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

Strategic review

Chairman's statement

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

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

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

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

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

Strategic review

Chairman's statement continued

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

People

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

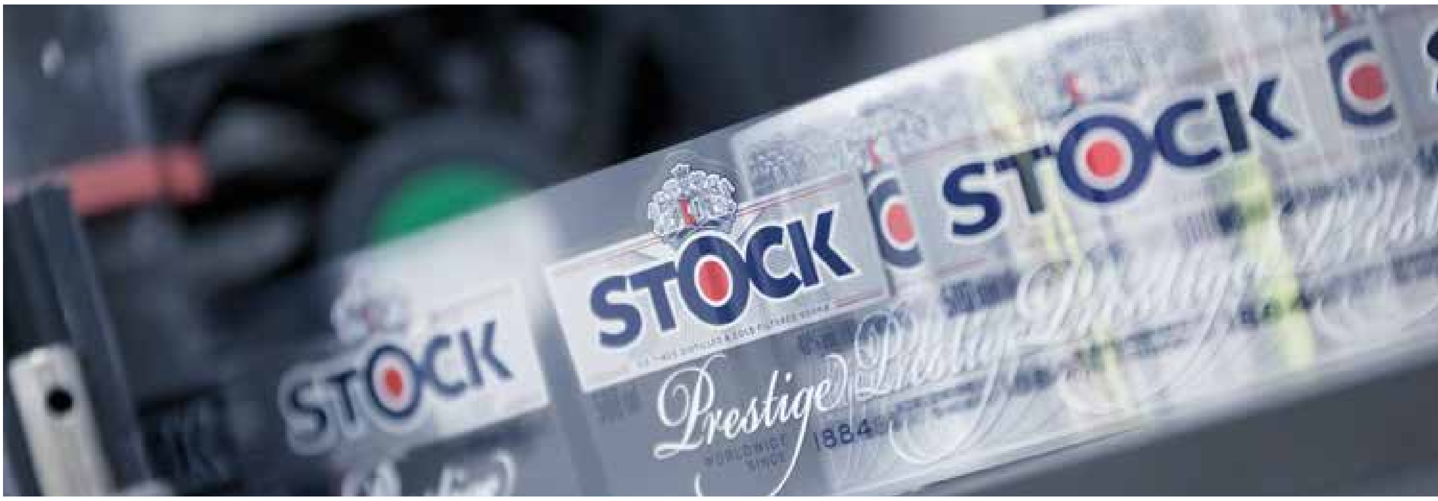
In line with the Corporate Governance Code, the Directors' remuneration policy will be put to shareholder vote at the forthcoming AGM, and a number of changes have been proposed. The proposed changes are contained within the Directors' remuneration report of this report (see pages 75 to 90). Executive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

Governance

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

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

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



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

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

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

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

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

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

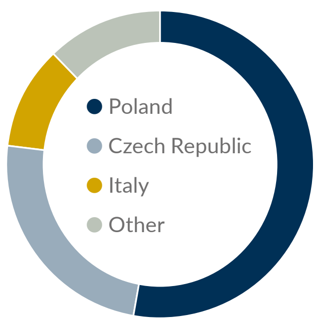
Just over a year ago, I said that the Board and I were fully committed to turning around the fortunes of the Group and returning it to sustainable long term growth. With a stronger Board and key local management now in place, I believe we have begun to make progress and are in a position to deliver sustainable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

David Maloney
Chairman
8 March 2017

2016 Net sales revenue
(Total number and comparative 2015)

€261.0m

2015: €262.6m



See **Page 30** for our regional reviews