Stock Spirits Group PLC

Preliminary results for the year ended 30 September 2020

A resilient performance during uncertain times, with results ahead of expectations

2 December 2020: Stock Spirits Group PLC ("Stock Spirits" or the "Company"), a leading owner and producer of branded spirits and liqueurs that are principally sold in Central and Eastern Europe and Italy, announces its results for the year ended 30 September 2020.

Highlights:

	Reported results			**Underlying results at constant[1] currency excluding acquisitions made in 2019**		
All values in € millions unless otherwise stated	**12 mth to Sept 2020**	**12 mth to Sept 2019**	**% change**	**Underlying 12 mth to Sept 2020**	**Underlying 12 mth to Sept 2019**	**% change**
Volume (millions 9 litre cases)	14.8	14.4	3.0%	14.6	14.4	1.8%
Revenue	341.0	312.4	9.1%	324.5	303.6	6.9%
Adjusted EBITDA[2]	71.0	67.0	6.1%	68.9	65.9	4.6%
Operating profit before exceptional expenses	57.8	54.5	6.0%			
Operating profit	33.6	42.9	-21.5%			
Profit for the year	19.6	28.4	-31.2%			
EPS basic - €cents per share	9.83	14.33	-31.4%			
EPS adjusted basic - €cents per share[2]	21.42	19.75	+8.5%			
Net debt	22.7	55.4	-59.1%			

All comparative figures for the 12 months to September 2019 have been restated to align with the new IFRS16 requirements, which were adopted by the Group on 1 October 2019.

- Underlying volumes up +1.8%, underlying revenue up +6.9% and adjusted EBITDA up +4.6%: a resilient performance against the backdrop of the global pandemic in H2, and excise tax increases in Poland and the Czech Republic in H1
- Revenue and EBITDA in Poland up +15.1% and +18.3% respectively (at constant currency), with our market share in the key vodka category at a five year high of 31.6% as at September 2020
- A robust response to COVID-19 with no disruption to operations and no use of furlough schemes or other government assistance

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[1] Constant currency is calculated by converting 2019 results at 2020 FX rates. Underlying also excludes the impact from acquisitions made in 2019

[2] 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 can be found in note 5 to the statutory reported figures. Adjusted EPS is the EPS excluding exceptional expenses and can be found in note 10 to the statutory reported figures.

- Positive contribution from 2019's acquisitions – Bartida in the Czech Republic, and Distillerie Franciacorta in Italy - despite on-trade lockdowns in both of those markets
- Cash conversion remains strong, delivering 112.1% (2019: 91.5%), with close working capital management through the pandemic. Net debt of €22.7m at 30 September 2020 equates to leverage of 0.32x[3]
- Exceptional items total a net €23.0m; of which a net €21.1m are non-cash items (largely impairment of our traditional Italian brands and Irish whiskey investment), and €1.9m of cash items
- Total ordinary dividend for the year +6.8% at 9.55 €cents per share (after a proposed final dividend of 6.78 €cents per share, up +7.4% up on last year's final dividend[4]); in addition the Board is proposing a special dividend of 11.00 €cents per share

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

"We are pleased to have delivered a resilient performance against the backdrop of a hugely challenging year. In H1, we successfully navigated excise tax increases in our largest markets of Poland and the Czech Republic. In H2, we prioritised protecting and supporting our employees, customers, suppliers and the communities around us in the face of the COVID-19 pandemic.

Our strategy of sourcing and manufacturing nearly all of our products locally ensured that there has been no disruption to our operations. In addition, our longstanding focus on the off-trade served us well during the closure of the on-trade as a result of lockdowns. Our portfolio of brands performed strongly, boosted by consumers opting to buy familiar and trusted local brands during times of uncertainty, as well as by the trend towards staycations in our markets. Our strong operational and financial performance has enabled us to continue to invest in our brands and our business, and to return surplus cash to our shareholders in the form of a special dividend.

While there remains some uncertainty in the short-term outlook, in the longer term we are confident that we will emerge from the pandemic with an even more loyal and engaged consumer base, closer customer and supplier relationships, and a stronger business than ever before. As such, we remain confident in the future prospects of Stock Spirits."

ENDS

Analyst presentation

Management will be hosting a presentation via an audio webcast and conference call which will be hosted by CEO Miroslaw Stachowicz and CFO Paul Bal at 9:00am (GMT) on Wednesday 2 December 2020. Dial-in details are below. Please dial-in at least 15 minutes prior in order to ensure a timely start to the briefing.

Audio webcast: https://edge.media-server.com/mmc/p/xq5wybb7

Conference call:

Location	Phone Number	Passcode
International	+44 (0) 2071 928 338	3728837
UK	0800 279 6619	

Please note that questions will only be taken over the conference call and not the audio webcast.

A replay of the audio webcast will be available shortly afterwards on the same link as above.

[3] Leverage at 30 September is net debt as at 30 September divided by the 12 month Adjusted EBITDA to 30 September including IFRS 16 adjustments for 2020 for both measures

Subject to shareholder approval at the AGM on 4th February 2021, the final and special dividend will be paid on 19th February 2021 based on the record date of 29th January 2021

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

For further information:

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

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

About Stock Spirits Group

Stock Spirits is one of the leading branded spirits and liqueurs businesses in Central and Eastern Europe and Italy, and offers a portfolio of products that are rooted in local and regional heritage. With businesses in Poland, the Czech Republic, Slovakia, Italy, Croatia and Bosnia & Herzegovina, Stock Spirits also exports to more than 50 other countries worldwide. Global sales volumes currently total over 125 million litres per year.

Stock Spirits has production facilities in Poland, the Czech Republic, Germany and Italy. Its portfolio includes well-established “millionaire” (selling in excess of one million 9 litre equivalent cases per annum) brands including Żołądkowa, Lubelska, Božkov and Stock Prestige, local leaders such as Stock 84 brandy, Fernet Stock bitters, Keglevich and Limoncè, as well as more recent innovations including Amundsen Expedition vodka and Božkov Republica rum.

Stock Spirits is listed on the main market of the London Stock Exchange. For the year ended 30 September 2020 it delivered total revenue of €341.0m and operating profit before exceptional items of €57.8m.

For further information, please visit www.stockspirits.com

Chairman's Statement

As Chairman of Stock Spirits Group PLC, I am pleased to present our preliminary results for the year ended 30 September 2020.

This year has brought challenges like no other, but we have demonstrated great resilience across the Group. The early response of governments in our key markets shielded us from the worst effects of the pandemic, but we have still had to adapt and respond to protect our people and maintain production for our customers and consumers. To that end I, and the entire Stock Spirits Board, want to thank all our teams for their continued hard work, professionalism and dedication in delivering outstanding service to our customers in hugely demanding circumstances.

Dividend

Our resilient performance has enabled us to redefine our progressive dividend policy and deliver a higher pay-out than in recent years. Our proposed final dividend for the year is 6.78 €cents per share (2019: 6.31 €cents) and is a +7.4% increase on last year's final dividend. There were no acquisitions during the year and, while we continue to assess a range of opportunities, the continuing pandemic means that we are unlikely to complete a meaningful and value-creating acquisition in the near-term. The Board has consistently said that it would consider additional distributions to shareholders under such circumstances. Taking into account our robust operational and financial performance that has resulted in our strong capital position, the Board is also proposing a special dividend of 11.00 €cents. This results in total dividends for the year of 20.55 €cents per share, up +130% on the total dividend for the prior year (2019: 8.94 €cents per share).

Looking ahead

We are still in a time of huge uncertainty due to the ongoing effects of the pandemic, and ensuring that Stock Spirits continues to stay resilient, agile and responsive will be the Board's key focus in the coming months. However, I am confident that we have the right business model and strategy in place, and that our collegiate, collaborative culture – at Board level and throughout the Group – will result in decisions and actions being made to secure the success of Stock Spirits for the long term.

Chief Executive Statement

Against a challenging backdrop, I am pleased to report that we have delivered revenue of €341.0m and adjusted EBITDA of €71.0m, an increase of +9.1% and +6.1% respectively. Excluding the acquisitions completed in 2019, and on an underlying constant currency basis, these increases were +6.9% and +4.6% respectively. Like all companies, we have been tested this year, but our unique locally-focused business model has proved resilient against the pandemic, and our culture of small company agility saw every member of the Stock Spirits team rise to the challenge. I thank all of our colleagues for their dedication in the face of difficult working conditions.

H1: good strategic progress whilst responding to significant excise increases

The year began with uncertainty due to the impending increases in spirits excise tax in both Poland and the Czech Republic, our two largest markets which account for more than 80% of our revenue and profits. However, as reported at our half-year results in May, we performed above expectations due to extensive preparations and management of the changes.

We were also making good progress against our M&A objectives. However, work has been interrupted by COVID-19. This resulted in the write-off of the €1.3m invested in preparatory work. The first pandemic wave also impacted heavily on our investment in the Quintessential Brands Irish whiskey joint venture and resulted in an impairment of €14.2m.

H2: demonstrating resilience in the wake of COVID-19

With c.15% of the Group's revenues historically coming from the on-trade, we have inevitably suffered some loss of revenues due to the widespread closures of on-trade channels as a result of the pandemic in H2. However, our long-standing focus on the off-trade and no reliance on duty-free channels stood us in good stead. Our portfolio of local brands performed very well as shopping habits changed and consumers reverted to familiar and trusted brands in uncertain times. This trend was further boosted by "staycations" during the summer.

The extent of this mitigation was particularly evident in the Czech Republic where on-trade would normally account for over 30% of revenues. Despite losing much of the on-trade business for some four months, underlying Czech revenue for the year was almost flat and underlying adjusted EBITDA was up +2.3% (all at constant currency) .

Italy and Croatia, heavily reliant on tourism and on-premise consumption, were the two markets where we felt the most severe impact of the pandemic, resulting in the impairment of €9.6m taken against our traditional Italian brands in H2. This impairment does not involve the newly-acquired Distillerie Franciacorta brands that performed with pleasing resilience.

Our operating model - built on localised sourcing and manufacturing prevented disruption to our supply chains by border closures. Local relationships with our customers were further strengthened as we temporarily extended credit terms where necessary. Our close ties with local suppliers ensured continuity in the supply chain.

During lockdowns, we leveraged our digital platforms to stay in touch with our consumers and assist key stakeholders. For example in Italy, our 'Skip the Ordinary' online campaign for Keglevich has been a significant success, drawing an online audience of over five million views and making a substantial contribution to strengthening Keglevich's share in the flavoured vodka category from 73.6% to 77.7%[5].

Despite the impact of COVID-19, both of the acquisitions made in 2019 performed strongly. Distillerie Franciacorta in Italy showed resilience in the face of very challenging market conditions. It delivered a small positive EBITDA contribution this year, and we continue to expect it to be earnings enhancing in 2021. Bartida, the acquisition in the Czech Republic, performed extremely well, delivering €1.5m in EBITDA in the year - well ahead of our expectations despite its reliance on on-trade distribution.

New Product Development ("NPD")

Another strategic response to COVID-19 involved accelerating our NPD programme leveraging our strong routes-to-market and introducing new products faster than our competitors. In Poland, our NPD focused on the more profitable flavoured vodka. A notable example was new Żołądkowa Gorzka Rześka, which sold over one million litres in its first six months. As a result, we significantly improved our market share of these higher-margin products.

We also enjoyed positive results from repositioning the Fernet brand in 2019, with the premium variant Fernet Stock Barrel commanding a retail price c.28% above mainstream Fernet Original.

Sustainability

Given the resilience of our performance, we were able to continue with investments in key projects to develop a more sustainable business model for the future. Planning work continued on the new distillery at our Lublin facility and, whilst we have had to manage the uncertainties around COVID-19, we still expect it to come on-stream in FY2023 as planned, and deliver a five year pay-back. Our OneSAP project to develop and implement a Group-wide enterprise resource planning solution also continued largely unaffected and is making good progress.

Prioritising our stakeholders

The pandemic has provided us with an opportunity to demonstrate our firm commitment to the social aspects of our Environmental, Social and Governance agenda. Although our resilience to the crisis has benefitted all of our stakeholders, our top priority throughout remains the health and wellbeing of our people. We implemented an extensive range of cleaning and social-distancing measures to provide on-site workers with a safe working environment and office-based staff have predominantly been working from home since March.

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[5] IRI data, total Italy, modern trade MAT September 2020

We have not utilised government support such as furlough schemes or other similar initiatives. Furthermore, there have been no lay-offs or pay reductions as a result of the pandemic. In fact, we rewarded many of our staff with additional incentives for their hard work and dedication when faced with more demanding working conditions in our manufacturing and logistics facilities.

We carried out our annual employee engagement survey in March in the midst of COVID-19 in our main markets. It received a record response, and showed that our response to the situation improved engagement levels.

We are proud to be able to help many of our stakeholders as well. We produced hand-sanitiser in Poland, the Czech Republic and Germany, donating it to customers, local authorities and hospitals along with supplies of pure alcohol. We also allowed the Polish government to use our facilities to produce a spirit that was used in their own hand-sanitiser. Our support to stakeholders is perhaps summed up by our Czech business being nationally recognised by the CZECH TOP 100 Association, acknowledging them as 'heroes in the fight against Coronavirus'.

For our investors, the pandemic gave us opportunity to demonstrate how differentiated and resilient our business model is. While many companies reduced or cancelled dividends, we are pleased to be able to redefine and enhance what our progressive dividend policy means, as well as propose a special dividend.

Outlook

Our four-pillar strategy remains successful and as relevant as ever. We will continue to deliver value by focusing on premiumisation, millennials and digital, as well as being ready to re-start M&A activity as conditions permit.

We remain alert to new regulatory developments. In Poland, as previously announced, legislation was passed in the summer to implement additional taxes on small format pack sizes (300ml or smaller) of alcoholic products from 1 January 2021. We have in hand a range of potential commercial and operational actions to mitigate the possible impact, and our successful management of the recent excise changes gives us confidence in our ability to respond to this new development.

As we near the end of the Brexit transition period, our message remains that we expect to see no material impact on our business irrespective of the nature of the UK's final arrangements with the EU.

We take encouragement from the resilience that our business has shown in a year of challenges, from excise increases to the COVID-19 pandemic. Our products have shown themselves to be trusted brands, our customer and supplier relationships are stronger than ever before, and our business model has been proven to be strong throughout the crisis. While there remains some uncertainty in the short-term outlook due to the pandemic, we continue to see many opportunities for future growth in our markets, and to be confident in the long-term prospects of Stock Spirits.

Our markets in detail

Poland

Revenue for the year in Poland was significantly ahead of last year at €193.6m (2019: €171.7m), with adjusted EBITDA also showing strong growth at €49.9m (2019: €43.1m).

Market overview

Despite the +10.0% excise tax increase on spirits in January followed subsequently by the COVID-19 crisis, the total spirits market in Poland achieved value growth of +10.7% and strong volume growth of +3.7%[6].

Poland is the world's third largest vodka market by value and volume, with the highest CAGR growth over the last five years of the top ten vodka markets in the world. Vodka is by far the largest spirits category in Poland (c.80% of total spirits volume)[6].

[6] Nielsen, total Poland, total off trade, total spirits MAT September 2020

Clear and flavoured vodka was by far the greatest contributor to total spirits growth, delivering c.60% of total absolute value growth, whilst 30% came from the second biggest spirits category, whisky[6].

Total vodka category value growth of +8.4% during the last 12 months was well ahead of volume growth at +1.8%, in part driven by the excise increase, but also by the positive impact of premiumisation and reduced price-discounting during the pandemic[7].

The fastest overall value growth rate was from the flavoured vodka sub-category at +8.8%, but the far larger clear vodka category also achieved value growth at +8.2% and was the greatest contributor to absolute growth[7].

The global trend to premiumisation in spirits continued to be visible in Poland also during the period of pandemic. Total premium vodka achieved value growth of +16.0%, significantly ahead of the total category, reflecting Polish consumers' readiness to pay more for premium quality vodka as affluence increases.

Performance of our core brands

Stock Spirits outperformed the total vodka market in Poland, driving continued share gains as we focused on profitable growth. Stock grew total vodka volume +2.4% and value +9.2%[7]. Stock's total vodka volume share grew from 29.0% last year to 29.1% this year and value share grew from 29.5% to 29.7%[7]. Our market share growth accelerated in the second half of the year, and we achieved 31.6% value market share in the month of September, the highest in five years[7].

The leading contributor to our clear vodka share growth was the continued success of our largest brand, Żołądkowa De Luxe, with a value growth of +11.1%[7], supported by consistent consumer activation at the point of purchase.

Our brand leader in the premium segment, Stock Prestige, grew value by +5.4%[7] and maintained its leadership of this increasingly competitive segment, despite being heavily impacted by the reduction in celebratory usage occasions as a result of the COVID-19 lockdown.

Amundsen Expedition, another of our premium vodkas, grew value by +15.1%, over triple that of the top premium segment where it is positioned, whose value growth was +5.0%[7].

New Product Development

Stock Spirits grew total flavoured category volume and value versus last year, achieving our ambition to recapture the lead position in flavoured category growth. Żołądkowa Gorzka achieved MAT value growth of +17.5%[7], supported by the roll-out of our Kolonialna premium new product development and the introduction of two new lighter tasting variants under the 'Rześka' ('Fresh') sub-brand. This broadened the brand's appeal to millennials, in particular female and young adult drinkers, and especially during the summer months.

Our largest flavoured brand, Lubelska, delivered +4.7%[7] value growth despite the reduction in out-of-home small format impulse purchases, which is usually a significant proportion of the brand sales. The Saska flavoured range continued to build its position amongst emerging spirit drinkers, achieving MAT value growth of 23.3%[7], supported by the roll-out of our highly successful new flavours such as mango in April 2020.

Small format tax

Legislation was passed in the summer of 2020 to implement additional taxes on small format pack sizes (300 ml or smaller) of alcoholic products from 1 January 2021. Our recent successful management of the excise changes earlier in the year gives us confidence in our ability to respond to this new development

[7] Nielsen, total Poland, total off trade, total vodka MAT September 2020. For the purposes of this estimate, total vodka = total regular vodka plus total flavoured vodka plus total flavoured vodka based liqueurs

and we have in hand a range of commercial and operational actions to mitigate the impact from this legislation change.

Czech Republic

Revenue for the year also grew strongly in the Czech Republic to €87.3m (2019: €81.3m) due to the contribution of the prior year acquisition, with adjusted EBITDA at €26.1m (2019: €24.3m).

Excluding the impact of the Bartida acquisition completed last year and at constant currency, underlying revenue was flat at €78.1m (2019: €77.9m) whilst adjusted EBITDA for 2020 was up +2.3%, delivering €24.6m (2019: €24.0m).

Market overview

Stock has held spirits market leadership in the Czech Republic for over 20 years[8] and has brand leaders in the key spirits categories of rum[9], vodka and herbal bitter liqueurs[10].

Total spirits in the Czech Republic's off-trade grew value at +11.0% and volume +5.6%, despite the spirits excise increase of 13.2% in January of this year and the subsequent impact of COVID-19[10]. The four core categories on which Stock focuses - rum, vodka, herbal bitters and whisky - together account for c.75% of total spirits volume, and are the key drivers of overall spirits performance. Double-digit value growth was achieved by rum, vodka and whisky. High growth from those categories off-set lower growth from herbal bitters[10].

Performance of our core Brands

Overall performance of our Czech brands for the year was ahead of our expectations, particularly given our strong participation in the on-trade. Whilst value share declined slightly from 34.2% last year to 33.6% this year, the combination of our premium innovation, the benefits from previously acquired brands, and the contribution from our distribution brands delivered value growth of +8.8% and volume growth of +4.8%, maintaining market leadership and delivering the greatest absolute value growth in the market[10].

Stock grew value share of the largest Czech spirits category, local rum, from 64.6% to 65.8%[10], driven by our brand-leading Božkov Tuzemsky, which gained from shoppers' shift to trusted, well-known local brands, as well as consumers' increased at-home consumption during the pandemic. Božkov Republica maintained brand leadership of imported rum, supported by premiumisation through its award-winning new aged variant, Republica Reserva, despite the launch of an aggressively discounted 'look-alike' competitor.

In the highly price competitive vodka category, Stock maintained its brand portfolio value share leadership and grew value +13.4%[10] in the face of aggressive discounting by private label and competitor brands which maintained their pre-excise increase price points.

These successes outweighed share decline in herbal bitters, where Fernet Stock's value share reduced from 28.0% to 26.5%[10], driven by changed retailer promotional strategies coupled with continued aggressive price discounting by Jagermeister. Fernet Stock's share has been gradually recovering as the full re-launched range is established, and the resulting revised price architecture takes effect.

Acquisitions

Stock Spirits completed the acquisition of Bartida in May 2019, bringing new brands and step-changing our capabilities in the premium on-trade channel. Notwithstanding the significant impact of COVID-19 on the Czech on-trade in the second half of this year, the contribution from Bartida exceeded our expectations. In line with our plans, the business is earnings-enhancing in the first year after acquisition.

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[8] IWSR 2019

[9] In the Czech Republic the "rum" category of the spirts market includes traditional rum, which is a spirit drink made from sugar cane, and what is widely referred to as "local rum", known as "Tuzemak" or Tuzemsky", which is made from sugar beet. As used in this Report, "rum" refers to both traditional and local rum, while "Czech rum" refers to local rum

[10] Nielsen MAT to end September 2020, total Czech off-trade

This was possible thanks to the accelerated roll-out of the acquired brands and faster attainment of cost synergies. Bartida's expertise is also beginning to make a wider contribution across the Group.

Italy

Revenue for the year in Italy was ahead at €30.6m (2019: €26.9m), with adjusted EBITDA of €2.0m (2019: €3.6m).

Excluding the impact of the acquisition of Distillerie Franciacorta completed last year, underlying revenue and adjusted EBITDA for 2020 was €24.7m and €1.9m respectively (2019: €25.4m and €3.8m).

Market overview

Of all our markets, Italy was the most heavily impacted by COVID-19 and the on-trade holds the highest proportion of total spirits sales. Several spirits categories serve 'higher energy', social gathering-orientated usage occasions. The on-trade was shut down for several months during the pandemic lockdown, such usage occasions were curtailed, and both have yet to recover to historical levels.

Consequently, total spirits grew +7.8% value and +7.9% volume in the modern off-trade in 2020[11] but the total market (including on-trade) declined by -2.3% in value.

Performance of our core Brands

COVID-19 significantly impacted several of Stock's key categories, notably limoncello, the Beam Suntory range that was introduced in H2, and flavoured spirits. The resulting impact of this is an impairment against the carrying value of our historical Italian brands of €9.6m, classed as an exceptional item. At the same time, spirits categories in which we do not participate were impacted less severely. Due to the introduction of Beam, Stock Italia's value share of the total modern trade increased slightly to 7.2% (versus 6.9% last year)[11]. Encouragingly, the last quarter of our financial year saw a stronger performance, with growth from grappa, brandy, clear and flavoured vodka. However, this was off-set by continued declines from Limoncè, whose usage occasions remained heavily impacted by COVID-19. Full production and bottling of Limoncè was restored to Italy during the last quarter of the financial year, with the expectation that this should facilitate our marketing of this iconic brand.

Acquisitions

The acquisition of Distillerie Franciacorta, completed in early June 2019, made Stock the number-one grappa player in the Italian off-trade. It also enhanced our premium on-trade sales capabilities and tripled the size of our sales force, bringing growth synergies across the off and on-trade for all of our categories, and helping to secure Beam Suntory brands' distribution.

The acquisition provides a strong platform from which to enhance the provenance of Stock's Italian brand portfolio and generally rejuvenate our Italian business, starting with the "repatriation" of Limoncè. The acquisition is performing in line with our expectations to be earnings-enhancing in the current year despite the continuing challenging environment in Italy. Additionally, the stronger on-trade sales force resulting from this acquisition was a direct reason for gaining Beam-Suntory as a distribution partner in Italy in April 2020. Coinciding with the peak of COVID-19 in Italy, and requiring some upfront investment, the Beam agency will begin making a positive contribution to our results in 2021.

Other markets

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[11] Source: IRI total Italy, total modern trade, total spirits, MAT September 2020. Prior year data excludes Beam Suntory

‘Other’ markets include the results of Slovakia, Croatia and Bosnia & Herzegovina together with our export operations know as International, our Baltic distillery and UK corporate office.

Revenue for the year for Other markets was €29.5m (2019: €32.5m), with adjusted EBITDA of €3.4m (2019: €5.2m).

Slovakia

It was a challenging year in Slovakia, but one in which our expansion in rum - led by Božkov Republica - coupled with a strong performance in vodka by Amundsen, enabled Stock to maintain its position as the second biggest player in the off-trade. Stock’s total spirits value share declined slightly from 12.1% last year to 11.5% this year, and absolute value was -1.6% versus last year[12].

Share growth from Fernet Stock, Republica and our leading vodka brands was off-set by COVID-19-driven declines on the Beam Suntory range and Golden fruit spirits, whose categories are more dependent on ‘higher energy’ social gatherings, which were curtailed by the pandemic.

Other International markets

Croatia was severely impacted by COVID-19 given its heavy reliance on tourism and on-trade consumption. Nonetheless, Stock grew its brand leader Stock 84’s share of imported brandy in absolute volume and value[13].

In our export markets, COVID-19 had a negative impact on duty-free volumes as a result of reduced international travel, and also led to severe local lockdowns across many locations. The successful reorganisation of our route-to-market in Germany contributed volume uplift from new retail distribution via our partner Dovgan, notably for our Polish brand portfolio. The Distillerie Franciacorta brands acquired in 2019 were successfully introduced into 32 of our International distribution partners including Germany, the Netherlands, and the UK.

Chief Financial Officer Statement

Changes in accounting policies

Following adoption of IFRS 16 “Leases” from 1 October 2019, all comparative figures have been restated to comply with the new accounting standard and enable reporting on a like-for-like basis. Full details of the changes are set out in notes 3 and 15 of the consolidated financial statements. One consequence of this change is an improvement in EBITDA, operating profit and EBITDA margin, as certain operating costs associated with leases are now considered financing costs. The overall impact on operating profit is not material.

Underlying results

In the second half of the prior year, the Group completed two acquisitions - Bartida s.r.o. and Bartida Retail
s.r.o. in the Czech Republic, and Distillerie Franciacorta S.p.A. in Italy. In order to provide a comparison of the Group’s results on a like-for-like basis, we also report underlying growth rates for key metrics (that exclude the impact of these acquisitions in both years) and is stated at constant currency.

Financial performance

Performance differed between the two halves of the year. Our very strong year-on-year growth in the first half of the year was tempered in the second half as the COVID-19 pandemic impacted the on-trade and duty-free channels for several months. In the second-half of the year, underlying volumes, revenues and

[12] Nielsen, total Slovakia, total off trade, total rum, whisky, vodka, fruit spirits, herbal bitters and fruit distillates MAT to end August 2020

[13] Nielsen Croatia, total off trade, total brandy MAT September 2020

EBITDA were lower than the comparable period last year. However, the -1.9% underlying revenue decline in the second half of the year indicates that demand significantly shifted to the off-trade channel during this period.

Volumes for the year were up +1.8% on an underlying basis, as a result of continued strong performance in Poland. On a reported basis volumes rose +3.0% helped by the full impact of last year's two acquisitions. Reported revenue was up +9.1% to €341.0m (2019: €312.4m) and underlying revenue was up +6.9% to €324.5m (2019: €303.6m).

The underlying revenue increase was predominantly driven by pricing (+4.5%), primarily in Poland where the excise tax increase was fully passed on, with a small margin. In Czech, the excise tax increase was only passed on where competition considerations allowed. There was a benefit from the 2019 acquisitions (+3.9%), but a negative impact from foreign currency movements (-1.7%), due to a slight weakening in the Polish złoty and the Czech koruna during the year versus the euro.

Revenue per litre[14] increased +6.0% to €2.55 (2019: €2.41) mainly reflecting the mix benefit of last year's acquisitions, as well as the increased pricing in Poland and Czech following the excise increases. Cost of goods sold per litre[14] increased +7.8% to €1.37 (2019: €1.27), mainly due to last year's acquisitions and an increase in third party distribution brand cost of goods. This mix reduced reported gross profit margin by 90bps to 46.4% (2019: 47.3%). Underlying gross margin was less impacted 47.0% (2019: 47.4%).

Selling expenses increased +8.1% to €65.9m (2019: €61.0m) from a combination of the full year impact of 2019's acquisitions and increased investment behind our brands and salesforce capabilities. Other operating expenses increased by +6.7% to €33.4m (2019: €31.3m) mainly due to higher staff costs, particularly in Central Europe, plus the increase from the full year impact of 2019's acquisitions.

Adjusted EBITDA increased by +6.1% to €71.0m (2019: €67.0m) representing an Adjusted EBITDA margin of 20.8% (2019: 21.4%). On an underlying basis, Adjusted EBITDA was up +4.6% at €68.9m (2019: €65.9m), resulting in an underlying Adjusted EBITDA margin of 21.2% (2019: 21.7%).

Operating profit before exceptional items was €57.8m, an increase of +6.0% versus 2019 (€54.5m). Underlying operating profit before exceptional items increased by +3.3% to €57.0m (2019: €55.2m).

Exceptional items

We have had five exceptional items in the year, totalling a net €23.0m (including tax), which were primarily non-cash related.

As reported at the half year, there was a non-cash impairment expense of €14.2m against the carrying value of the investment in our Irish whiskey venture, Quintessential Brands Irish Whiskey Limited ("QBIWL").The second was a non-cash credit of €1.5m relating to the net overall release in provisions for contingent consideration in respect of past acquisitions. This predominantly related to the investment in QBIWL (€1.8m), as most of the metrics for payment are unlikely to be met as a result of the impact of COVID-19 on sales and the closure of the visitor centre at the Dublin distillery. The third was an expense of €1.3m relating to the write-off of advisory and legal costs incurred in pursuit of the Group's mergers and acquisitions strategy. Work in this area had to be curtailed as a result of the impact of the COVID-19 pandemic.

Then, in the second half of the year, the carrying value of our traditional Italian brands incurred a non-cash impairment charge of €9.6m, with a related deferred tax credit of €1.1m. This reflected both the considerable impact of the pandemic on the near-term prospects for the Italian market as well as the corresponding increase in discount rates used in the impairment review. Finally, there was also €0.6m in

[14] Revenue and cost of goods per litre is calculated by dividing the total Group revenue or cost of goods by the number of litres sold

restructuring charges as a result of management changes. Further details are set out in note 6 of the attached Consolidated Financial Statements.

Finance costs

Net finance costs were €3.8m (2019: €4.5m), including €0.5m (2019: €0.6m) of interest payable on lease liabilities following the adoption and implementation of IFRS 16 “Leases”. The underlying decrease was primarily due to the reduction of bank facility-drawings.

Taxation

The income tax expense for the year was €10.3m and included an exceptional tax credit of €1.1m recognised in respect of the Italian brands impairment charge. The underlying income tax expense (total income tax expense excluding exceptional items) was €11.4m (2019: €10.9m). As detailed in note 9 of the Consolidated Financial Statements, the income tax expense reflects a number of factors including the tax expense for the current period, changes in provisions for taxation relating to prior years, and movements in deferred tax. The underlying effective tax rate (excluding exceptional and prior year items) of the Group was 22.2% (2019: 25.3%). The underlying decrease is principally due to a greater proportion of taxable profits coming from Poland and Czech, where the tax rates are 19%.

Group tax provisions totalled €3.5m at 30 September 2020, a decrease of €0.8m from 30 September 2019.

The decrease primarily relates to the release of provisions in the Czech Republic in respect of the 2012-2017 tax years, based on the length of time that has elapsed with no challenge or assessments raised by the tax authorities. As set out in the Principal Risks, the Group is exposed to a number of tax risks in the countries in which it operates. There have been a number of developments with respect to the Group’s unsettled tax years in several countries. This includes Poland, where we continued with the appeal process against the €4.5m assessment issued by the Polish tax authorities in respect of our 2013 Corporate Income Tax return and historical tax positions. In February 2020 the administrative court of first instance upheld the assessment and we lodged a final appeal, to the Supreme Administrative Court, in May 2020. In respect of intellectual property restructuring, representing €3.7m of the total assessment, our view remains unchanged and, on the basis of all the available evidence and professional opinions, we consider that the position adopted by the Group will ultimately prevail. Therefore, we continue to recognise a receivable against the assessed taxes which, in accordance with the local requirements, have been paid in full to the tax authorities to facilitate the appeal. No receivable has been recognised in respect of the remaining €0.8m relating to the deductibility of the intra-group management recharges. Audits have also commenced during the year into aspects of the 2014 and 2015 tax years, but we have yet to receive any assessments. Further details are set out in note 9 of the Consolidated Financial Statements.

Earnings per share

The basic earnings per share for the year was 9.83 €cents per share (2019: 14.33 €cents per share). Adjusted basic earnings per share, removing the impact of exceptional items, was 21.42 €cents per share (2019: 19.75 €cents per share).

Cash flow and working capital

The Group continues to generate strong cash flow from operating activities. Using a measure by which we judge our underlying operational cash flow, the Group generated free cash flow of €79.6m (2019: €61.3m). This represents a strong conversion rate from Adjusted EBITDA of 112.1% (2019: 91.5%), and reflects an increased focus on managing working capital levels during the pandemic, particularly Trade Receivables.

The Lublin distillery project has been initiated, with planning work and permit applications underway. Capital expenditure on the project during the year has been minimal. The plant is expected to be operational by the end of 2022. The Italian bottling plant project is at an earlier stage of planning. The OneSAP project is around its mid-way stage, and it has proceeded largely to plan notwithstanding the pandemic. The new standardised technology platform is expected to be operational during the first half of the year-ending 30 September 2022.

Dividend and reserves
The Board has proposed a final dividend to shareholders which represents a step-up interpretation of our progressive dividend policy. The Board proposes a final dividend of 6.78 €cents per share (2019: €6.31€cents per share), an increase of +7.4%. When combined with the interim dividend of 2.77 €cents per share paid in June 2020 (2.63 €cents interim dividend paid in June 2019), this totals 9.55 €cents per share for the year (2019: 8.94 €cents per share), an increase of +6.8% on the prior year total.

Given that we have not been able to complete any meaningful M&A projects in the year due to the disruption resulting from COVID-19, and the ongoing pandemic means that we are unlikely to complete a meaningful acquisition in the near-term, the Board has proposed an additional special dividend of 11.00 €cents per share payable alongside the final dividend.

Net debt and maturity profile
The Group's Revolving Credit Facility ("RCF"), which was taken out in 2015, expires in November 2022. Debt can be drawn and repaid at the Group's discretion without penalty or charge. At 30 September 2020, €14.0m of the RCF is utilised to back excise duty guarantees in Italy and Germany. We also retain a factoring facility capability of €70.0m, which remains unused.

The continued strong cash flow during the year resulted in Net Debt (now including IFRS 16 adjustments) of €22.7m at 30 September 2020, a decrease of €32.8m from 30 September 2019. Leverage has also reduced from 0.83x (as at 30 September 2019) to 0.32x reflecting the significantly increased Adjusted EBITDA and reduced borrowings.

Our financing facility covenants are: Net Debt/EBITDA 3.5x maximum and interest cover 4.0x minimum. We currently operate, and expect to remain, comfortably within these levels and to retain significant unused bank facilities. Our relatively low leverage, combined with the significant headroom in our bank facilities, leaves us well-placed to finance our strategic aspirations.

Foreign exchange
The Group remains exposed to the impact of foreign currency exchange movements, with the major trading currencies continuing to be the Polish złoty and the Czech koruna. At 30 September 2020, there were no formal hedging instruments in place.

A net foreign currency exchange transactional loss of €0.6m was reported within the Adjusted EBITDA for the year. This has arisen on the weakening of the Polish złoty and the Czech koruna versus the Euro.

Brexit
As reported previously, the Group does not expect a material impact from the UK's forthcoming exit from the European Union irrespective of the nature of the final arrangement with the EU. As the Group reports in euros and the main trading currencies are the Polish złoty and the Czech koruna, the volatility of pound sterling is not a material factor for our operations. Nevertheless, the implications of Brexit will continue to be monitored as will all the principal risks that the Group faces.

Equity structure
There has been no change to the equity structure of the business in the year to 30 September 2020. The issued share capital remains at 200 million Ordinary shares with a nominal value of £0.10 each.

Directors' responsibility statement

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

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

Directors

David Maloney, Non-Executive 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

Kate Allum, Independent Non-Executive Director

Principal risks

Stock Spirits Group believes the following to be the principal risks facing its business and the steps we take to manage and mitigate these risks. Risks are identified and assessed through a combined bottom-up and top-down approach. If any of these risks occur, Stock Spirits' business, financial condition and performance might suffer and the trading price and/or 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.

Clearly the impact of COVID-19 remains a major uncertainty facing almost every business. The impact on our key markets of Poland and the Czech Republic has not been material to date, however, it is almost impossible to predict the future impact, given the uncertain duration of the pandemic and the resulting longer-term macro-economic impact. At this point in time, we are assuming that when the outbreak is contained, whether through the deployment of an effective vaccine or otherwise, and restrictions are lifted, our markets will return largely to normal. However, the overall impact on the economies and consumer spending in our markets and the duration of that impact remains highly uncertain. There may be some longer lasting changes within the trade channels e.g. some bars, restaurants and other outlets may decide not to re-open when the pandemic ends. International travel is likely to continue to be subdued, impacting economies that depend on a high level of tourism such as Italy, even after allowing for a compensating increase in domestic tourism. Online purchasing could become more significant for all categories, including alcohol. There may also be other longer lasting changes in consumer behaviours, but it is not yet clear whether that might entail a reduction in social gatherings, or an increase. Taking all these uncertain factors into account, we are currently assuming that underlying consumer demand and trends will not be significantly altered post COVID-19 in a way which would materially impact our Group as a whole. This is broadly the position we have observed over the preceding 6 months since COVID-19 became widespread across our markets, during which our businesses demonstrated strong resilience, although firm conclusions about the future cannot yet be drawn. Based on that, the Board considers the principal risks and uncertainties for the Group are:

(Note: References to changes in 2020 mean changes in the 12 month period ended 30 September 2020).

Risk description and impact	Change in 2020	How we manage and mitigate	Rating
Risk 1 **Economic and political change**	Increased		High
• Results are affected by overall economic conditions and consumer confidence in key geographic markets in Central and Eastern European markets and Italy where economic uncertainty and political instability is considered to be higher than other European countries.	• We have not been significantly impacted by major economic or political changes in our key markets during 2020.	• We monitor and analyse economic indicators and consumer consumption trends which, in turn, influence our product portfolio, new product development and route to market. • Further diversification of our geographic footprint through strategic M&A will also mitigate the risk of exposure to less stable political environments.	
Risk 2 **Taxes**	Increased		High
• Increases in taxes, particularly 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. • Changes in tax laws and related interpretations and increased enforcement actions and penalties may increase the cost of doing business. • Certain tax positions taken by the Group are based on industry practice and external tax advice and/or involve a significant degree of judgement.	• Changes to excise duty on spirits by 13% in the Czech Republic and 10% in Poland occurred from 1 January 2020. The strength of our brands and market position, combined with careful planning, resulted in minimal impact. • Looking ahead, a small formats tax will be implemented in Poland from 1 January 2021. See note 9 (Income Taxes) in the notes to the Consolidated Financial Statements for details of the ongoing tax inspections, assessments and disputes and other tax matters.	• Membership of local spirits trade associations, to engage with tax authorities and 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. • Professional tax advice and regular audits of our own tax policies, processes, documentation and compliance. • Appropriate provisions where tax liabilities appear probable. • New product development focused on lower alcohol strength, resulting in lower excise duty impact as well as offering consumers greater choice. • Legal challenges	
Risk 3 **Laws and regulations**	Increased		High
• 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 anti-trust, anti-bribery, data protection, health, safety and environmental laws. These regulations and any changes to them could limit the Group's business activities or increase costs.	• Increased intensity of regulatory proposals related to both alcohol in general and spirits in particular. In Czech Republic, a proposal to ban TV and digital advertising of alcohol has been proposed. • In Poland, the Competition Protection Authority (UOKiK) increased enforcement	• The key countries that we currently operate in are part of the European Union (EU) and, therefore, are subject to relatively consistent EU regulation, although the EU is taking action against Poland in relation to judicial independence, the functioning of its legislative and electoral system and	

Risk description and impact	Change in 2020	How we manage and mitigate	Rating
	action to counteract delay in payment of creditors.	the protection of fundamental rights. • Monitoring legislative proposals and ensuring appropriate representation of our interests through local spirits trade associations and where appropriate, direct contact with government departments. • Clear processes and controls to monitor compliance with laws and regulations. • We operate detailed anti-bribery, anti-trust and data protection compliance policies and processes. • Regular update training is conducted across the business and we undertake regular reviews and independent internal audits to assess the adequacy and effectiveness of our policies and processes.	
Risk 4 **Marketplace and competition**	No change		Medium
• Highly competitive markets may result in pressure on prices and loss of market share. This has been particularly evident in Poland historically. • Changes in the Group's distribution channels may also have an adverse effect on profitability. • 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 would 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 and/or profits.	• In Poland and the Czech Republic we continued to respond to price reductions by competitors and demonstrated our resilience by growing our market share in key categories without a significant impact on our profit margins • Ongoing tight control over costs, including consolidation of our Czech and Slovakia businesses and central operations roles, resulting in the reduction of two senior manager positions.	• The Group has mechanisms and strategies in place to mitigate the damage of profit erosion but there is no assurance they will work in the economies and competitive environments in which we operate. • We constantly review our distribution channels and our customer relationships. We understand the changing nature of the trade channels and customer positions within those channels. We trade across all channels and actively manage our profit mix by both channel and customer. • We have well-established credit control policies and procedures and we put in place trade receivables insurance where it is cost effective to do so.	
Risk 5 **Strategic transactions**	No change		Medium
• Key objectives of the Group are: (i) the development of new products and variants; (ii) expansion through the acquisition of additional businesses; and (iii) distribution agreements with	• Our new product development process continues to deliver successful innovations such	• We continue to seek value-accretive acquisition targets and have an experienced management team capable of pursuing and executing	

Risk description and impact	Change in 2020	How we manage and mitigate	Rating
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.	as Božkov Republica rum in the Czech Republic. • During 2020, we fully integrated the acquisitions of Distillerie Franciacorta in Italy and Bartida in the Czech Republic completed in 2019.	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. • We use detailed criteria aligned with our strategy to evaluate potential M&A targets. • High hurdle rates, in excess of our Group WACC rate, are used in M&A valuations. • If we are unable to complete meaningful acquisitions, we will consider distributing surplus cash to shareholders. • We continue to invest significant resources in our NPD process as well as exploring opportunities to extend and enhance our third-party distribution arrangements.	
Risk 6 **Consumer preferences**	No change		Medium
• Shifts in consumer preferences or decline in social acceptability of alcohol may lead to a decrease in revenue.	• Continued general decline in consumption of higher alcohol drinks, particularly by young-adult drinkers. • We are responding to the rise in consumer and general awareness of climate change, sustainability and other environment, social and governance (ESG) issues through a comprehensive review of the impact of our business and products and the implementation of action plans to reduce that impact	• The Group undertakes extensive consumer and route to consumer research and has a track record of successful NPD 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 7 **Disruption to operations or systems**	No change		Medium
• 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.	• Ongoing IT project to upgrade to a single version of SAP S4/Hana, to improve access to consistent information across the Group, deliver analytical reports and insights and further automate controls and standardise processes across the Group. • We retained our Cyber Essentials certification and implemented insurance	• Insurance cover to protect the business in the event of a production disruption or other business interruption. • Our two primary bottling sites are capable of bottling all of our core SKUs. • Business Continuity and Disaster Recovery policies. • Our information and management control systems are subject to internal audit following a risk-based methodology.	

Risk description and impact	Change in 2020	How we manage and mitigate	Rating
	cover specifically for cyber risks.	• Independent specialists assess and test security and resilience of our network against hacking and other cyber threats.	
Risk 8 **Supply of raw materials**	No change		Medium
• Commodity price changes may increase cost of raw and packaging materials. • The Group may not be able to pass on increases in costs to customers or adjustments may be delayed and may not fully off-set extra costs or cause a decline in sales. • Extreme weather conditions and climate change may damage supplies of key raw materials such as grain, causing extreme price spikes. • Energy price fluctuations impact us both directly and indirectly through our supply chain. • Labour costs may also rise ahead of our ability to pass through such costs.	• European and global grain prices were adversely affected by lower than expected harvests and higher than forecasted demand from Asia. Raw and rectified alcohol market prices increased double digit versus last year. • However, our cost optimisation initiatives in procurement, including more centralised purchasing and strategic partnerships with key suppliers, have provided relative price stability and reliability of supply and ensured that overall cost of goods remains at manageable levels comparable with the prior year.	• We closely monitor the key procurement markets to optimise our procurement strategies. • Where possible and appropriate, the Group will negotiate term contracts for the supply of core raw materials and services on competitive terms to manage pricing fluctuations.	
Risk 9 **Exchange rates**	No change		Medium
• Group revenue, assets and liabilities are primarily in Polish złoty and Czech koruna while results are reported in euros and the share price is in pounds sterling. Additionally, the Group's financial covenants are tested in euros. • Historically, volatility between the euro, the złoty and the koruna has been low, but we cannot predict future volatility.	• Recent world trade volatility, including tariffs imposed by the US, EU and China together with the strength of the US dollar and Brexit, have led to increased currency fluctuations globally but there has been no significant impact on the Group.	• The Group aims to hedge transaction risk by matching cash flows, assets and liabilities through normal commercial business arrangements where possible. For example, all debt is currently drawn in local currency by market. • We monitor currency exposure as an integral part of our monthly review process and, where appropriate, implement hedging instruments. • Further diversification of our geographic footprint through strategic M&A will also mitigate exchange rate risk.	
NEW Risk 10 – Funding and Liquidity	Increase		Medium
• Refinancing requirements or investment plans could subject the Group to unexpected needs for	• Liquidity has been challenging for some customers due to COVID-19. Credit markets have	• The Group maintains a strong focus on cash, our future requirements for funding and the overall	

Risk description and impact	Change in 2020	How we manage and mitigate	Rating
liquidity, which may require the Group to increase its levels of indebtedness. • Access to financing in the longer-term depends on a variety of factors outside the Group's control, including capital and credit market conditions. Higher interest rates and more stringent borrowing requirements could increase the Group's financing charges and reduce profitability.	'hardened' and become more expensive, also as a result of the COVID-19 pandemic.	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 refinancing or liquidity needs and that we have placed ourselves in the best position to access funding at appropriate commercial rates in the longer term.	
Risk 11 **Talent**	No change		Low
• Loss of any member of the senior management team 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, particularly due to low unemployment and higher wage inflation in Poland and the Czech Republic.	• During the year we continued to strengthen our management team with the appointment of a new Managing Director in our enlarged Italian business, following the acquisition of Distillerie Franciacorta. • The results of our annual Employee Engagement Survey showed continued improvements and action plans arising from those results continue to be implemented.	• Competitive remuneration policy to retain, motivate and attract key individuals. • Leadership framework to guide talent management and succession planning process to mitigate risk of losing key personnel. • Annual Employee Engagement Survey enables us to assess employee engagement levels across the Group and act upon the feedback in a systematic way.	

Consolidated Income Statement

for the year ended 30 September 2020

	Notes	*Year to 30 September 2020*	*Year to 30 September 2019 Restated**
		€000	*€000*
Revenue	3	340,988	312,419
Cost of goods sold		(182,757)	(164,600)
Gross profit		158,231	147,819
Selling expenses		(65,922)	(60,987)
Other operating expenses		(33,409)	(31,319)
Impairment loss on trade and other receivables		(902)	(430)
Share of loss of equity-accounted investees, net of tax	11	(165)	(536)
Operating profit before exceptional items		57,833	54,547
Exceptional income	6	1,510	3,766
Exceptional expenses	6	(25,700)	(15,459)
Operating profit		33,643	42,854
Finance income	7	179	312
Finance costs	7	(3,970)	(4,799)
Profit before tax		29,852	38,367
Income tax expense	9	(11,436)	(10,868)
Exceptional tax credit	6, 9	1,142	948
Total income tax expense		(10,294)	(9,920)
Profit for the year		19,558	28,447
Attributable to:			
Equity holders of the Parent		19,558	28,447
Earnings per share (€cents) attributable to equity holders of the Parent			
Basic	10	9.83	14.33
Diluted	10	9.73	14.24

*Restated for the adoption of IFRS 16, as explained in note 15.

Consolidated Statement of Financial Position

as at 30 September 2020

	Notes	30 September 2020 €000	30 September 2019 €000 Restated*	30 September 2018 €000 Restated*
Non-current assets				
Intangible assets - goodwill		46,795	49,800	45,940
Intangible assets - other		306,431	326,718	311,129
Property, plant and equipment		51,639	53,532	47,011
Right-of-use assets		11,635	11,817	9,932
Investment in equity-accounted investee	11	2,100	16,458	16,994
Deferred tax assets	9	1,903	674	589
Other assets		4,483	4,720	4,742
		424,986	463,719	436,337
Current assets				
Inventories		44,986	43,059	30,711
Trade and other receivables		92,383	111,039	119,238
Other assets		-	-	135
Current tax assets	9	3,870	3,588	863
Short-term deposits		18,132	-	-
Cash and cash equivalents	13	42,747	63,437	50,143
		202,118	221,123	201,090
Total assets		627,104	684,842	637,427
Non-current liabilities				
Borrowings		70,539	105,425	81,300
Other financial liabilities		11,632	16,034	11,168
Deferred tax liabilities	9	47,229	53,500	47,696
Provisions		1,249	1,234	1,082
Trade and other payables		355	331	287
		131,004	176,524	141,533
Current liabilities				
Trade and other payables		79,903	77,362	70,634
Borrowings		-	2	16
Other financial liabilities		5,894	4,408	3,019
Income tax payable	9	4,562	5,883	8,149
Indirect tax payable		57,824	59,714	62,058
Provisions		805	173	717
		148,988	147,542	144,593
Total liabilities		279,992	324,066	286,126
Net assets		347,112	360,776	351,301

*Restated for the adoption of IFRS 16, as explained in note 15.

Consolidated Statement of Financial Position

as at 30 September 2020

	Notes	30 September 2020 €000	30 September 2019 €000 Restated*	30 September 2018 €000 Restated*
Capital and reserves				
Issued capital		23,625	23,625	23,625
Merger reserve		99,033	99,033	99,033
Consolidation reserve		5,130	5,130	5,130
Own share reserve		(3,938)	(2,718)	(3,370)
Other reserve		12,935	12,566	11,406
Foreign currency translation reserve		(4,472)	9,774	13,915
Retained earnings		214,799	213,366	201,562
Total equity		347,112	360,776	351,301
Total equity and liabilities		627,104	684,842	637,427

*Restated for the adoption of IFRS 16, as explained in note 15.

Consolidated Statement of Cash Flows

for the year ended 30 September 2020

	Notes	*Year to 30 September 2020 €000*	*Year to 30 September 2019 €000 Restated**
Operating activities			
Profit for the year		19,558	28,447
Adjustments to reconcile profit for the year to net cash flows:			
Income tax expense recognised in income statement	9	10,294	9,920
Interest expense and bank commissions	7	3,970	4,718
Loss on disposal of intangible and tangible assets		866	50
Other financial income	7	(151)	(312)
Depreciation of property, plant and equipment		7,140	6,744
Depreciation of right-of-use assets		3,568	3,158
Amortisation of intangible assets		2,319	1,966
Impairment of goodwill and brands	6	9,591	14,295
Impairment of investment	6, 11	14,193	-
Net release of contingent consideration	6, 11	(1,510)	-
Gain on liquidation of subsidiary	6	-	(3,766)
Net foreign exchange (gain)/loss	7	(28)	81
Share-based compensation charge		2,864	2,492
Share of loss of equity-accounted investees, net of tax	11	165	536
Increase/(decrease) in provisions		668	(443)
		73,507	67,886
Working capital adjustments			
Decrease in trade receivables and other assets		18,656	9,962
Increase in inventories		(1,927)	(7,815)
Increase in trade payables and other liabilities		513	1,384
		17,242	3,531
Cash generated by operations		90,749	71,417
Income tax paid	9	(17,451)	(15,196)
Net cash flows from operating activities		73,298	56,221
Investing activities			
Interest received	7	151	195
Funds placed on short-term deposit		(18,132)	-
Payments to acquire intangible assets		(3,583)	(1,628)
Proceeds from sale of property, plant and equipment		148	21
Purchase of property, plant and equipment		(7,723)	(8,556)
Acquisition of subsidiaries, net of cash acquired		-	(31,801)
Payment of contingent consideration		(1,350)	-
Net cash flow from investing activities		(30,489)	(41,769)
Financing activities			
(Decrease)/increase in borrowings		(32,379)	24,981
Interest paid		(3,624)	(5,361)
Purchase of own shares		(3,841)	-
Payment of lease liabilities		(3,887)	(3,234)
Dividends paid to equity holders of the Parent		(17,999)	(17,121)
Net cash flow from financing activities		(61,730)	(735)
Net (decrease)/increase in cash and cash equivalents		(18,921)	13,717
Cash and cash equivalents at the start of the year		63,437	50,143
Effect of exchange rates on cash and cash equivalents		(1,769)	(423)
Cash and cash equivalents at the end of the year	13	42,747	63,437

*Restated for the adoption of IFRS 16, as explained in note 15.

Notes to the Consolidated Financial Statements

at 30 September 2020

1. Corporate information

The consolidated financial statements were approved and authorised for issue by the Board of Directors of Stock Spirits Group PLC (the Company) on 2 December 2020.

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 and Italy.

2. Basis of preparation

These financial statements are consistent with the consolidated financial statements of the Group for the year ended 30 September 2020. 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 Standard 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 Group 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:

	Year to 30 September 2020	*Year to 30 September 2019*
	€000	*€000*
Revenue from the sale of spirits, gross of excise taxes	948,131	878,249
Other sales	3,521	4,059
Excise taxes	(610,664)	(569,889)
Revenue	340,988	312,419

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 operating segment is managed separately, as each of these geographic areas requires different marketing approaches. All inter-segment transfers are carried out at arm's length prices. The measure of revenue reported to the Chief Operating Decision-Maker to assess performance is based on external revenue for each operating segment and excludes Intra-group revenues. The measure of Adjusted EBITDA reported to the Chief Operating Decision-Maker to assess performance is based on operating profit and excludes Intra-group profits, depreciation, amortisation, share of results of equity-accounted investees and exceptional items.

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.

4. Segmental analysis (continued)

2020	*Poland* *€000*	*Czech Republic* *€000*	*Italy* *€000*	*Other Operational* *€000*	*Corporate* *€000*	*Total* *€000*
External revenue	193,600	87,325	30,559	29,504	-	340,988
Alternative performance measures						
Statutory revenue	193,600	87,325	30,559	29,504	-	340,988
Adjust for acquisitions	-	(9,184)	(5,877)	(1,468)	-	(16,529)
Underlying revenue	193,600	78,141	24,682	28,036	-	324,459
Impact of foreign exchange movements	-	-	-	-	-	-
Underlying revenue at constant currency	193,600	78,141	24,682	28,036	-	324,459
EBITDA before exceptional expenses	49,817	25,749	(7,618)	2,915	(24,028)	46,835
Net exceptional expenses (note 6)	127	317	9,591	479	13,676	24,190
Adjusted EBITDA	49,944	26,066	1,973	3,394	(10,352)	71,025
Alternative performance measures						
Adjusted EBITDA (note 5)	49,944	26,066	1,973	3,394	(10,352)	71,025
Adjust for acquisitions	-	(1,471)	(61)	(578)	-	(2,110)
Underlying adjusted EBITDA	49,944	24,595	1,912	2,816	(10,352)	68,915
Impact of foreign exchange movements	-	-	-	-	-	-
Underlying adjusted EBITDA at constant currency	49,944	24,595	1,912	2,816	(10,352)	68,915

2019 – restated	*Poland* *€000*	*Czech Republic* *€000*	*Italy* *€000*	*Other Operational* *€000*	*Corporate* *€000*	*Total* *€000*
External revenue	171,670	81,338	26,896	32,515	-	312,419
Alternative performance measures						
Statutory revenue	171,670	81,338	26,896	32,515	-	312,419
Adjust for acquisitions	-	(2,237)	(1,516)	(322)	-	(4,075)
Underlying revenue	171,670	79,101	25,380	32,193	-	308,344
Impact of foreign exchange movements	(3,502)	(1,214)	-	-	-	(4,716)
Underlying revenue at constant currency	168,168	77,887	25,380	32,193	-	303,628
EBITDA before exceptional expenses	43,136	24,012	(11,597)	5,225	(5,518)	55,258
Net exceptional expenses (note 6)	-	242	15,217	-	(3,766)	11,693
Adjusted EBITDA	43,136	24,254	3,620	5,225	(9,284)	66,951

4. Segmental analysis (continued)

2019 - restated	*Poland €000*	*Czech Republic €000*	*Italy €000*	*Other Operational €000*	*Corporate €000*	*Total €000*
Alternative performance measures						
Adjusted EBITDA (note 5)	43,136	24,254	3,620	5,225	(9,284)	66,951
Adjust for acquisitions	-	(10)	211	(92)	59	168
Underlying adjusted EBITDA	43,136	24,244	3,831	5,133	(9,225)	67,119
Impact of foreign exchange movements	(906)	(205)	-	-	(145)	(1,256)
Underlying adjusted EBITDA at constant currency	42,230	24,039	3,831	5,133	(9,370)	65,863

As well as the impact of IFRS 16, Adjusted EBITDA for the year ended 30 September 2019 has also been restated for the impact of reallocation of group-wide costs. Previously group-wide costs, including insurance and internal audit costs, were included in the Corporate segment. During the year there was a change in the presentation of these costs to the Chief Operating Decision-Maker, with these now included in the relevant segment based on the amount recharged. Consequently, Adjusted EBITDA by segment for the year ended 30 September 2019 has been restated for comparability. This has served to reduce Corporate costs by €3.8m, with reallocation of costs into each of the operating segments of between €0.2m and €1.7m.

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.

5. Adjusted EBITDA and Free Cash Flow

The Group defines Adjusted EBITDA as operating profit before depreciation and amortisation, exceptional items and the share of results of equity-accounted investees. The Group defines Adjusted EBITDA margin as Adjusted EBITDA as a percentage of revenue. Adjusted EBITDA, Adjusted EBITDA margin and Adjusted free cash flow conversion are supplemental measures of the Group's performance and liquidity that are not required to be presented in accordance with IFRS.

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

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

Adjusted EBITDA	*Year to 30 September 2020 €000*	*Year to 30 September 2019 €000 Restated*
Operating profit	33,643	42,854
Net exceptional expenses (note 6)	24,190	11,693
Share of results of equity-accounted investees, net of tax (note 11)	165	536
	57,998	55,083
Depreciation and amortisation	13,027	11,868
Adjusted EBITDA	71,025	66,951
Adjusted EBITDA margin	20.8%	21.4%

5. Adjusted EBITDA and Free Cash Flow (continued)

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

Free cash flow	*Year to 30 September 2020*	*Year to 30 September 2019*
	€000	*€000*
		Restated
Cash generated from operations	90,749	71,417
Payments to acquire property, plant and equipment	(7,723)	(8,556)
Payments to acquire intangible assets	(3,583)	(1,628)
Proceeds from sale of property, plant and equipment	148	21
Free cash flow	79,591	61,254
Adjusted free cash flow conversion	112.1%	91.5%

6. Exceptional items

	Year to 30 September 2020	*Year to 30 September 2019*
	€000	*€000*
Exceptional income:		
Net release of contingent consideration[1]	1,510	-
Realisation of exchange differences following liquidation of Stock Spirits Group Services A.G[2]	-	3,766
Total exceptional income	1,510	3,766
Exceptional expense:		
Impairment of Italian brands and goodwill[3]	9,591	14,295
Impairment of equity-accounted investment in Quintessential Brands Ireland Whiskey Limited[4]	14,193	-
Costs associated with mergers and acquisitions[5]	1,310	1,164
Restructuring costs[6]	606	-
Total exceptional expense	25,700	15,459
Net exceptional expenses	24,190	11,693

1. There has been a net release in provisions for contingent consideration relating to past acquisitions totalling €1,510,000. This is predominantly in respect of the investment in Quintessential Brands Ireland Whiskey Limited at €1,827,000. Due to the size of the change in the provision, and for consistent presentation with the impairment expense (refer to reference 4 below), this has been disclosed as an exceptional item.
2. A gain of €3,766,000 was recorded in 2019 on realisation of exchange differences following the liquidation of Stock Spirits Group Services A.G..

6. Exceptional items (continued)

3. There has been a non-cash impairment on brands in Italy of €9,591,000 in the year ending 30 September 2020.

   Performance in Italy during the year was below budget, and therefore an indicator of impairment was identified. An assessment of recoverable amount was performed at the cash-generating unit (CGU) level as this is the lowest level of separately identifiable cash flows. It was not possible to estimate the recoverable amount at the brand level.

   The occurrence of the Coronavirus pandemic has been a global issue affecting every single business sector and every country to some degree. It has had a significant impact on the global economy, and significant changes with an adverse effect have taken place in the markets and economic environment in which the Group operates – particularly in Italy where there is a larger proportion of sales to the on-trade channel than in other markets in which the Group operates. These sales were particularly impacted by the prolonged closure of bars, restaurants and hotels.

   Following slow recovery and uncertainty over the impact of a second wave, the latest financial projections are insufficient to support the carrying value of the CGU. Therefore an impairment loss on the value of brands totalling €9,591,000 has been recognised in the year. There has been a corresponding reduction in deferred tax liabilities of €1,142,000, which has been recorded as an exceptional tax credit.

   Due to the nature and size of the impairment loss this has been disclosed as an exceptional expense. Also refer to note 9.

   In 2019, the impairment review for goodwill and other intangible assets identified the need to impair the carrying value of goodwill and brands in the Italian CGU by €7,732,000 and €6,563,000, respectively. There was a corresponding reduction in deferred tax liabilities of €948,000, which was recorded as an exceptional tax credit.

4. The impact of the pandemic also provided objective evidence that the Group's equity investment in Quintessential Brands Ireland Whiskey Limited (QBIWL) may be impaired. The latest three-year plan for QBIWL considers a range of economic conditions, together with reasonable and supportable assumptions that may exist over the next three years. The three-year plan indicates that the cash flow projections under the value-in-use approach are no longer sufficient to support the carrying value of the investment, indicating a possible impairment. Consequently, the Group estimated the recoverable amount of the investment in QBIWL using the "fair value less costs of disposal" approach. Under this approach, the fair value of the investment less costs of disposal was estimated to be higher than the value-in-use, but still lower than the carrying value of the investment, thereby indicating an impairment.

   A non-cash impairment loss of €14,193,000 has therefore been recognised in the year. The impairment loss reduced the carrying value of the investment in QBIWL to €2,100,000. Due to the nature and size of the impairment this has been disclosed as an exceptional expense. Also refer to note 11.

5. Expenses of €1,310,000 were incurred in the year ending 30 September 2020, relating to advisory and legal costs incurred in pursuit of the Group's strategy in respect of mergers and acquisitions.

   In 2019 costs were incurred in association with the acquisitions of Distillerie Franciacorta S.p.A., Bartida s.r.o. and Bartida Retail s.r.o. These principally comprised professional fees and totalled €922,000 for Distillerie Franciacorta and €242,000 for the Bartida entities. Due to the nature of these costs these have been disclosed as an exceptional expense.

6. Severance costs totalling €606,000 have been incurred in the year ending 30 September 2020, resulting from internal reorganisations in the sales and manufacturing divisions, as well as in Group management. Due to their nature, these have been disclosed as an exceptional expense.

7. Finance income and costs

	Year to 30 September 2020 €000	*Year to 30 September 2019 €000 Restated*
Finance income:		
Foreign currency exchange gain	28	-
Interest income	151	195
Change in fair value of consideration paid in business combinations	-	117
Total finance income	179	312
Finance costs:		
Interest payable on bank overdrafts and loans	1,659	2,243
Foreign currency exchange loss	-	81
Bank commissions, guarantees and other payables	738	633
Interest payable on lease liabilities	503	585
Change in fair value of deferred and contingent consideration	292	82
Other interest expense	778	1,175
Total finance costs	3,970	4,799
Net finance costs	3,791	4,487

Other interest includes interest and fees paid by Stock Polska Sp. z.o.o under reverse factoring arrangements totalling €772,000 (2019: €737,000).

8. Operating profit

	Year to 30 September 2020 €000	*Year to 30 September 2019 €000 Restated*
Alternative performance measures		
Statutory operating profit before exceptional items	57,833	54,547
Adjust for acquisitions	(864)	609
Underlying operating profit before exceptional items	56,969	55,156

9. Income taxes

(i) Income tax recognised in profit or loss:

Income tax expense:	*Year to 30 September 2020 €000*	*Year to 30 September 2019 €000*
Income tax expense comprises:		
Current tax expense	16,419	11,977
Tax credit relating to prior year	(570)	(1,802)
Deferred tax (credit)/charge	(4,446)	602
Other taxes	33	91
Income tax expense	11,436	10,868

	Year to 30 September 2020	*Year to 30 September 2019*
Exceptional tax credit:	*€000*	*€000*
Deferred tax credit - impact of impairment of brands (note 6)	(1,142)	(948)

There have been no tax charges to other comprehensive income or directly to equity, with the exception of the transition impact in relation to the implementation of IFRS 16 as detailed in note 15.

9. Income taxes (continued)

(i) Income tax recognised in profit or loss (continued)

Reconciliation of effective tax rate

	Year to 30 September 2020 €000	*Year to 30 September 2019 €000 Restated*
Profit before tax	29,852	38,367
Accounting profit multiplied by United Kingdom rate of corporation tax 19.00% (2019: 19.00%)		
- Underlying items	10,268	9,511
- Exceptional items	(4,596)	(2,221)
Expenses not deductible for tax purposes		
- Underlying items	1,428	883
- Exceptional items	2,532	2,605
Gains not taxable – Exceptional items	-	(716)
Deductible timing differences for which no deferred tax is recognised		
- Underlying items	223	259
- Exceptional items	249	-
Utilisation and recognition of previously unrecognised deferred tax assets	(741)	(126)
Tax losses for which no deferred tax is recognised	2,039	1,582
Share of loss of equity-accounted investees, net of tax	31	102
Effect of differences in applicable tax rates in foreign jurisdictions		
- Underlying items	(16)	368
- Exceptional items	673	(616)
Revaluation of deferred tax balances on changes in applicable rates of corporation tax	(1,259)	-
Tax credit relating to prior periods	(570)	(1,802)
Other taxes	33	91
Total tax charge	10,294	9,920
Effective tax rate	34.5%	25.9%

Exceptional items above represent the impact on the tax charge of the exceptional items (note 6).

9. Income taxes (continued)

(ii) Income tax recognised in the balance sheet:

Current tax liability:

	Year to 30 September 2020 €000	*Year to 30 September 2019 €000*
Tax prepayments as of start of period	3,588	863
Current tax liability as of start of period	(5,883)	(8,149)
	(2,295)	(7,286)
Tax credit relating to prior periods	570	1,802
Payments in the period	17,451	15,196
Current tax expense	(16,419)	(11,977)
Other taxes	(33)	(91)
Interest on open tax enquiries	58	141
Tax liabilities assumed in business combinations	-	(61)
Foreign exchange differences	(24)	(19)
Net current tax liability	(692)	(2,295)
Analysed as:		
Tax prepayment as of end of period	3,870	3,588
Current tax liability as of end of period	(4,562)	(5,883)
	(692)	(2,295)

Group tax provisions

The Group is a sizeable international drinks business, operating across multiple jurisdictions, subject to different tax regimes with intercompany cross-border transactions being subject to transfer pricing regulations. As tax, and especially transfer pricing (where regulations and their interpretation may vary considerably), is an area of inherent risk, tax positions adopted by the Group and its cross-border intercompany transactions may be subject to challenge by the relevant tax authorities. Although the Group aims to comply with applicable laws and regulations and operates an OECD principles-based transfer pricing model, at each balance sheet date the Group undertakes a review of potential tax risks and tax positions and, whilst it is not possible to predict the outcome of any pending enquiries, ensures that adequate provisions are made in the Group accounts to cover any associated cash outflows and estimated future settlements.

Provisions against uncertain tax positions are based on management's assessment of the most likely or expected outcome, however, due to the nature of the underlying items and likelihood of further developments, there is a reasonable possibility of material changes to these estimates over the next 12 months.

Although the Group's transfer pricing is performed on an arm's length basis, in management's view there is a risk that tax positions regarding intercompany transactions in certain jurisdictions, including Poland, Italy and Germany, may ultimately not be accepted.

At 30 September 2020, the Group has recognised tax provisions totalling €3.5m (2019: €4.3m) in relation to matters where it is probable that tax positions adopted by the Group may not ultimately be sustained by the relevant authorities. These tax provisions are included in income taxes payable on the balance sheet. The reduction is mainly due to the release of provisions no longer required and foreign exchange differences.

On 17 August 2020, the German tax authorities opened enquiries into the 2016-2018 Corporate Income Tax returns of Baltic Distillery GmbH. These enquiries are currently ongoing and at 30 September 2020 there have been no significant developments.

9. Income taxes (continued)

(ii) Income tax recognised in the balance sheet (continued)

Group tax provisions (continued)

There have been no significant developments in Italy in respect of the tax dispute relating to 2009-2010 and, as at 30 September 2020, provisions held in respect of issues under dispute remain unchanged.

Similarly, there have been no developments in respect of the ongoing tax appeal in the Czech Republic related to the 2011 Corporate Income Tax return of Stock Plzeň-Božkov s.r.o.

Status of Poland tax enquiries

During the year, Stock Polska Sp. z.o.o., continued its appeal against the €4.5m assessment issued by the tax authorities in respect of its 2013 Corporate Income Tax return relating to pre-IPO intra-group intellectual property restructuring and management recharges. In February 2020, the administrative court of first instance upheld the assessment and in May 2020, the Group lodged a final appeal to the Supreme Administrative Court. With regards to the amortisation of the intellectual property, the Group obtained advanced tax rulings from the tax authorities prior to implementation, adopted a tax position fully compliant with the tax laws prevailing at the time and made full disclosures. As the Group's tax position had been accepted by the tax authorities for the periods prior to 2013, the Group does not consider there to be any valid basis for the challenge. On the basis of all the available evidence and professional opinions, the Group considers that the position adopted by it in respect of intellectual property restructuring will ultimately prevail. Therefore, the Group continues to recognise a receivable against the assessed taxes which, in accordance with the local requirements, have been paid in full to the tax authorities to facilitate the appeal. No receivable has been recognised in respect of the remaining €0.8m relating to the deductibility of the intra-group management recharges.

In January 2020, the Polish tax authorities commenced an audit of the Stock Polska Sp. z.o.o. 2014 Corporate Income Tax return. This is currently ongoing and we have not yet received an assessment. If the tax authority adopts an approach similar to the audit of the 2013 CIT return, any tax assessed will need to be paid, and then recovery sought through the appeal process. The amount of tax at stake for the period relating to both the intellectual property restructuring and management recharges and including interest, is approximately €9m. Amounts in respect of management recharges have been provided for within the transfer pricing risks provision identified above.

Whilst not subject to enquiries, the tax impact of deductions claimed in respect of the amortisation of the intellectual property in each of the subsequent years from 2015 to 2017 are in the range between €5.8m and €6.3m. This, together with late interest at the prescribed rate of 8%, represents the Group's maximum possible exposure associated with the issue. Management considers that ultimately it is probable that the adopted tax position will be sustained and therefore no provision has been recognised.

In November 2019, the Polish tax authority opened a specialist tax audit of Stock Polska Sp. z.o.o., focusing on 2015 Intra-group funding and withholding tax. We have yet to receive an assessment.

Impact of Brexit

On 31 January 2020 the UK left the EU and, consequently, is no longer an EU member state. Under the terms of the departure, a post-Brexit transition period started on 31 January 2020 and will end on 31 December 2020. During the transition period, the UK continues to be treated for most purposes as if it were still an EU member state, however significant change is expected at the end of the transition period, even if certain agreements are concluded within the transition period.

There is currently significant uncertainty over the outcome of the negotiations, the future arrangements between the UK and the EU, and the laws that will apply to the UK after the transition period. In particular, uncertainty remains over the application of EU directives such as the Parent-Subsidiary or Interest and Royalties Directives concerning the tax treatment of interest, royalties and dividend payments between EU Member States and the UK. At this stage, the level of uncertainty is such that it is impossible to determine if, how and when the laws will change. As it stands, the Group has not identified any critical dependencies or reliances which could not be managed.

(iii) Unrecognised tax losses

The Group has unrecognised tax losses which arose in the UK of €64.7m as at 30 September 2020 (2019: €49.5m) that are available indefinitely for off-set 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 due to uncertainty in respect of timing and amount of future taxable profits against which the tax losses could be utilised.

9. Income taxes (continued)

(iv) Deferred tax balances

Deferred tax assets and liabilities arise as follows:

2020	*1 October 2019* *€000*	*Credited to income* *€000*	*Translation difference* *€000*	*30 September 2020* *€000*
Temporary differences:				
Brands	(57,706)	2,399	2,203	(53,104)
Accrued liabilities	5,512	2,656	(194)	7,974
Other assets and liabilities	(632)	533	(97)	(196)
	(52,826)	5,588	1,912	(45,326)
Deferred tax asset	674	1,557	(328)	1,903
Deferred tax liability	(53,500)	4,031	2,240	(47,229)
	(52,826)	5,588	1,912	(45,326)

2019 - restated	*1 October 2018* *€000*	*(Charged)/ credited to income* *€000*	*Acquisitions* *€000*	*Credited to equity* *€000*	*Translation difference* *€000*	*30 September 2019* *€000*
Temporary differences:						
Brands	(55,015)	989	(3,824)	-	144	(57,706)
Accrued liabilities	5,940	(292)	-	-	(136)	5,512
Other assets and liabilities	1,968	(351)	(2,254)	47	(42)	(632)
	(47,107)	346	(6,078)	47	(34)	(52,826)
Deferred tax asset	589	77	-	-	8	674
Deferred tax liability	(47,696)	269	(6,078)	47	(42)	(53,500)
	(47,107)	346	(6,078)	47	(34)	(52,826)

The deferred tax liability related to brands is based on the difference between the accounting and tax book values of brands. Included in the amounts credited to income is an exceptional deferred tax credit of €1,142,000 (2019: €948,000) related to the impairment of Italian brands (note 6). Also included in the amounts credited to income is a €1,259,000 credit arising as a result of a re-measurement of the deferred tax liability in respect of brands held by F.lli Galli, Camis & Stock A.G. due to a change in the applicable Corporate Income Tax rate from 14.5% to 11.91%.

The deferred tax asset arises in respect of accrued liabilities where trade related costs are deductible on a paid basis, while other deferred tax assets and liabilities represent all other timing differences between accounting and tax recognition.

(v) Changes in income tax rates

Deferred tax assets and liabilities recognised as at 30 September 2020 have been calculated using tax rates enacted or substantively enacted at the balance sheet date and applicable to the periods in which differences between the accounting and tax book values are expected to unwind.

In the UK, a reduction in corporate income tax rate from 19% to 17% effective from 1 April 2020 has been enacted. However, as part of the 2020 UK Budget, it was announced that the UK tax rate will remain at 19% for the 2020 and 2021 tax years. The change has no effect on the Group's result as the Group does not recognise deferred tax in the UK, mainly due to structural losses.

9. Income taxes (continued)

(v) Changes in income tax rates (continued)

Due to a change in the CIT rate applicable in Switzerland from 14.5% to 11.91%, deferred tax arising in respect of brands held by F.lli Galli, Camis & Stock A.G. has been re-measured at 11.91%. The resulting deferred tax credit has been included within deferred tax movements for the year.

10. Earnings per share

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

Details of the earnings per share are set out below:	*Year to 30 September 2020*	*Year to 30 September 2019 Restated**
Basic earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	19,558	28,447
Weighted average number of ordinary shares in issue for basic earnings per share (000)	198,883	198,468
Basic earnings per share (€cents)	9.83	14.33
Diluted earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	19,558	28,447
Weighted average number of diluted ordinary shares adjusted for the effect of dilution (000)	201,102	199,743
Diluted earnings per share (€cents)	9.73	14.24
Adjusted basic earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	19,558	28,447
Net exceptional expenses (€000)	24,190	11,693
Exceptional tax credit (€000)	(1,142)	(948)
Profit attributable to the equity shareholders of the Company before exceptional income, exceptional expenses and exceptional tax credit (€000)	42,606	39,192
Weighted average number of ordinary shares in issue for adjusted basic earnings per share (000)	198,883	198,468
Adjusted basic earnings per share (€cents)	21.42	19.75
Adjusted diluted earnings per share		
Profit attributable to the equity shareholders of the Company (€000)	19,558	28,447
Net exceptional expenses (€000)	24,190	11,693
Exceptional tax credit (€000)	(1,142)	(948)
Profit attributable to the equity shareholders of the Company before exceptional expenses and exceptional tax credit (€000)	42,606	39,192
Weighted average number of diluted ordinary shares adjusted for the effect of dilution (000)	201,102	199,743
Adjusted diluted earnings per share (€cents)	21.19	19.62

10. Earnings per share (continued)

Reconciliation of basic to diluted ordinary shares	*Year to 30 September 2020 000*	*Year to 30 September 2019 000*
Issued Ordinary shares	200,000	200,000
Effect of own shares held	(2,381)	(1,692)
Effect of vesting of share options	1,264	160
Basic weighted average number of Ordinary shares	198,883	198,468
Effect of options	2,219	1,275
Diluted weighted average number of Ordinary shares	201,102	199,743

All of the share awards are dilutive.

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

11. Investment in equity-accounted investee

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 (QBIWL), representing 25,001 B ordinary shares, for a cash consideration of up to €18,333,000. Consideration comprised an initial cash payment of €15,000,000 for 25% of the equity interest, and a contingent consideration of up to €3,333,000 which is payable over the period November 2020 to May 2022, subject to performance conditions.

QBIWL owns The Dublin Liberties Irish Whiskey© and the Dubliner Irish Whiskey© brands, a range of ultra-premium through to standard Irish whiskies. The principal place of business of QBIWL is Dublin, Ireland.

This investment was made to enable the Group to capitalise on the growing whisky category and to enhance our whisky expertise.

The registered address of QBIWL is Tullyroe, Mountrath Road, Abbeyleix, Co. Laois, R32 K230, Republic of Ireland. The latest audited accounts for QBIWL were prepared for the year ended 31 March 2020.

The Group's share of the loss of QBIWL for the year to 30 September 2020 is €165,000 (2019: loss of €536,000). There has been a corresponding reduction in the carrying value of the investment to reflect the Group's share of the loss.

No dividend has been received from QBIWL by the Group.

As discussed in note 11, the impact of the Coronavirus pandemic provided objective evidence that the Group's equity investment in QBIWL may be impaired. The latest three-year plan for QBIWL considers a range of economic conditions, together with reasonable and supportable assumptions that may exist over the next three years. The three-year plan indicates that the cash flow projections under the value–in-use approach are no longer sufficient to support the carrying value of the investment, indicating a possible impairment. Consequently, the Group estimated the recoverable amount of the investment in QBIWL using the fair value less costs of disposal approach. Under this approach, the fair value of the investment less costs of disposal was estimated to be higher than the value-in-use, but still lower than the carrying value of the investment, thereby indicating an impairment.

A non-cash impairment loss of €14,193,000 has therefore been recognised in the year. The impairment loss reduced the carrying value of the investment in QBIWL to €2,100,000.

Due to the nature and size of the impairment this has been disclosed as an exceptional expense.

As part of a facility agreement between Wells Fargo and Quintessential Brands UK Holdings Limited and other borrowers (the QB Group), QBIWL has guaranteed the borrowings made by other QB Group companies up to a maximum of £20m. This £20m guarantee cap is in addition to any borrowings made directly by QBIWL. In the event of the guarantee being called upon, this would reduce the carrying value further. The guarantee does not extend outside the QB Group.

11. Investment in equity-accounted investee (continued)

At 30 September 2020, the QB Group had sufficient assets that could be called upon to satisfy the debt under the facility agreement, and therefore managements' assessment of the likelihood of the guarantee being called on to satisfy the QB Group's debt is that it is remote.

The following table summarises the financial information of QBIWL as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies, as at 30 September 2020. The table also reconciles the summarised financial information to the carrying value of the Group's interest in QBIWL, and the results for the year to 30 September 2020.

	30 September 2020 €000	*30 September 2019 €000*
Net assets		
Non-current assets	63,224	64,807
Current assets and liabilities	15,813	9,214
Non-current liabilities	(15,566)	(9,889)
Net assets	63,471	64,132
Group's share of net assets (25%)	15,868	16,033
Goodwill	425	425
Impairment of investment (note 6)	(14,193)	-
Carrying value of investment in associate at end of period	2,100	16,458

	Year to 30 September 2020 €000	*Year to 30 September 2019* €000
Revenue (100%)	7,533	8,103
Loss from continuing operations (100%)	(660)	(2,144)
Total comprehensive expense (100%)	(660)	(2,144)
Group's share of loss from continuing operations (25%)	(165)	(536)
Group's share of total comprehensive expense (25%)	(165)	(536)
Carrying value of investment in associate brought forward	16,458	16,994
Share of loss from continuing operations (25%) during the period	(165)	(536)
Impairment of investment (note 6)	(14,193)	-
Carrying value of investment in associate carried forward	2,100	16,458

12. 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 of Directors periodically reviews the capital structure to ensure that 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 covenant requirements on third party debt are met.

12. Risk management (continued)

Capital risk management (continued)

The Group regards its total capital as follows:

	2020	*2019*
	€000	*€000*
		Restated
Net debt	22,678	55,445
Equity attributable to the owners of the Company	347,112	360,776
	369,790	416,221

Net debt is calculated as follows:	*2020*	*2019*
	€000	*€000*
		Restated
Cash and cash equivalents (note 13)	42,747	63,437
Short-term deposits	18,132	-
Floating rate loans and borrowings	(70,555)	(105,502)
Lease obligations	(13,002)	(13,380)
Net debt	(22,678)	(55,445)

	2020	*2019*
	€000	*€000*
		Restated
Adjusted EBITDA (note 5)	71,025	66,951
Net debt/Adjusted EBITDA ratio (Leverage)	0.32 times	0.83 times

Return on capital employed

Return on capital employed (ROCE) is calculated as follows:

	2020	*2019*
	€000	*€000*
Non-current assets	424,986	463,719
Current assets	202,118	221,123
Current liabilities	(148,988)	(147,542)
Capital employed	478,116	537,300

	2020	*2019*
Alternative performance measures	*€000*	*€000*
Statutory operating profit before exceptional items	57,833	54,547
Statutory operating profit before exceptional items/capital employed (ROCE)	12.1%	10.2%

13. Cash and cash equivalents

For the purposes of the Consolidated 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 Consolidated Cash Flow Statement can be reconciled to the related items in the Consolidated Statement of Financial Position as follows:

	30 September 2020 €000	*30 September 2019 €000*
Cash and bank balances	42,747	63,437

Cash and cash equivalents are denominated in the following currencies:

	30 September 2020 €000	*30 September 2019 €000*
Sterling	4,688	21,121
Euro	12,072	11,226
Czech Koruna	12,380	16,165
Polish Złoty	12,492	13,223
Other currencies	1,115	1,702
Total	42,747	63,437

14. Events after the balance sheet date

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

15. Changes in accounting policies – IFRS 16: Leases

This note explains the impact of the adoption of IFRS 16: Leases on the Group's financial position and financial performance.

IFRS 16 is effective for the accounting period commencing 1 October 2019. The Group adopted the standard retrospectively, with comparatives restated from a transition date of 30 September 2018.

IFRS 16 requires lessees to recognise right-of-use assets and lease liabilities on the Statement of Financial Position for all leases, except short-term and low-value asset leases. At commencement of the lease, the lease liability equals the present value of future lease payments, and the right-of-use asset equals the lease liability, adjusted for payments already made, lease incentives, initial direct costs and any provision for dilapidation costs.

The operating lease rental charge, as previously accounted for under IAS 17: Leases, is replaced by depreciation of the right-of-use assets and interest on the lease liabilities.

Under IFRS 16, the lease liability is remeasured on the occurrence of certain events, such as a change in lease term or a change in future lease payments resulting from a change in an index or rate. A corresponding adjustment is made to the right-of-use asset. There are a limited number of property leases which are subject to index-linked rental uplifts.

The Group applied the practical expedient not to reassess whether a contract is, or contains, a lease on initial application of IFRS 16. The Group has elected to recognise payments for short-term leases and leases of low-value assets on a straight-line basis as an expense in the income statement.

The most significant IFRS 16 estimates relate to the selection of appropriate discount rates to calculate the lease liability.

The Group's lease portfolio consists of office and warehouse properties and other assets such as motor vehicles.

IFRS 16 has a significant impact on reported assets and liabilities, as well as the classification of cash flows relating to lease contracts. However, the reduction in cost of goods sold, selling expenses and other operating expenses largely offsets the increase in depreciation and finance costs.

15. Changes in accounting policies – IFRS 16: Leases (continued)

Lease liabilities are presented within other financial liabilities, both current and non-current, in the Consolidated Statement of Financial Position. In the Consolidated Income Statement, depreciation of the right-of-use assets is recorded in selling expenses or other operating expenses, depending on the nature of the leased asset. Interest expense arising on lease liabilities is recorded in finance costs.

Restatement of Consolidated Income Statement:

The table below shows the impact of IFRS 16 on the comparative period consolidated income statement for the year ended 30 September 2019, and related alternative profit measures (APMs).

	Year ended 30 September 2019 reported €000	*IFRS 16 impact €000*	*Year ended 30 September 2019 restated €000*
Revenue	312,419	-	312,419
Cost of goods sold	(164,600)	-	(164,600)
Gross profit	147,819	-	147,819
Selling expenses	(61,299)	312	(60,987)
Other operating expenses	(31,644)	325	(31,319)
Impairment loss on trade and other receivables	(430)	-	(430)
Share of loss of equity-accounted investees, net of tax	(536)	-	(536)
Operating profit before exceptional items	53,910	637	54,547
Exceptional income	3,766	-	3,766
Exceptional expense	(15,459)	-	(15,459)
Operating profit	42,217	637	42,854
Finance income	312	-	312
Finance costs	(4,299)	(500)	(4,799)
Profit before tax	38,230	137	38,367
Income tax expense	(10,868)	-	(10,868)
Exceptional tax credit	948	-	948
Total income tax expense	(9,920)	-	(9,920)
Profit for the period	28,310	137	28,447
Earnings per share, (€cents), attributable to equity holders of the Parent			
Basic	14.26	0.07	14.33
Diluted	14.17	0.07	14.24
KPIs and APMs			
Adjusted EBITDA	63,217	3,734	66,951
Adjusted EBITDA margin	20.2%	1.2%	21.4%
Adjusted basic earnings per share (€cents)	19.68	0.07	19.75

Restatement of Consolidated Statement of Financial Position:

The tables below set out the impact of IFRS on the transition balance sheet at 30 September 2018 and on the comparative balance sheet at 30 September 2019, as well as on related debt measures. Right-of-use assets are presented separately in the Consolidated Statement of Financial Position. Lease liabilities are presented in other finance liabilities (both current and non-current). Net debt and leverage increase as a consequence of the increase in lease liabilities. Trade and other receivables reduce as lease prepayments are eliminated. There is also a corresponding increase in deferred tax liabilities relating to the accrual elimination.

15. Changes in accounting policies – IFRS 16 'Leases' (continued)

Restatement of Consolidated Statement of Financial Position (continued)

	30 September 2018 - reported €000	*IFRS 16 impact €000*	*30 September 2018 - restated €000*
Non-current assets			
Intangible assets – goodwill	45,940	-	45,940
Intangible assets – other	311,129	-	311,129
Property, plant and equipment	47,265	(254)	47,011
Right-of-use assets	-	9,932	9,932
Investment in equity-accounted investee	16,994	-	16,994
Deferred tax assets	589	-	589
Other assets	4,742	-	4,742
	426,659	9,678	436,337
Current assets			
Inventories	30,711	-	30,711
Trade and other receivables	119,238	-	119,238
Other assets	135	-	135
Current tax assets	863	-	863
Cash and cash equivalents	50,143	-	50,143
	201,090	-	201,090
Total assets	627,749	9,678	637,427
Non-current liabilities			
Borrowings	81,300	-	81,300
Other financial liabilities	2,692	8,476	11,168
Deferred tax liabilities	47,421	275	47,696
Provisions	1,082	-	1,082
Trade and other payables	287	-	287
	132,782	8.751	141,533
Current liabilities			
Trade and other payables	72,080	(1,446)	70,634
Borrowings	16	-	16
Other financial liabilities	66	2,953	3,019
Income tax payable	8,149	-	8,149
Indirect tax payable	62,058	-	62,058
Provisions	717	-	717
	143,086	1,507	144,593
Total liabilities	275,868	10,258	286,126
Net assets	351,881	(580)	351,301
Capital and reserves			
Issued capital	23,625	-	23,625
Merger reserve	99,033	-	99,033
Consolidation reserve	5,130	-	5,130
Own share reserve	(3,370)	-	(3,370)
Other reserve	11,406	-	11,406
Foreign currency translation reserve	13,915	-	13,915
Retained earnings	202,142	(580)	201,562
Total equity	351,881	(580)	351,301
Total equity and liabilities	627,749	9,678	637,427
KPIs and APMs			
Net debt	31,583	11,429	43,012
Leverage ratio (12 month proforma - times)	0.53		0.68

15. Changes in accounting policies – IFRS 16 'Leases' (continued)

Restatement of Consolidated Statement of Financial Position (continued):

	30 September 2019 - reported €000	*IFRS 16 impact €000*	*30 September 2019 - restated €000*
Non-current assets			
Intangible assets - goodwill	49,800	-	49,800
Intangible assets - other	326,718	-	326,718
Property, plant and equipment	53,723	(191)	53,532
Right-of-use assets	-	11,817	11,817
Investment in equity-accounted investee	16,458	-	16,458
Deferred tax assets	674	-	674
Other assets	4,720	-	4,720
	452,093	11,626	463,719
Current assets			
Inventories	43,059	-	43,059
Trade and other receivables	111,068	(29)	111,039
Current tax assets	3,588	-	3,588
Cash and cash equivalents	63,437	-	63,437
	221,152	(29)	221,123
Total assets	673,245	11,597	684,842
Non-current liabilities			
Borrowings	105,425	-	105,425
Other financial liabilities	6,115	9,919	16,034
Deferred tax liabilities	53,272	228	53,500
Provisions	1,234	-	1,234
Trade and other payables	331	-	331
	166,377	10,147	176,524
Current liabilities			
Trade and other payables	78,534	(1,172)	77,362
Borrowings	2	-	2
Other financial liabilities	1,148	3,260	4,408
Income tax payable	5,883	-	5,883
Indirect tax payable	59,714	-	59,714
Provisions	173	-	173
	145,454	2,088	147,542
Total liabilities	311,831	12,235	324,066
Net assets	361,414	(638)	360,776
Capital and reserves			
Issued capital	23,625	-	23,625
Merger reserve	99,033	-	99,033
Consolidation reserve	5,130	-	5,130
Own share reserve	(2,718)	-	(2,718)
Other reserve	12,566	-	12,566
Foreign currency translation reserve	9,774	-	9,774
Retained earnings	214,004	(638)	213,366
Total equity	361,414	(638)	360,776
Total equity and liabilities	673,245	11,597	684,842
KPIs and APMs			
Net debt	42,266	13,179	55,445
Leverage ratio (times)	0.67		0.83

15. Changes in accounting policies – IFRS 16 'Leases' (continued)

Restatement of Consolidated Statement of Cash Flows:

The table below shows the impact of IFRS 16 on the comparative period Consolidated Statement of Cash Flows for the year ended 30 September 2019 and APMs. IFRS 16 has no impact on total cash flow for the year or cash and cash equivalents at the end of the year. Cash generated from operations and free cash flow measures increase as operating lease rental expenses are no longer recognised as operating cash outflows. Cash outflows are instead split between interest paid and repayments of obligations under leases, which both increase.

	Year ended 30 September 2019 reported	*IFRS 16 impact*	*Year ended 30 September 2019 restated*
	€000	*€000*	*€000*
Operating activities			
Profit for the period	28,310	137	28,447
Adjustments to reconcile profit for the period to net cash flows:			
Income tax expense recognised in income statement	9,920	-	9,920
Interest expense and bank commissions	4,218	500	4,718
Loss on disposal of tangible and intangible assets	50	-	50
Other financial income	(312)	-	(312)
Depreciation of property, plant and equipment	6,805	(61)	6,744
Depreciation of right-of-use assets	-	3,158	3,158
Amortisation of intangible assets	1,966	-	1,966
Impairment of goodwill and brands	14,295	-	14,295
Gain on liquidation of subsidiary	(3,766)	-	(3,766)
Net foreign exchange loss	81	-	81
Share-based compensation charge	2,492	-	2,492
Share of loss of equity-accounted investees, net of tax	536	-	536
Decrease in provisions	(443)	-	(443)
	64,152	3,734	67,886
Working capital adjustments			
Decrease in trade receivables and other assets	9,962	-	9,962
Increase in inventories	(7,815)	-	(7,815)
Increase in trade payables and other liabilities	1,384	-	1,384
	3,531	-	3,531
Cash generated by operations	67,683	3,734	71,417
Income tax paid	(15,196)	-	(15,196)
Net cash flow from operating activities	52,487	3,734	56,221
Investing activities			
Interest received	195	-	195
Payments to acquire intangible assets	(1,628)	-	(1,628)
Proceeds from sale of property, plant and equipment	21	-	21
Purchase of property, plant and equipment	(8,556)	-	(8,556)
Acquisition of subsidiaries, net of cash acquired	(31,801)	-	(31,801)
Net cash flow from investing activities	(41,769)	-	(41,769)
Financing activities			
Increase in borrowings	24,981	-	24,981
Interest paid	(4,861)	(500)	(5,361)
Payment of lease liabilities	-	(3,234)	(3,234)
Dividends paid to equity holders of the Parent	(17,121)	-	(17,121)
Net cash flow from financing activities	2,999	(3,734)	(735)
Net increase in cash and cash equivalents	13,717	-	13,717
Cash and cash equivalents at the start of the period	50,143	-	50,143
Effect of exchange rates on cash and cash equivalents	(423)	-	(423)
Cash and cash equivalents at the end of the financial period	63,437	-	63,437

15. Changes in accounting policies – IFRS 16 ‘Leases’ (continued)

Restatement of Consolidated Statement of Cash Flows (continued):

	Year ended 30 September 2019 reported	*IFRS 16 impact*	*Year ended 30 September 2019 restated*
	€000	*€000*	*€000*
Operating activities			
Free cash flow	57,520	3,734	61,254
Adjusted free cash flow conversion	91.0%		91.5%

The financial information set out above does not constitute the company’s statutory accounts for the year ended 30 September 2020 or ended 30 September 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the registrar of companies, and those for 2020 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.