82 | 7,631,827 | 3.82 |
| Princeton Holdings Ltd (CA) | 6,540,000 | 3.27 | 6,525,000 | 3.26 |
| AzValor Asset Management SGIIC (ES) | 6,259,012 | 3.13 | 6,154,901 | 3.08 |

Western Gate Private Investments Limited, of which the ultimate beneficial owner is Mr Luis Manauel Conceicao Do Amaral, holds 9.67% of the shares of the Company. Mr Luis Manauel Conceicao Do Amaral also holds 43.58% of the shares of Eurocash SA. Eurocash is one of the Company's major customers in Poland.

There have been no other changes notified between 31 December 2016 and the date of this report.

### Financial risk management

The Group's financial risk management objectives and policies, including its use of financial instruments, are set out in note 30 to the Group's consolidated financial statements on pages 144 to 148.

### Post-balance sheet events

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

### Future business developments
Further details on these are set out in the Strategic Report on pages 5 to 53.

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

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

### Employee involvement and policy regarding disabled persons
A description of the action taken by the Company in relation to employee involvement, including how the Company provides employees with information on matters concerning them and the Group, can be found on page 39.

The Company has an equal opportunities policy, and procedures are in place that are designed to provide for full and fair consideration and selection of disabled applicants to ensure they are properly trained to perform safely and effectively, and to provide career opportunities that allow them to fulfil their potential. Where an employee becomes disabled in the course of their employment, the Company will actively seek to retain them wherever possible by making adjustments to their work content and environment, or by retraining them to undertake new roles.

### Greenhouse gas emissions
In 2016, the Group's total Scope 1 (direct) and Scope 2 (indirect) Greenhouse Gas (GHG) emissions were 35,955 tonnes and 10,100 tonnes of $CO_2e$ respectively ($CO_2e$), a total of 46,055 tonnes. This is a 4% increase compared to 44,494 tonnes in 2015 (35,182 tonnes of Scope 1 and 9,312 tonnes of Scope 2 $CO_2e$), and is in line with the 4% increase in packaged goods production compared to 2015. The emissions intensity factor was therefore barely changed, at 436 grams $CO_2e$ per litre of packaged product compared to 439 grams. A decrease in the emissions intensity factor in our Lublin factory due to fewer days of rectification was offset by a higher proportion of emissions coming from our Baltic Distillery, which rose by 10% compared to the 4% increase in packaged goods production. Baltic Distillery, now accounting for 78% of Group emissions, remains the largest single emitter in the Group as its core activity is energy intensive rectification.

As in prior years, we have applied the latest available DEFRA UK location based conversion factors (2016) to calculate the current year emissions. All data capture procedures, conversion and reporting have undergone independent limited assurance by ERM Certification and Verification Services. The 2016 Independent Assurance Statement is available on the Stock Spirits Group website.

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

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

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

- Facilities agreement dated 18 November 2015 for a €200,000,000 revolving credit facility (RCF) with a banking club consisting of five banks including HSBC who also act as the Agent. The loans bear variable rates of interest which are linked to the inter-bank offer rates of the drawers, WIBOR, PRIBOR or EURIBOR as appropriate. Each of the loans have a variable margin element to the interest charge. The margin is linked to a ratchet mechanism where the margin decreases as the Group's leverage covenant decreases.

# Directors' report continued

### Dividend
A special dividend of 11.9 €cents per share was paid on 27 July 2016. A dividend of 2.27 €cents per share was paid at the half year stage (see note 29 to the financial statements), and the Directors recommend a final dividend of 5.45 €cents to be paid on 26 May 2017 to shareholders on the share register at the close of business on 5 May 2017. The shares will be quoted ex-dividend on 4 May 2017. The FX fixing date will be 5 May 2017.

Total dividends paid and proposed for the year amount to 19.62 €cents.

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

### Statement on disclosure to auditors
So far as each Director is aware, there is no relevant audit information, that would be needed by the Company's auditors in connection with preparing their audit report (which appears on pages 96 to 101), of which the auditors are not aware; each Director, in accordance with Section 418(2) of the Companies Act 2006, has taken all reasonable steps that he or she ought to have taken as a Director to make him or her aware of any such information, and to ensure that the auditors are aware of such information.

### Auditors
KPMG LLP is the statutory auditor of the Company, and resolutions for its reappointment and to authorise the Directors to agree the auditor's remuneration will be submitted at the 2017 AGM.

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

**Mirek Stachowicz**
Chief Executive Officer
8 March 2017

**Lesley Jackson**
Chief Financial Officer
8 March 2017

Governance

# Statement of Directors' responsibilities

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

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

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

- Select suitable accounting policies, and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether they have been prepared in accordance with IFRSs as adopted by the EU
- Prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

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

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

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

**Responsibility statement of the Directors in respect of the Annual Report & Accounts (ARA)**
We confirm that, to the best of our knowledge:

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

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

By order of the Board.

**Mirek Stachowicz**
Chief Executive Officer
8 March 2017

**Lesley Jackson**
Chief Financial Officer
8 March 2017

KPMG

# Independent auditor's report

## to the members of Stock Spirits Group PLC only

## Opinions and conclusions arising from our audit

### 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Stock Spirits Group PLC for the year ended 31 December 2016 set out on pages 104 to 170. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU); and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

| Overview | | |
|---|---|---|
| **Materiality:** group financial statements as a whole | €1.5m (2015:€1.5m) 3.8% of group profit before tax (2015: 4.3% of normalised group profit before tax) | |
| **Coverage** | 99% (2015:95%) of group profit before tax | |
| **Risks of material misstatement vs 2015** | | |
| **Recurring risks** | Revenue recognition | ◀▶ |
| | Tax provisioning | ◀▶ |
| | Goodwill & intangible asset impairment | ◀▶ |

## 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows (unchanged from 2015):

| | The risk | Our response |
|---|---|---|
| **Revenue recognition**<br><br>(€261 million; 2015: €263 million)<br><br>*Refer to page 70(Audit Committee Report), page 114 (accounting policy) and page 123 (financial disclosures).* | **Calculation error**<br><br>The Group negotiates a variety of sales incentive arrangements, particularly retrospective volume rebates and other contractual discounts, with most of its customers.<br><br>The reductions resulting from these arrangements are significant in the income statement, in particular from the Polish operations. There are a large number of individual customer arrangements for the group to monitor that are in place across multiple locations and include differing terms. As such there is a risk of incorrect calculation of the sales incentives due to key terms input inappropriately or having been omitted.<br><br>Not all sales incentives are confirmed by customers at 31 December, albeit rebate measurement periods are retrospective and in most cases coterminous with the 31 December year end.<br><br>**Omitted arrangements**<br><br>Due to the large number of customers and the geographic spread there is a risk that not all sales incentive arrangements have been captured and reflected in the financial statements.<br><br>**2016/2017 sales**<br><br>The business is seasonal in nature with peak revenues towards the end of the financial year which increases the risk of inclusion of revenue in the wrong period. Trading conditions in 2016 continued to be challenging across the Group and there is pressure to achieve financial targets. These considerations give rise to an increased risk of management bias or fraud over the timing of revenue recognition. | **Our procedures included:**<br><br>– **Expectation vs outcome:** We performed a comparison of amounts deducted from sales as a proportion of gross sales throughout the year and across regions and customers to identify any unusual trends. We assessed whether these indicated further risk of revenue being inappropriately recognised in the current year.<br><br>– **Enquiry of customers:** We have sought customer confirmations of amounts owed with a sample of customers and investigated any significant differences between confirmations received and the group's records. Where responses were not received, alternative procedures were performed, including agreeing the records to post year end cash receipts;<br><br>– **Reperformance:** We selected a sample including significant and certain other customer contracts, understood the key terms and recalculated rebates based on those terms.<br><br>– **Historical comparison:** We assessed the completeness of prior period accruals for sales incentives by performing an analysis of payments made, invoices received and credit notes issued in 2016 against accrued amounts.<br><br>– **Test of details:** We have assessed the completeness of accruals for sales incentives by agreeing a sample of post year end cash disbursements, invoices received and credit notes issued to amounts recorded by the Group at the period end.<br><br>– **Extended scope:** We tested a sample of invoices issued close to the year end to assess whether revenue was recorded in the appropriate period by agreeing the sale recorded to delivery note information. We also inspected a sample of journal entries relating to revenue, including transactions close to the year end, and assessed whether they were booked into the correct period by agreeing to supporting documentation, including delivery notes where applicable. |

| | The risk | Our response |
|---|---|---|
| **Tax provisioning**<br>(€7.4 million; 2015: €8.4 million)<br>*Refer to page 71 (Audit Committee Report), page 116 (accounting policy) and page 129 (financial disclosures).* | **Dispute outcome**<br>The group has a number of outstanding tax assessments. The tax risks for the group include transfer pricing amounts charged not being considered deductible by local authorities for corporation tax. The directors are required to make judgements and estimates in determining the liabilities to be recognised with regard to the various taxation exposures. | **Our procedures included:**<br>– **Own tax expertise:** We used our own local tax specialists to assess the group's tax positions through reading of the latest correspondence with the relevant tax authorities. We obtained written representations from the group's advisors containing their views on material tax exposures and any related litigation. We analysed and challenged the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts.<br>– **Our sector experience:** We assessed the group's transfer pricing documentation and policy with reference to the latest market practices in this area.<br>– **Assessing transparency:** Using our own tax specialists we assessed the appropriateness of the disclosures in the financial statements. |
| **Goodwill & intangible asset impairment**<br>(€364 million; 2015: €359 million)<br>*Refer to page 71 (Audit Committee Report), page 117 (accounting policy) and page 135 (financial disclosures).* | **Forecast-based valuation**<br>The appropriateness of the carrying value of goodwill and intangible assets is dependent on achieving sufficient levels of future cash flows. The assets are spread across a range of markets and consequently forecasting cash flows used in impairment testing is more complex, requiring assumptions to be made relating to differing economic environments. Estimating recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. | **Our procedures included:**<br>– **Control design:** We tested controls relating to the monitoring, analysis and appropriate approval of cash flow forecasts used in impairment testing.<br>– **Assessing methodology:** We assessed the principles and integrity of the cash flow model.<br>– **Assessing forecasts:** Based on our knowledge of the business and industry, we assessed the forecast revenue growth and profit margins with reference to past performance, future plans and external market data for each location. Our procedures were particularly focused on Czech and Italy Cash Generating Units for which the level of headroom is the most sensitive.<br>– **Benchmarking assumptions:** We involved our own valuation specialists to assess the discount rates used by the group for each location, including comparing the key inputs, such as such as risk free rates, size premium, country premium and inflation, to externally derived data.<br>– **Sensitivity analysis:** We performed breakeven analysis on key assumptions, including discount rate and projected cash flows.<br>– **Assessing transparency:** We considered whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill and intangible assets. |

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

The materiality for the group financial statements as a whole was set at €1.5 million. This has been determined with reference to a benchmark of profit before taxation of which it represents 3.8%, which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the group.

In the previous year the benchmark chosen was group profit before taxation which was averaged across the past three years in order to exclude the impact of volatility (and of which it represented 4.3%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding €75,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's nine (2015: nine) reporting components, we subjected five to audits for group reporting purposes, and one is audited by the group team.

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

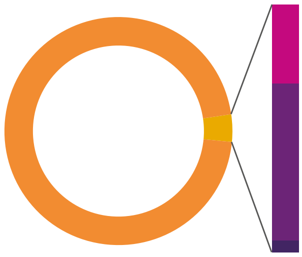
The remaining 3% of total group revenue, 1% of group profit before tax and 2% of total group assets is represented by three of reporting components, none of which individually represented more than 2% of any of total group revenue, group profit before tax or total group assets. For these residual components,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

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from €0.3 million to €1 million, having regard to the mix of size and risk profile of the Group across the components.

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

**Group profit before tax**
€39m (2015: €31m)

**Materiality**
€1.5m (2015: €1.5m)



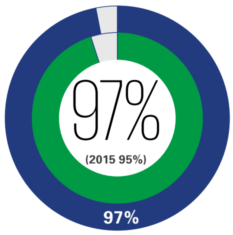
**€1.5m**
Whole financial statements materiality (2015: €1.5m)

**€1m**
Range of materiality at 5 components (€0.3m-1m) (2015: €0.3m to €1m)

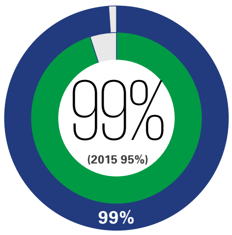
**€0.075m**
Misstatements reported to the audit committee (2015: €0.075m)

Profit before tax
Group materiality

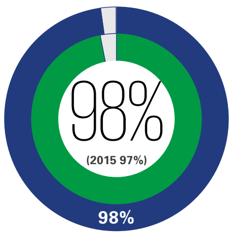
**Group revenue**




**Group profit before tax**




**Group total assets**




Full scope for group audit purposes 2016
Full scope for group audit purposes 2015
Residual components

4. **Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

**In our opinion:**

– the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

– the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

– we have not identified material misstatements in those reports; and

– in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. **We have nothing to report on the disclosures of principal risks**

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

– the directors' viability statement on page 53, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the three years to December 2019; or

– the disclosures in note 2 of the financial statements concerning the use of the going concern basis of accounting.

6. **We have nothing to report in respect of the matters on which we are required to report by exception**

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

– we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or

– the Audit Committee report does not appropriately address matters communicated by us to the audit committee.

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

– adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

– the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

– certain disclosures of directors' remuneration specified by law are not made; or

– we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

– the directors' statements, set out on pages 53 and 94, in relation to going concern and longer-term viability; and

– the part of the Corporate Governance Statement relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

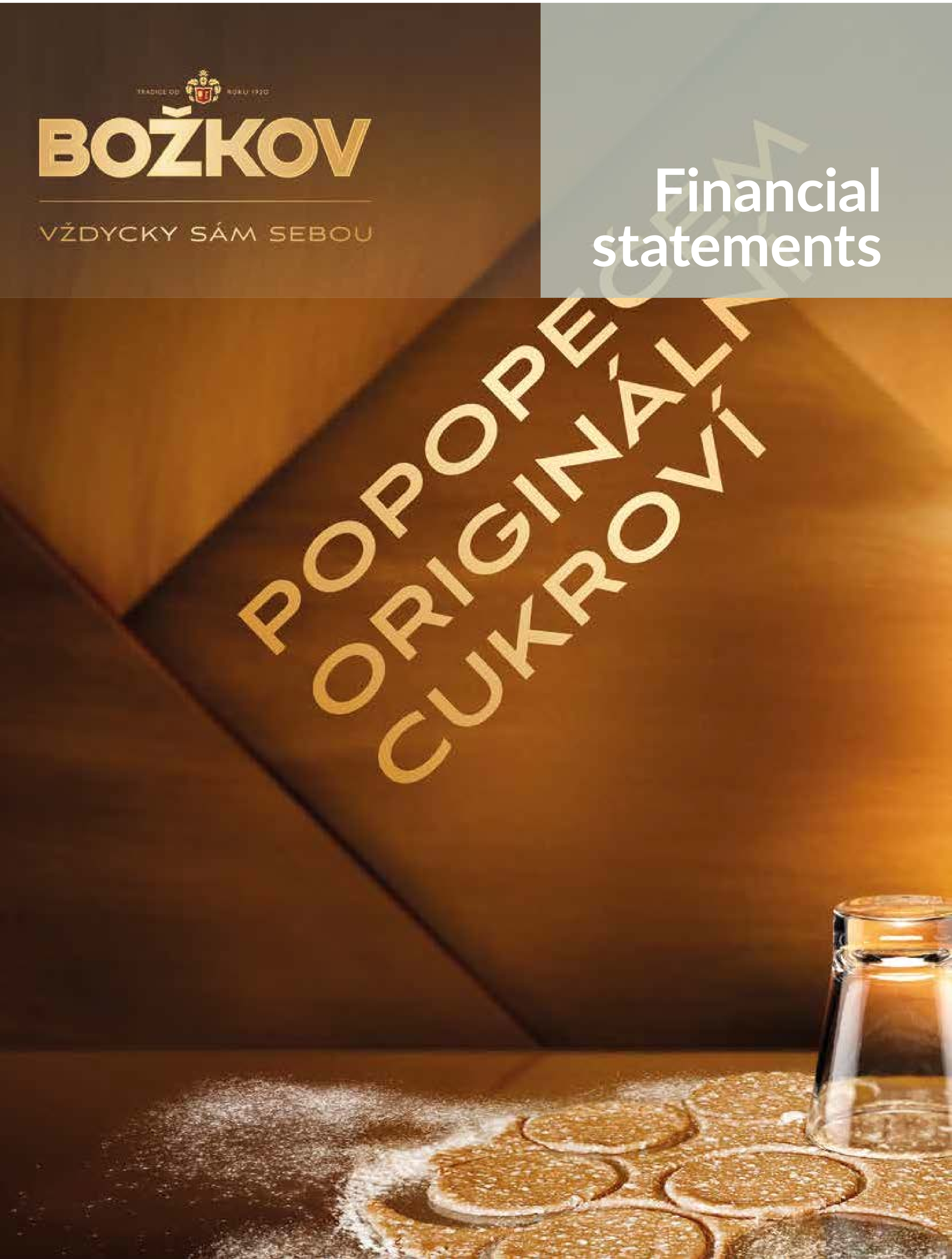
We have nothing to report in respect of the above responsibilities.

## Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 95, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Simon Haydn-Jones (Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Reading
8 March 2017

# Financial statements




BOŽKOV
ORIGINÁL

# Consolidated income statement

for the year ended 31 December 2016

| | Notes | 2016 €000 | 2015 €000 |
|---|---|---|---|
| **Revenue** | 5 | 260,974 | 262,649 |
| Cost of goods sold | | (128,714) | (122,003) |
| **Gross profit** | | 132,260 | 140,646 |
| Selling expenses | | (61,305) | (63,026) |
| Other operating expenses | | (30,819) | (35,916) |
| **Operating profit** | | 40,136 | 41,704 |
| Finance income | 9 | 1,703 | 2,387 |
| Finance costs | 9 | (2,668) | (12,638) |
| **Profit before tax** | | 39,171 | 31,453 |
| Income tax expense | 13 | (10,734) | (12,033) |
| **Profit for the year** | | 28,437 | 19,420 |
| Attributable to: | | | |
| Equity holders of the Parent | | 28,437 | 19,420 |
| **Earnings per share, (Euros), attributable to equity holders of the Parent** | 14 | | |
| Basic | | 0.14 | 0.10 |
| Diluted | | 0.14 | 0.09 |

# Consolidated statement of comprehensive income

for the year ended 31 December 2016

| | 2016 €000 | 2015 €000 |
|---|---|---|
| **Profit for the year** | 28,437 | 19,420 |
| | | |
| **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 | (7,768) | 8,871 |
| Income tax effect | – | – |
| | 20,669 | 28,291 |
| | | |
| *Other comprehensive expense not to be reclassified to profit or loss in subsequent period:* | | |
| Re-measurement losses on employee severance indemnity | (3) | – |
| Income tax effect | – | – |
| **Total comprehensive income for the year, net of tax** | 20,666 | 28,291 |
| | | |
| Attributable to: | | |
| Equity holders of the Parent | 20,666 | 28,291 |

Financial statements

# Consolidated statement of financial position

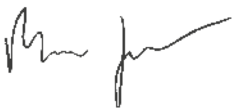
as at 31 December 2016

| | Notes | 31 December 2016 €000 | 31 December 2015 €000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets – goodwill | 15 | 60,840 | 60,366 |
| Intangible assets – other | 16 | 302,753 | 298,896 |
| Property, plant and equipment | 18 | 55,705 | 59,603 |
| Deferred tax assets | 13 | 13,255 | 17,770 |
| Other assets | 21 | 4,533 | 4,511 |
| | | 437,086 | 441,146 |
| **Current assets** | | | |
| Inventories | 19 | 21,658 | 27,716 |
| Trade and other receivables | 20 | 131,396 | 131,181 |
| Other assets | 21 | 1,500 | 141 |
| Current tax assets | 13 | 411 | 3,569 |
| Cash and cash equivalents | 32 | 74,956 | 75,806 |
| | | 229,921 | 238,413 |
| **Total assets** | | 667,007 | 679,559 |
| **Non-current liabilities** | | | |
| Financial liabilities | 23 | 134,168 | 132,281 |
| Other financial liabilities | 24 | 113 | 285 |
| Deferred tax liabilities | 13 | 45,933 | 45,775 |
| Provisions | 25 | 946 | 1,092 |
| Trade and other payables | 27 | 49 | 669 |
| | | 181,209 | 180,102 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | 53,352 | 49,612 |
| Financial liabilities | 23 | 33 | – |
| Other financial liabilities | 24 | 174 | 212 |
| Income tax payable | 13 | 8,926 | 12,277 |
| Indirect tax payable | 26 | 74,200 | 71,460 |
| Provisions | 25 | 534 | 1,034 |
| | | 137,219 | 134,595 |
| **Total liabilities** | | 318,428 | 314,697 |
| **Net assets** | | 348,579 | 364,862 |

| | Notes | 31 December 2016 €000 | 31 December 2015 €000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Issued capital | 28 | 23,625 | 23,625 |
| Share premium | 28 | 183,541 | 183,541 |
| Merger reserve | 28 | 99,033 | 99,033 |
| Consolidation reserve | 28 | 5,130 | 5,130 |
| Own share reserve | 28 | (356) | (635) |
| Other reserve | 28, 34 | 9,335 | 9,254 |
| Foreign currency translation reserve | 28 | 7,519 | 15,284 |
| Retained earnings | | 20,752 | 29,630 |
| **Total equity** | | 348,579 | 364,862 |
| **Total equity and liabilities** | | 667,007 | 679,559 |

Notes 1 to 38 are an integral part of the consolidated financial statements.

The consolidated financial statements of Stock Spirits Group PLC, registered number 08687223, on pages 104 to 154, were approved by the Board of Directors and authorised for issue on 8 March 2017 and were signed on its behalf by:



**Mirek Stachowicz**
Chief Executive Officer
8 March 2017

**Lesley Jackson**
Chief Financial Officer
8 March 2017

Financial statements

# Consolidated statement of changes in equity

for the year ended 31 December 2016

| | Issued capital €000 | Share premium €000 | Merger reserve €000 | Consolidation reserve €000 | Own share reserve €000 | Other reserve €000 | Foreign currency translation reserve €000 | Retained earnings €000 | Total equity €000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | 23,625 | 183,541 | 99,033 | 5,130 | – | 8,160 | 6,413 | 17,602 | 343,504 |
| Profit for the year | – | – | – | – | – | – | – | 19,420 | 19,420 |
| Other comprehensive income | – | – | – | – | – | – | 8,871 | – | 8,871 |
| Total comprehensive income | – | – | – | – | – | – | 8,871 | 19,420 | 28,291 |
| Share based compensation charge (note 34) | – | – | – | – | – | 1,094 | – | – | 1,094 |
| Dividends (note 29) | – | – | – | – | – | – | – | (7,493) | (7,493) |
| Own shares acquired for incentive schemes (note 28) | – | – | – | – | (713) | – | – | – | (713) |
| Own shares utilised for incentive schemes (note 28) | – | – | – | – | 78 | – | – | 101 | 179 |
| **Balance at 31 December 2015** | 23,625 | 183,541 | 99,033 | 5,130 | (635) | 9,254 | 15,284 | 29,630 | 364,862 |
| Profit for the year | – | – | – | – | – | – | – | 28,437 | 28,437 |
| Other comprehensive expense | – | – | – | – | – | – | (7,765) | (3) | (7,768) |
| Total comprehensive income | – | – | – | – | – | – | (7,765) | 28,434 | 20,669 |
| Share based compensation charge (note 34) | – | – | – | – | – | 81 | – | – | 81 |
| Dividends (note 29) | – | – | – | – | – | – | – | (37,356) | (37,356) |
| Own shares utilised for incentive schemes (note 28) | – | – | – | – | 279 | – | – | 44 | 323 |
| **Balance at 31 December 2016** | 23,625 | 183,541 | 99,033 | 5,130 | (356) | 9,335 | 7,519 | 20,752 | 348,579 |

# Consolidated statement of cash flows

for the year ended 31 December 2016

| | Notes | 2016 €000 | 2015 €000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year | | 28,437 | 19,420 |
| Adjustments to reconcile profit for the year to net cash flows: | | | |
| Income tax expense recognised in income statement | 13 | 10,734 | 12,033 |
| Interest expense and bank commissions | 9 | 2,668 | 12,638 |
| Loss on disposal of tangible assets | | 185 | 1,016 |
| Other financial income | 9 | (220) | (380) |
| Depreciation of property, plant and equipment | 18 | 9,739 | 9,423 |
| Amortisation of intangible assets | 16 | 1,485 | 1,581 |
| Net foreign exchange gain | 9 | (1,483) | (2,007) |
| Share-based compensation | 34 | 81 | 1,094 |
| Decrease in provisions | | (323) | (626) |
| | | 51,303 | 54,192 |
| **Working capital adjustments** | | | |
| (Increase)/decrease in trade receivables and other assets | | (1,596) | 44,869 |
| Decrease/(increase) in inventories | | 6,058 | (316) |
| Increase/(decrease) in trade payables and other liabilities | | 5,140 | (44,123) |
| | | 9,602 | 430 |
| **Cash generated by operations** | | 60,905 | 54,622 |
| Income tax paid | 13 | (6,831) | (6,123) |
| **Net cash flows from operating activities** | | 54,074 | 48,499 |
| **Investing activities** | | | |
| Interest received | | 220 | 380 |
| Payments to acquire intangible assets | | (5,838) | (1,393) |
| Purchase of property, plant and equipment | | (6,727) | (7,246) |
| Proceeds from sale of property, plant and equipment | | – | 363 |
| Proceeds from asset previously classified as held for sale | | – | 120 |
| **Net cash flow from investing activities** | | (12,345) | (7,776) |
| **Financing activities** | | | |
| Repayment of borrowings | | – | (166,590) |
| New borrowings raised | | 2,712 | 132,310 |
| Interest paid | | (2,571) | (7,137) |
| Other financial costs | | – | (300) |
| Purchase of own shares | | – | (713) |
| Dividends paid to equity holders of the parent | 29 | (37,427) | (7,513) |
| **Net cash flow from financing activities** | | (37,286) | (49,943) |
| **Net increase/(decrease) in cash and cash equivalents** | | 4,443 | (9,220) |
| **Cash and cash equivalents at the start of the year** | | 75,806 | 82,914 |
| **Effect of exchange rates on cash and cash equivalents** | | (5,293) | 2,112 |
| **Cash and cash equivalents at the end of the year** | 32 | 74,956 | 75,806 |

Financial statements

# Notes to the consolidated financial statements

at 31 December 2016

## 1. Corporate information

These consolidated financial statements were approved and authorised for issue by the Board of Directors of Stock Spirits Group PLC (the Company) on 8 March 2017.

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

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

## 2. Going concern

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

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

Details of the terms of each external loan facility are set out in note 23. The Group met its covenant requirements throughout the year ended 31 December 2016.

The Group has positive adjusted free cash flow. The Group has a €200,000,000 revolving credit facility available to it. As at 31 December 2016 €134,319,000 (2015: €132,496,000) was drawn, and a further €14,751,000 (2015: €5,601,000) was utilised for customs guarantees in Italy and Germany, thereby leaving access to funds of €50,930,000 (2015: €61,903,000) which could be drawn at short notice. See note 23 for further details.

The Group's forecasts and projections, taking account of possible changes in trading performance, show that the Group will be able to operate within the level of its current available facilities and maintain comfortable covenant headroom. The revolving credit facility is available as part of wider borrowing arrangements with the syndicate of banks and is not subject to annual renewal. Stock Polska Sp. z.o.o. also has a debt factoring facility of €31,891,000 (PLN 140,000,000) which can be utilised to meet short term working capital requirements if necessary. Pursuant to the HSBC Credit Facility, the total amount of receivables subject to a factoring facility may not in aggregate exceed €50,000,000. See note 20 for further details.

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

## 3. Accounting policies

### Basis of preparation

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

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

The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below. Exceptions include but are not limited to assets classified as held for sale measured at fair value.

## Changes in accounting policies

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2016.

### New/Revised standards and interpretations adopted in 2016

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

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
IFRS 14 Regulatory Deferral Accounts
Amendments to IAS 1: Disclosure Initiative
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41: Bearer Plants
Amendments to IAS 27: Equity Method in Separate Financial Statements
Annual Improvements to IFRSs 2012-2014 Cycle

### New/Revised standards and interpretations not applied

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

| | Effective dates[1] |
|---|---|
| Amendments to IAS 7: IAS 7 Disclosure initiative | 1 January 2017 |
| Amendments to IAS 12: IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 9 Financial Instruments | 1 January 2018 |
| Amendments to IFRS 2: IFRS 2 Classification and Measurement of Share-based Payment Transactions | 1 January 2018 |

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

The Directors do not expect the adoption of these standards and interpretations to have a material impact on the consolidated or company financial statements in the period of initial application. However, the Group is currently undertaking a detailed exercise to verify this, and expects to be able to conclude on this in the early part of 2017.

The IASB and IFRIC has also issued the following standard (with an effective date after the date of these financial statements):

- IFRS 16 'Leases' (effective 1 January 2019).

The Directors do expect that the adoption of this standard will have a material impact to the Group's financial statements in the period of initial application.

IFRS 16 'Leases' replaces the current IAS 17 and will apply to annual reporting periods beginning on or after 1 January 2019, unless adopted early.

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

# Notes to the consolidated financial statements continued

at 31 December 2016

## 3. Accounting policies continued

### New/Revised standards and interpretations not applied continued

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

The Group is currently reviewing the full impact of the future adoption of IFRS 16. The Group does not intend to apply the new standard before 1 January 2019.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries controlled by the Company for the years to 31 December 2016 and 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

#### Subsidiaries

Subsidiaries are part of the Group from the date of their acquisition, being the date on which the Group obtains control, and continue to be part of the Group until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights currently exercisable or convertible potential voting rights or by way of contractual agreement. The subsidiary financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intragroup balances and transactions including unrealised profit arising from them are eliminated in full.

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

### Business combinations

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

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

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

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

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

#### Purchases of controlling interests in subsidiaries from entities under common control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the Predecessor). Related goodwill inherent in the Predecessor's original acquisition is also recorded in the financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.

These financial statements, including corresponding figures, are presented as if a subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

#### Acquisition of subsidiaries

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

# Notes to the consolidated financial statements continued

at 31 December 2016

## 3. Accounting policies continued

### Revenue recognition

Sale of goods

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

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

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

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

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

- Discounts and rebates – which are sales incentives to customers to encourage them to purchase increased volumes and are related to total volumes purchases and sales growth
- Marketing services – which include merchandising, slotting and listing fees.

### Finance income

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

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

### Segmental analysis

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

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

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

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

### Foreign currencies

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

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

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

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

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

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

| | 2016 | 2015 |
|---|---|---|
| PLN | 4.39 | 4.26 |
| CZK | 26.97 | 27.03 |
| GBP | 0.85 | 0.74 |
| CHF | 1.07 | 1.08 |

### Employee benefits – severance indemnity

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

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

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

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

# Notes to the consolidated financial statements continued

at 31 December 2016

## 3. Accounting policies continued

### Income taxes

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

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

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

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

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

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

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

### Property, plant and equipment

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

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

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

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

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

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

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

## Intangible assets

### Intangible assets acquired separately

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

### Intangible assets acquired in a business combination

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

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

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

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

### Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Financial statements
# Notes to the consolidated financial statements continued
at 31 December 2016

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

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

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

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

### Assets classified as held for sale
Non-current assets and disposal groups are classified as held for sale only if available for immediate sale in their present condition; a sale is highly probable and expected to be completed within one year from the date of classification. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated or amortised.

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

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

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

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

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

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

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

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

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

### Exceptional items
Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide a better understanding of the financial performance of the Group. They are material items of expense or income that have been shown separately due to the significance of their nature or amount. Exceptional items include significant costs of restructuring and reorganisation of the business, refinancing costs and other income and costs that are considered to be non-recurring.

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

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

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

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

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

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

The entity does not apply hedge accounting.

Financial statements

# Notes to the consolidated financial statements continued

at 31 December 2016

## 3. Accounting policies continued

### Fair value measurement

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

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

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

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

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

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

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

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

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

### Leases and hire purchase commitments

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

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

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

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

### Share-based payments

#### Equity-settled transactions

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

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

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

Prior to 2014 the financial effect of awards by the parent company of options over its equity shares an increase in the cost of investments in its subsidiaries to employees of subsidiary undertakings was recognised by the parent company, in its individual financial statements as an increase in its investment in subsidiaries with a credit to equity equivalent to the IFRS 2 cost in subsidiary undertakings. The subsidiary, in turn, recognised the IFRS 2 cost in its income statement with a credit to equity to reflect the deemed capital contribution from the parent company.

From 2014 the financial effect of awards by the parent company of options over its equity shares to employees of subsidiary undertakings is recognised by the parent company, in its individual financial statements as an increase in the cost of investments in its subsidiaries with the corresponding credit being recognised directly in equity as a credit to the share-based payments reserve equivalent to the IFRS 2 cost. Amounts recharged to the subsidiary are recognised as a reduction in the cost of investment with a corresponding intercompany receivable balance. The subsidiary in turn will recognise the IFRS 2 cost in its income statement with a credit to intercompany payables.

#### Repurchase and reissue of ordinary shares (own shares)

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

### Cash dividends to equity holders of the parent

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

# Notes to the consolidated financial statements continued

at 31 December 2016

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

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

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

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

### Judgements

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

#### Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Where Group entities are loss making, and are expected to continue to be loss making into the future it is judged that deferred tax assets should not be recognised in respect of these losses as it is not known when the losses will be able to be utilised in these entities.

#### Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See note 30 for further disclosures.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### Measurement and impairment of indefinite life intangible assets

A key source of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year is the measurement and impairment of indefinite life intangible assets. The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Group determines whether indefinite life intangible assets are impaired on an annual basis and this requires an estimation of their value in use. This involves estimation of future cash flows and choosing a suitable discount rate (note 17). Brands are considered to have an indefinite life. Management considers the business to be a brand business and expects to acquire, hold and support brands for an indefinite period.

#### Impairment of goodwill

The Group's impairment test for goodwill is based on a value in use calculation using a discounted cash flow model. The cash flows are derived from the Group's three year-plans. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, as further explained in note 17. The Group tests annually whether goodwill has suffered any impairment.

### Taxation

The Group provides for anticipated risks, based on reasonable estimates, for tax risks in the respective countries in which it operates. The amount of such provisions are based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible authority.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Uncertainties in relation to tax liabilities have been provided for within income tax payable to the extent that it is considered probable that the Group will be required to settle a tax liability in the future. Settlement of tax provisions could potentially result in future cash tax payments however these are not expected to result in an increased tax charge as they have been fully provided for in accordance with management's best estimates of the most likely outcomes.

The Italian tax authorities have an open enquiry in the Italian subsidiary, Stock S.r.l., covering the years 2006, 2007, 2008, 2009 and 2010. Adequate provisions are included within income tax payable on the consolidated statement of financial position to cover any estimated future settlement.

The Group's Czech subsidiary, Stock Plzeň-Božkov s.r.o. received a tax assessment relating to 2011 from the Czech tax authorities in February 2016. The Group has made no specific provision against this assessment (see note 13).

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.

### Transfer pricing

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

Transfer prices and the policies applied directly affect the allocation of group wide taxable income across a number of tax jurisdictions.

While transfer prices between reportable segments are on an arm's length basis, similar to transactions with third parties, there is increasing scrutiny from tax authorities on transfer pricing arrangements. This could result in the creation of uncertain tax positions.

### Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 34.

## 5. Revenue

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

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Revenue from the sale of spirits | 733,257 | 721,688 |
| Other sales | 4,166 | 4,049 |
| Excise taxes | (476,449) | (463,088) |
| Net sales revenue | 260,974 | 262,649 |

# Notes to the consolidated financial statements continued

at 31 December 2016

## 6. Segmental analysis

In identifying its operating segments, management follows the Group's geographic split, representing the main products traded by the Group. The Group is considered to have five reportable operating segments: Poland, Czech Republic, Italy, Other Operational and Corporate. The Other Operational segment consists of the results of operations of the Slovakian, International and Baltic Distillery entities. The 'Corporate' segment consists of expenses and central costs incurred by non-trading Group entities.

Each of these operating segments is managed separately as each of these geographic areas requires different marketing approaches. All inter-segment transfers are carried out at arm's length prices. The measure of revenue reported to the chief operating decision-maker to assess performance is based on external revenue for each operating segment and excludes intra-Group revenues. The measure of adjusted EBITDA reported to the chief operating decision-maker to assess performance is based on operating profit and excludes intra-Group profits, depreciation, amortisation, exceptional items and non-recurring expenses.

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

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Profit before tax | 39,171 | 31,453 |
| Net finance charges | 965 | 10,251 |
| Operating profit | 40,136 | 41,704 |
| Depreciation and amortisation (note 11) | 11,224 | 11,004 |
| EBITDA | 51,360 | 52,708 |
| Non-recurring expenses (note 7) | 185 | 1,016 |
| Adjusted EBITDA | 51,545 | 53,724 |

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.

| 2016 | Poland €000 | Czech Republic €000 | Italy €000 | Other Operational €000 | Corporate €000 | Total €000 |
|---|---|---|---|---|---|---|
| External revenue | 136,890 | 63,175 | 29,401 | 31,508 | – | 260,974 |
| EBITDA before exceptionals | 35,873 | 19,655 | 6,883 | 5,088 | (16,139) | 51,360 |
| Non-recurring expenses/(income) | 185 | (11) | – | 5 | 6 | 185 |
| Adjusted EBITDA | 36,058 | 19,644 | 6,883 | 5,093 | (16,133) | 51,545 |

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) |
| – one-off adjustments | 17 | 14 | 31 | 66 | 1,490 |

| 2015 | Poland €000 | Czech Republic €000 | Italy €000 | Other Operational €000 | Corporate €000 | Total €000 |
|---|---|---|---|---|---|---|
| External revenue | 137,193 | 63,163 | 31,985 | 30,308 | – | 262,649 |
| EBITDA before exceptionals | 37,699 | 18,531 | 8,079 | 5,128 | (16,729) | 52,708 |
| Non-recurring expenses/(income) | 1,019 | (2) | 10 | (11) | – | 1,016 |
| Adjusted EBITDA | 38,718 | 18,529 | 8,089 | 5,117 | (16,729) | 53,724 |

Memo note:
Group wide costs included within Corporate costs are:

| | |
|---|---|
| Group insurance costs | (1,093) |
| Group audit fee | (323) |
| Bank refinancing costs | (175) |
| FX impact within Corporate costs | (1,086) |

Included within the regional and Corporate segments are:

| | | | | | |
|---|---|---|---|---|---|
| Performance share plan costs/ share-based compensation | (82) | (30) | (53) | (111) | (439) |

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## 7. Adjusted EBITDA, Adjusted EBIT and Free Cash Flow Bridges

The Group defines adjusted EBIT as operating profit before exceptional items and non-recurring expenses, and adjusted EBITDA as operating profit before depreciation and amortisation, exceptional items and non-recurring expenses. Adjusted EBIT and adjusted EBITDA are supplemental measures of the Group's performance and liquidity that are not required to be presented in accordance with IFRS.

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Operating profit | 40,136 | 41,704 |
| Non-recurring expenses[1] | 185 | 1,016 |
| Adjusted EBIT | 40,321 | 42,720 |
| | | |
| Depreciation and amortisation (note 11) | 11,224 | 11,004 |
| | | |
| Adjusted EBITDA | 51,545 | 53,724 |
| Adjusted EBITDA margin | 19.8% | 20.5% |

1. Non-recurring expenses relate to profits or losses on disposal and impairment of fixed assets, not meeting the criteria for categorisation as exceptional items

The Group defines free cash flow as net cash generated from operating activities (excluding income tax paid, certain exceptional items and their related impact on working capital adjustments), plus net cash used in or generated from investing activities (excluding interest received, net cash paid for acquisitions and net proceeds from the sale of subsidiaries).

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Net cash flows from operating activities | 54,074 | 48,499 |
| Income tax paid | 6,831 | 6,123 |
| Net cash pre investing and financing activities | 60,905 | 54,622 |
| Net cash generated from investing activities | (12,345) | (7,776) |
| Interest received | (220) | (380) |
| Cash flow pre financing activities | 48,340 | 46,466 |
| Proceeds from asset previously classified as held for sale | – | 120 |
| Cash impact of non-IPO exceptional items | – | 276 |
| Free cash flow | 48,340 | 46,862 |
| Free cash flow as a percentage of adjusted EBITDA | 93.8% | 87.2% |
| Adjusting items | – | – |
| Adjusted free cash flow | 48,340 | 46,862 |
| Adjusted free cash flow as a percentage of adjusted EBITDA | 93.8% | 87.2% |

## 8. Exceptional items

The Group had no exceptional costs in the period to 31 December 2016 (2015: €nil).

## 9. Finance income and costs

| | 2016 €000 | 2015 €000 |
|---|---|---|
| **Finance income:** | | |
| Foreign currency exchange gain | 1,483 | 2,007 |
| Interest income | 220 | 380 |
| Total finance income | 1,703 | 2,387 |
| | | |
| **Finance costs:** | | |
| Interest payable on bank overdrafts and loans | 1,777 | 5,588 |
| Bank commissions, guarantees and other payables | 557 | 1,798 |
| Cost of arranging ING financing facility written off | – | 4,328 |
| Other interest expense | 334 | 924 |
| Total finance costs | 2,668 | 12,638 |
| Net finance costs | 965 | 10,251 |

On 18 November 2015 the Group signed a new facilities agreement for a €200,000,000 revolving credit facility (RCF). The first drawings under the new facility were made on 24 November 2015, following the full repayment of existing ING term loans. On the repayment of the previous banking facility all unamortised costs associated with arranging the ING financing facility were written off to the income statement, totalling €4,328,000 in 2015.

## 10. Staff costs

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Wages and salaries | 27,917 | 27,767 |
| Social security costs | 5,407 | 4,851 |
| Other pension costs | 1,229 | 1,021 |
| Termination benefits | 1,469 | 540 |
| Long-term incentive plan (note 25) | 7 | (276) |
| Share based compensation (note 34) | (1,191) | 781 |
| | 34,838 | 34,684 |

Other pension costs relate primarily to the Group's contributions to defined contribution pension plans. Also included is €29,000 (2015: €nil) relating to the employee severance indemnity in Italy, which represents an unfunded defined benefit plan. Refer to note 25 for further details.

### Average monthly number of employees in the year

| | 2016 No. | 2015 No. |
|---|---|---|
| Production and logistics | 428 | 443 |
| Sales | 260 | 243 |
| Other | 188 | 189 |
| | 876 | 875 |

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# Notes to the consolidated financial statements continued

at 31 December 2016

## 11. Operating profit

Operating profit for the year has been arrived at after charging:

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Costs of inventories recognised as an expense | 128,714 | 122,003 |
| Advertising, promotion and marketing costs | 24,631 | 26,677 |
| Indirect costs of production | 9,190 | 8,924 |
| Logistics costs | 5,916 | 5,700 |
| Operating lease payments | 2,444 | 2,742 |
| Legal and professional fees | 4,356 | 4,378 |
| Loss on disposal of intangible and tangible assets | 185 | 1,036 |
| Net foreign exchange translation loss | 419 | 1,278 |
| | | |
| Depreciation and amortisation – production cost | 5,307 | 5,057 |
| Depreciation and amortisation – selling cost | 3,532 | 3,536 |
| Depreciation and amortisation – administration cost | 2,385 | 2,411 |
| Total depreciation and amortisation | 11,224 | 11,004 |

## 12. Auditors' remuneration

The Group paid the following amounts to its auditors KPMG LLP and other firms in respect of the audit of the financial statements and for other services provided to the Group:

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Fees payable for: | | |
| Audit of the Parent and Group financial statements | 273 | 323 |
| Local statutory audits for subsidiaries | 393 | 400 |
| Audit by previous auditor | – | 147 |
| Audit-related assurance services | 65 | 60 |
| Total | 731 | 930 |

The amount of €147,000 was paid in 2015 to the predecessor auditors, Ernst & Young LLP, and related to audit overrun fees.

# 13. Income taxes

## (i) Income tax recognised in profit or loss:

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Tax expense comprises: | | |
| Current tax expense | 6,991 | 5,933 |
| Tax (credit)/expense relating to prior year | (393) | 2,023 |
| Deferred tax charge | 4,132 | 4,075 |
| Other taxes | 4 | 2 |
| Total tax expense | 10,734 | 12,033 |

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Profit before tax | 39,171 | 31,453 |
| Accounting profit multiplied by United Kingdom combined rate of corporation tax of 20.00% (2015: 20.25%) | 7,834 | 6,369 |
| **Expenses not deductible for tax purposes** | 852 | 2,788 |
| Tax losses for which no deferred tax is recognised | 1,578 | 730 |
| Effect of difference in tax rates | 296 | 116 |
| Impact of post-IPO corporate restructuring | 639 | 85 |
| Tax charge relating to prior year | (393) | 2,023 |
| Taxable profits relieved against brought forward losses | (76) | (80) |
| Other taxes | 4 | 2 |
| Total tax expense reported in the income statement | 10,734 | 12,033 |
| Effective tax rate | 27.4% | 38.3% |

There have been no tax charges to other comprehensive income.

The total current tax expense has been offset by the utilisation of tax losses recognised in 2015 in Stock Polska Sp. z.o.o. There has been a corresponding deferred tax charge.

The current tax expense also includes €820,000 relating to liquidation of Stock Wodka Polska S.A. Refer to note 33 for further details.

# Notes to the consolidated financial statements continued

at 31 December 2016

## 13. Income taxes continued

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

Current tax liability:

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Tax prepayments as of 1 January | 3,569 | 5,461 |
| Tax liability as of 1 January | (12,277) | (12,247) |
| Tax credit/(charge) relating to prior year | 393 | (2,023) |
| Payments in year | 6,831 | 6,123 |
| Current tax expense | (6,991) | (5,933) |
| Other taxes | (4) | (2) |
| Foreign exchange adjustment | (36) | (87) |
| Net current tax liability | (8,515) | (8,708) |
| Analysed as: | | |
| Tax prepayment | 411 | 3,569 |
| Current tax liability | (8,926) | (12,277) |
| | (8,515) | (8,708) |

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.

Group wide tax provisions total €7,341,000 (2015: €8,386,000). 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 2016 cash prepayments were made in respect of the open enquiries totalling €1,045,000 (2015: €605,000), for which the provision has been utilised. All such prepayments are returnable to Stock S.r.l. should the rulings be found in favour of the Company.

The Group's Czech subsidiary, Stock Plzeň-Božkov s.r.o. received a tax assessment relating to 2011 from the Czech tax authorities in February 2016. Management are vigorously defending the Company's position, and have therefore not made a provision against this assessment, which totals €1,125,000.

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.

At this time, such provisions are not expected to change materially in 2017.

### (iii) Unrecognised tax losses

The Group has tax losses which arose in the UK of €31,167,000, as at 31 December 2016 (2015: €23,830,000) 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

Deferred tax assets and liabilities arise from the following:

| 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) |
| Other assets and liabilities | 8,761 | 1,412 | (164) | 10,009 |
| | (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) |

| 2015 | 1 January 2015 €000 | (Charged)/ credited to income €000 | Translation difference €000 | 31 December 2015 €000 |
|---|---|---|---|---|
| Temporary differences: | | | | |
| Brands | (29,363) | (5,758) | (1,645) | (36,766) |
| Other assets and liabilities | 6,770 | 1,683 | 308 | 8,761 |
| | (22,593) | (4,075) | (1,337) | (28,005) |
| | | | | |
| Deferred tax asset | 21,543 | (4,203) | 430 | 17,770 |
| Deferred tax liability | (44,136) | 128 | (1,767) | (45,775) |
| | (22,593) | (4,075) | (1,337) | (28,005) |

#### Brands

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

#### Corporate restructuring

Post IPO the Group completed corporate restructuring transactions which gave rise to a significant one-off deferred tax asset which is being amortised over a five-year period ending in 2017. The 2016 tax charge includes an amount of €639,000 in relation to this.

### (iv) Change in tax rates

A reduction in the UK corporation tax rate to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 17% (effective from 1 April 2020) were substantively enacted on 15 September 2016. The deferred tax assets and liabilities at 31 December 2016 has been calculated based on the appropriate tax rates. There are no UK deferred tax assets or liabilities to which this new rate will be applied.

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at 31 December 2016

## 14. Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Details of the earnings per share are set out below:

| | 2016 | 2015 |
|---|---|---|
| **Basic earnings per share** | | |
| Profit attributable to the equity shareholders of the Company (€'000) | 28,437 | 19,420 |
| Weighted average number of ordinary shares in issue for basic earnings per share ('000) | 199,851 | 199,957 |
| Basic earnings per share (€) | 0.14 | 0.10 |
| **Diluted earnings per share** | | |
| Profit attributable to the equity shareholders of the Company (€'000) | 28,444 | 18,907 |
| Weighted average number of diluted ordinary shares adjusted for the effect of dilution ('000) | 200,399 | 201,995 |
| Diluted earnings per share (€) | 0.14 | 0.09 |
| **Reconciliation of basic to diluted ordinary shares** | | |
| Weighted average number of Ordinary shares ('000) | 200,000 | 200,000 |
| Effect of purchase of own shares ('000) | (149) | (43) |
| Basic weighted average number of Ordinary shares ('000) | 199,851 | 199,957 |
| Effect of PSP options ('000) | – | 1,814 |
| Effect of LTIP options ('000) | – | 224 |
| Effect of Special Equity Scheme options ('000) | 548 | – |
| Diluted weighted average number of Ordinary shares ('000) | 200,399 | 201,995 |

Excluding foreign exchange gains in finance income of €1,483,000 (2015: foreign exchange gain in finance income of €2,007,000 and the one-off write off of ING bank fees to €4,328,000 in finance costs), adjusted basic earnings per share would have been €0.13 per share in 2016 (2015: €0.11 per share), and adjusted diluted earnings per share would have been €0.13 per share in 2016 (2015: €0.11 per share).

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

## 15. Intangible assets – goodwill

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Cost: | | |
| As at 1 January | 76,866 | 76,866 |
| Goodwill arising on the acquisition of Czech business (note 35) | 474 | – |
| As at 31 December | 77,340 | 76,866 |
| | | |
| Accumulated impairment: | | |
| As at 1 January | 16,500 | 16,500 |
| As at 31 December | 16,500 | 16,500 |
| **Carrying amount at 31 December** | **60,840** | **60,366** |

## 16. Intangible assets – other

| 2016 | Brands €000 | Customer Relationships and Trademark €000 | Software €000 | Total €000 |
|---|---|---|---|---|
| Cost: | | | | |
| As at 1 January 2016 | 294,261 | 1,514 | 19,304 | 315,079 |
| Additions | 4,522 | – | 1,115 | 5,637 |
| Disposals | – | – | (18) | (18) |
| Transfers | 224 | – | (83) | 141 |
| Net foreign currency exchange differences | (347) | – | (54) | (401) |
| As at 31 December 2016 | 298,660 | 1,514 | 20,264 | 320,438 |
| | | | | |
| Amortisation: | | | | |
| As at 1 January 2016 | – | 354 | 15,829 | 16,183 |
| Amortisation expense | – | 118 | 1,367 | 1,485 |
| Disposals | – | – | (15) | (15) |
| Net foreign currency exchange differences | – | – | 32 | 32 |
| As at 31 December 2016 | – | 472 | 17,213 | 17,685 |
| | | | | |
| **Carrying amount as at 31 December 2016** | 298,660 | 1,042 | 3,051 | 302,753 |

Refer to note 35 for further details of business acquisitions during 2016.

# Notes to the consolidated financial statements continued

at 31 December 2016

## 16. Intangible assets – other continued

| 2015 | Brands €000 | Customer Relationships and Trademark €000 | Software €000 | Total €000 |
|---|---|---|---|---|
| Cost: | | | | |
| As at 1 January 2015 | 283,696 | 1,514 | 17,709 | 302,919 |
| Additions | – | – | 1,393 | 1,393 |
| Disposals | – | – | (81) | (81) |
| Transfers | (340) | – | 265 | (75) |
| Net foreign currency exchange differences | 10,905 | – | 18 | 10,923 |
| As at 31 December 2015 | 294,261 | 1,514 | 19,304 | 315,079 |
| Amortisation: | | | | |
| As at 1 January 2015 | – | 236 | 14,469 | 14,705 |
| Amortisation expense | – | 118 | 1,463 | 1,581 |
| Disposals | – | – | (81) | (81) |
| Net foreign currency exchange differences | – | – | (22) | (22) |
| As at 31 December 2015 | – | 354 | 15,829 | 16,183 |
| **Carrying amount as at 31 December 2015** | 294,261 | 1,160 | 3,475 | 298,896 |

€141,000 of amounts included in transfers in 2016 represented assets which were previously classified as assets under construction. They have subsequently been reclassified as software. €75,000 of amounts included in transfers in 2015 represented assets which were previously classified as software. They have subsequently been reclassified as technical and other equipment.

Brands are not amortised, as it is considered that their useful economic lives are not limited. An annual impairment assessment is performed to ensure carrying values are recoverable. Customer Relationships are amortised over 12 years, with 8 years remaining. Trademarks are amortised over 15 years, with 11 years remaining. Software is amortised over 2–5 years.

The gross carrying value of fully amortised intangible assets that are still in use is €6,033,000 (2015: €3,237,000).

Amortisation relating to software is included within other operating expenses in the consolidated income statement. Amortisation relating to customer relationships and trademark is included in selling expenses.

## 17. Impairment of goodwill and intangibles with indefinite lives

Goodwill acquired through business combinations and brands have been allocated for impairment testing purposes to three cash-generating units based on the geographical location of production plants and the ownership of intellectual property. This represents the lowest level within the Group at which goodwill and brands are monitored for internal management purposes.

### Cash generating units

The Group has identified the cash generating units, used in the impairment review of intangible assets with indefinite lives, to be the Czech Region, Italy Region and Poland Region.

| | Czech Republic €000 | Italy €000 | Poland €000 | Total €000 |
|---|---|---|---|---|
| **31 December 2016** | | | | |
| Carrying amount of brands | 198,624 | 57,225 | 42,811 | 298,660 |
| Carrying amount of goodwill | 35,996 | 22,632 | 2,212 | 60,840 |
| Value in use headroom | 40,865 | 9,014 | 350,600 | 400,479 |

| | Czech Republic €000 | Italy €000 | Poland €000 | Total €000 |
|---|---|---|---|---|
| **31 December 2015** | | | | |
| Carrying amount of brands | 193,668 | 56,693 | 43,900 | 294,261 |
| Carrying amount of goodwill | 35,522 | 22,632 | 2,212 | 60,366 |
| Value in use headroom | 46,451 | 26,525 | 475,398 | 548,374 |

### Impairment review

Under IAS 36 the Group is required to complete a full impairment review of intangible assets using a value-in-use (VIU) calculation based upon DCF models. During the year ended 31 December 2016 the goodwill and brands in the Czech Region, Italy Region and Poland Region were subject to impairment review.

(i) Czech Region

The recoverable amount of the Czech Region unit has been determined based on a value-in-use calculation using cash flow projections from the three-year planning process approved by senior management. The pre-tax discount rate applied to cash flow projections is 10.3% (2015: 10.0%) and cash flows beyond the three-year period are extrapolated using a 1.9% (2015: 2.5%) growth rate.

The following sensitivity analysis shows the impact on VIU headroom of different pre-tax weighted average cost of capital rates (WACC) and EBITDA delivery in the cash flow projections used in the impairment review models.

| Pre-tax discount rate<br>EBITDA delivery | 9.5%<br>€000 | 10.0%<br>€000 | 10.3%<br>€000 | 10.5%<br>€000 | 11.0%<br>€000 |
|---|---|---|---|---|---|
| -10% | 37.2 | 21.4 | 14.2 | 7.5 | (4.9) |
| -5% | 51.8 | 35.2 | 27.5 | 20.5 | 7.4 |
| 0% | 66.4 | 48.9 | 40.9 | 33.4 | 19.6 |
| 5% | 81.0 | 62.6 | 54.2 | 46.4 | 31.9 |
| 10% | 95.6 | 76.4 | 67.5 | 59.3 | 44.1 |

# Notes to the consolidated financial statements continued

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## 17. Impairment of goodwill and intangibles with indefinite lives continued

### Impairment review

#### (ii) Italy Region

The recoverable amount of the Italy Region unit was determined based on a value-in-use calculation using cash flow projections from the three-year planning process approved by senior management. The pre-tax discount rate applied to cash flow projections is 12.7% (2015: 12.0%) and cash flows beyond the three-year period are extrapolated using a 1.6% (2015: 2.2%) growth rate.

The following sensitivity analysis shows the impact on VIU headroom of different pre-tax weighted average cost of capital rates and EBITDA delivery in the cash flow projections used in the impairment review models.

| Pre-tax discount rate<br>EBITDA delivery | 12.0%<br>€000 | 12.5%<br>€000 | 12.7%<br>€000 | 13.0%<br>€000 | 13.5%<br>€000 |
|---|---|---|---|---|---|
| -10% | 5.1 | 1.2 | (0.1) | (2.2) | (5.4) |
| -5% | 9.9 | 5.9 | 4.5 | 2.2 | (1.2) |
| 0% | 14.7 | 10.5 | 9.0 | 6.6 | 3.0 |
| 5% | 19.6 | 15.1 | 13.6 | 11.0 | 7.3 |
| 10% | 24.4 | 19.7 | 18.1 | 15.5 | 11.5 |

#### (iii) Poland Region

The recoverable amount of the Poland Region unit has been determined based on a value-in-use calculation using cash flow projections from the three-year planning process approved by senior management. The pre-tax discount rate applied to cash flow projections is 9.6% (2015: 9.1%) and cash flows beyond the three- year period are extrapolated using a 2.4% (2015: 2.5%) growth rate.

The following sensitivity analysis shows the impact on VIU headroom of different pre-tax weighted average cost of capital rates and EBITDA delivery in the cash flow projections used in the impairment review models.

| Pre-tax discount rate<br>EBITDA delivery | 8.5%<br>€000 | 9.0%<br>€000 | 9.6%<br>€000 | 10.0%<br>€000 | 10.5%<br>€000 |
|---|---|---|---|---|---|
| -10% | 378.1 | 341.3 | 303.2 | 282.1 | 258.0 |
| -5% | 406.0 | 367.1 | 326.9 | 304.6 | 279.2 |
| 0% | 433.9 | 392.9 | 350.6 | 327.1 | 300.3 |
| 5% | 461.7 | 418.7 | 374.3 | 349.7 | 321.5 |
| 10% | 489.6 | 444.5 | 398.0 | 372.2 | 342.7 |

### Key assumptions used in the value-in-use calculations

The calculation of value-in-use for all regions is most sensitive to the following assumptions:

- Spirits price inflation – small annual percentage increases assumed in all markets based on historic data
- Growth in spirits market – assumed to be static or slightly declining in all markets based on recent historic trends
- Market share – through company specific actions outlined in detailed internal plans, market share to be grown overall
- Discount rates – rates reflect the current market assessment of the risks specific to each operation. The discount rate was estimated based on an average of guideline companies adjusted for the operational size of the Group and specific regional factors
- Raw material cost – assumed to be at average industry cost
- Excise duty – no future duty changes have been used in projections
- Growth rate used to extrapolate cash flows beyond the forecast period. The assumed growth rate reflects management expectation and takes into consideration growth achieved to date, current strategy and expected spirits market growth.

The value-in-use headroom for each cash generating unit where these sensitivities would be applicable has been detailed above.

## 18. Property, plant and equipment

| 2016 | Land and buildings €000 | Technical equipment €000 | Other equipment €000 | Assets under construction €000 | Total €000 |
|---|---|---|---|---|---|
| Cost: | | | | | |
| As at 1 January 2016 | 33,037 | 48,697 | 15,056 | 3,297 | 100,087 |
| Additions | 414 | 320 | 895 | 5,544 | 7,173 |
| Disposals | (8) | (1,496) | (521) | – | (2,025) |
| Transfers | 800 | 5,402 | 535 | (6,678) | (141) |
| Foreign currency adjustment | (154) | (349) | (145) | (126) | (774) |
| As at 31 December 2016 | 34,089 | 52,575 | 15,820 | 1,837 | 104,321 |
| | | | | | |
| Depreciation: | | | | | |
| As at 1 January 2016 | 9,408 | 23,338 | 7,738 | – | 40,484 |
| Depreciation expense | 1,021 | 5,307 | 3,411 | – | 9,739 |
| Disposals | (19) | (1,410) | (419) | – | (1,848) |
| Foreign currency adjustment | 39 | 143 | 59 | – | 241 |
| As at 31 December 2016 | 10,449 | 27,378 | 10,789 | – | 48,616 |
| **Carrying amount: As at 31 December 2016** | 23,640 | 25,197 | 5,031 | 1,837 | 55,705 |

| 2015 | Land and buildings €000 | Technical equipment €000 | Other equipment €000 | Assets under construction €000 | Total €000 |
|---|---|---|---|---|---|
| Cost: | | | | | |
| As at 1 January 2015 | 30,418 | 41,013 | 17,028 | 7,758 | 96,217 |
| Additions | 45 | 110 | 365 | 6,726 | 7,246 |
| Disposals | (257) | (1,160) | (2,096) | (578) | (4,091) |
| Transfers | 2,500 | 8,585 | (328) | (10,682) | 75 |
| Foreign currency adjustment | 331 | 149 | 87 | 73 | 640 |
| As at 31 December 2015 | 33,037 | 48,697 | 15,056 | 3,297 | 100,087 |
| | | | | | |
| Depreciation: | | | | | |
| As at 1 January 2015 | 8,682 | 19,159 | 6,224 | – | 34,065 |
| Depreciation expense | 947 | 5,057 | 3,419 | – | 9,423 |
| Disposals | (117) | (755) | (1,840) | – | (2,712) |
| Foreign currency adjustment | (104) | (123) | (65) | – | (292) |
| As at 31 December 2015 | 9,408 | 23,338 | 7,738 | – | 40,484 |
| **Carrying amount: As at 31 December 2015** | **23,629** | **25,359** | **7,318** | **3,297** | **59,603** |

€141,000 of amounts included in transfers in 2016 represented assets which were previously classified as assets under construction. They have subsequently been reclassified as software. €75,000 of amounts included in transfers in 2015 represented assets which were previously classified as software. They have subsequently been reclassified as technical and other equipment.

The net book value of assets held under finance leases amounts to €231,000 (2015: €472,000).

The gross carrying value of fully depreciated property, plant and equipment that are still in use is €21,359,000 (2015: €17,644,000).

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# Notes to the consolidated financial statements continued

at 31 December 2016

## 19. Inventories

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Raw materials | 5,068 | 8,512 |
| Work in progress | 2,971 | 3,119 |
| Finished goods and merchandise | 17,021 | 19,918 |
| Provision for obsolescence | (3,402) | (3,833) |
| | 21,658 | 27,716 |

During the year ended 31 December 2016, inventories with a total value of €2,770,000 (2015: €757,000) were written off. This amount does not include the impact to the income statement for provisions made during the year. All write-offs were incurred as part of normal activities.

## 20. Trade and other receivables

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Trade receivables | 127,710 | 126,916 |
| Allowance for doubtful debts | (4,737) | (5,298) |
| | 122,973 | 121,618 |
| Other debtors and prepayments | 8,423 | 9,563 |
| | 131,396 | 131,181 |

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

| | 2016 €000 | 2015 €000 |
|---|---|---|
| As at start of year | (5,298) | (4,760) |
| Charge for the year | (232) | (1,074) |
| Amounts utilised | 697 | 553 |
| Foreign currency adjustment | 96 | (17) |
| As at end of year | (4,737) | (5,298) |

### Sale of receivables under non-recourse factoring

The Group via Stock Polska Sp. z.o.o. has entered into a non-recourse receivables financing agreement with Coface, supported by Natixis Bank. It may sell up to €31,891,000 (PLN 140,000,000) (at any one time) at face value less certain reserves and fees. As at 31 December 2016 Coface charge interest on the drawn amounts of WIBOR (Warsaw Interbank Offered Rate) 1M + 1.05% and a fee per invoice of 0.19%. The proceeds from the sale can be applied for the general corporate and working capital purposes of the Group. Pursuant to the HSBC Credit Facility, the total amount of receivables subject to a factoring facility may not in aggregate exceed €50,000,000.

At 31 December 2016 the factoring facility was not utilised (2015: €nil).

Trade receivables are denominated in the following currencies:

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Polish Zloty | 91,272 | 85,874 |
| Euro | 18,628 | 19,974 |
| US dollar | 248 | 66 |
| Czech Koruna | 9,901 | 12,413 |
| Other currencies | 2,924 | 3,291 |
| | 122,973 | 121,618 |

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Overdue 0–30 days | 11,777 | 12,718 |
| Overdue more than 30 days | 1,570 | 2,597 |
| | 13,347 | 15,315 |

The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used. The Group continually assesses the recoverability of trade receivables and the level of provisioning required.

Information about major customers:

Annual revenue from one customer in the Poland segment totalled more than 10% of total Group revenue. In 2016 revenue from this customer amounted to €35,916,000 (2015: €35,382,000).

## 21. Other assets

| | Current 2016 €000 | Non-current 2016 €000 | Current 2015 €000 | Non-current 2015 €000 |
|---|---|---|---|---|
| Customs deposits | 1,500 | 4,533 | 141 | 4,511 |

Customs guarantees are lodged with local Customs and Excise authorities and represent assets belonging to the Group. The deposits are to provide comfort to local Customs and Excise authorities that liabilities will be settled. These are cash deposits and are recognised as a receivable that does not meet the definition of cash and cash equivalents.

The increase in customs deposits in 2016 is attributable to a temporary deposit which has been paid to the Customs and Excise authorities in Italy in association with a change in logistics provider. This deposit is expected to be refunded in 2017.

# Notes to the consolidated financial statements continued

at 31 December 2016

## 22. Assets classified as held for sale

During 2014 the small manufacturing facility in Slovakia, acquired as part of the acquisition of Imperator s.r.o. in 2012, was closed. Production of Imperator brands was fully transferred to the Group's manufacturing facilities in the Czech Republic.

Following this closure the site was made available for sale, and was written down to the expected realisable value of €120,000.

In March 2015 this manufacturing facility in Slovakia was sold for €120,000, which was in line with the expected realisable value included at 31 December 2014.

## 23. Financial liabilities

| | Current 2016 €000 | Non-current 2016 €000 | Current 2015 €000 | Non-current 2015 €000 |
|---|---|---|---|---|
| **Unsecured – at amortised cost** | | | | |
| HSBC loan[1] | – | 134,319 | – | 132,496 |
| Cost of arranging bank loan[2] | (52) | (151) | (55) | (215) |
| Interest payable | 85 | – | 55 | – |
| Total | 33 | 134,168 | – | 132,281 |

1. On 18 November 2015 the Group signed a new facilities agreement for a €200,000,000 revolving credit facility (RCF) with a banking club consisting of five banks including HSBC who also act as the Agent. The term of the RCF facility is five years. This replaced the previous facility which included three Terms loans: Term Loan A (TLA), Term Loan B (TLB) and Term Loan C (TLC), split into eight variable rate loans, and a Revolving Credit Facility (RCF), with a banking club consisting of eight banks including ING who also acted as the Agent. These Term loans totalled €240,000,000 and the former RCF facility allowed draw down of up to €70,000,000. On 24 November 2015, all three Term Loan balances were repaid in full, and drawings under the new RCF were made

   The new facility is fully flexible and allows the Group to benefit from being able to increase or reduce borrowings as required, and utilise balance sheet cash more effectively. Margins have also been reduced which will serve to decrease finance costs going forwards. Each of the drawings under the new RCF have been drawn down in the local currencies. The first drawings under the new facility were made on 24 November 2015, following the full repayment of the existing ING term loans. The loans bear variable rates of interest which are linked to the inter-bank offer rates of the country of drawing, WIBOR, PRIBOR or EURIBOR as appropriate. Please refer to the table below for the balances drawn down. Each of the loans have a variable margin element to the interest charge. The margin is linked to a ratchet mechanism, subject to a minimum margin, as the Group's leverage covenant decreases

   As well as RCF drawings of €134,319,000 as at 31 December 2016, an additional €14,751,000 (2015: €5,601,000) of the RCF was utilised for customs guarantees in Italy and Germany. These custom guarantees reduce the available RCF but do not constitute a balance sheet liability.

2. Costs of arranging the Group banking facilities are deducted from the original measurement of the loan facilities and amortised into finance costs throughout the period using the effective interest method. On repayment of the ING Term loans in 2015 all remaining unamortised arrangement fees totalling €4,328,000 were written off to the income statement, and were included in finance costs in 2015 (see note 9). The arrangement fees under the new facility totalled €300,000, and these are being amortised into finance costs throughout the period of the new facility

The following table shows the distribution of loan principal balances as at 31 December 2016 and 31 December 2015 in Euros.

| | Total RCF 2016 €000 | Total RCF 2015 €000 |
|---|---|---|
| Stock Polska Sp. z.o.o. | 32,346 | 72,283 |
| Stock Plzeň-Božkov s.r.o. | 67,223 | 44,834 |
| Stock S.r.l. | 28,500 | 5,253 |
| Imperator s.r.o. | 2,500 | 6,366 |
| Baltic Distillery GmbH | 3,750 | 3,760 |
| | 134,319 | 132,496 |
| – Current | – | – |
| – Non-current | 134,319 | 132,496 |

No security is provided to the lenders under the new RCF facility as at 31 December 2016 (2015: nil security provided).

## 24. Other financial liabilities

| | Current 2016 €000 | Non-current 2016 €000 | Current 2015 €000 | Non-current 2015 €000 |
|---|---|---|---|---|
| Finance leases | 174 | 113 | 212 | 285 |

## 25. Provisions

| | (i) Employee benefits €000 | (ii) Severance indemnity €000 | (iii) Other provisions €000 | (iv) Legal and contract related provisions €000 | Total €000 |
|---|---|---|---|---|---|
| 2016 | | | | | |
| As at 1 January 2016 | 437 | 203 | 998 | 488 | 2,126 |
| Arising during the year | – | 29 | 94 | 41 | 164 |
| Utilised/released | (376) | (13) | (183) | (223) | (795) |
| Movement in provision following revaluation | 7 | – | – | – | 7 |
| Net foreign currency exchange differences | (2) | – | (20) | – | (22) |
| As at 31 December 2016 | 66 | 219 | 889 | 306 | 1,480 |
| | | | | | |
| – Current | 66 | – | 188 | 280 | 534 |
| – Non-current | – | 219 | 701 | 26 | 946 |

| | (i) Employee benefits €000 | (ii) Severance indemnity €000 | (iii) Other provisions €000 | (iv) Legal and contract related provisions €000 | Total €000 |
|---|---|---|---|---|---|
| 2015 | | | | | |
| As at 1 January 2015 | 726 | 233 | 1,075 | 897 | 2,931 |
| Arising during the year | – | – | 424 | 114 | 538 |
| Utilised/released | (65) | (30) | (497) | (526) | (1,118) |
| Movement in provision following revaluation | (276) | – | (16) | – | (292) |
| Net foreign currency exchange differences | 52 | – | 12 | 3 | 67 |
| As at 31 December 2015 | 437 | 203 | 998 | 488 | 2,126 |
| | | | | | |
| – Current | 437 | – | 139 | 458 | 1,034 |
| – Non-current | – | 203 | 859 | 30 | 1,092 |

(i) The provision for employee benefits represents expenses recognised in relation to a long-term incentive plan (LTIP) operated by the Group. The long-term incentive plan which existed prior to admission was amended so that 50% – 70% of accrued awards crystallised upon admission, being paid out in cash. All remaining awards became exercisable in October 2014. At the company's discretion these options can be satisfied in cash and consequently these have been accounted for as long-term employee benefits under IFRS 2 Share Based Payments.

During 2016 172,399 LTIP options were exercised (2015: 10,301 options exercised).

# Notes to the consolidated financial statements continued

at 31 December 2016

## 25. Provisions continued

(ii) Employee severance indemnity:

The Group operates an employee severance indemnity, mandatory for Italian companies, for qualifying employees of its Italian subsidiary. Under IAS 19 (Revised), this represents an unfunded defined benefit plan and is based on the working life of employees and on the remuneration earned by an employee over the course of a pre-determined term of service.

The most recent actuarial valuations of the present value of the severance indemnity obligation were carried out at 31 December 2016 by an actuary.

The present value of the severance indemnity obligation, and the related current service cost and past service cost, were measured using the projected unit credit method. The principal assumptions used for the purposes of the actuarial valuations were as follows: discount rate 2.33% p.a. (2015: 2.58% p.a.), inflation rate 2.00% p.a. (2015: 2.00% p.a.), revaluation rate 75% of inflation rate + 1.5 points = 1.80% p.a. (2015: 1.38% p.a.).

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

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Defined benefit obligation 1 January | 203 | 233 |
| Interest cost | 2 | 2 |
| Benefits paid | (10) | (9) |
| Defined benefit obligation | 195 | 226 |
| Other | 24 | (23) |
| Non-current provision | 219 | 203 |

(iii) Other provisions relate primarily to retirement benefits, sales agent indemnity fees and other various miscellaneous provisions. Provisions are recognised where a legal or constructive obligation exists at the year end date and where a reliable estimate can be made of the likely outcome. While these provisions are reviewed on a regular basis and adjusted for management's best current estimates, the judgemental nature of these items means that future amounts settled may differ from those provided.

(iv) Legal and contract related provisions relate to exposures for potential contractual penalties arising in the normal course of business. Provisions are recognised where a legal or constructive obligation exists at the year end date and where a reliable estimate can be made of the likely outcome. While these provisions are reviewed on a regular basis and adjusted for management's best current estimates, the judgemental nature of these items means that future amounts settled may differ from those provided.

On 7 February 2017, Stock Polska Sp. z.o.o. received a call for settlement from CEDC International Sp. z.o.o. for damages relating to a historic misleading labelling of its Żołądkowa Gorzka brand, shortly before expiry of the limitation period for raising any claim. Based on limited information contained in CEDC's initial claim, we consider the prospects of having to pay the amount claimed as remote, based on advice from external legal counsel. On this basis Stock Polska intends to vigorously defend the claim. Although an adverse decision (or settlement) may occur, the outcome of these proceedings is not expected to have a material impact on the business.

## 26. Indirect tax payable

| | **2016 €000** | **2015 €000** |
|---|---|---|
| Excise taxes | 58,856 | 57,316 |
| VAT | 15,344 | 14,144 |
| | 74,200 | 71,460 |

## 27. Trade and other payables

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Trade payables | 20,582 | 22,702 |
| Accruals | 28,801 | 22,649 |
| Social security and staff welfare costs | 2,002 | 1,896 |
| Other payables | 2,016 | 3,034 |
| | 53,401 | 50,281 |
| | | |
| – Current | 53,352 | 49,612 |
| – Non-current | 49 | 669 |

## 28. Authorised and issued share capital and reserves

### Share capital of Stock Spirits Group PLC

| Number of shares | 2016 | 2015 |
|---|---|---|
| Ordinary shares of £0.10 each, issued and fully paid | 200,000,000 | 200,000,000 |

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

| | Number of Ordinary Shares | Ordinary Shares €'000 | Share Premium €'000 |
|---|---|---|---|
| At 31 December 2015 and 31 December 2016 | 200,000,000 | 23,625 | 183,541 |

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

### Merger reserve

On 21 October 2013 129,064,871 shares were issued in exchange for shares in OCM Luxembourg Spirits Holdings S.à.r.l. The net book value of OCM Luxembourg Spirits Holdings S.à.r.l. at the time of exchange was €114,279,000, which resulted in €99,033,000 being credited to the merger reserve in line with merger relief provided by Section 612 of the Company Act 2006.

### Consolidation reserve

As the group was formed through a reorganisation in which Stock Spirits Group PLC became a new parent entity of the Group, the 2013 consolidated financial statements were prepared as a continuation of the existing Group using the pooling of interests method (or merger accounting). Merger accounting principles for this combination gave rise to a consolidation reserve of €5,130,000.

### Other reserve

Other reserves includes the credit to equity for equity-settled share-based payments. Please see note 34 for full details. The charge for the period ending 31 December 2016 was €81,000 (2015: €1,094,000).

### 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. At 31 December 2016 the Group held 2,638,440 of the Company's shares (2015: 5,906,255).

The EBT holds the shares at cost. The shares held prior to 2015 were acquired for the exercise of Jointly Owned Equity (JOE) Share Subscription Agreements, as well as Top-Up Option and Substitute Option Agreements. Ownership of the JOE Share Subscription Agreements was shared between the EBT and the Executive Directors, and therefore the cost to the EBT was minimal. Top-Up Option and Substitute Option Agreements were allocated to the EBT on IPO for nil payment. Consequently no own shares reserve has been presented prior to 2015. In 2015 shares were acquired at market value for LTIP options, which became exercisable in October 2014.

# Notes to the consolidated financial statements continued

at 31 December 2016

## 28. Authorised and issued share capital and reserves continued

### Own share reserve (continued)

The number of shares held by the EBT has reduced year on year following the exercise of a number of JOE Share Subscription Agreements, Top-Up and LTIP options. Refer to note 34 for further details.

### Jointly owned equity scheme

The business previously entered into a number of Jointly Owned Equity (JOE) Share Subscription Agreements with key members of Group staff. Refer to note 34.

### Foreign currency translation reserve

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Foreign currency translation reserve | 7,519 | 15,284 |

Exchange differences relating to the translation from the functional currencies of the Group's foreign subsidiaries into Euros are accounted for by entries made directly to the foreign currency translation reserve.

## 29. Distributions made and proposed

| | 2016 €000 | 2015 €000 |
|---|---|---|
| **Cash dividends on ordinary shares declared and paid:** | | |
| Interim dividend for 2016: 2.27 cents per share (2015: 1.25 cents per share) | 4,537 | 2,503 |
| Special dividend for 2016: 11.90 cents per share (2015: nil) | 23,781 | – |
| **Proposed dividends on ordinary shares:** | | |
| Final cash dividend for 2016: 5.45 cents per share (2015: 4.55 cents per share) | 10,883 | 9,084 |

Dividend payment included in the consolidated cash flow statement of €37,427,000 (2015: €7,513,000) reflects the movement in exchange rates from the date of declaration to the date of payment.

The proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December 2016.

## 30. Risk management

The Group is exposed to a variety of risks such as market risk, credit risk and liquidity risk. The Group's principal financial liabilities are loans and borrowings. The Group also has trade and other receivables, trade and other payables, indirect tax payables and cash and cash equivalents that arise directly from operations. This note provides further detail on financial risk management and includes quantitative information on the specific risks.

The Group's senior management oversees the management of these risks, and agrees the policies for managing each of these risks. These are summarised below.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's exposure is primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Financial instruments affected by market risk include loans and borrowings.

All Group borrowings are subject to the variable rates based on WIBOR, PRIBOR and EURIBOR, as stated per the HSBC loan facility agreement.

The Group has not entered into any derivatives to hedge foreign currency risk in relation to the HSBC facility. Each facility and the resulting cash outflows are denominated in local currency. The cash flows are therefore economically hedged within each market. Management have considered the foreign currency risk exposure and consider the risk to be adequately mitigated.

### Sensitivity analysis

The Company recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might affect the amounts recorded in its equity and its profit and loss for the period. Therefore the Company has assessed:

- What would be reasonably possible changes in the risk variables at the end of the reporting period
- The effects on profit or loss and equity if such changes in the risk variables were to occur.

### Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the Group's floating rate loans and borrowings at which at the end of 31 December 2016 are not hedged. With all other variables being constant the Group's profit before tax is affected through the impact on floating rate borrowings as follows.

| | Increase in basis points | Effect on profit/ (loss) before tax €'000 |
|---|---|---|
| **31 December 2016** | | |
| Euro | –50/+50 | 174/(174) |
| Polish Złoty | –50/+50 | 162/(162) |
| Czech Koruna | –50/+50 | 336/(336) |
| **31 December 2015** | | |
| Euro | –50/+50 | 77/(77) |
| Polish Złoty | –50/+50 | 361/(361) |
| Czech Koruna | –50/+50 | 224/(224) |

The assigned movement in basis points for interest rate sensitivity analysis is based upon the currently observable market environment.

The Group cash balances are held in current bank financial statements and earn immaterial levels of interest. Management have concluded that any changes in the EURIBOR rates will have an immaterial impact on interest income earned on the Group cash balances. No interest rate sensitivity has been included in relation to the Group's cash balances.

### Foreign currency risk

The following tables consider the impact on profit before tax arising from the conversion of non-domestic currency trade debtor, trade creditor and cash balances in our Polish, Czech and UK Group entities should there be a change in the spot €/CZK, €/PLN and €/GBP exchange rates of +/-5%. These currencies are considered as these are the most significant non-Euro denominations of the Group.

| | *Change in EUR vs PLN/CZK/GBP rate* | 2016 €000 | 2015 €000 |
|---|---|---|---|
| EUR – PLN | + 5% | 24 | 8 |
| | – 5% | (26) | (9) |
| EUR – CZK | + 5% | 75 | 188 |
| | – 5% | (83) | (208) |
| EUR – GBP | + 5% | (12) | (2) |
| | – 5% | 13 | 2 |

# Notes to the consolidated financial statements continued

at 31 December 2016

## 30. Risk management continued

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

### Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored and credit insurance is used where applicable. The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used. The Group continually assesses the recoverability of trade receivables and the level of provisioning required. Refer to note 20 for details of the age of accounts receivable which are past due.

The carrying amount of accounts receivable is reduced by an allowance account and the amount of loss is recognised within the consolidated income statement. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement. Refer to note 20 for details the movement in allowance for doubtful debts. Management does not believe that the Group is subject to any significant credit risk in view of the Group's large and diversified client base which is located in several jurisdictions.

### Other receivables and financial assets

Other receivables and financial assets consist largely of VAT and excise duty receivables and customs guarantees. As the counterparties are Revenue and Customs Authorities in the various jurisdictions in which the Group operates, credit risk is considered to be minimal and therefore no further analysis has been performed.

### Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. The Group deposits cash with reputable financial institutions, from which management believes loss to be remote. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2016 and 31 December 2015 is the carrying amounts as illustrated in notes 23 and 32. The Group's maximum exposure for financial guarantees are noted in either note 24 or in the liquidity table below, respectively.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Group's undiscounted financial liabilities at 31 December 2016 and 2015.

As at 31 December 2016

| Financial liabilities | Less than one year €000 | Between two and five years €000 | More than five years €000 | Total €000 |
|---|---|---|---|---|
| Interest bearing loans and borrowings (note 23) | – | 134,319 | – | 134,319 |
| Interest payable on interest bearing loans | 1,887 | 5,433 | – | 7,320 |
| Other financial liabilities (note 24) | 174 | 113 | – | 287 |
| Trade and other payables (note 27) | 51,259 | – | – | 51,259 |
| | 53,320 | 139,865 | – | 193,185 |

The RCF agreement which was signed in 2015 was for a term of 5 years. The facility is fully flexible, with the amount borrowed being reset each month. Interest payable on interest bearing loans for the term of the facility has been estimated using amounts drawn at 31 December 2016, and the interest rates and margins applicable at this time.

The Group has €50,930,000 of undrawn facilities available to it under the terms of the RCF. Refer to note 23.

### As at 31 December 2015

| Financial liabilities | Less than one year €000 | Between two and five years €000 | More than five years €000 | Total €000 |
|---|---|---|---|---|
| Interest bearing loans and borrowings (note 23) | – | 132,496 | – | 132,496 |
| Interest payable on interest bearing loans | 3,451 | 13,389 | – | 16,840 |
| Other financial liabilities (note 24) | 212 | 285 | – | 497 |
| Trade and other payables (note 27) | 46,786 | – | – | 46,786 |
| | 50,449 | 146,170 | – | 196,619 |

### 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:

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Net debt | 59,735 | 57,187 |
| Equity attributable to the owners of the Company | 348,579 | 364,862 |
| | 408,314 | 422,049 |

Net debt is calculated as follows:

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Cash and cash equivalents (note 32) | 74,956 | 75,806 |
| Floating rate loans and borrowings (note 23) | (134,404) | (132,496) |
| Finance leases (note 24) | (287) | (497) |
| Total net debt | (59,735) | (57,187) |

# Notes to the consolidated financial statements continued

at 31 December 2016

## 30. Risk management continued

### Fair value

Management assessed that cash and cash equivalents, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

As per the table below the carrying amounts of the Group's financial instruments are considered to be a reasonable approximation of their fair values.

### Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts which approximates fair values of all of the Group's financial instruments that are carried in the financial statements.

As at 31 December 2016

| | Loans and receivables €000 | Amortised cost €000 | Total book value €000 | Fair value €000 |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Cash | 74,956 | – | 74,956 | 74,956 |
| Trade and other receivables | 128,393 | – | 128,393 | 128,393 |
| Customs deposits | 6,033 | – | 6,033 | 6,033 |
| **Financial liabilities:** | | | | |
| Interest-bearing loans and borrowings: | | | | |
| (i) Finance lease obligations | | (287) | (287) | (287) |
| (ii) Floating rate borrowings – banks | – | (134,116) | (134,116) | (134,116) |
| Trade and other payables | – | 51,259 | 51,259 | 51,259 |

As at 31 December 2015

| | Loans and receivables €000 | Amortised cost €000 | Total book value €000 | Fair value €000 |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Cash | 75,806 | – | 75,806 | 75,806 |
| Trade and other receivables | 131,765 | – | 131,765 | 131,765 |
| Customs deposits | 4,652 | – | 4,652 | 4,652 |
| **Financial liabilities:** | | | | |
| Interest-bearing loans and borrowings: | | | | |
| (i) Finance lease obligations | – | (497) | (497) | (497) |
| (ii) Floating rate borrowings – banks | – | (132,226) | (132,226) | (132,226) |
| Trade and other payables | – | (46,786) | (46,786) | (46,786) |

At 31 December 2016 and 31 December 2015 there were no financial instruments and therefore no analysis using the fair value hierarchy has been performed.

## 31. Related party transactions

Note 33 below provides details of the Group's structure including information about the subsidiaries of Stock Spirits Group PLC. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. There were no transactions with related parties in the period to 31 December 2015 or 31 December 2016, with the exception of intercompany transactions and compensation of key management personnel.

### Compensation of key management personnel

The Executive, Non-Executive and local Managing Directors are deemed to be key management personnel. It is the Board and the local Managing Directors which have responsibility for planning, directing and controlling the activities of the Group. Total compensation to key management personnel were included in general and administrative and other operational expenses in the consolidated income statement.

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Short-term employee benefits | 4,865 | 5,045 |
| Social security costs | 609 | 622 |
| Post-employment benefits | 72 | 59 |
| Share-based compensation (note 34) | (1,144) | 415 |
| Termination benefits | 1,401 | 147 |
| | 5,803 | 6,288 |

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the period, key management personnel did not owe the Company any amounts.

As at 31 December 2016, no Directors (2015: nil) had any retirement benefits accrued under either money purchase schemes or under defined benefit schemes.

In 2016 no Directors (2015: nil) made any gains on the exercise of share options.

Other disclosures on Directors' remuneration required by the Companies Act 2006 and those specified for audit by the Directors' Remuneration Report Regulations 2002 are included in the Directors' Remuneration Report.

## 32. 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:

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Cash and bank balances | 74,956 | 75,806 |

Cash and cash equivalents are denominated in the following currencies:

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Sterling | 21,649 | 17,869 |
| Euro | 8,960 | 15,139 |
| US Dollar | 137 | 90 |
| Czech Koruna | 21,918 | 23,539 |
| Polish Złoty | 16,578 | 16,255 |
| Other currencies | 5,714 | 2,914 |
| Total | 74,956 | 75,806 |

Financial statements

# Notes to the consolidated financial statements continued

at 31 December 2016

## 33. Group structure and acquisition details

Details of Group undertakings as of 31 December 2015 and 31 December 2016 are as follows:

| Group company | Country of incorporation | Relation | Proportion of voting rights shares held | |
|---|---|---|---|---|
| | | | 31 December 2016 | 31 December 2015 |
| Stock Spirits (UK) Limited | England[3] | Subsidiary | 100% | 100% |
| Stock Plzeň-Božkov s.r.o.[1] | Czech Republic[5] | Subsidiary | 100% | 100% |
| Stock S.r.l.[1] | Italy[7] | Subsidiary | 100% | 100% |
| F.lli Galli, Camis & Stock A.G.[1] | Switzerland[8] | Subsidiary | 100% | 100% |
| Stock Polska Sp. z.o.o.[1] | Poland[4] | Subsidiary | 100% | 100% |
| Stock Wodka Polska S.A.[1,2] | Poland[4] | Subsidiary | – | 100% |
| Wodka Polska Sp. z.o.o.[1] | Poland[4] | Subsidiary | 100% | 100% |
| Stock International s.r.o[1] | Czech Republic[5] | Subsidiary | 100% | 100% |
| Stock Spirits Group Services AG[1] | Switzerland[8] | Subsidiary | 100% | 100% |
| Stock BH d.o.o.[1] | Bosnia[9] | Subsidiary | 100% | 100% |
| Stock d.o.o.[1] | Croatia[10] | Subsidiary | 100% | 100% |
| Baltic Distillery GmbH[1] | Germany[11] | Subsidiary | 100% | 100% |
| Stock Slovensko s.r.o. (formerly Imperator s.r.o.)[1] | Slovakia[6] | Subsidiary | 100% | 100% |
| Stock Finance (Euro) Limited[1] | England[3] | Subsidiary | 100% | 100% |
| Stock Finance (Złoty) Limited[1] | England[3] | Subsidiary | 100% | 100% |
| Stock Finance (Koruna) Limited[1] | England[3] | Subsidiary | 100% | 100% |

All shareholdings in subsidiaries are represented by Ordinary shares.

1. Wholly owned held indirectly through subsidiary undertakings
2. In connection with an internal corporate reorganisation Stock Wodka Polska S.A. was liquidated in March 2016
3. The registered office is Solar House, Mercury Park, Wooburn Green, Buckinghamshire, HP10 0HH, United Kingdom
4. The registered office is ul Spoldzielcza n.6 Lublin 20-402, Poland
5. The registered office is Palirenska 641/2, PSC 32600, Czech Republic
6. The registered office is Galvaniho 7/A Bratislava - mestská časť Ružinov 821 04, Slovakia
7. The registered office is Tucidide 56 bis, 20 134 Milan, Italy
8. The registered office is Domanda Verurraltungs GmbH, Baarerstrasse 43, 6302 Zug
9. The registered office is Džemala Bijedića 185, Ilidža, 71000 Sarajevo, Bosnia Herzegovina
10. The registered office is Josipa Lončara 3, 10000 Zagreb, Croatia
11. The registered office is Baltic Distillery GmbH, Gartenweg 1, 18334 Dettmannsdorf

## 34. Share-based compensation

### Jointly owned equity scheme

The Company and former shareholder (Oaktree) previously entered into a number of Jointly Owned Equity (JOE) Share Subscription Agreements with key members of Group management employees.

Prior to IPO management employees were invited to subscribe for an interest in the growth in value of Class F ordinary shares (F shares) in OCM Luxembourg Spirits Holdings S.à.r.l. jointly with Elian Employee Benefit Trustee Limited acting in its capacity as trustee of the Stock Spirits Employee Benefit Trust (EBT). The EBT holds the JOE scheme shares and the vested options on behalf of the employees.

At IPO the 200 F Shares issued under the JOE scheme were converted into ordinary £0.10 shares of Stock Spirits Group PLC ('PLC') the new ultimate parent company of the Group at the rate of 1 F share to 17,886 PLC ordinary shares. The conversion was accounted for as a replacement under IFRS 2. The movements in the awards outstanding during the year were as follows:

| | Number |
|---|---|
| At 1 January 2016 | 3,577,244 |
| Granted | – |
| Exercised | (2,861,795) |
| Lapsed | – |
| Outstanding at 31 December 2016 | 715,449 |
| Exercisable at 31 December 2016 | 715,449 |

### Other equity-settled share-based compensation

Prior to IPO members of the key management team were issued with a total of 207 A-class and A1-class share options over shares of OCM Luxembourg Spirits Holdings S.à r.l. Of the A-class and A1-class share options issued 36 options had a 2 year vesting period to May 2015. These have been recognised on a straight line basis over the vesting period.

At IPO the A and A1 share options were converted into options over ordinary £0.10 shares in Stock Spirits Group PLC. The exercise price of the replacement award was €nil. The 207 A and A1 options were converted into 1,469,365 ordinary £0.10 PLC share options. The conversion was accounted for as a replacement under IFRS 2 All but 244,792 of the new options vested immediately. As above, these remaining options vested in May 2015 and the fair value has been recognised on a straight-line basis.

In 2012 one member of key management purchased 28 E-class shares in OCM Luxembourg Spirits Holdings S.à.r.l. At IPO the E shares were converted into £0.10 ordinary shares in Stock Spirits Group PLC at the rate of 1 E share to 12,033 ordinary PLC shares. The conversion was accounted for as a replacement under IFRS 2.

### Share options issued at IPO

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

The Group EBT holds the shares for all vested share options. At IPO several members of key management were issued a total of 1,538,124 £0.10 ordinary share options in Stock Spirits Group PLC. The options vested immediately upon grant.

Included within the terms of the grant the employee agrees to receive their options net of a deduction to allow the Group to settle any personal income taxes on behalf of the recipient. Consequently there is no liability to the Group on exercise of the options. In previous years the related income tax liability was accounted for as cash-settled share-based compensation and recorded as a liability on the Company balance sheet (2015: €930,000).

| | 2016 | 2015 |
|---|---|---|
| **Exercisable options** | | |
| Number outstanding | 1,881,499 | 2,115,120 |
| Weighted average exercise price | €nil | €nil |
| Expiration period | 7 years | 8 years |

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

| | No |
|---|---|
| At 1 January 2016 | 2,115,120 |
| Granted | – |
| Exercised | (233,621) |
| Lapsed | – |
| Outstanding at 31 December 2016 | 1,881,499 |
| Exercisable at 31 December 2016 | 1,881,499 |

# Notes to the consolidated financial statements continued

at 31 December 2016

## 33. Group structure and acquisition details continued

**Performance share plan:**

Participation in the PSP is restricted to the Senior Management Team. Awards made under the PSP normally vest provided the participant remains in the Group's employment during the performance period and financial targets are met at the end of the performance period. In 2015 financial targets were based on total shareholder return (TSR), versus comparator companies, and earnings per share (EPS). In 2014 financial targets were based on TSR only. The performance period is the period of 3 financial years beginning with the financial year in which the award is granted. The vesting period for grants made under this scheme is 3 years with an exercise period of 7 years. The exercise price of PSP options is €nil.

Further information on the PSP is set out in the Directors' Remuneration Report on pages 75 to 90.

No awards have been granted in 2016 (2015: 1,481,893 shares, 2014: 1,290,480 shares). The compensation expense recognised in relation to these awards is based on the fair value of the awards at grant date. The fair value of nil cost options subject to the TSR condition is determined using a Monte-Carlo option pricing model. The fair value of all other options is calculated using the share price at the date of grant, adjusted for dividends not received during the vesting period.

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

| | 2015 | 2014 |
|---|---|---|
| **Principal assumptions** | | |
| Fairv alue at grant date | 41.0 pence | 192.5 pence |
| Share price on grant date | 196.5 pence | 292.3 pence |
| Expected life of the awards | 3 years | 3 years |
| Riskf ree rate interest rate | 0.74% | 1.12% |
| Dividend yield on the Company's shares | 1.52% | 1.06% |
| Volatility of the Company's shares | 23.9% | 21.6% |
| TSR correlation (SSG PLC vs comparators) | 20.7% | 25.0% |

Due to the limited historic data available for SSG PLC expected volatility was based on the historic volatilities of the companies in the TSR comparatorg roup.

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

| | 2016 Number |
|---|---|
| At 1 January | 2,339,367 |
| Granted | – |
| Lapsed | (363,505) |
| Outstanding at 31 December | 1,975,862 |
| Exercisable at 31 December | – |

Included within the terms of the grant the employee agrees to receive their options net of a deduction to allow the Group to settle any personal income taxes on behalf of the recipient. Consequently there is no liability to the Group on exercise of the options. In previous years the related income tax liability was accounted for as cash-settled share-based compensation and recorded as a liability on the Group balance sheet (2015: €354,000).

**Special Equity Scheme:**
In 2016 1,000,000 awards were issued to the Managing Director of the Polish business. The awards will vest provided that this participant remains in the Group's employment during the performance period and various financial targets are met. The performance period is the period of 3 financial years beginning with the financial year in which the award is granted. The vesting period for grants made under this scheme is 5 years with an exercise period of 7 years. The exercise price of these awards is £nil.

All performance conditions over the period of 2 financial years must be met for any awards to vest.

The compensation expense recognised in relation to these awards is based on the fair value of the awards at grant date. The fair value has been calculated using the share price of 156.0p at the date of grant, and has been assumed to be the same as the share price at the date of grant.

The movement in awards granted to employees of Stock Spirits Group PLC under this scheme during the year are as follows:

| | 2016 Number |
|---|---|
| At 1 January | – |
| Granted | 1,000,000 |
| Lapsed | – |
| Outstanding at 31 December | 1,000,000 |
| Exercisable at 31 December | – |

**Deferred Annual Bonus Plan:**
No deferred shares were granted under the Group Annual Deferred Annual Bonus Plan during the year.

**Share based compensation expense**
The expense recognised in other operational expenses for employee services received during the year is shown in the following table:

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Total share-based compensation expense recognised in Statement of Changes in Equity | 81 | 1,094 |
| Total cash-settled share based compensation awards recognised in liabilities | (1,272) | (313) |
| | (1,191) | 781 |

The total value of cash-settled share based compensation awards recognised in liabilities at 31 December 2016 is €nil (2015: €1,356,000).

In previous periods, the Company had accrued tax liabilities in respect of personal tax due on share-based payments. In the current period, these amounts have been released as the employees have settled, or will settle, all such liabilities on exercise.

# Notes to the consolidated financial statements continued

at 31 December 2016

## 35. Business combinations

On 31 October 2016 the Group acquired a small business in order to further strengthen the Czech business.

The following table summarises book and fair values, including measurement period adjustments recognised during the reporting period of the identifiable assets acquired at the date of acquisition:

### Consideration

| | Consideration paid €000 |
|---|---|
| Cash paid | 4,996 |
| Total consideration | 4,996 |

### Recognised amount of identifiable assets acquired

| | Fair value recognised on acquisition €000 |
|---|---|
| Brands (note 16) | 4,522 |
| Total identifiable net assets at fair value | 4,522 |
| Goodwill arising on acquisition (note 15) | 474 |
| Purchase consideration | 4,996 |

The goodwill of €474,000 comprises the value of acquired knowhow, including the production methods relating to the business acquired. None of the goodwill is expected to be deductible for corporate income tax purposes. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill is allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units.

Total acquisition related costs are not material for disclosure.

## 36. Operating lease commitments

The Group has entered into commercial leases on certain items of plant and machinery and buildings. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these contracts.

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | 2016 €000 | 2015 €000 |
|---|---|---|
| Within one year | 2,810 | 2,330 |
| After one year but not more than five years | 10,270 | 8,916 |
| More than five years | 5,514 | 6,819 |
| | 18,594 | 18,065 |

The total charge under operating leases as of 31 December 2016 was €2,444,000 2015: €2,742,000).

## 37. Commitments for capital expenditure

Commitments for the acquisition of property, plant and equipment as of 31 December 2016 are €429,000 (2015: €473,000).

## 38. Events after the balance sheet date

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

# Company statement of financial position

at 31 December 2016

| | Notes | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments | 3 | 254,428 | 254,428 |
| Other receivables | 4 | 335 | 698 |
| | | 254,763 | 255,126 |
| **Current assets** | | | |
| Other receivables and prepayments | 5 | 13,330 | 2,396 |
| Cash and cash equivalents | 6 | 16,456 | 7,892 |
| | | 29,786 | 10,288 |
| **Total assets** | | 284,549 | 265,414 |
| **Non-current liabilities** | | | |
| Trade and other payables | 8 | 7 | 240 |
| | | 7 | 240 |
| **Current liabilities** | | | |
| Trade and other payables | 7 | 2,402 | 2,825 |
| | | 2,402 | 2,825 |
| **Total liabilities** | | 2,409 | 3,065 |
| **Net assets** | | 282,140 | 262,349 |
| **Capital and reserves** | | | |
| Issued share capital | 9 | 20,000 | 20,000 |
| Share premium | 9 | 155,428 | 155,428 |
| Own share reserve | 9 | (210) | (451) |
| Merger reserve | 9 | 83,837 | 83,837 |
| Share based compensation reserve | 12 | 7,292 | 7,272 |
| Retained earnings | | 15,793 | (3,737) |
| | | 282,140 | 262,349 |

Notes 1 to 14 are an integral part of the financial statements.

The standalone financial statements of Stock Spirits Group PLC, registered number 08687223, on pages 155 to 170, were approved by the Board of Directors and authorised for issue on 8 March 2017 and were signed on behalf by:

**Mirek Stachowicz**
Chief Executive Officer
8 March 2017

**Lesley Jackson**
Chief Financial Officer
8 March 2017

Financial statements

# Company statement of cash flows

for the year ended 31 December 2016

| | Notes | For the year ended 31 December 2016 £000 | For the year ended 31 December 2015 £000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(loss) for the year | | 50,482 | (3,035) |
| Adjustments to reconcile profit/(loss) to net cash flows: | | | |
| Other financial income | | (211) | (41) |
| Interest expense | | 167 | 62 |
| Net foreign exchange gain | | – | (7) |
| Share-based compensation | 12 | 20 | 908 |
| | | 50,458 | (2,113) |
| **Working capital adjustments** | | | |
| Increase in trade receivables and other assets | | (10,408) | (349) |
| Decrease in trade payables and other liabilities | | (377) | (452) |
| | | (10,785) | (801) |
| **Net cash flows from operating activities** | | 39,673 | (2,914) |
| | | | |
| **Investing activities** | | | |
| Interest received | | 50 | 41 |
| **Net cash flow from investing activities** | | 50 | 41 |
| **Financing activities** | | | |
| Interest paid | | (167) | (62) |
| Dividends paid to equity holders | | (30,992) | (5,420) |
| Purchase of own shares | | – | (509) |
| **Net cash flow from financing activities** | | (31,159) | (5,991) |
| **Net increase/(decrease) in cash and cash equivalents** | | 8,564 | (8,864) |
| **Cash and cash equivalents at the start of the year** | | 7,892 | 16,749 |
| **Effect of exchange rates on cash and cash equivalents** | | – | 7 |
| **Cash and cash equivalents at the end of the year** | 6 | 16,456 | 7,892 |

# Company statement of changes in equity

for the year ended 31 December 2016

| | Issued capital £000 | Share premium £000 | Merger reserve £000 | Share-based compensation reserve £000 | Own share reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **20,000** | **155,428** | **83,837** | **6,364** | **–** | **4,649** | **270,278** |
| Loss for the year | – | – | – | – | – | (3,035) | **(3,035)** |
| Total comprehensive expense | – | – | – | – | – | (3,035) | **(3,035)** |
| Share-based compensation charge (note 12) | – | – | – | 908 | – | – | **908** |
| Own shares acquired for incentive schemes (note 9) | – | – | – | – | (509) | – | **(509)** |
| Own shares utilised for incentive schemes (note 9) | – | – | – | – | 58 | 69 | **127** |
| Dividends (note 10) | – | – | – | – | – | (5,420) | **(5,420)** |
| **Balance at 31 December 2015** | **20,000** | **155,428** | **83,837** | **7,272** | **(451)** | **(3,737)** | **262,349** |
| Profit for the year | – | – | – | – | – | 50,482 | **50,482** |
| Total comprehensive income | – | – | – | – | – | 50,482 | **50,482** |
| Share-based compensation charge (note 12) | – | – | – | 20 | – | – | **20** |
| Own shares utilised for incentive schemes (note 9) | – | – | – | – | 241 | 40 | **281** |
| Dividends (note 10) | – | – | – | – | – | (30,992) | **(30,992)** |
| **Balance at 31 December 2016** | **20,000** | **155,428** | **83,837** | **7,292** | **(210)** | **15,793** | **282,140** |

# Notes to the Parent Company financial statements

at 31 December 2016

## 1. General information

These separate financial statements were approved and authorised for issue by the Board of Directors of Stock Spirits Group PLC (the Company) on 8 March 2017.

The Company's registered office is at Solar House, Mercury Park, Wooburn Green, Buckinghamshire, HP10 0HH, United Kingdom.

## 2. Accounting policies

### Basis of preparation

These separate financial statements of the Company are presented as required by the Companies Act 2006 (the Act). As permitted by the Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

International Financial Reporting Standards are issued by the International Accounting Standard Board (IASB).

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

The financial statements are presented in Sterling (£), rounded to the nearest thousand (£000) unless otherwise stated. They have been prepared under the historical cost convention.

These financial statements have been prepared for the year ended 31 December 2016.

### Exemptions

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the Company alone. The profit for the year has been disclosed in the statement of changes in equity.

### New/Revised standards and interpretations adopted in 2016

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

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
IFRS 14 Regulatory Deferral Accounts
Amendments to IAS 1: Disclosure Initiative
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41: Bearer Plants
Amendments to IAS 27: Equity Method in Separate Financial Statements
Annual Improvements to IFRSs 2012-2014 Cycle

## New/Revised standards and interpretations not applied

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

| | Effective dates[1] |
|---|---|
| Amendments to IAS 7: IAS 7 Disclosure initiative | 1 January 2017 |
| Amendments to IAS 12: IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 9 Financial Instruments | 1 January 2018 |
| Amendments to IFRS 2: IFRS 2 Classification and Measurement of Share-based Payment Transactions | 1 January 2018 |
| IFRS 16 Leases | 1 January 2019 |

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

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

The IASB and IFRIC have issued the following standards and interpretations (with an effective date after the date of these financial statements):

- IFRS 15 'Revenues from Contracts with Customers' (effective 1 January 2018)
- IFRS 9 'Financial Instruments' (effective 1 January 2018)
- IFRS 16 'Leases' (effective 1 January 2019).

The Directors have completed an initial assessment of the potential impact of IFRS 9, and don't believe that it will have a material impact on the results of the Company. Due to the nature of the Company's operations it will not be impacted by IFRS 15 or IFRS 16. The Company will continue to monitor any potential impact as the new standards become more imminent.

## Investments

Investments in subsidiary undertakings are valued at cost, less accumulated impairment.

# Notes to the Parent Company financial statements continued

at 31 December 2016

## 2. Accounting policies continued

### Share-based compensation

Equity-settled transactions

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

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

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

Prior to 2014 the financial effect of awards by the Company of options over its equity shares to employees to subsidiary undertakings was recognised by the parent company in its individual financial statements as an increase in its investment in subsidiaries with a credit to equity equivalent to the IFRS 2 cost in subsidiary undertaking. The subsidiary, in turn, recognised the IFRS 2 cost in its income statement with a credit to equity to reflect the deemed capital contribution from the parent company.

From 2014 the financial effect of awards by the Company of options over its equity shares to employees of subsidiary undertakings is recognised by the parent company in its individual financial statements as an increase in the costs of investments in its subsidiaries with the corresponding credit being recognised directly in equity as a credit to the share-based payments reserve equivalent to the IFRS 2 cost. Amounts recharged to the subsidiary are recognised as a reduction in the cost of investment with a corresponding intercompany receivable balance. The subsidiary will in turn recognise the IFRS 2 cost in its income statement with a credit to intercompany payables.

### Repurchase and reissue of ordinary shares (own shares)

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

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise Other receivables and Cash and cash equivalents in the balance sheet.

### Other receivables

Other receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

### Cash and cash equivalents

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

### Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost, using the effective interest rate method.

### Cash dividends to equity holders

The Company recognises a liability to make cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws in the United Kingdom, an interim distribution is authorised by the Board, whilst a final distribution is authorised when it is approved by the shareholders.

## 3. Investments

| | £000 |
|---|---|
| Carrying value at 31 December 2015 and 31 December 2016 | 254,428 |

See note 33 to the consolidated financial statements.

## 4. Other receivables due in more than 1 year

| | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| Amounts owed by subsidiary undertakings | 292 | 640 |
| Cost of arranging bank loans > 1 year | 43 | 58 |
| | 335 | 698 |

## 5. Other receivables and prepayments

| | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| Amounts owed by subsidiary undertakings | 12,551 | 1,708 |
| Other debtors and prepayments | 764 | 673 |
| Cost of arranging bank loans < 1 year | 15 | 15 |
| | 13,330 | 2,396 |

No security has been granted over other receivables.

The increase in the amounts owed by subsidiary undertakings is as a result of the issue of two new loans to Stock Spirits (UK) Limited for a total of £11m.

## 6. Cash and cash equivalents

| | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| Cash and bank balances | 16,456 | 7,892 |

# Notes to the Parent Company financial statements continued

at 31 December 2016

## 7. Trade and other payables

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Trade payables | 114 | 1,257 |
| Accruals | 1,359 | 1,095 |
| VAT and social security | 507 | 404 |
| Amounts due to subsidiary undertakings | 10 | 6 |
| Other payables | 412 | 63 |
| | 2,402 | 2,825 |

Accruals no longer include any amount representing personal income tax in relation to cash-settled share-based compensation (2015: £688,000). Social security and staff welfare costs includes £322,000 (2015: £147,000) which represents social security costs in relation to share-based compensation.

Other payables includes £51,000 (2015: £nil) representing social security costs in relation to the 2014 Performance Share Plan. If vesting conditions are met the 2014 scheme options will become exercisable in 2017.

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

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Other payables | 7 | 240 |

Other payables falling due after more than one year represents social security costs of £7,000 (2015: £56,000) in relation to the 2015 Performance Share Plan. In 2015 other payables also included personal income tax of £184,000 in relation to the Performance Share Plan.

## 9. Authorised and issued share capital and reserves

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

| | Number of Ordinary Shares | Ordinary Shares £ | Share Premium £ |
|---|---|---|---|
| At 31 December 2015 and 31 December 2016 | 200,000,000 | 20,000,000 | 155,428,080 |

### Merger reserve

On 21 October 2013 129,064,871 shares were issued in exchange for shares in OCM Luxembourg Spirits Holdings S.à.r.l. The net book value of OCM Luxembourg Spirits Holdings S.à.r.l. at the time of exchange was £96,743,000, which resulted in £83,837,000 being credited to the merger reserve in line with merger relief provided by Section 612 of the Company Act 2006. On 25 October 2013 the Company was admitted to the London Stock Exchange and placed 22,127,660 ordinary £0.10 shares at a premium of £2.25 pence per share. Also included in share premium are capitalised listing costs, which have been incurred directly in connection with the registration and distribution of shares.

### Own share reserve

The own share reserve comprises the cost of the Company's shares, which are held by the Employment Benefit Trust (EBT) on behalf of the employees until the options are exercised. At 31 December 2016 the EBT held 2,638,440 of the Company's shares (2015: 5,906,255).

The EBT holds the shares at cost. The shares held prior to 2015 were acquired for the exercise of Jointly Owned Equity (JOE) Share Subscriptions Agreements, as well as Top-Up Option and Substitute Option Agreements. Ownership of the JOE Share Subscription Agreements was shared between the EBT and the Executive Directors, and therefore the total cost to the EBT was minimal. Top-Up and Substitute Option Agreements were allocated to the EBT on IPO for nil payment. Consequently no own share reserve has been presented prior to 2015. In 2015 shares were acquired at market value for LTIP options, which became exercisable in October 2014.

### Share-based compensation reserve

Share-based compensation reserve includes the credit to equity for equity-settled share-based payments. Please see note 12 for full details. The equity charge for the year ending 31 December 2016 was £20,000 (2015: £908,000).

## 10. Distributions made and proposed

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Cash dividends on ordinary shares declared and paid:** | | |
| Interim dividend for 2016: 2.27 Euro cents (1.91 Sterling pence) per share (2015: 1.25 Euro cents (1.00 Sterling pence)) | 3,809 | 1,827 |
| Special dividend for 2016: 11.90 Euro cents (10 Sterling pence) per share (2015: nil) | 19,986 | – |
| **Proposed dividends on ordinary shares:** | | |
| Final cash dividend for 2016: 5.45 Euro cents (4.63 Sterling pence) per share (2015: 4.55 Euro cents (3.50 Sterling pence)) | 9,245 | 6,988 |

## 11. Risk management

The Company's principal financial liabilities are trade and other payables. The Company's principal financial assets include other debtors, prepayments and cash and cash equivalents that derive directly from its operations.

The Company is exposed to a variety of risks including market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks, and agrees the policies for managing each of these risks. These are summarised below.

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Company is exposed to credit risk from its financing activities, including deposits with banks and financial institutions.

# Notes to the Parent Company financial statements continued

at 31 December 2016

## 11. Risk management continued

### Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy (refer to note 30 of the consolidated financial statements). The Company deposits cash with reputable financial institutions, from which management believes loss to be remote. The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2016 is the carrying amounts as illustrated in note 6.

### Other receivables and prepayments

Other receivables and prepayments consist largely of amounts receivable from subsidiaries. As there are deemed to be no going concern issues with any of the individual group entities loss is considered to be remote, and consequently credit risk is minimal and no further analysis has been performed.

### Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying values and fair values of all financial instruments that are carried in the financial statements.

| As at 31 December 2016 | Loans and receivables £000 | Payables £000 | Total book value £000 | Fair value £000 |
|---|---|---|---|---|
| Cash and cash equivalents (note 6) | 16,456 | – | 16,456 | 16,456 |
| Other receivables (note 4, 5) | 12,945 | – | 12,945 | 12,945 |
| Trade and other payables (note 7, 8) | – | (1,902) | (1,902) | (1,902) |

| As at 31 December 2015 | Loans and receivables £000 | Payables £000 | Total book value £000 | Fair value £000 |
|---|---|---|---|---|
| Cash and cash equivalents (note 6) | 7,892 | – | 7,892 | 7,892 |
| Other receivables (note 4, 5) | 2,518 | – | 2,518 | 2,518 |
| Trade and other payables (note 7, 8) | – | (1,733) | (1,733) | (1,733) |

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Company's undiscounted financial liabilities.

### As at 31 December 2016

| Financial liabilities | On demand £000 | Less than one year £000 | Between two and five years £000 | More than five years £000 | Total £000 |
|---|---|---|---|---|---|
| Trade and other payables (note 7, 8) | – | (1,902) | – | – | (1,902) |

### As at 31 December 2015

| Financial liabilities | On demand £000 | Less than one year £000 | Between two and five years £000 | More than five years £000 | Total £000 |
|---|---|---|---|---|---|
| Trade and other payables (note 7, 8) | – | (1,733) | – | – | (1,733) |

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's exposure is primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Financial instruments affected by market risk are limited to cash and cash equivalents.

### Currency risk

The Company engages in foreign currency transactions to a very limited extent. No financial assets or liabilities are held in foreign currencies. Due to the Company's lack of exposure to currency risk no sensitivity analysis has been performed.

### Interest rate risk

The Company has no interest bearing financial liabilities, and its interest bearing financial assets consist of only cash and cash equivalents. As such exposure to interest rate risk is limited and no sensitivity analysis has been performed.

### Capital risk management

The Board's objectives and policies for the Company are consistent with those of the Group. Full details are provided in note 30 of the consolidated financial statements.

### RCF financing facility

On 18 November 2015 the Group signed a new facilities agreement for a €200,000,000 revolving credit facility (RCF) with a banking club consisting of five banks including HSBC who also act as the Agent. The term of the RCF facility is five years. See note 23 of the consolidated financial statements for further details.

# Notes to the Parent Company financial statements continued

at 31 December 2016

## 12. Share based compensation

### Jointly owned equity scheme

The Company and former shareholder (Oaktree) previously entered into a number of Jointly Owned Equity (JOE) Share Subscription Agreements with key members of Group management employees.

Prior to IPO management employees were invited to subscribe for an interest in the growth in value of Class F ordinary shares (F shares) in OCM Luxembourg Spirits Holdings S.à.r.l. jointly with Elian Employee Benefit Trustee Limited acting in its capacity as trustee of the Stock Spirits Employee Benefit Trust (EBT). The EBT holds the JOE scheme shares and the vested options on behalf of the employees.

At IPO the 200 F Shares issued under the JOE scheme were converted into ordinary £0.10 shares of Stock Spirits Group PLC ('PLC') the new ultimate parent company of the Group at the rate of 1 F share to 17,886 PLC ordinary shares. The conversion was accounted for as a replacement under IFRS 2.

### Share options issued at IPO and other equity-settled share-based compensation

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

The Group EBT holds the shares for all vested share options. At IPO several members of key management were issued a total of 1,538,124 £0.10 ordinary share options in Stock Spirits Group PLC. The options vested immediately upon grant.

Included within the terms of the grant the employee agrees to receive their options net of a deduction to allow the Group to settle any personal income taxes on behalf of the recipient. Consequently there is no liability to the Company on exercise of the options. In previous years the related income tax liability was accounted for as cash-settled share-based compensation and recorded as a liability on the Company balance sheet (2015: £688,000).

| | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| **Exercisable options** | | |
| Number outstanding | 1,881,499 | 2,115,120 |
| Weighted average exercise price | £nil | £nil |
| Expiration period | 7 years | 8 years |

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

| | Number |
|---|---|
| At 1 January 2016 | 2,115,120 |
| Granted | – |
| Exercised | (233,621) |
| Lapsed | – |
| Outstanding at 31 December 2016 | 1,881,499 |
| Exercisable at 31 December 2016 | 1,881,499 |

### Performance share plan

Prior to the admission of the Group to the London Stock Exchange, a Long-Term Incentive Plan ('LTIP') was operated. In 2014 LTIP has been replaced with a Performance Share Plan ('PSP'), with the first scheme becoming effective from 6 May 2014. A second scheme began on 22 April 2015. Participation in the PSP is restricted to the Senior Management Team. Awards made under the PSP normally vest provided the participant remains in the Group's employment during the performance period and financial targets are met at the end of the performance period. In 2015 financial targets were based on total shareholder return (TSR), versus comparator companies, and earnings per share (EPS). In 2014 financial targets were based on TSR only. The performance period is the period of three financial years beginning with the financial year in which the award is granted. The vesting period for grants made under this scheme is three years with an exercise period of seven years. The exercise price of PSP options is £nil.

The performance condition applying to the total number of awards granted to members of the Senior Management Team during the current period is divided equally between TSR and EPS conditions (2014: TSR conditions only).

Further information on the PSP is set out in the Directors' Remuneration Report on pages 75 to 90.

No awards have been granted in 2016 (2015: 1,481,893 shares, 2014: 1,290,480 shares). The compensation expense recognised in relation to these awards is based on the fair value of the awards at grant date. The fair value of nil cost options subject to the TSR condition is determined using a Monte-Carlo option pricing model. The fair value of all other options is calculated using the share price at the date of grant, adjusted for dividends not received during the vesting period.

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

| | 2015 | 2014 |
|---|---|---|
| **Principal assumptions** | | |
| Fair value at grant date | 41.0 pence | 192.5 pence |
| Share price on grant date | 196.5 pence | 292.3 pence |
| Expected life of the awards | 3 years | 3 years |
| Risk free rate interest rate | 0.74% | 1.12% |
| Dividend yield on the Company's shares | 1.52% | 1.06% |
| Volatility of the Company's shares | 23.9% | 21.6% |
| TSR correlation (SSG PLC vs comparators) | 20.7% | 25.0% |

Due to the limited historic data available for SSG PLC expected volatility was based on the historic volatilities of the companies in the TSR comparator group.

The movements in the awards granted to employees of Stock Spirits Group PLC during the year were as follows:

| | PSP 2016 Number |
|---|---|
| At 1 January | 962,674 |
| Granted | – |
| Lapsed | – |
| Outstanding at 31 December | 962,674 |
| Exercisable at 31 December | – |

Included within the terms of the grant the employee agrees to receive their options net of a deduction to allow the Group to settle any personal income taxes on behalf of the recipient. Consequently there is no liability to the Company on exercise of the options. In previous years the related income tax liability was accounted for as cash-settled share-based compensation and recorded as a liability on the Company balance sheet (2015: £132,000).

# Notes to the Parent Company financial statements continued

at 31 December 2016

## 12. Share based compensation continued

### Special Equity Scheme:

In 2016 1,000,000 awards were issued to the Managing Director of the Polish business. The awards will vest provided that this participant remains in the Group's employment during the performance period and various financial targets are met. The performance period is the period of three financial years beginning with the financial year in which the award is granted. The vesting period for grants made under this scheme is five years with an exercise period of seven years. The exercise price of these awards is £nil.

All performance conditions over the period of three financial years must be met for any awards to vest.

The compensation expense recognised in relation to these awards is based on the fair value of the awards at grant date. The fair value has been calculated using the share price at the date of grant.

The movement in awards granted to employees of Stock Spirits Group PLC under this scheme during the year are as follows:

| | 2016 Number |
|---|---|
| At 1 January | – |
| Granted | 1,000,000 |
| Lapsed | – |
| Outstanding at 31 December | 1,000,000 |
| Exercisable at 31 December | – |

### Deferred Annual Bonus Plan:

No deferred shares were granted under the Group Annual Deferred Annual Bonus Plan during the year.

### Share based compensation expense

The expense/(income) recognised in other operational expenses for employee services received during the year is shown in the following table:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Equity-settled share-based compensation | 20 | 908 |
| Cash-settled share-based compensation recognised as a liability | (871) | (426) |
| | (851) | 482 |

The total value of cash-settled share-based compensation awards recognised in liabilities at 31 December 2016 is £nil (2015: £866,000).

In previous periods, the Company had accrued tax liabilities in respect of personal tax due on share-based payments. In the current period, these amounts have been released as the employees have settled, or will settle, all such liabilities on exercise.

### Employee Benefit Trust

Elian Employee Benefit Trustee Limited (formerly Ogier Employee Benefit Trustee Limited) is acting in its capacity as trustee of the Stock Spirits Employee Benefit Trust (EBT). The EBT holds the JOE scheme shares and the vested options on behalf of the employees.

## 13. Subsidiaries

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

## 14. Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

| 2016 | Sales of goods/ services £000 | Purchases of goods/services £000 | Amounts owed by related parties £000 | Amounts owed to related parties £000 |
|---|---|---|---|---|
| **Subsidiaries:** | | | | |
| Stock Plzeň-Božkov s.r.o. | – | – | 9 | – |
| Stock Spirits (UK) Limited | 706 | – | 12,104 | 9 |
| Stock Polska Sp. z.o.o. | – | – | 315 | 1 |
| Stock S.r.l. | – | – | 22 | – |
| Stock International s.r.o. | – | – | 61 | – |
| Stock Spirits Group Services AG | – | – | 271 | – |
| Baltic Distillery GmbH | – | – | – | – |
| Stock Slovensko s.r.o. (formerly Imperator s.r.o.) | – | – | 61 | – |
| | 706 | – | 12,843 | 10 |

| 2015 | Sales of goods/ services £000 | Purchases of goods/services £000 | Amounts owed by related parties £000 | Amounts owed to related parties £000 |
|---|---|---|---|---|
| **Subsidiaries:** | | | | |
| Stock Plzeň-Božkov s.r.o. | – | – | 191 | – |
| Stock Spirits (UK) Limited | 1,033 | – | 1,393 | 6 |
| Stock Polska Sp. z.o.o. | – | – | 390 | – |
| Stock S.r.l. | – | – | 44 | – |
| Stock International s.r.o. | – | – | 43 | – |
| Stock Spirits Group Services AG | – | – | 191 | – |
| Baltic Distillery GmbH | – | – | 18 | – |
| Stock Slovensko s.r.o. (formerly Imperator s.r.o.) | – | – | 78 | – |
| | 1,033 | – | 2,348 | 6 |

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

Financial statements

# Notes to the Parent Company financial statements continued

at 31 December 2016

## 14. Related party transactions continued

### Compensation of key management personnel

The Executive and NEDs are deemed to be key management personnel of Stock Spirits Group PLC.

It is the Board which have responsibility for planning, directing and controlling the activities of the Group.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the year, key management personnel did not owe the Company any amounts.

Executive and NEDs received remuneration for their services to the Company.

| | Year ended 31 December 2016 £000 | Year ended 31 December 2015 £000 |
|---|---|---|
| Short term employee benefits | 1,670 | 1,306 |
| Social security costs | 177 | 191 |
| Post-employment benefits | – | – |
| Share-based compensation | (648) | 441 |
| | 1,199 | 1,938 |

As at 31 December 2016, no Directors (2015: nil) had any retirement benefits accrued under either money purchase schemes or under defined benefit schemes.

In 2016 no Directors (2015: nil) made any gains on the exercise of share options.

Please refer to pages 75 to 90 of the Directors Remuneration Report for further details.

Shareholders' information

# Shareholders' information

## Financial calendar
Annual General Meeting: 23 May 2017

## Results announcement
Interim Results – for the period ending 30 June 2017: 9 August 2017

## Shareholder information online
Stock Spirits Group's registrars are able to notify shareholders by email of the availability of an electronic version of shareholder information.

Whenever new shareholder information becomes available, such as Stock Spirits Group's interim and full year results, Capita will notify you by email and you will be able to access, read and print documents at your own convenience. To take advantage of this service for future communications, please go to https://www.capitashareportal.com where full details of the shareholder portfolio service are provided. Firstly you will need to search for the Company, but once you have logged in you can check your account details, change your address details or review FAQs, one of which will explain how to request a new share certificate.

When registering for this service, you will need to have your 11-character Investor Code (IVC) to hand, which is shown on your dividend tax voucher, share certificate or form of proxy.

You can then select "Send me all communications by email (most environmentally friendly)". Should you change your mind at a later date, you may amend your request by entering your portfolio online and selecting your preferred method of communication to "Send me paper copies of all communications".

If you wish to continue receiving shareholder information in the current format, there is no need to take any action.

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Email: shareholderenquiries@capita.co.uk

Shareholders' information

# Useful Links

## Capita share portal

https://www.mystockspiritsshares.com

## Information for investors

Information for investors is provided on the internet as part of the Group's website which can be found at: www.stockspirits.com/investors

## Investor enquiries

Enquiries can be directed via our website or by contacting:

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