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Stock Spirits Group PLC
14 May 2019

Stock Spirits Group PLC

Results for the six months ended 31 March 2019

Continuing financial and operational progress

Announcing today the acquisition of Bartida, a premium spirits business in the Czech Republic

14 May 2019: Stock Spirits Group PLC ("Stock Spirits", the "Group", or the "Company"), a leading owner and producer of premium branded spirits and liqueurs that are principally sold in Central and Eastern Europe and Italy, announces its results for the six months ended 31 March 2019 (including proforma unaudited comparatives, due to its change in year-end in 2018 to 30 September).

Financial highlights:

	Reported 6 mths to March 2019	**Proforma 6 mths to March 2018**	**Growth %**
Volume (millions 9 litre cases)	7.4	6.9	6.8%
Revenue* (€ millions)	156.9	145.0	8.2%
Revenue at constant currency[1]		*143.0*	*9.7%*
Adjusted EBITDA[2] (€ millions)	33.5	32.2	4.2%
Adjusted EBITDA at constant currency		*31.7*	*5.8%*
Operating profit before exceptional items (€ millions)	29.0	26.4	9.7%
Profit/(loss) for the period (€ millions)	5.8	(1.4)	n/a
Earnings/(loss) per share - basic (€ cents per share)	2.94	(0.72)	n/a
Adjusted EPS - basic (€ cents per share)	*10.15*	*9.12*	*11.3%*

** All proforma figures have been restated for IFRS 15*

- Net debt of €25.2 million at 31 March 2019 (30 September 2018: €31.6 million), resulting in leverage of 0.42x (30 September 2018: 0.53x)[3]
- Interim dividend of 2.63 € cents per share, an increase of 5.2% (2018 interim: 2.50 € cents per share)
- Exceptional item: further impairment of Italian business of €14.3 million

Operational highlights

- Continuing market share growth in Poland with revenue up +11.5% at constant currency. Stock Spirits continues to outperform its key competitors
- Ongoing success in the Czech Republic, achieving record market share with the success of Republica contributing strongly to the results. Revenue up +14.3% at constant currency
- Announcing today the acquisition of Bartida, a high-end On-Trade spirits business in the Czech Republic, for an initial consideration of €7.3 million (with an additional deferred consideration of up to €3.7 million over five years)
- Signed an agreement to acquire Distillerie Franciacorta, a leading grappa business in Italy, for €23.5 million, with a further €3.0 million payable for land; completion expected in June (as previously announced in January)

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

"We delivered a strong organic growth performance in our core markets of Poland and the Czech Republic in the period, achieving strong increases in market shares, volume, revenues and profit. Looking to the future, the recently announced acquisitions in Italy and the Czech Republic are a clear sign that we are committed to delivering growth both inorganically and organically. Overall, we believe that the strength of our brands and our strategy means that Stock Spirits is well positioned for further success."

ENDS

Analyst presentation

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

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

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

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

Disclaimer

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

Basis of Preparation

The financial information contained in these interim results does not constitute statutory accounts of Stock Spirits Group PLC within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for Stock Spirits Group PLC for the 9 months ended 30 September 2018 were delivered to the Registrar of Companies. The auditors have reported on the accounts, their report was:(i) unqualified; (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and (iii) did not constitute a statement under Section 498(2) or (3) of the Companies Act 2006.

Notes to editors:

About Stock Spirits Group

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

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

Stock Spirits is listed on the main market of the London Stock Exchange. For the proforma year ended 30 September 2018 it delivered total revenue of €282.4 million and operating profit of €48.7 million.

For further information, please visit www.stockspirits.com

INTERIM MANAGEMENT REPORT

Overview

Due to the change in our accounting year to 30 September last year, we have presented the six months to 31 March 2019 with unaudited proforma results for the comparative six month period to 31 March 2018.

We are pleased to report that our interim results show continued progress across the Group. Overall, the Group grew volumes by +6.8%, revenue by +9.7% and adjusted EBITDA by 5.8%, despite the fact that the Easter trading period did not fall within the six months to March 2018, (whereas it did in the same period last year). Both our Polish and Czech businesses, which together represent over 80% of the Group's sales, delivered good growth in market share, sales and profits. Cash generation continues to be high, meaning that the Group's financial position remains strong, even after allowing for an increased interim dividend and payment for the two acquisitions referred to above. The momentum that we are seeing is largely organically-driven, supported by the continued positive economic back-drops in a number of our Central European markets.

The vodka category in Poland continues to grow in both volume and value - especially the flavoured category and the more premium segments - as a result of increasing consumer affluence.

Our Polish business continued to grow share, and saw strong volume and revenue growth, both on a reported and on a constant currency basis. We have now delivered 23 months of continuous year-on-year volume market share growth in the vodka category. Revenue was up +11.5% (at constant currency), but there was some margin dilution resulting from channel and brand mix dynamics, as well as increased marketing investment in support of innovative new products. Adjusted EBITDA was up +7.4% (at constant currency).

In the Czech Republic, three of the four main spirits categories - rum, vodka and whisky - are in volume and value growth, which has more than compensated for a contraction in herbal bitters. The market has benefitted from a robust economy and an increase in disposable income which has fuelled up-trading.

Building on our leadership position, we continued to grow share in the Czech Republic to record levels. Revenue has also grown strongly, up +14.3% on a constant currency basis. This has also resulted in strong profit delivery and improved margins, with adjusted EBITDA up +28.4% (at constant currency).

Italy, which represents around 8% of the Group's revenue and around 3% of its adjusted EBITDA, remains challenging, with revenue, profits and margins down. The total market declined slightly in volume, and value remained flat, with consumption impacted by high unemployment and low economic growth. The market remains highly fragmented, but we hold leading positions in several key categories - including vodka, flavoured vodka and limoncello - and the number two position in brandy. This will shortly be joined by the number one Off-Trade position in branded grappa, through the soon to be completed acquisition of Distillerie Franciacorta, which will bring more scale to our Italian business as well as greater sales capability in Premium On-Trade. As trading conditions currently remain tough, and in light of the disappointing performance, we have recognised a further impairment write-down against our existing business in Italy.

Our Other markets include Slovakia, Bosnia, Croatia and other export activities. Overall revenue in this area was slightly higher, but mix and margin in Slovakia reduced overall profits.

Elsewhere, in February 2019 our Quintessential Brands Irish Whiskey Ltd (QBIWL) joint venture commissioned its Dublin distillery and opened its Visitor Centre. Liquid is now being produced and laid down. One of the venture's brands, The Dubliner, is now in distribution in our key markets.

Beyond organic growth, we announced on 31 January 2019 that we have signed an agreement to acquire Distillerie Franciacorta SpA, one of the leading Italian producers of grappa, liqueurs and Franciacorta - a premium Italian sparkling wine that is produced solely in the prestigious Franciacorta region. The transaction will establish Stock Spirits as the leading branded grappa player in the Italian Off-Trade. Completion of the acquisition is expected to occur in June.

We are today announcing an interim dividend of 2.63 € cents per share, representing an increase of 5.2% versus last year's interim dividend of 2.50 € cents. This is consistent with our aim of providing progressive dividends, whilst maintaining our ability to build scale through potential future M&A. Our robust balance sheet and continued strong cash flow generation provide us with the capacity for further M&A should suitable opportunities arise. However, as we have said previously, if no meaningful M&A activity materialises then we will as a matter of course consider returning cash to investors via additional shareholder distributions.

Czech Republic acquisition (post period end)

We are also pleased to announce today that our business in the Czech Republic has signed contracts for the acquisition of Bartida sro and its sister company, Bartida Retail sro (together "Bartida"), a premium spirit drinks business focused on the premium On-Trade market in Czech Republic. This acquisition will strengthen our position as a leading player in this segment.

Completion of the transaction is expected to take place on 31 May 2019. Stock Spirits will acquire the entire issued share capital of the Bartida companies for an initial cash consideration of €7.3 million with a further payment of up to €3.7 million dependent upon the achievement of certain KPIs under an earn-out mechanism. As part of the transaction, the current owners will continue to work with Stock Spirits for five years to help ensure a smooth and successful transition and continue to drive future growth.

Bartida's portfolio, which comprises both own-brands and third-party distribution brands, covers the premium end of the rum, fruit spirits and liqueurs categories, where it fits neatly in above Stock Spirits' existing portfolio, providing revenue synergies as well as complementary operational capabilities. Bartida's focus is on direct sales to premium On-Trade outlets, and it also has its own e-shop, Demonstration Bar and On-Trade Training Centre in the centre of Prague. This combination of complementary product portfolio and route-to-market strengthens Stock Spirits' existing business in the Czech Republic and is in line with Stock Spirits' wider premiumisation strategy. Due to the unique concept and On-Trade capabilities of Bartida, we will keep the unit operationally independent, whilst also including our own premium brands within its portfolio. We will also evaluate the feasibility of rolling out the direct sales model for premium On-Trade outlets to other markets.

Bartida's sales in the year ended 31 December 2018 (audited) were €8.8 million, operating profit was €1 million and the value of the gross assets of the business at completion is estimated to be c. €3.6 million. The fair value of the assets acquired and any subsequent goodwill created from the acquisition will be calculated at completion. The acquisition will be earnings enhancing in the first full financial year of ownership.

Market performance:

Poland

Stock Spirits is delivering growth ahead of the market in the two biggest spirits categories in Poland - i.e. vodka and whisky.

Revenue has grown on a reported basis by +9.1% to €83.8 million, and on a constant currency basis revenue is up €8.6 million versus €75.2 million last half year (proforma), growth of +11.5%. Reported adjusted EBITDA in H1 was €19.7 million versus €18.7 million last half year (proforma). On a constant currency basis adjusted EBITDA has increased by €1.4 million, with a margin of 23.5% slightly below that of the last proforma half year of 24.4%, reflecting the channel and brand mix impact to gross margin and the higher marketing investment in the current period.

In the wider market, vodka, the largest spirits category in Poland, continues to perform positively, delivering volume growth (+0.5%) and value growth (+1.8%).

This is due in part to greater growth from the total flavoured segment's value (+4.4%), which commands higher average selling prices per litre than total clear vodka. The flavoured segment has growing appeal with young adults and female drinkers and its accessible taste profile is ideally suited to the increasing popularity of usage occasions where males and females drink together.

Total vodka value growth is also underpinned by double digit value growth of total premium clear vodka (+15.2%) as increasing affluence and economic stability in Poland encourage consumers to trade up to higher quality at higher average price points. This contrasts with the continued acute competitive pricing pressure at lower price segments.

Stock Spirits is the fastest growing major player by volume (+9.7%) and value (+9.2%) in the Polish vodka market. This has increased Stock Spirits' value share from 26.6% to 28.4% (on a moving annual total (MAT) basis). Stock Spirits' volume and value growth rates are ahead of the category in both the clear and flavoured segments and across all vodka price segments, including total premium, mainstream and economy. Our category leading growth has been achieved through up-weighted focus on our flavoured range (primarily Lubelska and Saska) coupled with the success of our premiumisation initiatives in clear vodka, where Stock Prestige and Amundsen Expedition continue to grow share.

Whisky, the second largest and fastest growing spirits category in Poland, achieved volume growth (+10.1%) and value growth (+10.6%). At this stage of the whisky category's evolution, the majority of growth is being delivered via the discounter channel, where the major multinational whisky players are driving trial and consumption using the rapid penetration growth offered by the channel. Stock Spirits' success in vodka is mirrored in the whisky category, where Stock Spirits grew Jim Beam, its key distribution brand's volume (+15.5%) and value (+16.6%), well ahead of the total category, and increased Jim Beam's value share from 8.8% last year to 9.2% this year.

On 16 April 2019, the Polish government published its 'Long Term Financial Plan' for 2019-2022 with a proposed 3% increase in excise duty on spirits, beer and wine from January 2020. We will implement the necessary actions to manage the change.

Czech Republic

Having addressed the trade-related headwinds encountered last year in the Czech Republic, Stock Spirits is delivering growth ahead of the spirits market and a good financial performance.

Revenue has grown on a reported basis by +13.2% to €44.9 million, and on a constant currency basis revenue is up €5.7 million versus €39.2 million last proforma half year, or growth of +14.3%. Reported EBITDA in H1 was €15.4 million versus €12.1 million last half year (proforma). On a constant currency basis EBITDA has increased by €3.4 million, a margin of 34.3%, an improvement of 380 bps, as marketing spend in the current period returned to normalised levels.

In the wider market, total spirits remain in positive volume (+1.0%) and value (+4.0%) growth, and are continuing to benefit from the robust economy and increasing disposable income in the Czech Republic. As in Poland, growing consumer affluence is fuelling expanded spirits consumption and consumers are trading up to higher quality, and higher price point, products.

Three of the four biggest spirits categories - i.e. rum, vodka and whisky - are in volume and value growth (on a MAT basis), which more than compensated for a contraction in total demand for herbal bitters.

Notwithstanding its leadership position, Stock Spirits has grown its total volume market share (+0.9%) whilst out-performing the market in value market share growth (+7.3%), increasing its market leading value share of total spirits from 33.6% to a 5-year record of 34.7%.

Our Božkov brand strategy, which offers a wider mix of variants with increased choice and price range across the segments, is delivering positive results. Stock grew value share of rum from 61.4% last year to 65.1%. Our core Božkov tuzemsky range continues to deliver volume and value growth in the current period, but our most notable success in the rum category is the outstanding continued performance of our Republica premium product, launched in March last year, which has achieved brand leadership in the premium rum segment and driven total category value growth.

In the whisky category, Stock Spirits' expanded distribution portfolio, which has been strengthened by the addition of Beam Suntory's brands last year, grew value share from 7.2% to 11.1%.

The growth achieved in rum and whisky more than compensated for the contraction of our total vodka share in Czech, where the expansion of private label offerings has taken share from the longer established vodka brands. It has also offset the contraction of the herbal bitters category and share decline from Fernet Stock.

To address these issues, we have revisited our vodka promotional activity, whilst in bitters the Fernet Stock range was relaunched in March 2019 with new improved premium packaging and flavour innovation, supported by a comprehensive consumer communications campaign. Early indications from both initiatives are positive, with an improving performance in the period for Stock Spirits' key brands in both categories.

Our other premium NPD, Black Fox, is steadily growing share of premium herbal bitters. Black Fox is a long term trial building investment as it is a completely new brand, and it is helping to broaden the appeal of our herbal bitters portfolio to young adult drinkers.

On 5 April 2019, the Ministry of Finance in Czech proposed a c.13% increase in duty on spirits with effect from January 2020. If confirmed, we will implement the necessary actions to manage the change.

Italy

Italy accounts for 7.8% of the Group's sales and 3.4% of its adjusted EBITDA. Revenue was down by -3.8% to €12.2 million and adjusted EBITDA in H1 was €1.1 million versus €2.9 million last half year (proforma), with a decrease in margin, partly due to higher marketing investment.

The market is highly fragmented, across several mature spirits categories including bitters, vodka, brandy, whiskey and liqueurs. Whilst Stock Spirits has a relatively small overall share of total spirits, with 5.9% volume share in our main focus area of the modern Off-Trade channel, we hold leading positions in several key categories - including number one brands in the clear vodka, vodka-based liqueurs and limoncello categories, and the number two brand in brandy. This will shortly be joined by the number one Off-Trade brand in grappa, through the soon to be completed acquisition of Distillerie Franciacorta.

Trading conditions remain tough, with a high level of unemployment and low growth impacting consumer consumption. As a result of these trends, the total Off-Trade market declined slightly in volume (-0.9%) and value remained flat (+0.3%) in the period.

Against this backdrop, Stock Spirits' total volume share in our focus modern trade channel was slightly down to 5.9%, with value share slightly down to 5.5%. Stock Spirits maintained overall share in clear vodka and gained share in brandy but, as a result of the softening market and strong growth of private label, there were losses in flavoured vodka-based liqueurs and limoncello. This performance in flavoured vodka-based liqueurs has caused us to revisit the potential and other opportunities across the wider portfolio.

In light of the challenges still being experienced, we have recorded a further impairment of €14.3 million against the carrying value of goodwill and intangible assets in Italy.

We are delighted to be acquiring Distillerie Franciacorta, which is a business with a fantastic heritage and outstanding brands. Stock Spirits is acquiring the entirety of Distillerie Franciacorta's spirits and liqueurs business, together with land for the construction of a new production facility. We are also acquiring the prestigious Franciacorta wine brands, although all aspects of the wine manufacturing will be retained by the vendor. As part of this transaction, we will also take a long-term lease of the historic Borgo San Vitale site, the distillery and visitor-centre that is an integral part of Distillerie Franciacorta's heritage.

Grappa is Italy's fourth largest spirits category, and the total premium-price segments in which the Franciacorta brands are positioned grew by 4.8% in value from 2016 to 2017 (IWSR 2018). We see clear synergies with our existing operations, both in the On-Trade, where Stock Spirits can leverage Distillerie Franciacorta's strong presence, and in the Off-Trade, where the acquired brands will benefit from Stock Spirits' current coverage. Further details of the transaction can be found in the announcement that was made on 31 January 2019.

In Italy, there are also recent announced proposals to increase VAT from 22% to 25% and/or an increase in excise tax from 1 January 2020. If confirmed, we will implement the necessary actions to manage the change.

Other markets

Other markets includes Slovakia, Bosnia, Croatia and other export activities. Revenue was up +0.8% to €16.1 million and adjusted EBITDA in H1 was €3.1 million versus €3.7 million last half year (proforma).

Slovakia

In Slovakia, total spirits market volume was flat whilst value grew (+1.1%). Stock Spirits continues to premiumise its range to grow value in the highly competitive Slovakian market and has maintained value share of total spirits (12.0%) this year versus last year (12.1%).

Brand building investment on Amundsen clear vodka drove value growth (+14.7%), well ahead of total vodka category growth (+1.6%). In the fruit spirits category, Golden Ladova (Ice), our premium variant, grew value (+10.3%), helping to offset overall fruit spirits category decline (-4.1%).

As in the Czech Republic, Stock Spirits maintained leadership in herbal bitters, despite aggressive price promotional activity by major competitors. The relaunch of the Fernet Stock range from April 2019, launched in Slovakia in tandem with the Czech Republic, is planned to support a return to share growth.

NPD also drove premiumisation. Božkov Republica was rolled out, and we entered the Borovička (Juniper) category using the premium Golden Ladova (Ice) brand, which helped drive a (+14.3%) value growth for Stock in that category.

Stock Spirits' fastest value growth in Slovakia was in whisky. Having begun distribution of Beam Suntory's range in May 2017, Jim Beam's value share increased to 7.7% from 5.9%, with value growth +38.6%.

These initiatives contributed to stable overall volume and value share for Stock in Slovakia, maintaining our position as the second biggest spirits company in the Off-Trade.

International

In Croatia we have had pleasing results from Stock 84 brandy, resulting from a relaunch of the brand last year, which reinforces our market leading position in imported brandy. All distribution brands have been performing well, including the Beam brands, Beluga and The Dubliner Irish whiskey.

A new distributor in Germany was appointed in January 2018 and has already delivered tangible results by gaining listings in the retail segment for our Polish brands. A new distributor for the UK market was also appointed in January 2019 and as a result we anticipate more traction for our brands in the UK in future.

Sources for all market data as referenced above: All data quoted is MAT to end March 2019, from Nielsen for Poland, Czech Republic and Slovakia and from IRI and IWSR for Italy.

Financial performance

Due to the year-end change in 2018, the results for the comparative six month period to 31 March 2018 are presented on a proforma basis. The basis of preparation is outlined in note 2 of the unaudited interim condensed consolidated financial statements.

Volumes for the period were up 6.8% as a result of the strong performance from Poland and Czech, supported by the market share increases as outlined above.

Reported revenue was up +8.2% to €156.9 million (H1 2018: €145.0 million) as a result of strong increases in volume (+6.8%) and mix (+4.7%), from the continuing success of our premiumisation strategy. This has been partly offset by foreign exchange differences (-1.5%) due to the weakening of the Polish Zloty and Czech Koruna versus the Euro, and by pricing (-1.8%) primarily due to channel mix in Poland (increased volumes through discounters) as well as pricing pressure on the Božkov core brand in Czech.

Cost of goods sold has increased in absolute terms by +12% and the cost per litre has increased +6.8% (at constant currency) to €1.25 per litre (H1 2018: €1.17 per litre). Besides inflationary increases at our production facilities in Poland, Czech and Germany, there was higher volume of premium (and therefore higher cost) products sold, both of owned brands and those of third party distribution brands which are primarily whisky products. The relative increase of third party brands sold in the period versus own brands, especially in the Discounter channel in Poland, was a key factor in the gross margin reduction to 47.0% (H1 2018: 48.8%).

Selling expenses have increased by 2.9% to €28.9 million due to increased promotional expenditure. Overheads reduced by -1.4% to €15.1 million reflecting our continuing focus on the underlying cost base.

In December 2017 an exceptional expense of €14.9 million was reported due to the impairment of the carrying value of goodwill in Italy. The Italian market experienced a poor Christmas retail period at the end of 2018 and this has contributed to our results in Italy continuing to decline year-on-year. This has led us to recognise a further reduction in the carrying value of goodwill and intellectual property. Therefore, a further €14.3 million non-cash impairment has been recorded as an exceptional expense in the current period. We intend to address the decline of our current Italian business through increased scale (via M&A) as well as by focusing further investment on a wider range of our core brands and premium growth opportunities.

The investment in the Irish whiskey venture, Quintessential Brands Irish Whiskey Limited, continues to plan with the Dublin distillery and brand home now open as of February 2019. The venture is now generating its own liquid to lay down and mature for the brands. The Dubliner whiskey is now in distribution across our key markets.

Operating profit for the period was €14.7 million, an increase of +27.6% versus H1 2018 (€11.5 million). Adjusted EBITDA also increased by +4.2% to €33.5 million (H1 2018: €32.2 million) with a softening of margin to 21.4% (H1 2018: 22.2%) due to the impact on gross margin as outlined above.

Although net debt is lower by €6.4 million to €25.2 million at the period end (versus the opening position at 1 October 2018), cash drawings against our facility have been used to finance working capital flows, tax payments and dividends. The cash balances retained currently on the balance sheet will therefore reduce as we pay out dividends in the future. Consequently, net finance costs have increased marginally by €0.3 million to €2.1 million in the period.

As set out in the principal risks and uncertainties and in note 9 of the interim condensed consolidated financial statements, the Group is exposed to a number of tax risks in the countries in which it operates. As disclosed in our Annual Report and Accounts in September 2018, the 2013 tax return in relation to our Polish subsidiary remains open. In December 2018 we received an assessment in relation to aspects of its pre-IPO intellectual property restructuring and certain other historic intra-group transfer pricing matters. With regards to historical intercompany transaction risks, tax of €0.7 million and penalty interest of €0.3 million has been paid, both of which had been provided for at the 2018 year-end. During March 2019 the Polish tax authorities recalculated and reduced the penalty interest to €0.1m. In relation to the amortisation of the intellectual property assets, the assessment of tax and penalty interest of €4.5 million was received and paid. We lodged an immediate appeal against this latter element of the assessment. On advice from our tax advisors and legal counsel, it is considered that our appeal will ultimately be successful, and therefore this payment has been treated as a recoverable asset on our balance sheet. During March 2019 the Polish tax authorities recalculated and reduced the penalty interest, and therefore the €4.5 million subject to appeal has been reduced to €3.9 million.

An exceptional expense was booked in December 2017 in relation to deferred tax in Poland of €4.7 million which has been included in the comparative period tax charge.

Adjusted basic earnings per share were reported as 10.15 € cents for the period, growth of +11.3% versus an adjusted value in H1 2018 of 9.12 € cents per share.

Free cash flow was strong and its conversion rate (being free cash flow as a percentage of adjusted EBITDA as per note 6 in the interim accounts) was 93.2% (H1 2018: 79.0%). The improvement derives from the reduction of inventory which was built up in Q1 (of the 2018 calendar year) due to the potential rum ether issue in Czech. That issue was resolved last year and the higher inventory levels have been unwound.

Net free cash flow (free cash flow less M&A, financing and tax) reduced to €17.6 million in the period (H1 2018: €20.0 million). This was due to the €4.7 million tax payments made for the Polish tax assessment as outlined above, as well as a €3.0 million refundable deposit paid on the signing of the agreement to acquire Distillerie Franciacorta in Italy as announced in January 2019 (refundable if certain conditions precedent are not completed by the vendors prior to expected completion in June 2019).

Leverage has reduced to 0.42x (September 2018: 0.53x), which allows for liquidity and flexibility for the future growth of the business.

The expected completion of our Italian acquisition, Distillerie Francicorta, and the signing of the agreement to purchase Bartida in Czech, as noted above, have been disclosed as post balance sheet events in our interim accounts.

The Board of Directors has agreed an interim dividend payment of 2.63 € cents per share, an increase of 5.2% on the prior year interim dividend. The dividend will be paid on 21 June 2019, with a record date of 31 May 2019 (shareholders on the register at the close of business on 30 May 2019). The Euro: Sterling exchange rate will be fixed on the record date.

Outlook

We are pleased with the ongoing performance of our business, particularly in Poland and the Czech Republic and are continuing to deliver against our four pillar strategy. Following the recent agreements to acquire businesses in Italy and the Czech Republic, we continue to assess a range of acquisition opportunities that would deliver enhanced growth and shareholder value for the future. However, as we have said previously, if no significant M&A occurs then we will consider additional shareholder distributions.

Overall, we continue to believe that the strength of our brands and the viability of our strategy means that Stock Spirits is well positioned for further success in FY19 and beyond.

Going concern

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

Principal Risks and uncertainties

The Board considers the principal risks and uncertainties for the Group are:

- Economic & Political risk, including Brexit - The Group's results are affected by overall economic conditions in its key geographic markets and the level of consumer confidence and spending in those markets. The Group's operations are primarily in Central and Eastern Europe markets where there is a risk of economic and regulatory uncertainty which can directly or indirectly impact the consumption of alcohol. Political, economic and legal systems and conditions in emerging economies are generally less predictable. Brexit is not considered to be a principal risk or uncertainty for the Group, for the reasons set out on page 25 of the Stock Spirits Group Annual Report 2018.

- Taxes - Increases in taxes, particularly increases to excise duty rates and VAT, could adversely affect the demand for the Group's products. An example are the excise tax increases as proposed in Poland, Czech and Italy as outlined above. The Group may also be exposed to tax liabilities resulting from tax audits. The Group continues to manage audits and other challenges brought by tax authorities. Changes in tax laws and related interpretations and increased enforcement actions and penalties may alter the environment in which the Group does business. In addition, certain tax positions taken by the Group are based on industry practice and external tax advice and/or are based on assumptions and involve a significant degree of judgement.

- Strategic transactions - Key objectives of the Group are: (i) the development of new products and variants; (ii) expansion in the Central and Eastern European region and certain other European countries, through the acquisition of additional businesses; and (iii) distribution agreements with world-class brand partners. Unsuccessful launches or failure by the Group to fulfil its expansion plans or integrate completed acquisitions, or to maintain and develop its third party brand relationships, could have a material adverse effect on the Group's growth potential and performance.

- Marketplace & Competition - The Group operates in a highly competitive environment and faces competitive pressures from both local and international spirits producers, which may result in pressure on prices and loss of market share.

Further detail on the principal risks and uncertainties affecting the business activities of the Group are set out on pages 20 to 25 in the Stock Spirits Group Annual Report 2018, a copy of which is available on the Company's website at www.stockspirits.com. In the view of the Board there is no material change in these risks in respect of the remaining six months of the year.

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

We confirm to the best of our knowledge:

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

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

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

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

Board of Directors

The Board of Directors as at 14 May 2019 is as follows: David Maloney (Chairman), Mirek Stachowicz (Chief Executive Officer), Paul Bal (Chief Financial Officer), John Nicolson (Senior Independent Non-Executive Director), Mike Butterworth (Independent Non-Executive Director), Tomasz Blawat (Independent Non-Executive Director), Diego Bevilacqua (Independent Non-Executive Director), and Kate Allum (Independent Non-Executive Director).

For and on behalf of the Board of Directors:

Mirek Stachowicz	David Maloney
Chief Executive Officer	Chairman

14 May 2019

Independent Review Report to Stock Spirits Group PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2019 which comprises the Interim Condensed Consolidated Income Statement, Interim Condensed Consolidated Statement of Comprehensive Income, Interim Condensed Consolidated Statement of Financial Position, Interim Condensed Consolidated Statement of Changes in Equity, Interim Condensed Consolidated Statement of Cash Flows, and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' responsibilities

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

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

Our responsibility

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

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

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Simon Haydn-Jones
For and on behalf of KPMG LLP
Chartered Accountants
Arlington Business Park
Theale
Reading
RG7 4SD
14 May 2019

Interim condensed consolidated income statement

For the six months ended 31 March 2019

	Notes	Six months ended 31 March 2019 Unaudited €000	Six months ended 31 March 2018 Unaudited €000
Revenue	5	156,908	145,050
Cost of goods sold		(83,142)	(74,206)
Gross profit		73,766	70,844
Selling expenses		(28,894)	(28,079)
Other operating expenses		(15,063)	(15,282)
Impairment loss on trade and other receivables		(420)	(842)
Share of loss of equity-accounted investees, net of tax	14	(422)	(245)
Operating profit before exceptional expense		28,967	26,396
Exceptional expense	7	(14,295)	(14,900)
Operating profit		14,672	11,496
Finance income	8	103	246
Finance costs	8	(2,171)	(2,040)
Profit before tax		12,604	9,702
Income tax expense	9	(6,763)	(6,443)
Exceptional tax expense	9	-	(4,700)
Profit/(loss) for the period		5,841	(1,441)
Attributable to:			
Equity holders of the Parent		5,841	(1,441)
Earnings/(loss) per share, (€cents), attributable to equity holders of the Parent			
Basic	10	2.94	(0.72)
Diluted	10	2.92	(0.72)

Interim condensed consolidated statement of comprehensive income

For the six months ended 31 March 2019

	Six months ended 31 March 2019 Unaudited €000	Six months ended 31 March 2018 Unaudited €000
Profit/(loss) for the period	5,841	(1,441)
Other comprehensive (expense)/income		
Other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences arising on translation of foreign operations	(99)	3,808
Total comprehensive income for the period, net of tax	5,742	2,367

Interim condensed consolidated statement of financial position

As at 31 March 2019

	Notes	31 March 2019 Unaudited €000	30 September 2018 Audited €000
Non-current assets			
Intangible assets - goodwill	11	38,208	45,940
Intangible assets - other	12	303,619	311,129
Property, plant and equipment	13	47,180	47,265
Investment in equity accounted investee	14	16,572	16,994
Deferred tax assets		572	589
Other assets		4,720	4,742
		410,871	426,659
Current assets			
Inventories		33,167	30,711
Trade and other receivables		115,297	119,238
Other assets		3,134	135
Current tax assets		4,329	863
Cash and cash equivalents	15	75,695	50,143
		231,622	201,090
Total assets		642,493	627,749

	Notes		
Non-current liabilities			
Financial liabilities	16	100,541	81,300
Other financial liabilities		2,664	2,692
Deferred tax liabilities		48,344	47,421
Provisions		1,090	1,082
Trade and other payables		424	287
		153,063	132,782
Current liabilities			
Trade and other payables		67,668	72,080
Financial liabilities	16	15	16
Other financial liabilities		58	66
Income tax payable		8,754	8,149
Indirect tax payable		66,434	62,058
Provisions		168	717
		143,097	143,086
Total liabilities		296,160	275,868
Net assets		346,333	351,881

Interim condensed consolidated statement of financial position

As at 31 March 2019

	Notes	*31 March 2019* *Unaudited* *€000*	*30 September 2018* *Audited* *€000*
Capital and reserves			
Issued capital	18	23,625	23,625
Merger reserve		99,033	99,033
Consolidation reserve		5,130	5,130
Own share reserve	18	(3,036)	(3,370)
Other reserve	18	11,613	11,406
Foreign currency translation reserve	18	13,816	13,915
Retained earnings		196,152	202,142
Total equity		346,333	351,881
Total equity and liabilities		642,493	627,749

Interim condensed consolidated statement of changes in equity

For the six months ended 31 March 2019

	Issued capital €000	*Share premium €000*	*Merger reserve €000*	*Consolidation reserve €000*	*Own share reserve €000*	*Other reserve €000*	*Foreign currency translation reserve €000*	*Retained earnings €000*	*Total equity €000*
Balance at 1 October 2017 (unaudited)	23,625	183,541	99,033	5,130	(356)	10,809	10,860	22,162	354,804
Loss for the period	-	-	-	-	-	-	-	(1,441)	(1,441)
Other comprehensive income	-	-	-	-	-	-	3,808	-	3,808
Total comprehensive income/(expense)	-	-	-	-	-	-	3,808	(1,441)	2,367
Share-based payment compensation charge	-	-	-	-	-	1,115	-	-	1,115
Own shares utilised for incentive schemes	-	-	-	-	50	-	-	(50)	-
Balance at 31 March 2018 (unaudited)	**23,625**	183,541	**99,033**	**5,130**	**(306)**	**11,924**	**14,668**	**20,671**	**358,286**
Profit for the period	-	-	-	-	-	-	-	14,792	14,792
Other comprehensive (expense)/income	-	-	-	-	-	-	(753)	4	(749)
Total comprehensive (expense)/income	-	-	-	-	-	-	(753)	14,796	14,043
Share-based payment	-	-	-	-	-	(518)	-	-	(518)

compensation credit									
Dividends	-	-	-	-	-	-	-	(16,398)	(16,398)
Own shares acquired for incentive schemes	-	-	-	-	(3,532)	-	-	-	(3,532)
Own shares utilised for incentive schemes	-	-	-	-	468	-	-	(468)	-
Cancellation of share premium	-	(183,541)	-	-	-	-	-	183,541	-
Balance at 30 September 2018 (audited)	**23,625**	-	**99,033**	**5,130**	**(3,370)**	**11,406**	**13,915**	**202,142**	**351,881**
Profit for the period	-	-	-	-	-	-	-	5,841	5,841
Other comprehensive expense	-	-	-	-	-	-	(99)	-	(99)
Total comprehensive (expense)/income	-	-	-	-	-	-	(99)	5,841	5,742
Share-based payment compensation charge	-	-	-	-	-	663	-	-	663
Exercise of share options	-	-	-	-	-	(456)	-	456	-
Dividends	-	-	-	-	-	-	-	(11,953)	(11,953)
Own shares utilised for incentive schemes	-	-	-	-	334	-	-	(334)	-
Balance at 31 March 2019 (unaudited)	**23,625**	-	**99,033**	**5,130**	**(3,036)**	**11,613**	**13,816**	**196,152**	**346,333**

Interim condensed consolidated statement of cashflows

For the six months ended 31 March 2019

	Notes	*Six months ended 31 March 2019 Unaudited* *€000*	*Six months ended 31 March 2018 Unaudited* *€000*
Operating activities			
Profit/(loss) for the period		5,841	(1,441)
Adjustments to reconcile profit for the period to net cashflows:			
Income tax expense recognised in income statement	9	6,763	11,143
Interest expense and bank commissions	8	2,171	2,040
Loss on disposal of tangible and intangible assets		28	507
Other financial income	8	(83)	(144)
Depreciation of property, plant and equipment	13	3,367	4,855
Amortisation of intangible assets	12	775	671
Impairment of goodwill and intangible assets	11, 12	14,295	14,900
Net foreign exchange gain	8	(20)	(102)
Share-based compensation charge		663	1,115
Share of loss of equity-accounted investees, net of tax	14	422	245
(Decrease)/increase in provisions		(570)	887
		33,652	34,676
Working capital adjustments			
Decrease in trade receivables and other assets		3,954	3,670
Increase in inventories		(2,456)	(4,827)
Increase/(decrease) in trade payables and other liabilities		804	(4,400)
		2,302	(5,557)
Cash generated by operations		35,954	29,119
Income tax paid		(8,423)	(3,616)
Net cashflow from operating activities		27,531	25,503

Investing activities			
Interest received	8	83	144
Payments to acquire intangible assets	12	(511)	(1,055)
Purchase of property, plant and equipment	13	(4,194)	(2,670)
Proceeds from sale of property, plant and equipment		7	25
Advance payment for investment	22	(3,000)	-
Net cashflow from investing activities		(7,615)	(3,556)
Financing activities			
New borrowings raised	16	19,505	4,162
Interest paid		(2,282)	(1,928)
Dividends paid to equity holders of the parent		(11,953)	-
Net cashflow from financing activities		5,270	2,234
Net increase in cash and cash equivalents		25,186	24,181
Cash and cash equivalents at the start of the period		50,143	40,126
Effect of exchange rates on cash and cash equivalents		366	1,086
Cash and cash equivalents at the end of the financial period	15	75,695	65,393

Notes to the interim condensed consolidated financial statements

for the six months ended 31 March 2019

1. Corporate information

The interim condensed consolidated financial statements of Stock Spirits Group PLC (the "Company") and its subsidiaries (the "Group") for the six months ended 31 March 2019 were authorised for issue in accordance with a resolution of the directors on 14 May 2019.

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

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

2. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 31 March 2019 have been prepared on a going concern basis in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the period ended 30 September 2018.

The financial information contained in this interim statement, which is unaudited, does not constitute statutory accounts as defined by the Companies Act 2006. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 September 2018. The annual financial statements of the Group were prepared in accordance with IFRS as adopted by the European Union and can be found on the Group's website at www.stockspirits.com.

The financial information for the six months ended 31 March 2019 and the comparative financial information for the six months ended 31 March 2018 has not been audited, but has been reviewed. The comparative figures included in the Interim condensed consolidated statement of financial position for the financial period ended 30 September 2018 are the company's statutory accounts for that financial period. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report was (i) unqualified (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

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

	31 March 2019	30 March 2018	30 September 2018
PLN	4.30	4.21	4.28
CZK	25.82	25.42	25.70
GBP	0.86	0.88	0.89
CHF	1.12	1.18	1.13

3. Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statement are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the period ended 30 September 2018.

New/revised standards and interpretations adopted in 2019

There are no amendments to existing standards or interpretations which were newly effective in the period to 31 March 2019.

Following the change of year end to 30 September, IFRS 16 *Leases* will become effective from 1 October 2019.

4. Use of estimates and judgements

The preparation of the interim financial information requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses. These are discussed on page 123 of the Group's 2018 annual financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both the current and future periods.

5. Segmental analysis

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

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

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

	For the six months ended 31 March 2019 €000	For the six months ended 31 March 2018 €000
Profit before tax	12,604	9,702
Share of loss of equity-accounted investees, net of tax	422	245
Net finance charges	2,068	1,794
	15,094	11,741
Depreciation and amortisation (note 12,13)	4,142	5,527
EBITDA	19,236	17,268
Exceptional expense	14,295	14,900
Adjusted EBITDA	33,531	32,168
Adjusted EBITDA margin	21.4%	22.2%

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*
31 March 2019	*€000*	*€000*	*€000*	*€000*	*€000*	*€000*
External revenue	83,794	44,862	12,190	16,062	-	156,908
Adjusted EBITDA	19,707	15,371	1,141	3,105	(5,793)	33,531

	Poland	*Czech Republic*	*Italy*	*Other Operational*	*Corporate*	*Total*
31 March 2018	*€000*	*€000*	*€000*	*€000*	*€000*	*€000*
External revenue	76,803	39,634	12,672	15,941	-	145,050
Adjusted EBITDA	18,732	12,088	2,948	3,697	(5,297)	32,168

Disaggregation of revenue is by operating segment only. This also equates to primary geographical market.

Revenue other than from sales of branded spirits represents a very small proportion of total revenue. Products are largely transferred at a point in time and so there is limited variance in the timing of revenue recognition.

Seasonality

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

6. Free cashflow

The Group defines free cashflow as cash generated from operating activities (excluding income tax paid), plus the proceeds from the sale of property, plant and equipment and proceeds from the disposal of intangible assets less cash used for the acquisition of property, plant or equipment and for the acquisition of intangible assets. Adjusted free cashflow conversion is free cashflow as a percentage of Adjusted EBITDA.

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

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

	For the six months ended 31 March 2019	*For the six months ended 31 March 2018*
	€000	*€000*
Cash generated by operations	35,954	29,119
Payments to acquire property, plant and equipment	(4,194)	(2,670)
Payments to acquire intangible assets	(511)	(1,055)
Proceeds from sale of property, plant and equipment	7	25
Free cashflow	31,256	25,419
Adjusted free cashflow conversion	93.2%	79.0%

7. Exceptional items

In the six months ended 31 March 2019, the Group has exceptional items of €14,295,000 (six months ended 31 March 2018: exceptional expenses of €14,900,000 and exceptional tax charge of €4,700,000).

The impairment review completed for the period ended 30 September 2018 indicated limited headroom between the estimated recoverable amount of the Italy Region cash-generating unit ("CGU") and its carrying value, with certain sensitivities indicating a potential impairment. As performance in the year to date is below budget, an indicator of impairment was identified. The assessment of recoverable amount was performed at the CGU level as this is the lowest level of separately identifiable cashflows, and as such it is not possible to estimate the recoverable amount at the brand level.

Due to below expectation Christmas sales and a continued decline in the overall Italian spirits market, a revised three-year plan was prepared, with the financial projections insufficient to support the carrying value of the assets. Consequently, an impairment loss of €14,295,000 has been recognised in the period to 31 March 2019. This impairment reduces the carrying value of goodwill in the Italy Region CGU from €7,732,000 to €nil. Brands in the Italy Region CGU have also been impaired by €6,563,000. Due to the nature and size of the impairment, and consistent with prior periods, this has been disclosed as an exceptional expense. Also refer to notes 11 and 12.

In December 2017, the impairment review for goodwill identified the need to impair the goodwill held for the Italian brands by €14,900,000.

Due to a change in tax legislation in Poland during the year to 31 December 2017, tax amortisation on our Polish brands ceased to be available. This resulted in a significant one-off deferred tax charge of €4,700,000 in December 2017, which was classified as an exceptional charge in accordance with our accounting policies.

8. Finance costs and income

	For the six months ended 31 March 2019	*For the six months ended 31 March 2018*
	€000	*€000*
Finance income:		
Foreign currency exchange gain	20	102
Interest income	83	144
Total finance income	103	246
Finance costs:		
Interest payable on bank overdrafts and loans	1,107	796
Bank commissions, guarantees and other payables	332	455
Other interest expense	732	789
Total finance costs	2,171	2,040
Net finance costs	2,068	1,794

9. Income taxes

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total earnings for the full 12 month reporting period to 30 September 2019 and 30 September 2018. The major components of income tax expense in the interim condensed consolidated income statement are:

	For the six months ended 31 March 2019 *€000*	*For the six months ended 31 March 2018* *€000*
Current income tax		
Current income tax charge	5,498	3,444
Tax charge relating to prior periods	192	418
Other taxes	16	62
Deferred income tax		
Relating to the origination and reversal of temporary differences	1,057	2,519
Exceptional deferred tax charge	-	4,700
Total tax expense	6,763	11,143

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

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

Common with many groups operating across multiple jurisdictions, certain tax positions related to intercompany transactions may be subject to challenge by the relevant tax authority. The Group has recognised provisions totalling €7,220,000 (2018: €8,001,000) in relation to transfer pricing risks where it is not probable that tax positions taken will be accepted. The reduction is mainly due to the payment of the tax assessed in our Baltic Distillery and Poland as explained below.

Settlement was reached on the inquiry into the Group's subsidiary, Baltic Distillery GmbH's 2015 corporate tax return, and the subsidiary paid the tax and interest accrued at the year-end in September 2018. Hence the provision of €298,000 for tax and interest of €33,000 have been released.

In 2016, the Group's Polish subsidiary, Stock Polska Sp. z.o.o., received notification from the Polish tax authorities of the commencement of an inquiry covering its 2013 corporate income tax return. In December 2018 a final assessment was received which Stock Polska paid in full in January 2019. Tax of €712,000 and penalty interest of €281,000 was paid in relation to intercompany transactions. However in March 2019, the tax authorities reduced the interest charge by €139,000 which was credited against VAT payments due in the month. Both tax and penalty interest due were provided for, and hence the provision for the amounts stated above have been released.

In relation to the amortisation of the intellectual property ("IP") assets, an assessment of tax and penalty interest of €4,545,000 was received and paid. However, in March 2019, the tax authorities reduced the interest charge by €640,000 which was credited against VAT payments due in the month. The resulting net payment made therefore equates to €3,905,000. As the Group obtained individual tax rulings relevant for the restructuring process prior to implementation, the Group does not consider there to be any basis to the challenge on this matter by the Polish tax authority and has thus responded to them accordingly through the appeals process. Management considers that ultimately the appeals process will result in a positive outcome for the Group. As such a tax recoverable asset has been recorded in current tax assets, and the penalty interest paid has been included in trade and other receivables, both equivalent to the amount paid.

As disclosed in the Annual Report and Accounts 2018, although not subject to enquiry at this stage, annual tax deductions claimed in respect of the amortisation of the IP assets for the years 2014-2017 are in the range between €5,700,000 and €6,300,000. These sums exclude penalty interest that would be applied and calculated from the year concerned up to the current day. The interest rate as published by the Polish Ministry of Finance that could be applied is in the range of 8% to 10% on the years between 2014 and the current day. No further provisions have been recorded in relation to the IP inquiry for subsequent years since management considers it to be highly unlikely that any liability will ultimately crystallise.

Tax risks include those in respect of our Italian business, Stock S.r.l. The Italian tax authorities have open inquiries covering the years 2006 - 2010. However, in February 2019 the Italian tax authorities allowed for the application of a tax amnesty for historical issues, for which Stock S.r.l has applied. If the application is accepted, this will be settled in the second half of the financial year and the current provisions are deemed as sufficient for this amnesty requirement at this stage.

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

10. Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Details of the earnings per share are set out below:

	For the six months ended 31 March 2019	*For the six months ended 31 March 2018*
Basic earnings per share		
Profit/(loss) attributable to the equity shareholders of the Company (€'000)	5,841	(1,441)

Weighted average number of ordinary shares in issue for basic earnings per share ('000)	198,340	199,180
Basic earnings/(loss) per share (€cents)	2.94	(0.72)
Diluted earnings per share		
Profit/(loss) attributable to the equity shareholders of the Company (€'000)	5,841	(1,441)
Weighted average number of diluted ordinary shares adjusted for the effect of dilution ('000)	199,994	200,315
Diluted earnings/(loss) per share (€cents)	2.92	(0.72)
Adjusted basic earnings per share		
Profit/(loss) attributable to the equity shareholders of the Company (€'000)	5,841	(1,441)
Exceptional expense (€'000)	14,295	14,900
Exceptional tax charge (€'000)	-	4,700
Profit attributable to the equity shareholders of the Company before exceptional expenses and exceptional tax charges (€'000)	20,136	18,159
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	198,340	199,180
Adjusted basic earnings per share (€cents)	10.15	9.12
Adjusted diluted earnings per share		
Profit/(loss) attributable to the equity shareholders of the Company (€'000)	5,841	(1,441)
Exceptional expense (€'000)	14,295	14,900
Exceptional tax charge (€'000)	-	4,700
Profit attributable to the equity shareholders of the Company before exceptional expenses and exceptional tax charges (€'000)	20,136	18,159
Weighted average number of diluted ordinary shares adjusted for the effect of dilution ('000)	199,994	200,315
Adjusted diluted earnings per share (€cents)	10.07	9.07
Reconciliation of basic to diluted ordinary shares		
Weighted average number of ordinary shares ('000)	200,000	200,000
Effect of own shares held ('000)	(1,660)	(820)
Basic weighted average number of ordinary shares ('000)	198,340	199,180
Effect of options ('000)	1,654	1,135
Diluted weighted average number of ordinary shares ('000)	199,994	200,315

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

11. Intangible assets - goodwill

	31 March 2019 €000
Cost**:**	
As at 1 October 2018	77,340
As at 31 March 2019	77,340
Accumulated impairment:	
As at 1 October 2018	31,400
Impairment charge	7,732
As at 31 March 2019	39,132
Carrying amount at 31 March 2019	38,208

Refer to note 7 for details of the impairment charge.

12. Intangible assets - other

The movement in intangible assets for the six-month period ended 31 March 2019 was as follows:

	Brands	*Customer Relationships and Trademark*	*Software*	*Total*
	€000	*€000*	*€000*	*€000*
At 1 October 2018, cost, net of accumulated amortisation	306,601	998	3,530	311,129
Additions	-	-	475	475
Amortisation expense	-	(59)	(716)	(775)
Impairment charge	(6,563)	-	-	(6,563)
Foreign currency adjustment	(677)	-	30	(647)
At 31 March 2019, cost, net of accumulated amortisation	299,361	939	3,319	303,619

	Brands	*Customer Relationships and Trademark*	*Software*	*Total*
	€000	*€000*	*€000*	*€000*
At 1 January 2018, cost, net of accumulated amortisation	307,122	1,035	3,457	311,614
Additions	-	-	1,111	1,111

Transfers	-	51	(51)	-
Amortisation expense	-	(88)	(954)	(1,042)
Foreign currency adjustment	(521)	-	(33)	(554)
At 30 September 2018, cost, net of accumulated amortisation	306,601	998	3,530	311,129

Refer to note 7 for details of the impairment charge.

13. Property, plant and equipment

The movement in property, plant and equipment for the six-month period ended 31 March 2019 was as follows:

	Land and buildings	*Technical equipment*	*Other equipment*	*Assets under construction*	*Total*
	€000	*€000*	*€000*	*€000*	*€000*
At 1 October 2018, cost, net of accumulated depreciation	23,655	20,178	1,477	1,955	47,265
Additions	385	1,607	178	1,321	3,491
Transfers	91	460	-	(551)	-
Disposals	-	(34)	(1)	-	(35)
Depreciation expense	(460)	(2,407)	(500)	-	(3,367)
Foreign currency adjustment	(105)	(79)	(2)	12	(174)
At 31 March 2019, cost, net of accumulated depreciation	23,566	19,725	1,152	2,737	47,180

	Land and buildings	*Technical equipment*	*Other equipment*	*Assets under construction*	*Total*
	€000	*€000*	*€000*	*€000*	*€000*
At 1 January 2018, cost, net of accumulated depreciation	24,328	23,125	2,867	551	50,871
Additions	274	1,252	471	1,579	3,576
Transfers	57	85	5	(147)	-
Disposals	(1)	(23)	12	(2)	(14)
Depreciation expense	(719)	(3,847)	(1,858)	-	(6,424)
Foreign currency adjustment	(284)	(414)	(20)	(26)	(744)
At 30 September 2018, cost, net of accumulated depreciation	23,655	20,178	1,477	1,955	47,265

14. Investment in equity-accounted investees

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

The fair value of the contingent cash consideration at the acquisition date was calculated as €2,491,000, and goodwill of €425,000 was recognised. The fair value of the cash consideration at 31 March 2019 is not considered to have changed, with the contingent liability of €2,491,000 being included in non-current financial liabilities.

The Group's share of the loss of Quintessential Brands Ireland Whiskey Limited for the period is €422,000 (31 March 2018: loss of €245,000). There has been a corresponding reduction in the carrying value of the investment.

15. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial period as shown in the cash flow statement can be reconciled to the related items in statement of financial position as follows:

	31 March 2019	*30 September 2018*
	€000	*€000*
Cash and bank balances	75,695	50,143

Cash and cash equivalents are denominated in the following currencies:

	31 March 2019	*30 September 2018*
	€000	*€000*
Sterling	9,134	2,030

Euro	[illegible]	[illegible]
Czech Koruna	[illegible]	[illegible]
Polish Zloty	25,632	14,887
Other currencies	2,602	5,158
Total	75,695	50,143

16. Financial liabilities

	Current 31 March 2019 €000	Non-current 31 March 2019 €000	Current 30 September 2018 €000	Non-current 30 September 2018 €000
Unsecured - at amortised cost				
HSBC loan	-	100,652	-	81,443
Cost of arranging bank loan	-	(111)	-	(143)
Interest payable	15	-	16	-
	15	100,541	16	81,300

As well as the revolving credit facility ("RCF") drawings of €100,652,000 as at 31 March 2019 (30 September 2018: €81,443,000), an additional €10,361,000 (30 September 2018: €10,551,000) of the RCF was utilised for customs guarantees in Italy and Germany. These custom guarantees reduce the available RCF facility but do not constitute a balance sheet liability.

17. Financial assets and liabilities

Set out below is a comparison by category of carrying amounts which approximates fair values of all of the Group's financial instruments that are carried in the financial statements.

As at 31 March 2019

	Financial assets and liabilities at amortised cost €000	*Total book value €000*
Financial assets:		
Cash	75,695	75,695
Trade and other receivables	107,098	107,098
Customs deposits	4,854	4,854
Investment deposit	3,000	3,000
Financial liabilities:		
Interest-bearing loans and borrowings:		
(i) Finance lease obligations	(230)	(230)
(ii) Floating rate borrowings - banks	(100,541)	(100,541)
Trade and other payables	(65,303)	(65,303)
Contingent consideration	(2,491)	(2,491)

As at 30 September 2018

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

18. Authorised and issued share capital and reserves

Share capital of Stock Spirits Group PLC

	31 March 2019	*30 September 2018*
Number of ordinary shares		
Ordinary shares of £0.10 each, issued and fully paid	200,000,000	200,000,000
Ordinary shares (€000)	23,625	23,625

Share premium

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

Own share reserve

The own share reserve comprises the cost of the Company's shares held by the Group. The Employment Benefit Trust (EBT) holds these shares on behalf of the employees until the options are exercised. During the half-year ended 31 March 2019 no shares were purchased by the EBT on behalf of the Group. At 31 March 2019 the Group held 1,529,867 of the Company's shares (30 September 2018: 1,691,991).

On the exercise of options in the period €334,000 was credited to the own share reserve, with the corresponding charge to retained earnings (30 September 2018: exercise of Top-Up and Substitute option agreements €468,000).

The EBT holds the shares at cost.

Other reserve

Other reserves include the credit to equity for equity-settled share-based payments. The charge for the period ended 31 March 2019 was €663,000 (30 September 2018: €129,000). On the exercise of Restricted Stock options ("RSA") in the period, €456,000 was debited from other reserves and credited to retained earnings.

Foreign currency translation reserve

	31 March 2019 €000	*30 September 2018 €000*
Foreign currency translation reserve	13,816	13,915

Exchange differences relating to the translation from the functional currencies of the Group's foreign subsidiaries into Euros are accounted for by entries made directly to the foreign currency translation reserve.

19. Dividend

An interim dividend of 2.63 Euro cents per ordinary share has been declared by the Board in respect of the half-year ended 31 March 2019 and will be paid on 21 June 2019. The dividend payable has not been recognised as a liability at 31 March 2019.

20. Related party transactions

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

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. There were no other related party transactions during the six month period ended 31 March 2019 (31 March 2018: €nil), as defined by International Accounting Standard No 24 'Related Party Disclosures', except for key management compensation and transactions with Quintessential Brands Ireland Whiskey Limited and its related entities.

The following table provides the total amount of transactions that have been entered into with Quintessential Brands Ireland Whiskey Limited and its related entities for the period to 31 March 2019. There were no such transactions in the six month period to 31 March 2018.

March 2019	*Sales of goods/services €'000*	*Purchases of goods/services €'000*	*Amounts owed by related parties €'000*	*Amounts owed to related parties €'000*
Subsidiaries:				
Stock S.r.l.	3	-	3	-
Stock d.o.o.	6	39	-	26
Stock Slovensko s.r.o.	-	4	-	-
Stock Plzen-Bozkov s.r.o.	6	56	6	-
Stock Polska Sp. z.o.o.	-	23	-	-
	15	122	9	26

The related party transactions for the period ended 30 September 2018 as defined by International Accounting Standard No 24 'Related Party Disclosures' are disclosed in note 31 of the Stock Spirits Group PLC Annual Report for the period ended 30 September 2018.

21. Commitments for capital expenditure

Commitments for the acquisition of property, plant and equipment as of 31 March 2019 are €480,000 (31 March 2018: €271,000).

22. Events after the balance sheet date

On 31 January 2019 the Group announced its Italian subsidiary, Stock Srl, had signed an agreement to acquire Distillerie Franciacorta SpA, one of the leading Italian producers of grappa, liqueurs and Franciacorta (a premium Italian sparkling wine that is produced solely in the Franciacorta region). The purchase price is up to €23,500,000 for the business with a further €3,000,000 for the land, payable in cash in three tranches:

i) An initial payment of €3,000,000 which was made on signing, which has been recorded in other current assets. This is refundable if the vendors do not complete certain agreed conditions precedent,
ii) A further €21,500,000 payable at completion (which is expected to be in June 2019) which will be conditional upon consultation with trade unions as well as certain restructuring steps, and;
iii) Up to €2,000,000 deferred consideration payable over a four-year period, which will be payable upon

certain performance criteria to be met by the sellers.

On 13 May 2019 Group's Czech Republic subsidiary Stock Plzen Bozkov Sro signed an agreement to purchase the share capital of Bartida sro and its sister company, Bartida Retail sro ("Bartida"), a premium spirit drinks business focused on the premium On-Trade market in Czech Republic.

Completion of the transaction is expected to take place on 31 May 2019. Stock Spirits will acquire the entire issued share capital of the Bartida companies for a price of up to €11,000,000 payable in cash in two tranches:

i) €7,260,000 to be paid at completion, and;
ii) The remaining €3,740,000 payable over the following five years, dependent upon the achievement of certain performance conditions under an earn-out mechanism for the selling shareholders.

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[1] Constant currency is calculated by converting the proforma prior period results at current period FX rates

[2] The Company and its subsidiaries, Stock Spirits Group (the "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 can be found in note 5 to the Unaudited Interim Condensed Consolidated Financial Statements

[3] Leverage at 30 September 2018 is net debt as at 30 September 2018 divided by the proforma Adjusted EBITDA for full year 2018. Leverage at 31 March 2019 is the net debt as at 31 March 2019 divided by the unaudited 12 months Adjusted EBITDA to 31 March 2019