

EDRINGTON DISTILLERS LIMITED

Financial Statements for the year ended 31 March 2017



Company No: SC014472

Annual report and accounts

EDRINGTON DISTILLERS LIMITED

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Directors and advisers

EDRINGTON DISTILLERS LIMITED

Directors

I.B. Curle

M.A. Cooke

R.W. Farrar (resigned 5 June 2017)

G. Hutcheon

S.J. McCroskie

P. A. Hyde

Secretary

M.A. Cooke

Registered Office

100 Queen Street

Glasgow

G1 3DN

Independent Auditors

Grant Thornton UK LLP

Solicitors

Maclay Murray & Spens LLP

Strategic report

EDRINGTON DISTILLERS LIMITED

Principal activities and operating model

The company, a subsidiary of The Edrington Group Limited (Edrington), is principally engaged in the blending, bottling and marketing of Scotch whisky.

Operating model

Our business model allows the Company to invest behind long term potential whilst strengthening short term competitiveness.

The investment will continue to flow through the assets that make the Company distinctive – Great people, Leading Brands, Giving More.

The enduring values of the Company provide strength and inspiration for the challenges ahead.

Market Context

The political and economic landscape remained very uncertain. 2016 was the fifth consecutive year of sluggish trade growth and the year with the weakest performance since the aftermath of the 2008 global financial crisis (source: World Bank: *Global Trade Watch*).

Political uncertainty was evident in a number of key markets. The UK's decision to leave the European Union has built on this uncertainty. Trading and exporting is fundamental to our industry and our brands. In all consultations so far we have asked the UK government to reach an agreement that provides as frictionless a future trading arrangement with the EU as possible. As the new UK government embarks on negotiations we will work with industry colleagues to grasp any trading or regulatory opportunities that arise from Brexit.

In the trading arena competition remained intense. With growth difficult to secure in some markets, deeper and more frequent price promotions were the norm.

Brand progress

Cutty Sark has focussed investment in its core regions of southern Europe, where the brand is defending its leading positions. Spain, Portugal and Greece have focussed on building awareness and engagement, and a bold new consumer campaign will launch in summer 2017. Cutty also delivered double digit growth in Japan where the focus has been on delivering mixability through a focus on highballs.

We remain confident about the brand's future prospects. In the year ahead we will further cement our market positions and introduce exciting premium brand extensions to support brand equity and target new consumers.

Principal risks and uncertainties

The Edrington Group, of which the Company is a member, is part of the wider programme of review by the Edrington Group Risk Management Committee which ensures risks across the Group are identified, evaluated and managed appropriately.

The Board of the Edrington Group retains overall responsibility for the Company's system of internal financial control, including the financial controls designed to give reasonable assurance against material financial misstatement or loss. The Board believes the financial controls in place allow it to meet its responsibility for the integrity and accuracy of the Group's accounting records, including this Company.

Strategic report

continued

EDRINGTON DISTILLERS LIMITED

<u>Identified Risk</u>	<u>Impact</u>	<u>Mitigating Actions</u>
Major Operational Failure	Major supply chain failure affecting supply of raw materials or equipment, loss of maturing stocks or the customer orders process.	<p>Assets managed by the company include intangible brand assets, plant and equipment, people and business technology. Disaster recovery, incident management plans and contingency measures are in place and tested regularly.</p> <p>The Company's wood and cask supply is reviewed and long-term agreements and processes established to provide reasonable assurances of a sufficient and sustainable supply of casks that meet the Company's high quality requirements.</p> <p>Contingency bottling/blending options are refreshed and tested to ensure that the Company's operations can be maintained in the event of loss or impairment of its own facilities.</p> <p>Energy and water supplies are reviewed to ensure continuity, sufficiency and quality of supply.</p>
Adverse political and social attitudes to alcohol	Damage to the reputation of the Company or its brands; Impact on market access or the ability to promote its brands.	<p>The Company supports a responsible approach to alcohol and considers this a core element of its strategy to grow a sustainable, long-term business. The Company operates a CSR strategy that includes a Code of Conduct and a Global Marketing Code reinforced by a global online training programme.</p> <p>The Company's policies and campaigns are reviewed annually by the Marketing Review Committee.</p> <p>The Company is a member of national and international organisations that work to encouraging the responsible promotion and consumption of alcohol and reduce alcohol-related harms.</p>
Geopolitical and Economic Conditions	Economic or political instability restrict market activity, affecting market access, demand or increased costs.	<p>Brexit and geopolitical instability in a number of regions and markets continues to present a risk to trade and profitability. We are monitoring all developments closely but future trading relationships with the EU etc. are ultimately matters that are outwith our control.</p> <p>The Company's broad product portfolio and diverse geographic spread reduces the exposure to specific market risks. Direct ownership of the Company's route to market in its major markets provides local insight combined with a robust central overview. This enables the Company to react quickly and flexibly to such changes.</p>
Consumer Preference	A change in consumer preferences for one or more of the Company's brands in one or more key markets where a decline in brand popularity and/or market contraction would result in a reduced share of market.	<p>The Board closely monitors financial and operational key performance indicators which include a review of brand performance and equity strength across market segments and geographies.</p> <p>The Company conducts an annual market and brands strategic planning process building on local market and brand strategy reviews. The Board has also recognised the differing contribution and strengths of each of its principal brands globally and regionally and has strategically focused management across its brands which have different needs and focuses.</p>

Strategic report

continued

EDRINGTON DISTILLERS LIMITED

Brand Protection	Ineffective or inadequate protection of intellectual property rights, resulting in reputational damage, an increase in counterfeit goods and a drop in sales volumes and/or market share.	<p>The Company invests considerable effort in proactively protecting its intellectual property rights. The Company has a clear brand protection strategy and processes aimed at addressing the principal exposures and risks likely to affect alcoholic beverage brands. Using its BRANDS™ methodology, a specialist team manages the principal components of brand protection: intellectual property management; authentication and security technologies for products and packaging; digital media, channel and communications monitoring; products and packaging compliance; commercial behaviours, alongside brand security education, surveillance and enforcement.</p>
Regulatory Compliance	Failure to comply with local laws and regulations, resulting in regulatory sanction, reputational damage and/or financial loss.	<p>The Company has a management process to ensure that employees are aware of their responsibilities and all applicable regulatory requirements. Formal training sessions are undertaken throughout the year.</p> <p>The Company proactively reviews, with external legal counsel, its principal regulatory compliance obligations and controls, including, but not limited to, competition laws, liquor laws, environmental laws, compliance with EU and UN trade and political sanctions, and local statutory laws (eg health & safety). The Company has further improved its processes and controls to ensure that any perceived risks are mitigated.</p> <p>These activities are underpinned by a Code of Conduct, a Global Anti-Corruption Policy, and a Speaking-Up Policy which apply to all its employees, agents, distributors, contractors and suppliers.</p> <p>Induction procedures include evidenced completion of a standard on-line training course and assessment which covers the Code and its supporting policies. The course, which is translated into all the main languages spoken across the company, is also periodically refreshed and retaken at all locations.</p>
Financial Risks	Exposure to market risk (including medium term movements in exchange rates, interest rates risk and commodity price risk), credit risk and liquidity risk, may adversely impact on profits.	<p>Financial risks are reviewed and managed by the Edrington Group Treasury Committee whose remit and authority levels are set by the Board. The Treasury Committee's remit is to ensure compliance with the terms of borrowing facilities and to minimise financial risk arising from exposure to fluctuations in interest rates, foreign exchange rates and cash flow. Comprehensive policies are applied covering debt management, interest rate hedging, foreign exchange currency hedging and cashflow reporting. Approved financial instruments and authority levels are articulated through the policies with compliance monitored on a regular basis.</p> <p>The Treasury Committee reviews cashflow forecasts throughout the year and assesses headroom against banking covenants regularly. The finance team utilises external tools to assess credit limits offered to customers, manages trade receivable balances vigilantly and takes prompt action on overdue accounts. Certain markets operate on a cash-on-delivery basis.</p> <p>Commodity price risk is managed through a combination of medium to long term contracts, covering periods from 2-3 years, and regular tender and review processes with suppliers.</p> <p>The Company's financial control environment is subject to review by both internal and external audit. The focus of internal audit is to proactively work with and challenge the business to ensure an appropriate control environment is maintained.</p>

Strategic report

continued

EDRINGTON DISTILLERS LIMITED

Key performance indicators

	2017	2016
Revenue Growth	+11.9%	-7.3%
Operating profit margin	-0.8%	-2.3%
Profit before the deduction of tax	£2.0m	£1.0m
Retained Earnings	£2.7m	£2.5m

Revenue Growth

The change in value of revenue recorded in the period relative to the prior period.

Operating Profit Margin

Operating profit before the deduction of interest and taxation, divided by revenue.

Profit before tax

Profit before the deduction of taxation.

Retained Earnings

Retained earnings defined as earnings after tax including exceptional items.

In the year to 31 March 2017 the key financial performance indicators show that the business remains in good health. Retained profit for the financial year after exceptional items was £2.7m (2016: £2.5m).

The Company continues to grow across a broad range of international markets as we continue to invest in the brand, route to market and developing our people.

Revenue

Revenue of Edrington Distillers Limited increased by 11.9% to £129.9m (2016: £116.1m), as a result of increased revenues from blending and bottling combined with an increase in non-branded sales.

Operating profit margin

The operating margin of Edrington Distillers Limited has improved from -2.3% in 2016 to -0.8% in the current year. This is a result of a non-recurring exceptional gain in curtailment of £7.6m in the current year offset by exceptional restructuring costs of £3.9m. Underlying margins have declined year on year reflecting the increasingly competitive retail environment for blended scotch.

Profit before tax

The profit before tax of Edrington Distillers Limited of £2.0m (2016: £1.0m) has increased by 100% as a result of a non-recurring exceptional gain in curtailment of £7.6m in the current year offset by exceptional restructuring costs of £3.8m. Excluding exceptional items, the loss before tax is £2.8m lower due to lower operating margin combined with lower income from investments.

Retained earnings

Retained earnings have increased by 8% driven the non-recurring exceptional gain recognised in the year.

Strategic report

continued

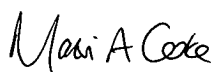
EDRINGTON DISTILLERS LIMITED

View of future prospects

The Company participates in the Scotch whisky sector, which is forecast for long term growth.

It has strengthened route to market in the Global Travel Retail sector which is a key area for future growth.

Approved and signed by order of the Board



M. A. Cooke
Director

20 September 2017

Report of the directors

EDRINGTON DISTILLERS LIMITED

The directors present their Annual Report together with the audited financial statements for the year ended 31 March 2017.

Principal activities

The Company is engaged in the distillation, maturation and sale of blended whiskies.

Review of the business

The financial results for the Company, which are detailed in the income statement on page 10, cover the year ended 31 March 2017.

The financial position of the Company remains strong, with retained profits of £2.7m (2016: £2.5m) and total equity of £105.9m (2016: £107.0m).

The Company's parent company is The Edrington Group Limited. The performance of The Edrington Group, including this Company, is further discussed in the financial statements of The Edrington Group Limited.

Directors

Directors who served during the year and to the date of this report were:

I.B. Curle
M.A. Cooke
R.W. Farrar (resigned 5 June 2017)
G. Hutcheon
S.J. McCroskie
P.A. Hyde

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Going concern

The Company annually forecasts future trading performance and cash flow in order to assess compliance with banking covenants and to confirm that the going concern assumption remains appropriate for the preparation of its financial statements. The forecasts reflect the challenges faced by the Company in certain markets, together with the strong growth experienced in others and indicate, to the Company's satisfaction, that it has resources more than sufficient to continue as a going concern for the foreseeable future.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report and Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 101 'Reduced Disclosure Framework'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Report of the directors

continued

EDRINGTON DISTILLERS LIMITED

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken as director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

As auditors are now deemed, under section 487(2) of the Companies Act 2006, to be reappointed automatically, Grant Thornton UK LLP, having expressed their willingness, will, continue as statutory auditors.

Approved by the board of directors and signed by order of the board



M. A. Cooke
Company Secretary
20 September 2017

Report of the independent auditor

year to 31 March 2017

EDRINGTON DISTILLERS LIMITED

Independent auditor's report to the members of Edrington Distillers Limited

We have audited the financial statements of Edrington Distillers Limited for the year ended 31 March 2017 which comprise the Income Statement, Statement of Financial Position, Statement of Comprehensive Income, the Statement of Changes in Equity, accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Andrew Howie
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Glasgow

26 September 2017

Income statement

year to 31 March 2017

EDRINGTON DISTILLERS LIMITED

	Note	Pre-Exceptional 2017 £m	Exceptional (note 2) 2017 £m	Total 2017 £m	Total 2016 £m
Revenue	1	129.9	-	129.9	116.1
Cost of sales		(131.5)	3.2	(128.3)	(115.4)
Gross profit		(1.6)	3.2	1.6	0.7
Other administration costs		(3.3)	0.6	(2.7)	(3.4)
Operating loss		(4.9)	3.8	(1.1)	(2.7)
Investment income	7	3.2	-	3.2	4.7
Earnings before interest and tax		(1.7)	3.8	2.1	2.0
Interest payable and similar charges	3	(0.1)	-	(0.1)	(1.0)
Profit on ordinary activities before taxation	4	(1.8)	3.8	2.0	1.0
Taxation	6	1.2	(0.5)	0.7	1.5
Profit for the financial year		(0.6)	3.3	2.7	2.5

All the activities of the company are classed as continuing for this year and the prior year.

The accounting policies and notes on pages 14 to 35 form an integral part of these financial statements.

Statement of comprehensive income

year to 31 March 2017

EDRINGTON DISTILLERS LIMITED

Statement of comprehensive income	2017	2016
	£m	£m
Profit for the financial year	2.7	2.5
Other comprehensive income		
Items that will not be reclassified to profit and loss		
Actuarial (loss)/gain on pension scheme (note 18)	(4.9)	14.4
Movement on deferred tax on pension scheme (note 15)	0.7	(3.3)
Pension fees paid directly to scheme	(0.5)	-
DT movement taken straight to reserves (note 15)	(0.1)	-
	<u>(4.8)</u>	<u>11.1</u>
Items that will be or have been reclassified to income statement		
Cash flow hedge reserve movement (note 19)	0.2	(0.7)
Total other comprehensive (loss)/income for the year	<u>(4.6)</u>	<u>10.4</u>
Total comprehensive (loss)/income for the year, net of tax	<u><u>(1.9)</u></u>	<u><u>12.9</u></u>

The accounting policies and notes on pages 14 to 35 form an integral part of these financial statements.

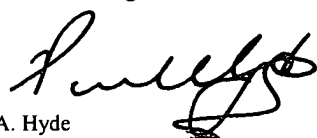
Statement of financial position

As at 31 March 2017

EDRINGTON DISTILLERS LIMITED

		2017	2016
	Note	£m	£m
Non-current assets			
Intangible assets	8	11.2	15.6
Property, plant and equipment	9	53.7	51.2
Investments	10	15.8	15.8
Derivative financial instruments	20	-	0.1
Preference shares	23	-	-
Total non-current assets		80.7	82.7
Current assets			
Inventories	11	47.3	47.4
Trade and other receivables	12	23.3	31.4
Current tax asset	12	0.9	1.1
Derivative financial instruments	20	0.1	-
Total current assets		71.6	79.9
Total assets		152.3	162.6
Equity and liabilities			
Share capital	16	36.0	36.0
Share based payment reserve	17	1.6	0.7
Retained earnings		68.5	70.7
Cash flow hedge reserve	19	(0.2)	(0.4)
Total equity		105.9	107.0
Non-current liabilities			
Deferred tax liabilities	15	0.1	0.3
Post-employment benefit obligation	18	3.5	13.0
Derivative financial instruments	20	-	0.2
Total non-current liabilities		3.6	13.5
Total current liabilities			
Trade and other payables	13	15.2	21.0
Borrowings	14	11.7	10.8
Derivative financial instruments	20	0.4	0.2
Other Liabilities	13	15.5	10.1
Total current liabilities		42.8	42.1
Total equity and liabilities		152.3	162.6

The financial statements of the company (registered number SC014472) were approved by the directors on 20 September 2017 and were signed on their behalf by:



P. A. Hyde
Director
20 September 2017

Statement of changes in equity

year to 31 March 2017

EDRINGTON DISTILLERS LIMITED

	Share capital	Liability for Share based payments	Cash flow hedge reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m
Balance at 1 April 2016	36.0	0.7	(0.4)	70.7	107.0
Share based payment movement	-	0.9	-	(0.1)	0.8
Transaction with owners	-	0.9	-	(0.1)	0.8
Profit for the year	-	-	-	2.7	2.7
Other comprehensive income	-	-	-	(4.8)	(4.8)
Cash flow hedge reserve (note 19)	-	-	0.2	-	0.2
Total comprehensive income for the year	-	-	0.2	(2.1)	(1.9)
Balance at 31 March 2017	36.0	1.6	(0.2)	68.5	105.9

	Share capital	Liability for Share based payments	Cash flow hedge reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m
Balance at 1 April 2015	36.0	1.1	0.3	57.9	95.3
Share based payment movement	-	(0.4)	-	(0.8)	(1.2)
Transaction with owners	-	(0.4)	-	(0.8)	(1.2)
Profit for the year	-	-	-	2.5	2.5
Other comprehensive income	-	-	-	11.1	11.1
Cash flow hedge reserve (note 19)	-	-	(0.7)	-	(0.7)
Total comprehensive income for the year	-	-	(0.7)	13.6	12.9
Balance at 31 March 2016	36.0	0.7	(0.4)	70.7	107.0

The accounting policies and notes on pages 14 to 35 form an integral part of these financial statements.

Accounting policies

continued

EDRINGTON DISTILLERS LIMITED

Basis of accounting

These financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006, with the Company reporting under FRS101.

The company is incorporated and domiciled in the UK. The financial statements are presented in Sterling (£).

Adoption of new and revised standards

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 2 (amendments) Classification and measurement of Share-based Payment Transactions
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customer
- IAS 7 (amendments) Disclosure Initiative
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
- IAS 28 (amendments) Investments in Associates and Joint Ventures

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the company in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until a detailed review has been completed.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101.

Therefore these financial statements do not include:

- a statement of cash flows and related notes;
- the requirement of IAS 24 related party disclosures to disclose related party transactions;
- disclosure of key management personnel compensation;
- capital management disclosures;
- certain share based payments disclosures;
- certain disclosures in respect of financial instruments; and
- the effect of future accounting standards not adopted.

Revenue Recognition

Sales comprise revenue from the sale of goods, royalties, interest and rents receivable. Revenue is measured at the fair value of consideration received or receivable, excluding sales tax, and reduced by any rebates and trade discounts allowed. Sale of goods are recognised depending upon individual customer terms at the time of despatch, delivery or when the risk of loss transfers. Royalties, interest and rents receivable are recognised on an accruals basis. Dividend income is recognised at the point the right to receive payment is established.

Investments

Fixed asset investments are stated at cost, less any provision for impairment in value.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Software

Software is stated at historic cost net of amortisation. Amortisation is charged on a straight line basis over a 10 year period although this is subject to an independent review.

Accounting policies

continued

EDRINGTON DISTILLERS LIMITED

Tangible assets and depreciation

Tangible assets are stated at cost net of depreciation and any provision for impairment. No depreciation has been provided on land. Depreciation of other fixed assets has been calculated on a straight-line basis by reference to the useful life of the assets. The principal annual rates used for this purpose are:

Buildings	2% to 5%
Plant, vehicles, equipment	5% to 33%
Casks	5% to 15%

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of assets and are recognised in profit or loss within other income or other expenses.

Inventories

Inventory is valued at the lower of cost and net realisable value. Cost is defined as the production cost (including distillery overheads) or purchase price, as appropriate, plus carrying costs (excluding interest). Net realisable value is based on estimated selling price, less the estimated costs of completion and selling. Provision is made for obsolete and slow-moving items where appropriate.

Exceptional items

Exceptional items are those that in management's judgement need to be disclosed by virtue of their size or incidence. These items are included within the income statement caption to which they relate, and are separately disclosed in the notes to the accounts, and on the face of the consolidated income statement.

Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

Current Tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. Taxable income differs from the profit before tax reported in the income statement loss because of items of income/expense which are taxable/deductible in other years ("temporary differences") and items that are never taxable/deductible ("permanent differences"). Current tax is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Accounting policies

continued

EDRINGTON DISTILLERS LIMITED

Cash and cash equivalents

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Cash equivalents are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Cash equivalents comprise term deposits of less than one year (other than cash).

Other liabilities

Other liabilities are primarily provisions which are liabilities of uncertain timing or amounts. A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably and which will result in an outflow of economic benefit. Provisions are discounted where the effect is materially different to the original undiscounted amount, and represent the directors' best estimate of likely settlement.

Foreign currencies

The Company presents its financial statements in sterling and conducts business in many currencies. As a result it is subject to foreign currency risk due to exchange rate movements which will affect the Company's transactions and translation of the results and underlying net assets of its operations.

Transactions in foreign currencies are translated at the spot rate at the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at each balance sheet date, with exchange gains and losses recognised in the income statement.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the statement of financial position. Finance costs and gains or losses relating to financial liabilities are included in the income statement. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

When the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and contributions relating to equity instruments are debited directly to equity.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risk and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

The Company classifies its financial assets and liabilities into the following categories: loans and receivables, available for sale investments, financial assets and liabilities at fair value through income statement and other financial liabilities at amortised cost.

Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method less impairment. Allowances are made where there is evidence of a risk of non-payment taking into account ageing, previous experience and general economic conditions. Interest is recognised by applying the effective interest method except for short-term receivables when recognition of interest would be immaterial.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks and deposits which are readily convertible to known amounts of cash and have an original maturity of three months or less.

Financial asset and liabilities at FV through income statement

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as an effective hedging instrument, in which event the recognition in profit or loss depends on the nature of the hedge relationship.

Accounting policies

continued

EDRINGTON DISTILLERS LIMITED

Financial liabilities at amortised cost

Financial liabilities are initially recognised at fair value net of transaction costs and are subsequently reported at amortised cost. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognised in the income statement over the contractual terms using the effective interest method.

Hedge Accounting

The Company designates and documents certain derivatives as hedging instruments as a hedge against the cash flow risk from a change in exchange or interest rates.

Cash flow hedges

The portion of gain or loss of the hedging instrument that was determined to be an effective hedge is recognised directly in equity and forms part of the hedge reserve.

The ineffective portion of the change in fair value of the hedging instrument is recognised in the income statement within finance costs. If the cash flow hedge relates to an underlying transaction which results in the recognition of a non-financial asset, the associated gain or loss on the derivative that had been previously recognised in equity are recognised in the initial measurement of the asset arising from the hedged transaction. For hedges that relate to an underlying transaction which results in recognition of a financial asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the income statement.

Hedge effectiveness

Hedge effectiveness is measured and respective entries recorded in the balance sheet, reserves and income statement on a semi-annual basis. Hedge effectiveness is achieved where the correlation in changes in value of the hedging instrument and the hedged item is between 80% and 125%. Methods of effectiveness testing include dollar offset, critical terms and hypothetical derivative method.

Discontinuing hedge accounting

Hedge accounting is discontinued retrospectively when the hedge instrument expires or is terminated, when the hedge no longer qualifies for hedge accounting or when the designation is revoked. In the case of cash flow hedges, any gain or loss that has been recognised in equity until that time remains in equity until the forecast transaction occurs. If the transaction is no longer expected to occur, related cumulative gains or losses which have previously been deferred in equity are recognised in the income statement immediately.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported on a net basis only when the group has a legally enforceable right to set off the amounts and either intends to settle on a net basis, or to realise the asset or liability simultaneously.

Share based payments

The ultimate parent company, The Edrington Group Limited, issues equity-settled share based payments to certain Group employees (ShareReward Scheme). The fair value of the shares granted, which relate to employees of the Company, is charged to the profit and loss account over the vesting period with a corresponding credit to 'Share based payments reserve' in the balance sheet.

In addition, The Edrington Group Limited also provides employees with the ability to save for a three year period to buy Edrington 'B' Ordinary Shares at 80% of the market price (ShareSave Scheme). The fair value of the share options awarded is determined at the grant date and the portion which relates to employees of the Company is expensed on a straight line basis over the three year vesting period, based on an estimate of the shares that will ultimately vest.

The fair value of shares and options granted is calculated at grant date using the Black Scholes model and in accordance with IFRS 2 Share based payments.

Accounting policies

continued

EDRINGTON DISTILLERS LIMITED

Liability for share based payments

Share based payments include share awards and options granted to directors and employees. This reserve represents shares to be issued on potential exercise of those share options that have been accounted for under IFRS 2 Share based payments.

Retained earnings

Retained earnings reflect the Company's accumulated earnings less dividends paid and payable.

Cash flow hedge reserve

This reserve represents the effective portion of gains and losses, net of tax, arising from the revaluation of a financial instrument designated as a cash flow hedge, is deferred in a separate component of equity.

Significant judgements

In addition the following areas of judgement had an effect on the carrying value of assets and liabilities:

Pensions and other post-retirement benefits

The company operates a pension scheme based on final pensionable salary. The assets of the scheme are held separately from those of the company. The determination of any pension scheme surplus/obligation is based on assumptions determined with independent actuarial advice. The assumptions used include discount rate, inflation, pension increases, salary increases, the expected return on scheme assets and mortality assumptions. Refer to note 18 for details of post retirement benefits.

Notes to the financial statements

continued

EDRINGTON DISTILLERS LIMITED

1 Revenue and segmental disclosure

The analysis of revenue, net assets and profitability by class of business or geographical market has not been disclosed as the directors consider that this could be seriously prejudicial to the company's interests.

An analysis of revenue is as follows:

	2017	2016
	£m	£m
Sale of cased goods	91.7	83.9
Sale of non-cased goods	36.7	30.6
Income from services rendered	1.5	1.6
	<hr/>	<hr/>
Total revenue	129.9	116.1

2 Exceptional item

	2017	2016
	£m	£m
Pension scheme gain on curtailment (note 18)	7.6	-
Restructuring costs	(3.8)	-
	<hr/>	<hr/>
Total of exceptional items before taxation	3.8	
	<hr/>	<hr/>
Taxation	(0.5)	-
	<hr/>	<hr/>
Exceptional items after taxation	3.3	-
	<hr/>	<hr/>

Pension scheme gain on curtailment relates to a reduction of pension scheme liabilities as a result of two liability management exercises completed in the year by the company. Restructuring costs relate to the closure of the West Kinfauns office and the move to 100 Queen Street. Restructuring also includes costs associated with changes made to our operations resource.

3 Finance income and finance costs

	2017	2016
	£m	£m
Defined benefit pension schemes (note 18)	0.1	1
	<hr/>	<hr/>
Total interest payable	0.1	1
	<hr/>	<hr/>

Notes to the financial statements

continued

EDRINGTON DISTILLERS LIMITED

4 Profit on ordinary activities before taxation	2017	2016
	£m	£m
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration - audit fees	0.1	0.1
Inventory charged to income statement -	6.5	7.0
Brand amortisation	3.3	3.3
Depreciation of tangible fixed assets - owned	3.7	4.3

The depreciation charge noted above is different from that shown in note 9 to these financial statements, as cask depreciation is added to the cost of stocks of Scotch whisky and is not released to the profit and loss account until the relevant stock is sold. The figure shown above represents the annual depreciation charge on other fixed assets together with cask depreciation released through cost of sales.

Fees paid to Grant Thornton UK LLP for non-audit services to the company itself have not been disclosed in these accounts, because the Parent Company's consolidated accounts are required to disclose such fees on a consolidated basis.

5 Employees	2017	2016
	Number	Number

The average number of employees during the year was as follows:

Engaged in distilling, coopering, blending, bottling and marketing of Scotch whisky	557	583
---	-----	-----

	2017	2016
	£m	£m
Employment costs during the year, (including temporary employees and directors' remuneration) amounted to:		
Wages and salaries	19.4	17.0
Social security costs	2.6	2.7
Other pension costs	3.0	3.0
	25.0	22.7

	2017	2016
	£m	£m
Remuneration in respect of the directors by Edrington Distillers Ltd was as follows:		
Emoluments (excluding pension contributions)	1.5	1.6
Benefits	0.5	0.5
Employee share schemes	0.1	-
Performance related annual incentive plan	1.1	0.5
Performance related long term incentive plan & other payments	0.5	0.4
	3.7	3.0

Notes to the financial statements

continued

EDRINGTON DISTILLERS LIMITED

5 Employees (continued)

Amounts disclosed under benefits include a non-pensionable salary supplement made to certain directors in lieu of the company's contribution to the pension scheme, following their withdrawal from the group pension scheme.

During the year, six directors (2016: two directors) exercised their share rights under the ShareSave Scheme.

During the year, no directors (2016: no directors) participated in the defined benefit pension scheme, and two participated in the defined contribution scheme (2016: three directors).

The amounts set out above include remuneration in respect of the highest paid director as follows:	2017 £'000	2016 £'000
Emoluments (excluding pension contributions)	560	545
Benefits	163	160
Employee share schemes	56	-
Performance related annual incentive plan	517	215
Performance related long term incentive plan & other payments	259	181
	<u>1,555</u>	<u>1,101</u>

The highest paid director exercised rights under the ShareSave Scheme in this year and in the last year. The highest paid director's accrued pension at the year end was £29,000 (2016: £150,000).

6 Taxation

	2017 £m	2016 £m
The taxation charge represents:		
Current tax:		
Current year corporation tax at 20 % (2016: 20%)	(0.3)	(1.2)
Adjustment in respect of the prior periods	(0.2)	(0.2)
Tax on exceptional items (note 2)	(0.7)	-
Total current tax	<u>(1.2)</u>	<u>(1.4)</u>
Deferred tax:		
Deferred taxation charge for the year	(0.5)	-
Adjustment in respect of the prior periods	(0.2)	(0.1)
Tax on exceptional items (note 2)	1.2	-
Total deferred tax	<u>0.5</u>	<u>(0.1)</u>
Tax on profit on ordinary activities	<u>(0.7)</u>	<u>(1.5)</u>

Notes to the financial statements

continued

EDRINGTON DISTILLERS LIMITED

6 Taxation (continued)

Factors affecting the total tax charge for the year	2017 £m	2016 £m
The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:		
Profit before tax from continuing operations	2.0	1.0
Income tax expense calculated at 20% (2016: 20%)	0.4	0.2
Effect of income that is exempt from taxation	(0.6)	(0.9)
Effect of expenses that are not deductible in determining taxable profit	0.3	0.3
Effect on deferred tax balances due to changes in tax rates	(0.1)	(0.4)
Other	(0.3)	(0.4)
	(0.3)	(1.2)
Prior year adjustments	(0.4)	(0.3)
Income tax expense recognised in profit or loss (relating to continuing operations)	(0.7)	(1.5)

7 Investment income	2017 £m	2016 £m
Investment income	3.2	4.7

8 Intangible fixed assets	Brands £m	Software £m	Total £m
Cost at 1 April 2016	32.7	5.1	37.8
Additions	-	0.1	0.1
Disposals	-	(1.1)	(1.1)
At 31 March 2017	32.7	4.1	36.8
Amortisation			
At 1 April 2016	19.6	2.6	22.2
Amortised in the year	3.3	0.3	3.6
Disposals	-	(0.2)	(0.2)
At 31 March 2017	22.9	2.7	25.6
Net book value at 31 March 2017	9.8	1.4	11.2
Net book value at 31 March 2016	13.1	2.5	15.6

The company's Cutty Sark Scotch whisky brand is amortised over 10 years reflecting the directors' view of its useful economic life.

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

9 Tangible fixed assets	Freehold land & buildings	Plant & equipment	Casks	Total
	£m	£m	£m	£m
Cost at 1 April 2016	36.1	71.7	11.8	119.6
Additions	0.6	6.3	2.8	9.7
Disposals	-	(0.1)	(1.9)	(2.0)
Cost at 31 March 2017	36.7	77.9	12.7	127.3
Depreciation at 1 April 2016	18.1	45.3	5.0	68.4
Charge for year	1.0	3.9	0.5	5.4
Disposals	-	(0.1)	(0.1)	(0.2)
Depreciation at 31 March 2017	19.1	49.1	5.4	73.6
Net book value at 31 March 2017	17.6	28.8	7.3	53.7
Net book value at 31 March 2016	18.0	26.4	6.8	51.2

10 Fixed assets investments

	Subsidiary undertakings	Associated undertakings	Other investments	Total investments
	£m	£m	£m	£m
Shares at cost				
At 1 April 2016 and 31 March 2017	0.3	15.4	0.1	15.8

At 31 March 2017 the company owned the following significant investments in UK companies:

Principal investments

Name of company	Holding	Proportion held	Nature of business
Edrington Singapore Holdings Pte. Limited (12 Marina View Asia Square, Tower 2 Level 24-01, Singapore 018961)	Ordinary shares	100%	Holding company
Lothian Distillers Limited (9 Wheatfield Rd, Edinburgh, EH11 2PX)	Ordinary shares	50%	Distillation and maturing of Scotch whisky
Row and Company Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	50%	Sales and marketing of Scotch whisky
Marshall McGregor Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	50%	Sales and marketing of Scotch whisky

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

11 Inventories	2017	2016
	£m	£m
Scotch whisky	40.9	35.0
Other stocks	6.4	12.4
	<u>47.3</u>	<u>47.4</u>

The replacement cost of other stocks is not significantly different from the values shown.

12 Trade and other receivables	2017	2016
	£m	£m
Trade receivables	2.1	2.6
Other receivables	1.8	1.7
Prepayments	0.7	1.0
Amounts owed by group undertakings	10.3	14.9
Loans to group undertakings	6.5	8.4
Amounts owed by associates	1.9	2.8
Current tax asset	0.9	1.1
	<u>24.2</u>	<u>32.5</u>

13 Trade and other payables	2017	2016
	£m	£m
Trade payables	10.4	10.7
Amounts owed to group undertakings	4.8	8.3
Accruals and other creditors	14.7	11.3
Other taxes and social security costs	0.8	0.8
	<u>30.7</u>	<u>31.1</u>

14 Borrowings	2017	2016
	£m	£m
Loans from associates	10.0	5.7
Bank borrowings	1.7	5.1
	<u>11.7</u>	<u>10.8</u>

(i) Bank overdrafts are provided as an ancillary facility to the multi-currency revolving credit facilities maturing in June 2018. Interest on bank overdrafts is linked to LIBOR.

(ii) The current loans with Group Companies represents working capital loans with interest charged on a monthly basis at the prevailing base currency rate or where applicable 0.5% fixed.

The book value of borrowings equates to the fair value.

The Company is party to floating charges and cross-guarantee arrangements with certain other group companies in respect of bank borrowings.

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

15 Deferred Tax

	Cash flow Hedges	Accelerated tax depreciation	Retirement benefit obligations	Other temporary differences	Tax Losses	Total
	£m	£m	£m	£m	£m	£m
At 31 March 2016	0.1	(1.7)	2.3	(1.0)	-	(0.3)
Charge to income statement	-	1.2	(2.4)	0.4	0.4	(0.4)
Charge to other comprehensive income	(0.1)	-	0.7	-	-	0.6
At 31 March 2017	-	(0.5)	0.6	(0.6)	0.4	(0.1)

Finance Act 2016, which was enacted in September 2016 provides that the main UK rate of corporation tax for the financial year commencing 1st April 2020 will be 17%. Consequently, UK deferred tax has been provided at a rate of 17%, being the rate at which the majority of temporary differences are expected to unwind.

16 Equity share capital

	Issued and fully paid £m
At 1 April 2016 and 31 March 2017:	
12,761,820 'A' Ordinary shares of £1 each	12.8
23,238,180 'B' Ordinary shares of £1 each	23.2
	<u>36.0</u>

The 'A' ordinary shares carry 500 votes per share on a poll. The 'B' ordinary shares carry 1 vote per share on a poll on a resolution affecting their rights, or to sanction a reduction of capital, or winding up of the company or a sale of part of its undertaking, but no vote otherwise. Foreign controlled shares carry no voting rights. Dividends are paid according to the amount paid up per share. On a winding up, subject to the Articles, a liquidator may value any assets and determine how such assets shall be divided between the members or different classes of members.

17 Share based payments

Equity-settled share option scheme

The company has a share option scheme for all employees of the group. The company recognised a movement of £0.9m relating to equity-settled share based payment transactions in the year to 31 March 2017 (2016: £0.4m).

The ShareSave scheme is a share option scheme for all employees of the group. Options are exercisable at the market price of the company's shares on the date of grant. The vesting period is 3 years. If the options remain unexercised after a period of 3½ years from the date of grant, the options expire. Substantially all options are exercised upon vesting. Options are forfeited if the employee leaves the group before the options vest.

Details of the share options outstanding during the year are as follows.

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

17 Share based payments (continued)

	<u>2017</u>		<u>2016</u>	
	Number of	Weighted	Number of	Weighted
	share	average	share	average
	options	exercise	options	exercise
		price (in £)		price (in £)
Outstanding at beginning of period	386,839	£14.32	358,245	£12.69
Granted during the period	110,661	£15.06	122,564	£15.86
Forfeited during the period	(86,802)	£13.31	-	£13.03
Exercised during the period	(37,691)	£14.71	(93,970)	£10.14
	<u>373,007</u>	<u>£14.74</u>	<u>386,839</u>	<u>£14.32</u>

The weighted average share price at the date of exercise for share options exercised during the period was £13.31 (2016: £10.14). The options outstanding at 31st March 2017 had a weighted average exercise price of £14.74 (2016: £14.32), and a weighted average remaining contractual life of 2 years (2016: 2 years). The fair value of the options granted in April 2017 was £0.3m (April 2016: £0.4m).

The inputs into the Black-Scholes model are as follows:

Grant date	<u>01-Apr-16</u>	<u>01-Apr-15</u>	<u>01-Apr-14</u>
Share price at grant date	£18.82	£19.82	£17.19
Exercise price at grant date	£15.06	£15.86	£13.76
Expected volatility	6%	8%	17%
Expected life	3 years	3 years	3 years
Risk free rate	0.48%	0.65%	1.18%
Expected dividend yield	2.05%	2.29%	3.90%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years.

18 Retirement Benefit Liabilities

The company operates a defined benefit pension scheme providing benefits based on final salary, which have been closed to new employees since February 2008. In addition, for new and foreign employees, the company also provides defined contribution schemes. The benefit commitments are funded in advance and the assets of the schemes are held in separate trustee administered funds.

In addition, the Company provides other discretionary post retirement benefits (including discretionary pensions).

The most recent actuarial valuations of the scheme was undertaken in March 2010 using the projected unit method. The valuation results for the pension scheme and other post retirement benefits were updated to 31 March 2013 by an independent qualified actuary.

The pension schemes deficit pre-taxation was £2.5m (2016: £12.0m). The liability pre-taxation in respect of the post-retirement benefits was £1.0m (2016: £1.0m). The total provision in the financial statements in respect of retirement benefits at 31st March 2017 was £3.5m (2016: £13.0m).

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

1 Retirement Benefit Liabilities (continued)

	2017	2016
	£m	£m
Pension scheme deficit	2.5	12.0
Other post-retirement benefit	1.0	1.0
	<u>3.5</u>	<u>13.0</u>

The major assumptions used by the actuary were as follows:	2017	2016
Rate of increase of pensions in payment	2.0%-3.7%	1.9% - 3.6%
Discount rate	2.5%	3.6%
Inflation assumption	3.3%	3.1%

The post retirement mortality assumptions used to value the benefit obligation at 31 March 2017 were SIPXA actuarial index adjusted by 94% (2016: 94%) for both males and females, plus an allowance for long cohort projections. Assumed life expectancy for scheme members currently aged 65 is 23 years for males, and 25 years for females, and for members currently aged 50 is expected to be, 24 years (male) and 26 years (female) upon reaching 65.

	2017	2016
	£m	£m
Equities	23.7	17.8
Corporate Bonds	74.5	69.5
Bonds	89.7	76.1
Diversified growth fund	18.6	16.7
Cash	1.5	1.0
Insured pensions	0.6	0.5
	<u>208.6</u>	<u>181.6</u>
Total market value of assets	208.6	181.6
Present value of scheme liabilities	(211.1)	(193.6)
	<u>(2.5)</u>	<u>(12.0)</u>
Deficit in pension schemes	(2.5)	(12.0)

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

18 Retirement Benefit Liabilities (continued)

Analysis of amount charged to operating profit in respect of defined benefit schemes	2017	2016
	£m	£m
Gain on curtailment of pension liabilities (note 2)	7.6	-
	<u>7.6</u>	<u>-</u>
Analysis of net charge to finance costs	2017	2016
	£m	£m
Expected return on pension schemes assets	6.5	5.8
Interest on pension liabilities	(6.6)	(6.8)
	<u>(0.1)</u>	<u>(1.0)</u>
Net charge to finance costs (note 3)	<u>(0.1)</u>	<u>(1.0)</u>
Analysis of amount recognised in statement of comprehensive income	2017	2016
	£m	£m
Actual return less expected return on assets	36.7	0.9
Changes in assumptions	(41.6)	13.5
	<u>(4.9)</u>	<u>14.4</u>
Actuarial (loss)/gain recognised in the statement of comprehensive income	<u>(4.9)</u>	<u>14.4</u>
Defined Benefit Schemes		
	2017	2016
	£m	£m
Reconciliation of fair value of plan assets		
Opening fair value of scheme assets	181.6	176.2
Expected return on assets	6.5	5.8
Employers' contributions	6.9	7.4
Members' contributions	-	-
Actuarial gain/(loss)	36.7	(1.4)
Assets distributed on settlements	(17.5)	-
Benefits paid	(5.6)	(6.4)
	<u>208.6</u>	<u>181.6</u>
Closing fair value of scheme assets	<u>208.6</u>	<u>181.6</u>

The expected return on assets is based on long term expectations for each asset class at the beginning of the year. The actual return on plan assets was £6.5m (2016: £5.8m)

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

18 Retirement Benefit Liabilities (continued)

	2017 £m	2016 £m
Reconciliation of defined benefit obligation		
Opening defined benefit obligation	(193.6)	(209.0)
Past service cost including curtailment	25.1	-
Interest cost	(6.6)	(6.8)
Members' contributions	-	-
Actuarial (loss)/gain	(41.6)	15.8
Benefits paid	5.6	6.4
	<u>(211.1)</u>	<u>(193.6)</u>
Closing defined benefit obligation		
	<u>(211.1)</u>	<u>(193.6)</u>
	2017 £m	2016 £m
Movement in deficit during the year		
Deficit in scheme at beginning of year (before related deferred tax asset)	(12.0)	(32.8)
Gain on curtailment of pension liabilities	7.6	-
Contributions	6.9	7.4
Net interest cost	(0.1)	(1.0)
Actuarial (loss)/gain	(4.9)	14.4
	<u>(2.5)</u>	<u>(12.0)</u>
Deficit in Scheme at end of year (before related deferred tax asset)		
	<u>(2.5)</u>	<u>(12.0)</u>

The company's best estimate of the contributions expected to be paid in the year beginning 1 April 2017 is £6.9m.

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Five year history:					
Total fair value of assets	208.6	181.6	176.2	146.8	139.2
Present value of scheme liabilities	(211)	(193.6)	(209.0)	(189.0)	(185.0)
	<u>(2.5)</u>	<u>(12.0)</u>	<u>(32.8)</u>	<u>(42.1)</u>	<u>(46.0)</u>
Deficit in pension scheme					
	<u>(2.5)</u>	<u>(12.0)</u>	<u>(32.8)</u>	<u>(42.1)</u>	<u>(46.0)</u>
	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
History of experience gains and losses					
Experience adjustments on schemes' assets	36.7	(0.9)	20.2	(3.6)	7.5
Percentage of schemes' assets	17.6%	(0.5%)	11.5%	(2.4%)	5.4%
Experience adjustments on schemes' liabilities	(41.6)	(2.0)	(0.7)	4.1	(3.0)
Percentage of schemes' liabilities	19.7%	(1.0%)	(0.4%)	2.1%	(1.6%)
Total amount recognised in statement of other comprehensive income	(4.9)	14.4	(14.5)	3.2	(14.2)
Percentage of schemes' liabilities	(2.3%)	7.4%	(6.9%)	1.7%	7.7%

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

18 Retirement Benefit Liabilities (continued)

Sensitivity analysis

The sensitivity of the present value of scheme liabilities to changes in the principle assumptions used at 31 March 2017 is set out below:

Assumption	Sensitivity	Financial impact on overall liability	Financial impact on overall liability
		Year to 31 March 2017	Year to 31 March 2016
Discount rate	+/- 0.5%	Decrease/increase by £19.3m	Decrease/increase by £19.2m
Mortality – increase in life expectancy	+/- 1 year	Decrease/increase by £8.3m	Decrease/increase by £4.9m
Increase in inflation	+/- 0.5%	Decrease/increase by £14.7m	Decrease/increase by £18.2m

Methods and assumptions used in preparing the sensitivity analysis

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Mortality Assumptions

	31-Mar-17		31-Mar-16		31-Mar-15	
	Males	Females	Males	Females	Male	Females
Average future life expectancy (in years) for a member aged 65 at 31 March	22.5	24.6	22.8	25.1	23	25.5
Average future life expectancy (in years) at age 65 for a member aged 50 at 31 March	23.7	26.0	24.4	26.9	24.5	27

Other Post Retirement Benefits

	2017 £m	2016 £m
Other post retirement benefits		
Potential liability for discretionary post retirement benefits	(1.0)	(1.0)
Related deferred tax asset	0.2	0.2
Net potential liability for discretionary post retirement benefits	(0.8)	(0.8)

Defined contribution schemes

The Company operates a number of defined contribution schemes for employees' pension cost charge for the year in respect of the Company's defined contribution schemes amounted to £3.0m (2016: £3.0m).

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

19 Cash flow hedge reserve

	£m
Balance at 1 April 2016	(0.4)
Gain arising on changes in fair value of hedging instruments (cash flow hedges)	
- Forward foreign exchange contracts	(0.2)
Cumulative loss arising on changes in fair value of hedging instruments reclassified to profit or loss	
- Forward foreign exchange contracts	0.4
Total movement in cash flow hedge reserve	0.2
Balance at 31 March 2017	(0.2)
Balance at 1 April 2015	0.3
Gain arising on changes in fair value of hedging instruments (cash flow hedges)	
- Forward foreign exchange contracts	(0.5)
Cumulative loss arising on changes in fair value of hedging instruments reclassified to profit or loss	
- Forward foreign exchange contracts	(0.2)
Total movement in cash flow hedge reserve	(0.7)
Balance at 31 March 2016	(0.4)

20. Derivative financial instruments

Fair Value Hierarchy

Fair value measurements of financial instruments are presented through use of a three level fair value hierarchy that prioritises the valuation techniques used in fair value calculations.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: inputs for the asset or liability are not based on observable market data

Derivative Financial Instruments - carrying value

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Current				
Hedging derivatives - Cash flow hedges				
- Foreign exchange rates	0.1	0.3	-	0.2
Non-hedging derivatives				
- Foreign exchange rates	-	0.1	-	-
	0.1	0.4	-	0.2
Non-current				
Hedging derivatives - Cash flow hedges				
- Foreign exchange rates	-	-	0.1	0.2
	-	-	0.1	0.2
	0.1	0.4	0.1	0.4

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

20. Derivative financial instruments (continued)

All fair values are level 2, based on discounted cash flows using quoted market prices for interest rates and exchange rates.

Foreign Exchange contracts

It is the Group policy to enter into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to 24 months.

At the end of the reporting period the total notional amount of outstanding forward foreign exchange contracts to which the company is committed is £12.5m (2016:£14.5m).

21. Liquidity risk

Liquidity risk is the risk that the company may encounter difficulties in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets.

The following table provides an analysis of the anticipated contractual cash flows for the Group's financial liabilities including derivative instruments on an undiscounted basis.

The gross cash flows of the foreign exchange contracts are presented for the purposes of this table, although in practice, the group uses netting arrangements to reduce its liquidity requirements on these instruments.

	31-Mar-17	notes	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 and thereafter £m	Total £m
Borrowings	14		11.7	-	-	-	-	-	11.7
Payables	13		30.7	-	-	-	-	-	30.7
Non-derivative financial liabilities			42.4	-	-	-	-	-	42.4
Amounts receivable from foreign exchange contracts			8.7	4.2	0.1	-	-	-	13.0
Amounts payable from foreign exchange contracts			(8.4)	(4.2)	(0.1)	-	-	-	(12.7)
Derivative instruments	20		0.3	-	-	-	-	-	0.3

	31-Mar-16	notes	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 and thereafter £m	Total £m
Borrowings	14		10.8	-	-	-	-	-	10.8
Payables	13		28.1	-	-	-	-	-	28.1
Non-derivative financial liabilities			38.9	-	-	-	-	-	38.9
Amounts receivable from foreign exchange contracts			9.3	5.0	0.4	-	-	-	14.7
Amounts payable from foreign exchange contracts			(9.4)	(5.1)	(0.4)	-	-	-	(14.9)
Derivative instruments	20		(0.1)	(0.1)	-	-	-	-	(0.2)

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

22. Risk Management

Market Risk

The Group's funding, liquidity and exposure to foreign currency and interest rate risks are managed by the group's treasury department. The treasury department use a range of financial instruments to manage the underlying risks. Treasury operations are conducted within a framework of board approved policies and guidelines, what are recommended and monitored by the Treasury Committee, chaired by the Chief Financial Officer. All transactions in derivatives financial instruments are initially undertaken to manage risks arising from underlying business activities. The group does not use derivatives for speculative purposes.

Currency risk

It is the Group policy to enter into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to 24 months. The group implements a rolling policy which ensures that by the end of the current year, 65% of anticipated sales and purchases will be hedged within the next 12 months and 25% in the following 12 months.

Refer to note 20 for further detail on derivatives outstanding as at the reporting date.

The following table details the Group's sensitivity to a 10% increase and decrease in currency rates and the impact on profit and loss and equity. 10% sensitivity rate applied to foreign currency represents management's assessment of the reasonably possible change on foreign exchange rates within a 12 month period. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The analysis includes the impact of financial derivatives. The results of the sensitivity analysis should not be considered as projections of likely future events, gains or losses as actual results may differ materially in the future as a result of developments in global financial markets impacting exchange rates and interest rates.

	Impact on income statement gain/(loss)		Impact on comprehensive income gain/(loss)	
	2017	2016	2017	2016
	£m	£m	£m	£m
10% weakening of sterling	0.4	0.2	0.6	1.4
10% strengthening of sterling	(0.3)	(0.1)	(0.5)	(1.1)
	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.3</u>

Interest rate risk

Edrington Distillers Limited has access to overdraft facilities as a party to The Edrington Group Multicurrency Overdraft Facility. Interest on the overdraft facility is at a floating rate linked to Libor. There are no financial covenants requirements within the overdraft facility.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises on cash balances, derivative financial instruments and credit exposure to customers.

The carrying amount of financial assets represents the group's exposure to credit risk at the balance sheet date.

Credit risk is managed through application of risk management policies approved and monitored by the board. Financial credit risk is managed by limiting counterparties to major banks and financial institutions who are relationship banks providing revolving credit facilities to the Group. The group's policy is to spread the risk by using a number of banks to avoid significant concentrations of credit risk.

Trade and other receivables are managed by assigning credit limits deemed appropriate for the individual customer and credit insurance is used to limit risk to 3rd party customers.

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EDRINGTON DISTILLERS LIMITED

22. Risk Management (continued)

Reconciliation of financial instruments

	31-Mar-17				
	Fair Value £m	Loans and Receivables £m	Total £m	Current £m	Non-Current £m
Financial Assets					
Trade receivables	-	23.3	23.3	23.3	-
Cash and Cash equivalents	-	-	-	-	-
Derivatives in a hedge relationship	0.1	-	0.1	0.1	-
Derivatives not classified as hedges	-	-	-	-	-
	<u>0.1</u>	<u>23.3</u>	<u>23.4</u>	<u>23.4</u>	<u>-</u>
Financial Liabilities					
Trade and other payables	-	(29.9)	(29.9)	(29.9)	-
Borrowings	-	(11.7)	(11.7)	(11.7)	-
Derivatives in a hedge relationship	(0.3)	-	(0.3)	(0.3)	-
Derivatives not classified as hedges	(0.1)	-	(0.1)	(0.1)	-
	<u>(0.4)</u>	<u>(41.6)</u>	<u>(42.0)</u>	<u>(42.0)</u>	<u>-</u>
	<u>(0.3)</u>	<u>(18.3)</u>	<u>(18.6)</u>	<u>(18.6)</u>	<u>-</u>

	31-Mar-16				
	Fair Value £m	Loans and Receivables £m	Total £m	Current £m	Non-Current £m
Financial Assets					
Trade receivables	-	31.4	31.4	31.4	-
Cash and Cash equivalents	-	-	-	-	-
Derivatives in a hedge relationship	0.1	-	0.1	0.1	-
Derivatives not classified as hedges	-	-	-	-	-
	<u>0.1</u>	<u>31.4</u>	<u>31.5</u>	<u>31.5</u>	<u>-</u>
Financial Liabilities					
Trade and other payables	-	(30.3)	(30.3)	(30.3)	-
Borrowings	-	(10.8)	(10.8)	(10.8)	-
Derivatives in a hedge relationship	(0.4)	-	(0.4)	(0.2)	(0.2)
Derivatives not classified as hedges	-	-	-	-	-
	<u>(0.4)</u>	<u>(41.1)</u>	<u>(41.5)</u>	<u>(41.3)</u>	<u>(0.2)</u>
	<u>(0.3)</u>	<u>(9.7)</u>	<u>(10.0)</u>	<u>(9.8)</u>	<u>(0.2)</u>

23 Preference Shares

The company holds preference shares to the value of £1 (2016: £1) in Edrington Singapore Pte Limited, a company engaged in the marketing and distribution of alcoholic beverages in South East Asia.

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

24 Contingent liabilities

Bank loans amounting to £105.0m (2016: £93.0m) in The Edrington Group Limited's financial statements are secured by a floating charge over the assets of the group's subsidiary undertakings, including those of Edrington Distillers Limited.

25 Other contractual obligations

	2017 £m	2016 £m
Contracted but provided for		
- capital commitments	<u>77.3</u>	<u>63.2</u>

Capital commitments represent contracts entered into for the provision of casks, the company has in place contracts to sell £47.3m (2016: £58.7m) of these casks to other group companies.

26 Transactions with related parties

During the year, in the normal course of business, the Company entered into the following transactions with related parties as defined by IAS 24: Related Party Transactions.

The company made sales of £91.0m (2016: £87.1m) to other subsidiaries of The Edrington Group Limited and made sales of £10.0m (2016: £9.8m) to companies that are associates of The Edrington Group Limited.

The Company made purchases of £1.7m (2016: £3.4m) and received services to the value of £2.2m (2016: £1.0m) from Lothian Distillers Limited. The Company also made sales of £3.9m (2016: £3.9m) to Row & Company Limited.

The Company held a working capital loan of £6.0m (2016: £6.0m) with Lothian Distillers Limited. The Company also held a working capital loan of £1.4m (2016: £1.7m) with Row & Company Limited.

Balance Sheet Items	2017 £m	2016 £m
Payables		
Row	-	-
Lothian	<u>-</u>	<u>-</u>
	-	-
Receivables		
Row	0.6	0.6
Lothian	<u>-</u>	<u>-</u>
	0.6	0.6
	<u>0.6</u>	<u>0.6</u>

Notes to the financial statements

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EDRINGTON DISTILLERS LIMITED

27 Operating lease arrangements

Certain land and buildings are leased under an operating lease arrangement. Original non-cancellable lease terms are 15 years and may contain options that permit early withdrawal. The total amount of minimum rent is expensed on a straight-line basis over the term of the lease.

At 31 March 2017, the Company had outstanding commitments for future minimum-lease payments under non-cancellable operating leases, which fall due as follows:

	2017	2016
	£m	£m
Operating lease payments which fall due:		
Within one year	0.7	-
Within two to five years	2.7	-
In more than five years	3.3	-
	<u>6.7</u>	<u>-</u>

During the year, operating lease rentals of £0.2m (2016:£nil) were charged to the consolidated income statement.

28 Control

The Company is controlled by its parent undertaking, The Edrington Group Limited, and is ultimately controlled by The Robertson Trust, a registered charity, which has a controlling shareholding in The Edrington Group Limited. The company which consolidates the largest and smallest group of companies in which this company is included is The Edrington Group Limited. Consolidated accounts are available from the company secretary, 100 Queen Street, Glasgow, Scotland, G1 3DN.