Stock Spirits Group PLC

Preliminary results for the year ended 31 December 2016

Good operational progress in a year of significant change

8 March 2017: Stock Spirits Group PLC ("Stock Spirits" or the "Company"), a leading owner and producer of premium branded spirits and liqueurs that are principally sold in Central and Eastern Europe, announces its results for the year ended 31 December 2016.

Financial highlights

- **Net sales revenue down 0.6% to €261.0 million (2015: €262.6 million), up 1.2% on a constant currency basis**
- **Profit after tax up 46.4% to €28.4 million (2015: €19.4 million)**
- **Basic EPS of €0.14 per share, an increase of 46.5% (2015: €0.10 per share)**
- **Proposed final dividend of 5.45 Euro cents per share*, giving a total dividend in respect of 2016 of 19.62 Euro cents per share (2015: 5.80 Euro cents per share)**
- **Closing net debt of €59.7 million (2015: €57.2 million)**
- Adjusted EBITDA** down 4.1% to €51.5 million (2015: €53.7 million),
- Adjusted free cash flow** up 3.2% to €48.3 million (2015: €46.9 million)

* Subject to shareholder approval at the AGM on 23 May, the final dividend will be paid on 26 May based on a record date of 5 May 2017.
**Stock Spirits Group uses alternative performance measures as key financial indicators to assess underlying performance of the Group. Details of the basis of calculation for Adjusted EBITDA, Adjusted EBITDA margin and adjusted free cash flow can be found in Note 5.

Operational highlights

- Total sales volume up 4.2% to 12.3 million 9 litre cases (2015: 11.8 million)
- Continuing stabilisation of Polish performance, although market remains highly competitive
- €5 million acquisition of spirits business in the Czech Republic completed in October, the Group's first acquisition since IPO
- New distribution agreements signed with Distell (Italy and Slovakia) and Synergy (Poland), and Beam contract in Poland was renewed
- New product launches included Zoladkowa de Luxe pepper and Stock Prestige Monaco, as well as pushing Amundsen Expedition into new markets, reflecting ongoing focus on premiumisation
- Ongoing restructuring activities and cost reductions achieved in 2016, with further progress being made in 2017
- Board and senior management team strengthened during the year, including appointment of Mirek Stachowicz as CEO

Commenting on the results, Mirek Stachowicz, Chief Executive Officer, said:
"2016 has been a year of significant change for Stock Spirits, and we have emerged from it in a much stronger position than we were in this time last year. Trading has remained challenging in our core Polish market, where there have been several significant changes in the competitive landscape. Against that backdrop, we are pleased to have made tangible progress across a range of strategic initiatives that are aimed at improving the long-term performance of the Group. Furthermore, we are now starting to see signs of stabilisation in our Polish business, as reflected by the market share gains that we achieved in both value and volume terms during the second half of 2016 versus the first half.

We have a strong portfolio of award-winning brands, an exceptional distribution network, well-invested production facilities, and an outstanding and committed team at all levels of the organisation. These factors, as well as our ongoing restructuring activities and cost control measures, leave us well positioned to achieve sustainable long-term growth and as a result we look to the future with confidence."

ENDS

Analyst presentation

Management will be hosting a presentation for analysts at 9.00am today at etc.venue St Paul's, 200 Aldersgate, St. Paul's, London, EC1A 4HD. If you would like to attend, please contact Powerscourt on the details below.

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

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

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

About Stock Spirits Group

Stock Spirits is one of Central and Eastern Europe's leading branded spirits and liqueurs businesses, and offers a portfolio of products that are rooted in local and regional heritage. With core operations in Poland, the Czech Republic, Slovakia, Italy, Croatia and Bosnia & Herzegovina, Stock also exports to more than 40 other countries worldwide. Global sales volumes currently total over 100 million litres per year.

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

Stock is listed on the main market of the London Stock Exchange. For the year ended 31 December 2016 it delivered total revenue of €261.0m and operating profit of €40.1m.

For further information, please visit www.stockspirits.com

Chairman's statement

David Maloney

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' 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.
- 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. 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.
- 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: 5.80 € 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. 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. 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 3 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. The Board and its Committees have met regularly throughout the year and an independent, external Board evaluation has been undertaken.

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.

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.

Chief Executive Officer's statement
Mirek Stachowicz

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 below, 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:

- We have reallocated internal marketing funds (previously allocated to new product development) across the Group to fully support pricing of our core brands, principally Zoładkowa 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.
- 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, 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, we continue our focus on the tenets of the strategic review undertaken in 2015 as shown below.

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.

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, Prazska 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.

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.

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 liqueurs 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 early 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.

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.

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

Chief Financial Officer's statement

Lesley Jackson

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 that 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. 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.

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.

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, shown below.

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, 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 €7.0m, 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 11 below. 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.

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 Group's 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. If the net debt were to remain unchanged from the year end throughout 2017, the interest charge would be €1.9m. 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.

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 revolving credit facility (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.

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 an 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 Group's sales, 31% in 2016 (34% in 2015), occur 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.

Directors' responsibility statement

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

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

Directors

David Maloney	Chairman
Mirek Stachowicz	Chief Executive Officer
Lesley Jackson	Chief Financial Officer
John Nicolson	Senior Independent Non-Executive Director
Mike Butterworth	Independent Non-Executive Director
Tomasz Blawat	Independent Non-Executive Director
Diego Bevilacqua	Independent Non-Executive Director
Randy Pankevicz	Non-Independent Non-Executive Director

8 March 2017

Consolidated income statement
for the year ended 31 December 2016

	Notes	2016 €000	2015 €000
Revenue	3	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	6	1,703	2,387
Finance costs	6	(2,668)	(12,638)
Profit before tax		39,171	31,453
Income tax expense	7	(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	8		
Basic		0.14	0.10
Diluted		0.14	0.09

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		60,840	60,366
Intangible assets - other		302,753	298,896
Property, plant and equipment		55,705	59,603
Deferred tax assets	7	13,255	17,770
Other assets		4,533	4,511
		437,086	441,146
Current assets			
Inventories		21,658	27,716
Trade and other receivables		131,396	131,181
Other assets		1,500	141
Current tax assets	7	411	3,569
Cash and cash equivalents	10	74,956	75,806
		229,921	238,413
Total assets		667,007	679,559
Non-current liabilities			
Financial liabilities		134,168	132,281
Other financial liabilities		113	285
Deferred tax liabilities	7	45,933	45,775
Provisions		946	1,092
Trade and other payables		49	669
		181,209	180,102
Current liabilities			
Trade and other payables		53,352	49,612
Financial liabilities		33	-
Other financial liabilities		174	212
Income tax payable	7	8,926	12,277
Indirect tax payable		74,200	71,460
Provisions		534	1,034
		137,219	134,595
Total liabilities		318,428	314,697
Net assets		348,579	364,862

Consolidated statement of financial position

as at 31 December 2016

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

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	7	10,734	12,033
Interest expense and bank commissions	6	2,668	12,638
Loss on disposal of tangible assets		185	1,016
Other financial income	6	(220)	(380)
Depreciation of property, plant and equipment		9,739	9,423
Amortisation of intangible assets		1,485	1,581
Net foreign exchange gain	6	(1,483)	(2,007)
Share-based compensation		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	7	(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		(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	10	74,956	75,806

Notes to the Preliminary Announcement

for the year ended 31 December 2016

1. Corporate information

The preliminary statement of results was approved and authorised for issue by the Board of Directors of Stock Spirits Group PLC (the Company) on 8 March 2017. The financial information for the year ended 31 December 2016 contained in this statement does not constitute the Group's statutory financial statements for the year ended 31 December 2016 or 2015 but is derived from the Group's 2016 financial statements. The audit report was unqualified and did not contain a statement under s498(2), s498(3) and s498(4) of the Companies Act 2016.
Stock Spirits Group PLC is domiciled in England. The Company's registered office is at Solar House, Mercury Park, Wooburn Green, Buckinghamshire, HP10 0HH, United Kingdom.
The Company, together with its subsidiaries (the Group), is involved in the production and distribution of branded spirits in Central and Eastern Europe.

2. Basis of preparation

These financial statements are consistent with the consolidated financial statements of the Group for the year ended 31 December 2016.
The 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 Standards Board (IASB).
The consolidated financial statements have been prepared on a going concern basis as the Directors believe there are no material uncertainties that lead to significant doubt that the entity can continue as a going concern for a period of at least 12 months from the date of approval of the financial statements.

3. Revenue

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

	2016	*2015*
	€000	*€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

4. Segmental analysis

In identifying its operating segments, management follows the Group's geographic split, representing the main products traded by the Group. The Group is considered to have five reportable operating segments: Poland, Czech Republic, Italy, Other Operational and Corporate. The Other Operational segment consists of the results of operations of the Slovakian, International and Baltic Distillery entities. The 'Corporate' segment consists of expenses and central costs incurred by non-trading Group entities.

Each of these operating segments is managed separately as each of these geographic areas requires different marketing approaches. All inter-segment transfers are carried out at arm's length prices. The measure of revenue reported to the chief operating decision-maker to assess performance is based on external revenue for each operating segment and excludes intra-Group revenues. The measure of adjusted EBITDA reported to the chief operating decision-maker to assess performance is based on

4. Segmental analysis (continued)

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	11,224	11,004
EBITDA	51,360	52,708
Non-recurring expenses	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.

	Poland	*Czech Republic*	*Italy*	*Other Operational*	*Corporate*	*Total*
2016	***€000***	***€000***	***€000***	***€000***	***€000***	***€000***
External revenue	136,890	63,175	29,401	31,508	-	260,974
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	

4. Segmental analysis (continued)

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)	

5. 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*	185	1,016
Adjusted EBIT	40,321	42,720
Depreciation and amortisation	11,224	11,004
Adjusted EBITDA	51,545	53,724
Adjusted EBITDA margin	19.8%	20.5%

*Non-recurring expenses relate to profits or losses on disposal and impairment of fixed assets, not meeting the criteria for categorisation as exceptional items.

5. Adjusted EBITDA, Adjusted EBIT and Free Cash Flow Bridges (continued)

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%

6. 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.

Notes to the Preliminary Announcement

for the year ended 31 December 2016

7. Income taxes

(i) Income tax recognised in profit or loss:

	2016	*2015*
	€000	*€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

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.

	2016	*2015*
	€000	*€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	1578	730
Effect of difference in tax rates	296	116
Impact of post-IPO corporate restructuring	639	85
Tax (credit)/charge relating to prior year	(393)	2,023
Taxable profit 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%

7. 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 Plzen Bozkov 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.

7. Income taxes (continued)

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 materially change 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)

7. Income taxes (continued)

Brands

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

Corporate restructuring

Post IPO the Group completed corporate restructuring transactions which give 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.

(v) 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 asset or liability 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.

8. 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.

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8. Earnings per share (continued)

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 Option Award ('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.

9. Risk management

Capital risk management

The primary objective of the Group's capital management is to ensure that it has the capital required to operate and grow the business at a reasonable cost of capital without incurring undue financial risks. The Board periodically reviews its capital structure to ensure it meets changing business needs.
In addition, the Directors consider the management of debt to be an important element in controlling the capital structure of the Group. The Group may carry significant levels of long term structural and subordinated debt to fund investments and acquisitions and has arranged debt facilities to allow for fluctuations in working capital requirements. There have been no changes to the capital requirements in the current period.

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

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9. Risk management (continued)

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 10)	74,956	75,806
Floating rate loans and borrowings	(134,404)	(132,496)
Finance leases	(287)	(497)
Total net debt	(59,735)	(57,187)

10. 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 Zloty	16,578	16,255
Other currencies	5,714	2,914
Total	74,956	75,806

11. Principal risks

Stock Spirits Group believes the following to be the principal risks facing its business and the steps we take to manage and mitigate these risks. 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.

Risk 1 - Economic and political change, including Brexit

The Group's results are affected by overall economic conditions in its key geographic markets and the level of consumer confidence and spending in those markets. The Group's operations are primarily in Central and Eastern European markets where there is a risk of economic and regulatory uncertainty. In the Group's experience, the local laws and regulations in the region where it operates are not always fully transparent, can be difficult to interpret and may be applied and enforced inconsistently. 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. In addition, the Group's strategy involves expanding its business in several emerging markets, including in certain

Central and Eastern European countries that are not members of the European Union. Political, economic and legal systems and conditions in emerging market economies are generally less predictable. The extent of the economic and political instability created by Brexit remains difficult to predict and 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 operations.

Risk 1 - How we manage and mitigate

We monitor and analyse economic indicators and consumer consumption trends, which in turn influences our product portfolio and new product development.

The majority of countries that we currently operate in are part of the European Union, and therefore are subject to EU regulation. We monitor the economic conditions within each market and review our product portfolio, route to market and adjust our position accordingly.

We continue to monitor the impact of Brexit and will react promptly as we consider appropriate.

Risk 2 – Taxes

Increases in taxes, particularly increases to excise duty rates and VAT, could adversely affect demand for the Group's products.

Demand for the Group's products is particularly sensitive to fluctuations in excise taxes, since excise taxes generally constitute the largest component of the sales price of spirits.

The Group may be exposed to tax liabilities resulting from tax audits: the Group has in the past faced, currently faces and may in the future face, audits and other challenges brought by tax authorities. 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.

11. Principal risks (continued)

Changes in tax laws and related interpretations and increased enforcement actions and penalties may alter the environment in which the Group does business. In addition, certain tax positions taken by the Group are based on industry practice and external tax advice and/or are based on assumptions and involve a significant degree of judgment.

Risk 2 - How we manage and mitigate

Through our membership of local market spirits associations we seek to engage with local tax and customs authorities as well as government representatives and, where appropriate, provide informed input to the unintended consequences of excise increases e.g. growth of illicit alcohol and potential harm to consumers.

The Group engages the services of a professional global firm of tax advisors and undertakes regular audits of our own tax processes, documentation and compliance. We aim to operate the business in a tax-efficient and compliant manner at all times.

Risk 3 - Strategic transactions

Key objectives of the Group are: (i) the development of new products and variants; and (ii) expansion, in the Central and Eastern European region and certain other European countries, through the acquisition of additional businesses. Unsuccessful launches or failure by the Group to fulfil its expansion plans or integrate completed acquisitions could have a material adverse effect on the Group's growth potential and performance. During 2016, we had to resolve a dispute relating to intellectual property rights in our Saska brand.

Risk 3 - How we manage and mitigate

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. We continue to seek value-accretive acquisition targets and have an experienced management team capable of exploring, pursuing and executing transaction opportunities swiftly and diligently, however the owners of target businesses may have price expectations that are beyond the valuation that we can place on their business. If we are unable to complete meaningful acquisitions, we will consider distributing surplus cash to shareholders.

Risk 4 - Consumer preferences

Shifts in consumer preferences may adversely affect the demand for the Group's products and weaken the Group's competitive position. Overall, there has been little change in consumer preferences during 2016, although our Keglevich brand in Italy has suffered from changes in its target consumers' habits, resulting from poor macro-economic conditions. 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.

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11. Principal risks (continued)

Risk 4 - How we manage and mitigate

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

Risk 5 – Talent

The Group's success depends substantially upon the efforts and abilities of key personnel and its ability to retain such personnel. The executive management team has significant experience 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. During the year, we strengthened our management team and now have full senior management teams in place in all markets.

Risk 5 - How we manage and mitigate

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.

Risk 6 - Marketplace and competition

The Group operates in a highly competitive environment and faces competitive pressures from both local and international spirits producers, which may result in pressure on prices and loss of market share. This has been particularly evident in Poland 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.

A significant portion of the Group's revenue is derived from a small number of customers. The Group may not be able to maintain its relationships with these customers or renegotiate agreements on favourable terms, or may be unable to collect payments from some customers, which will lead to an impact in its financial condition.

The Group is also dependent on a few key products in a limited number of markets which contribute a significant portion of its revenue.

11. Principal risks (continued)

Risk 6 - How we manage and mitigate

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.

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.

We have well-established credit control policies and procedures and we put in place trade receivables insurance where it is cost effective to do so.

Risk 7 - Exchange rates

The Group’s business operations and results reported in Euros are subject to risks associated with fluctuations in currency exchange rates.

The Group generates revenue primarily in Polish Złoty and secondarily in Czech Koruna and a large portion of the Group’s assets and liabilities are denominated in Złoty and Koruna. During the year, the majority of foreign exchange exposure reported within operating profit arose on the devaluation of the Polish Zloty, 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's non-trading activities are conducted through its head office in the UK, until its closure in October 2016, a service centre based in Switzerland, and are mainly transacted in GB Pound and, until that closure, Swiss Francs.

Additionally, the Group’s financial covenants are tested in Euros. Consequently, movement in the other currencies in which the earnings, assets and liabilities of certain of the Group’s subsidiaries are denominated could adversely impact the Group’s ability to comply with these financial covenants.

11. Principal risks (continued)

Risk 7 - How we manage and mitigate

The Group aims to hedge transaction risk by matching cash flows, assets and liabilities through normal commercial activities where possible. For example all debt is currently drawn in local currency by market. For locations where we have non-trading activities, there is a limitation on the natural hedging that is available to cover currency exchange risk.

We monitor currency exposure as an integral part of our monthly review process and, where appropriate, will implement hedging instruments.

Risk 8 - Disruption to operations or systems

The Group's operating results may be adversely affected by disruption to its production and storage facilities, in particular its main production facilities in Poland and the Czech Republic, or by a breakdown of its information or management control systems.

Risk 8 - How we manage and mitigate

In addition to holding appropriate insurance cover to protect the business in the event of a production disruption or other business interruption, our two primary bottling sites offer sufficient flexibility that each site is capable of bottling all of our core SKUs. We also have well-established and tested Business Continuity and Disaster Recovery policies. Our information and management control systems are subject to internal audit following a risk-based methodology. We also periodically engage independent specialists to assess and test the security and resilience of our network against hacking and other cyber threats, which include penetration testing. During 2016, we obtained Cyber Essentials level 1 accreditation, in line with the UK government-backed cyber assurance framework.

Risk 9 - Laws and regulations

The Group is subject to extensive laws and regulations limiting advertising, promotions and access to its products, as well as laws and regulations relating to its operations, such as health, safety and environmental laws. These regulations and any changes to these regulations could limit its business activities or increase costs. In some cases, such as the recent introduction in 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. 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 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.

11. Principal risks (continued)

Risk 9 - How we manage and mitigate

The Group has established clear processes and controls to monitor compliance with laws and regulations, and changes to them, and also any litigation action. The Audit Committee report explains the major ongoing project that was started in 2015, 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.

Risk 10 - Supply of raw materials

Changes in the prices or availability of supplies and raw materials could have a material adverse effect on the Group's business. Commodity price changes may result in increases in the cost of raw materials and packaging materials for the Group's products due to a variety of factors outside the Group's control. The Group may not be able to pass on increases in the costs of raw materials to its customers and, even if it is able to pass on cost increases, the adjustments may not be immediate and may not fully offset the extra costs or may cause a decline in sales volumes. During 2016, there was no significant change in this risk, with costs of goods remaining largely flat during the year.

Risk 10 - How we manage and mitigate

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

Risk 11 - Funding and liquidity

Market conditions could subject the Group to unexpected needs for liquidity, which may require the Group to increase its levels of indebtedness. Access to financing in the longer term depends on a variety of factors outside the Group's control, including adverse capital and credit market conditions. We achieved significantly lower finance costs during 2016 as a result of the refinancing of bank facilities in 2015.

Higher interest rates and more stringent borrowing requirements could increase the Group's financing charges and reduce profitability.

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11. Principal risks (continued)

Risk 11 - How we manage and mitigate

The Group maintains a strong focus on cash, our future requirements for funding and the overall external market for financing. We undertake regular and detailed reviews of both short-term and longer-term liquidity requirements by market, including our growth ambitions. We are confident that we have the appropriate processes and relationships in place to respond to any unexpected liquidity needs and have not only secured lower cost and more flexible refinancing during 2015, but have also placed ourselves in the best position to access funding in the longer term.