Highland Distillers Limited

Annual report and financial statements for the year ended 31 March 2022

Company Registration No. SC158731

Directors and advisers

Directors

A. Baroutsis

I.P. Boyadjian

L.M. Campbell

Company Secretary

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Strategic Report

Principal activities

Highland Distillers Limited, (the "company'), a subsidiary of The Edrington Group Limited (the "group"), is principally engaged in the distillation, maturation and sale of malt and blended whiskies including Highland Park, The Glenrothes, Naked Malt and The Famous Grouse.

The company's subsidiaries including their geographical location are listed in note 11 to the financial statements.

Strategy and Culture

The Board took the opportunity to refresh the Group's strategy in 2021. It has served the Company well during the pandemic, focusing effort and investment in the areas where they make the biggest impact. We have concluded that our focus on crafting exceptional ultra-premium spirits brands remains appropriate and will continue to drive growth for the foreseeable future.

The results we have reported reflect the quality of our people and our unique culture. We have continued to see a collaborative and agile approach to the many challenges faced by the business during the year as well as a huge effort by our people to deliver excellent outcomes.

Business model

Our business model allows the company to invest behind the long term potential of our brands to achieve our vision to give more by crafting exceptional ultra-premium spirit brands.

Performance Summary

Our growth this year comes in the context of a recovery in the global premium spirits market and our performance has benefitted from a continued investment in our people, brands, and capabilities.

Market Development

The company benefits from the group's network of distribution entities (both wholly owned and joint venture partnerships). During the year the group expanded its European footprint with the opening of Edrington France and extended the Maxxium Netherlands joint venture with Lucas-Bols through the creation of Maxxium BeLux, based in Brussels.

In May last year, the 1887 Group and Beam-Suntory agreed to swap their joint venture stakes in the UK and Spanish distribution companies. The 1887 Group, of which the company is a member, assumed full ownership of Edrington UK. Beam-Suntory continues to represent our brands in Spain under a new distribution agreement.

In response to the invasion of Ukraine shipments to Russia were suspended and subsequent to the year end, on 18 July, alongside its partners, Beam-Suntory, the 1887 Group announced an agreement to sell its joint venture stake in Maxxium Cyprus Limited to members of its local management team.

Performance Highlights

We have returned to the growth trend we saw in the years before the pandemic, with net sales increasing across all brands. The growth in the value of sales outstripped the growth in volume, reflecting the success of our strategy to focus the business on the most premium products, along with positive market and channel mix.

Our Malts brands, comprising The Glenrothes, Highland Park and Naked Malt, performed well across their key markets, growing sales value ahead of volume.

Sales of The Famous Grouse are back to pre-pandemic levels, with its strongest results in the core markets of the UK and Sweden. Whilst the blended Scotch category remains under pressure, the appeal of this well-loved brand has enabled it to grow sales and profitability.

Principal risks and uncertainties

The 1887 Group, of which the company is a member, is supported in discharging its responsibility for risk management and internal control systems by the board of its parent company The Edrington Group. The responsibility for risk management and internal control systems resides with The Edrington Group Board, with a framework to support the process for identifying, evaluating, and managing financial and non-financial risks. The Audit Committee is responsible for the direct oversight of the Group Risk Management Committee and their internal control and assurance function.

Robust risk management drives improved commercial decisions and enables the business to deliver our strategy and growth ambition with resilience. Our risk management processes focus on protecting and enhancing value, maximising the benefits from new opportunities whilst safeguarding our reputation and balancing the risks with potential return.

The Board regularly reviews the principal risks facing the company including those that would impact its business model, future performance and solvency. A full review and assessment of principal risks was carried out in September 2021 and reviewed in February 2022 to help update the principal risks. These reviews allow the board to assess the company's risk appetite and ensure that the nature and extent of the significant risks facing the business are identified and adequately managed.

In line with best practice, the assessment includes a review of the impact and likelihood of each risk, together with the controls in place to mitigate the risk. Given the fast-evolving nature of the company's operating environment and external factors, the review of principal risks is performed by both the Executive Committee and the Board on an annual basis, and specific risk reviews are carried out on a quarterly basis at both the Audit Committee and the Group Risk Management Committee.

Risk categories are predominantly macroeconomic or operational in nature. Macroeconomic risks relate to the external environment and the international markets in which Edrington operates, over which the company has less control. Operational risks include issues such as product quality, supply chain, or failure in business technology. The environment in which the company operates is constantly evolving, so the company remains vigilant to be sure that new and emerging risks are identified and assessed on a timely basis, and that appropriate actions are taken where possible to mitigate the impact of these risks on the business.

The ongoing impact of the Covid-19 outbreak and the impact of the Russia/Ukraine conflict have resulted in several of the previously identified risks materialising simultaneously. These included increased financial risks, raw material scarcity and disruption to supply chain operations. The company was able to react promptly and apply the necessary mitigating actions to protect our people and our operations. Measures required to respond to these challenges continue to be monitored closely.

During the year, the Audit Committee reviewed reports received from the internal audit teams. These have allowed the committee to assess the general control environment, identify control weaknesses and quantify associated risks.

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only therefore provide reasonable assurance against material misstatement or loss. It is *continuously reviewed to ensure it remains robust and embedded in business processes to enable the company to* continuously address its relevant business risks.

Principal Risks

Below is the list of risks that the board believes to be the most important risks and uncertainties that may impact the company's ability to deliver its strategy effectively. Following the board's most recent triennial risk review changes and updates have been made to the principal risks disclosed in previous annual reports,.including:

- Risk reprioritisation: given the current macroeconomic environment, the impact and likelihood of some risks materialising have increased. These include inter state conflict and protectionism and the risk of material cyber-attacks;
- New risk additions: these include misuse of consumer personal data due to the increase in digital activity and the ongoing shift towards e-commerce and sustainability of our end to end supply chain; and
- Risks removed: generic risks that are under management's control, such as regulatory compliance or financial risks have been deprioritised from the list of principal risks given that, whilst still relevant, they are part of the day-to-day management of our operating activities.

Risk & Risk Impact	Risk Mitigating Actions	Developments in 2021-2022
Inter-state conflict & Protectionism Risk Outlook: ↑ Economic or political instability restricts market activity, affecting market access, demand or increased costs.	• Continuous local and global monitoring of changes in economic, political and operational environments that could impact business performance. • Group level strategic analysis and scenario planning to support strategy delivery and risk management and avoid over-reliance on a single country or region. • Regular pricing, tax and customs reviews to enable a timely reaction to rapid changes.	• We have developed further scenario and contingency planning based on global events, including the war in Ukraine and potential different international responses. This includes ongoing monitoring of changes in sanctioned parties to ensure compliance with international regulations. • Stress test analysis of key market impacted by ongoing lockdowns, specifically China. • Review of operations and funding arrangements of our joint venture in Russia in light of the war in Ukraine and the evolving sanction situation.
Cyber Attack Risk Outlook: ↑ Continued development of cyber threats increases the risk of theft, failure, or corruption of digital assets and/or key systems which could lead to business disruption, reputational damage and financial loss.	• Group-wide cyber risk management processes and policies. • Regular review of effectiveness measures including vulnerability management monitoring, penetration testing and testing measures. • Annual cyber security review in line with National Cyber Security Principles.	• Enhanced digital security monitoring implemented through the introduction of a Security Information & Event Management tool to enable continuous monitoring. • Obtained the Cyber Essentials certification following an extensive external review of our processes and tools. • Updated mandatory cyber awareness training and phishing simulations were launched.
Product Contamination Risk Outlook: ↔ Product contamination due to human error or malicious intent could harm consumers and result in reputational damage and financial loss.	• All manufacturing processes are performed in compliance with Hazardous Analysis and Critical Control Point (HACCP), ISO and Food Safety standards. • External audits are performed annually by Lloyds Register Quality Assurance (LRQA). • Appropriate training is given to employees with an internal programme in place to continuously review and ensure compliance with relevant manufacturing standards.	• Our product recall procedures are reviewed continuously to monitor effectiveness.
Misuse of Consumer Personal Data Risk Outlook: ↔ Inadequate management of consumer data could lead to reputational damage, penalties and financial loss.	• Reviews of consumer data, with safeguards developed to ensure ongoing compliance. • Enhanced data privacy measures were introduced, including brand and market specific data privacy policies, and revised data processing agreements. • IT security measures are regularly reviewed, including data encryption and contractual protections with key third party data processors.	• A data-mapping for record processing and an in-depth review of data retention procedures are being performed to ensure ongoing compliance. • The Group's biennial mandatory data privacy training is being refreshed and issued to all employees. • Our Data Breach Management process is under review alongside initiatives to test effectiveness of the measures in place.

Risk & Risk Impact	Risk Mitigating Actions	Developments in 2021-2022
Changing Consumer Behaviours Risk Outlook: ↔ Ongoing changes in consumer behaviours including a shift to low or no-alcohol drinks could impact long-term growth.	• Our strategy development process ensures an ongoing review of consumer trends at global and market level. • Our premiumisation strategy allows us to maximise opportunities of our product portfolio that are less impacted by the reduction of alcohol consumption. • Regular monitoring of key performance indicators is in place including brand performance and brand health across key market segments and geographies.	• We are reviewing our route-to-market options and expanding our exposure to markets with new opportunities, investment choices and resource allocation. • We are investing in insight generating tools to ensure we are vigilant and aware of evolving consumer behaviours.
Adverse Political and Social Attitudes to Alcohol Risk Outlook: ↑ Tighter restrictions on alcohol promotion, sales and/or consumption may limit market access resulting in a loss of revenue.	• The Group supports a responsible approach to alcohol and considers this to be a core element of its strategy to grow a sustainable, long-term business. • Edrington is a member of national and international organisations that work to encourage the responsible promotion and consumption of alcohol and reduce alcohol-related harms. • Our Company Code of Conduct and Global Marketing Code proactively promote responsible drinking and are reinforced through the group-wide training programme. • Our policies and campaigns are reviewed annually by the Marketing Code Committee.	• Covid-19 evidenced the evolving attitudes towards alcohol and the impact of restrictions imposed by different governments. • We continue to partner with relevant organisations (including the Scotch Whisky Association and other trade organisations) to monitor potential restrictions.
Counterfeit Products & Brand Protection Risk Outlook: ↑ Ineffective or inadequate protection of intellectual property rights, resulting in reputational damage, an increase in counterfeit goods and a decline in sales volumes and/or market share.	• Ongoing monitoring of principal exposures of our brands. • Brand security education, surveillance and enforcement activities are continuously performed to identify and address any potential counterfeit and/or refilling operations. • A review of our globally registered trademarks and introduction of custom notices is ongoing along with a programme of market inspections and raids in key countries.	• The level of sophistication of counterfeit products is ever evolving and increasing in a post-pandemic operating environment. • Product security measures are being reviewed and new technological counterfeit prevention measures are being developed. • A dedicated resource is now in place at Group level coordinating brand protection across all brands.

Risk & Risk Impact	Risk Mitigating Actions	Developments in 2021-2022
Scarcity of Sustainable Raw Materials Risk Outlook: ↑ Our ability to secure the appropriate quality and quantity of core raw materials due to environmental concerns, climate change and industry demands.	• We have established long term contracts with key raw material suppliers in line with projected manufacturing requirements. • Ongoing audits of the quality of our raw material are performed prior to manufacturing. • We continue to promote a circular economy through our sustainability objectives.	• Resource scarcity is accelerating due to constraints in supply chain networks around the world. • Alterative raw material options are being researched to assess alternative materials for the longer term.
Supply Chain Disruption Risk Outlook: ↑ Our ability to maintain the continuity of our supply chain is hindered due to constraints in logistic operations and shipment of raw materials or finished goods leading to revenue loss.	• Proactive collaborative business forecasting provides insight into demand requirements that allow for real-time management of potential shortages. • Ongoing relationship management of key vendors and continuous review of raw material quality and availability.	• Lead times of both raw material and finished goods have increased due to driver and container shortages. • Increased stockholding levels have been introduced to limit the impact of increased delivery lead-times.
Pandemics Risk Outlook: ↔ Ongoing impact of the Covid-19 pandemic or a new global outbreak of a health threat that results in government-imposed restrictions to travel, trading, and human interaction, which could have a negative effect on business operations, trading or logistic activities.	• We continuously review and update our business continuity plans and test various scenarios to ensure they remain relevant and supportive of our operations. • Established links with government bodies to enable ongoing visibility around regulatory changes. • A continuous focus on protecting our people, our business and supporting our suppliers, customers and communities.	• Although world economies are starting to resume operations and adopt a 'new normal', ongoing health concerns remain in some of the geographies in which we operate. • The Executive working group and local leadership teams continue to monitor and enhance mitigation actions required to adapt to the different operating challenges as they arise.

Statutory Key Performance Indicators

	2022	2021
Volume (case equivalents '000)	**3,541**	3,302
Revenue increase / (decline)	**21.1%**	(10.9)%
Operating Profit Margin	**4.9%**	10.5%
Profit before tax	**£14.7m**	£13.8m
Profit for the financial year	**£11.0m**	£12.7m

The key performance indicators used by the company to measure and assess performance are explained below. In the year to 31 March 2022 the key financial performance indicators show that the business has surpassed expectations and have been delivered despite the continuing challenges of Covid restrictions and supply chain interruptions.

Definitions

<u>Volume</u>
The total quantity of cases sold, where a case equivalent is measured as 12 70cl bottles at 40% abv.

<u>Revenue decline</u>
The movement in value of revenue recorded in the year relative to the prior year.

<u>Operating Profit Margin</u>
Operating profit divided by revenue.

<u>Profit before tax</u>
Profit before the deduction of taxation.

<u>Profit for the financial year</u>
Profit for the financial year is defined as earnings after tax.

Revenue
The revenue of the company increased by 21% to £135.5m (2021: £111.9m) with volumes increasing by 7%. The increase in revenue represents the strong growth across all our brands as we benefited from the reopening of the on-trade and travel retail and is primarily a result of an improved product and channel mix, excellent commercial execution and consumer price rises.

Operating profit margin
The operating margin of Highland Distillers Limited reduced to 5% (2021: 11%) in the current year, primarily driven by increased administrative expenses and the reintroduction of employee incentive payments following a strong financial performance in the year.

Profit before tax
The profit before tax was £14.7m (2021: £13.8m) which represents a 7% increase; reflecting the strong performance of both the Company and its subsidiaries following recovery from the Covid-19 pandemic.

Profit for the financial year
Profit for the financial year has decreased by £1.7m due to a higher tax charge in the year.

Corporate Governance

The directors priority is to ensure that they have acted both individually and collectively in the way that they consider, in good faith, to be most likely to promote the success of the company for the benefit of its members as a whole with regards to all its stakeholders and to the matters set out in paragraphs a-f of Section 172(1) of the Companies Act 2006. The company operates as a whole on the matters listed below therefore the details on how the directors have regard to the matters set out in paragraphs a-f of Section 172(1) in the following sections of The Edrington Group Limited annual report and within the Directors' Report.

(a) the likely consequence of any decision in the long term	Wates Principles – pages 13-15
(b) the interests of the company's employees	Wates Principles – pages 13-15 Stakeholder Engagement – pages 17-20
(c) the need to foster the company's business relationships with suppliers, customers and others	Stakeholder Engagement – pages 17-20
(d) the impact of the company's operations on the community and the environment	Stakeholder Engagement – pages 17-20
(e) the desirability of the company maintaining a reputation for high standards of business conduct	Corporate Sustainability and Responsibility – pages 23-27
(f) the need to act fairly as between members of the company	Stakeholder Engagement – pages 17-20

Cutting our Carbon Footprint

The Company falls under the long-term ambition of the parent company, Edrington, with the full details on environmental sustainability detailed within The Edrington Group Limited annual report.

In 2021-22, we reduced our annual CO_2e emissions for scope 1 and 2 plus business travel by 21% compared to 2019, the last non-Covid impaired and audited year. We have been tracking significantly ahead of plan on the existing scopes 1 and 2 plus travel target and have already reduced this number by over 30% versus the 2016 base year.

We report our emissions in line with the Greenhouse Gas Protocol Corporate Standard. This document reports scope 1 and 2 emissions from our operations as well as the majority of scope 3 emissions from business travel in line with the Streamlined Energy and Carbon Reporting requirements (SECR). Additionally, we now include scope 3 emissions relating to the grain whisky used in The Famous Grouse blended Scotch.

The streamlined energy and carbon reporting (SECR) disclosures relating to the company are included within the SECR disclosures made in the annual report of The Edrington Group Limited. The company has taken advantage of the exception from the requirement to make SECR disclosures in these financial statements.

Approved and signed by order of the Board

L. M. Campbell
Director

18 August 2022

Directors' Report

The directors present their Annual Report together with the audited financial statements for the year ended 31 March 2022.

Review of the business

The financial results for the company, which are detailed in the income statement on page 16, cover the year ended 31 March 2022. An analysis on Key Performance Indicators is disclosed within the Strategic Report on pages 2 to 8.

Dividends of £5.0m (2021: £15.0m) were paid during the financial year.

The financial position of the company remains strong, with total equity of £114.7m (2021: £106.2m).

Further details on the performance of the business are detailed within the Strategic Report on pages 2 to 8.

Future developments

These excellent results of the company represent the strong recovery of our brands from the effects of the pandemic in markets around the world despite the volatile trading environment. We expect consumer price inflation, input cost pressures and supply chain disruption to continue throughout the new financial year, and Covid-19 remains a threat. In the short term, efforts to suppress the virus are likely to affect our sales in China, and the risk of a more dangerous variant emerging anywhere in the world remains.

However, we have healthy brands, record levels of investment in the business, and strong momentum.

Derivatives and financial instruments

The company uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange and interest rates. The fair value of these instruments at 31 March 2022 is included in the statement of financial position. An analysis of financial instruments can be found in note 20. Details of how the company manages financial risk and uncertainty is detailed within the "Principal Risks and Uncertainties" section of the Strategic Report on pages 3 to 6.

Directors

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

A. Baroutsis
I.P. Boyadjian
L.M. Campbell

Directors' responsibilities statement

The directors are responsible for preparing the Annual 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 of the company and of the 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 judgments 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' responsibilities statement (continued)

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.

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.

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.

Employee involvement

We want to cultivate an inclusive environment that celebrates diversity of thinking and enables everyone to make meaningful contributions.

The company is committed to engaging employees at all levels regarding matters which affect them and the performance of the company. The board takes its responsibilities to hear and understand our employees' voices seriously and firmly believes that good corporate governance is underpinned by board members meaningfully engaging with stakeholders, including the employees.

Edrington, the ultimate parent company, has in place an employee engagement survey. The survey is run every two years, with pulse surveys operating at intervals in between. Our most recent survey, which was conducted early in 2022, confirmed an overall employee engagement score of 74%, an improvement of 1% from the last survey, with particular improvement in the area of communication.

Edrington also surveys its employees on important matters that relate to the company's culture and values.

Currently all employees have the opportunity to attend an annual Year in Review event delivered by a member of the senior management team. This allows employees to understand detailed financial and strategic plans for the performance year and beyond and ask questions of senior management.

There are also regular townhall sessions, which in the year were held virtually, in which members of the executive team host an interactive session encouraging questions, thoughts and opinions from the workforce.

Executives at Edrington also undertake breakfast sessions aimed at fostering constructive and trusting relationships between executives and employees. In lieu of being able to hold these physically during the year, these were largely replaced with "10 Minutes With..." video interviews with executives. In addition, the Executive Committee host "Ask the Exec" sessions at the talent development programmes and the annual Edrington Leadership Conference.

The group's "Balance Network", has a remit to promote diversity within Edrington. The network is sponsored by the Chief Executive and the Group HR Director and allows employees at all levels within the organisation to candidly engage on the topic of diversity.

In 2020/21 we re-established our staff forum, known as Your Voice. Attendees are appointed and represent a cross-section of employees in the business. The Chief Executive and HR Director attend each meeting. The intent is to support meaningful engagement with employees on a number of topics that have a direct impact on the employees. Over the course of the year, the Your Voice forum has been extended and now operates group-wide on a regional basis.

Employee involvement (continued)

We have also engaged with employees on ways of working following the ease of Covid-19 restrictions, including surveys in relation to employee preferences regarding our new hybrid approach to working.

Employee share schemes

The group operates two share schemes for eligible employees of the group.

The ShareSave Scheme is an annual scheme enabling eligible employees to save for a three year period to buy Edrington 'B' Ordinary Shares at 80% of the market price. The scheme has been approved by HM Revenue and Customs. The group charges the fair value of the option at the date of grant to the income statement over the vesting period of the scheme.

The ShareReward Scheme allows Edrington 'B' Ordinary Shares to be awarded annually to eligible employees of the group. The employee's entitlement to receive shares is dependent on the growth in the group's core contribution in the year, exceeding a pre-determined growth rate. The scheme has been approved by HM Revenue and Customs. The group charges the annual fair value of this scheme to the income statement if the performance criteria have been met.

Business Relationships

Fostering business relationships with our suppliers, customers and lenders is key to the success of the business. Further details of our engagement with our business partners is detailed in the table below:-

Key Stakeholder	Principal Methods of Engagement	How this stakeholder group influenced Board / committee discussions and decisions
Customers	We have regular engagement with our customers through face-to-face or virtual meetings, conferences and events. Quarterly and annual performance reviews are generally held by our commercial teams with our distributors, allowing for structured feedback from our distributors.	Customers and channels are reviewed in annual Performance and Strategy Reviews, which are attended by, among others, the Chief Executive, the Chief Finance Officer, the Managing Director for Group Operations and relevant unit and commercial teams. Engagement with customers informs discussion at these Performance and Strategy Reviews. During the year we engage with certain key customers on new product development and launches.
Suppliers	We have regular engagement with our suppliers through face-to-face or virtual meetings, conferences and events. The company has formal quarterly reviews with key suppliers, which involve senior management and cover quality, service, commercials, innovation, key business updates, strategic reviews and our vendor rating scores. With other suppliers, we generally have bi-annual reviews. We actively engaged with key suppliers to ensure we had sufficient stocks of key raw materials and finished goods in preparation for Brexit.	Updates on significant supply chain activities and issues are provided to board meetings and are considered and discussed by the directors. Engagement with key suppliers during the year informed the board's discussions and decisions regarding the annual budgeting and long-term strategic planning processes for the company.
Lenders	While Highland Distillers Limited does not have any external lenders at a Group level our Treasury team is in regular contact with our banking partners and Private Placement note holders. Annual review meetings are held with	The company's lenders give their views on key areas of financial risk management strategy. These are regularly discussed by the Treasury Committee and additionally the Chief Financial

Key Stakeholder	Principal Methods of Engagement	How this stakeholder group influenced Board / committee discussions and decisions
Lenders (continued)	our lenders where business performance, future plans and strategy are presented to our lenders and they have the opportunity to ask questions and give their views to management. The Chief Financial Officer attends these review meetings. In addition, regular updates on performances are shared with our lenders.	Officer briefs the board on the views of the company's lenders. The Company also engaged directly with its lenders in relation to the impact of the Covid-19 crisis, including providing scenario assessments and action plans for the management of cashflow and compliance with covenant conditions.

Corporate Governance

Further detail on how the company manages its corporate governance is detailed within the "Corporate Governance" section within the Strategic Report on page 8.

Financial Risk Management

Details of how the company manages financial risk and uncertainty is detailed within the "Principal Risks and Uncertainties" section of the Strategic Report on pages 3 to 6.

Going concern

To assess the appropriateness of adopting the going concern basis for the 1887 Group, and the company, the directors have reviewed the strategic and financial plan together with the impact of the Russia/Ukraine conflict and the continuing impact that Covid-19 will have on performance over the next two years. The underlying assumption is that our operations in Scotland will remain open, and that our global supply chain continues to support the shipment of product to our markets.

The experience of the Covid-19 driven uncertainty last year has given us the confidence that we have the ability to adapt quickly and decisively and, with the support of our stakeholders, flex the level of dividends and investment to manage our liquidity.

The plan for 2022/23 shows strong contribution growth despite having reflected the reduction in contribution from Russia and the associated economic uncertainty. Core contribution is continuing to grow with 2022/23 expected to exceed the original pre-pandemic plan. The plan includes a reduction in contribution to reflect the potential impact of the current economic uncertainty including the Russia/Ukraine conflict.

The company has reviewed a number of different scenarios of revenue decline, together with cost and cash savings, to assess the impact on the company and wider Group liquidity and our debt covenant conditions. We have modelled a contribution decline of 10% from our plan. The business has the ability to manage such a decline in sales with reductions in the cost base and the levels of investment to maintain the lenders covenant conditions.

In addition, the 1887 Company Limited has provided a letter of financial support to the company which together with the forecasts indicate, to the Directors' satisfaction, that the company has resources more than sufficient to continue in operational existence for the foreseeable future and therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

Auditor

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

Approved and signed by order of the Board

Lindsay Campbell

L. M. Campbell
Director
18 August 2022

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

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Highland Distillers Limited (the 'company'):
- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the accounting policies; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

- Revenue recognition cut-off risk: Due to the complexity of delivery arrangements there exists a risk that revenue is recognised in the incorrect accounting period. As part of our audit procedures, we selected a sample of invoices from the period immediately preceding the year end date, and agreed to the relevant supporting documentation to verify that revenue had been recognised in the correct accounting period.
- Accruals, specifically in relation to the completeness, existence, valuation and allocation of advertising & promotion and selling cost accruals. Our audit procedures to address this risk included, but were not limited to, substantive detailed testing, including testing historical accuracy of accruals, recalculation of the year-end accruals balances with agreement to contracts and post year end invoices.
- Maturing inventory, specifically in relation to existence of inventory. Our audit procedures to address this risk included, but were not limited to, attendance at and re-performance of inventory counts.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions 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.

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 any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report
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.

David Mitchell

David Mitchell, CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
18 August 2022

Income Statement
for the year ended 31 March 2022

Highland Distillers Limited

	Note	2022 £m	2021 £m
Revenue	1	**135.5**	111.9
Cost of sales		**(123.8)**	(98.3)
Gross profit		**11.7**	13.6
Administrative expenses		**(5.0)**	(1.9)
Operating profit		**6.7**	11.7
Investment income	2	**9.7**	3.6
Earnings before interest and taxation		**16.4**	15.3
Finance income	3	**0.4**	0.6
Finance costs	3	**(2.1)**	(2.1)
Profit before taxation	4	**14.7**	13.8
Taxation	6	**(3.7)**	(1.1)
Profit for the financial year		**11.0**	12.7

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

The accounting policies and notes on pages 20 to 47 form an integral part of these financial statements.

Statement of Comprehensive Income
for the year ended 31 March 2022

Highland Distillers Limited

	Note	2022 £m	2021 £m
Profit for the year attributable to owner after exceptional items		**11.0**	12.7
Items that will not be reclassified to profit or loss			
Actuarial gain/(loss) on pension scheme	18	**3.0**	(12.7)
Movement in post-retirement benefits taken straight to reserves		**(0.1)**	-
Movement on deferred tax on pension scheme	16	**(0.1)**	2.6
Share based payment movements		**(1.5)**	(1.7)
Movement on deferred tax on financial instruments taken straight to reserves	16	**0.1**	(0.4)
Pension fees paid direct to scheme		**(0.1)**	(0.2)
Cash flow hedge reserve movement	19	**(0.1)**	1.4
Items that will or have been reclassified to profit or loss			
Cash flow hedge reserve movement	19	**(0.2)**	0.5
Total other comprehensive income/(expense) for the year		**1.0**	(10.5)
Total comprehensive income for the year		**12.0**	2.2

The accounting policies and notes on pages 20 to 47 form an integral part of these financial statements.

Statement of Financial Position
as at 31 March 2022

Highland Distillers Limited

	Note	2022 £m	*Restated 2021 £m
Non-Current Assets			
Fixed assets			
Intangible assets	8	**27.0**	27.6
Property, plant and equipment	9	**65.3**	58.1
Right of use assets	10	**0.1**	0.1
Investments	11	**30.8**	30.8
Long-term loans	12	**31.9**	33.6
Retirement benefits	18	**14.1**	4.6
		169.2	154.8
Current Assets			
Inventory	13	**197.0**	190.3
Trade and other receivables	14	**38.6**	30.7
Derivative financial instruments	20	**-**	0.3
Cash at bank and in hand		**2.3**	5.6
Tax asset	14	**0.1**	-
		238.0	226.9
Total Assets		**407.2**	381.7
Equity and Liabilities			
Called up share capital	27	**75.0**	75.0
Share based payment reserve		**1.9**	0.4
Cash flow hedge reserve	19	**(0.1)**	0.2
Retained earnings		**37.9**	30.6
Total Equity		**114.7**	106.2
Non-current Liabilities			
Deferred tax liabilities	16	**11.2**	7.7
Lease liabilities	29	**-**	0.1
Total Non-current Liabilities		**11.2**	7.8
Current Liabilities			
Trade and other payables	15	**88.1**	76.5
Tax liability	15	**-**	0.4
Borrowings	23	**193.1**	190.1
Derivative financial liabilities	20	**0.1**	0.6
Lease liabilities	29	**-**	0.1
Total Current Liabilities		**281.3**	267.7
Total Liabilities		**292.5**	275.5
Total Equity and Liabilities		**407.2**	381.7

The accounting policies and notes on pages 20 to 47 form an integral part of these financial statements.

*Prior year comparisons have been restated in accordance with IAS 8 to reallocate long-term intercompany loans from current to non-current assets. The loans were provided by Highland Distillers Limited to Highland Distribution Company Limited and Highland Distribution Ventures Limited. Although these are repayable on demand, Highland Distillers Limited does not expect to collect these loans amounting to £33.6m in the next 12 months.

The financial statements of Highland Distillers Limited (registered number SC158731) were approved by the Board of Directors and signed on behalf of the board.

L. M. Campbell
Director
18 August 2022

Statement of Changes in Equity

for the year ended 31 March 2022

Highland Distillers Limited

	Note	Share capital	Liability for share based payments	Cash flow hedge reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m
Balance at 1 April 2021		**75.0**	**0.4**	**0.2**	**30.6**	**106.2**
Profit for the year		-	-	-	11.0	11.0
Other comprehensive expense		-	-	-	1.3	1.3
Cash flow hedge reserve	19	-	-	(0.3)	-	(0.3)
Total comprehensive income for the year		-	-	(0.3)	12.3	12.0
Dividends	7	-	-	-	(5.0)	(5.0)
Share based payment expense		-	1.5	-	-	1.5
Transaction with owners		-	1.5	-	(5.0)	(3.5)
Balance at 31 March 2022		**75.0**	**1.9**	**(0.1)**	**37.9**	**114.7**

	Note	Share capital	Liability for share based payments	Cash flow hedge reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m
Balance at 1 April 2020		**75.0**	**1.4**	**(1.7)**	**45.3**	**120.0**
Profit for the year		-	-	-	12.7	12.7
Other comprehensive income		-	-	-	(12.4)	(12.4)
Cash flow hedge reserve	19	-	-	1.9	-	1.9
Total comprehensive income for the year		-	-	1.9	0.3	2.2
Dividends	7	-	-	-	(15.0)	(15.0)
Share based payment expense		-	(1.0)	-	-	(1.0)
Transaction with owners		-	(1.0)	-	(15.0)	(16.0)
Balance at 31 March 2021		**75.0**	**0.4**	**0.2**	**30.6**	**106.2**

The accounting policies and notes on pages 20 to 47 form an integral part of these financial statements.

Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Basis of preparation

These financial statements have been prepared on the going concern basis, under the historical cost convention as modified by financial instruments recognised at fair value and in accordance with the Companies Act 2006, with the company reporting under Financial Reporting Standard 101 "Reduced Disclosure Framework".

Highland Distillers Limited is a private company limited by shares which is incorporated in the United Kingdom under the Companies Act 2006 and registered in Scotland. The financial statements are presented in sterling and all values are to the nearest £m expect where otherwise stated.

The principal activities of the company and the nature of its operations are set out in the strategic report on pages 2 to 8.

Adoption of new and revised standards

At the date of authorisation of these financial statements, the following Standards and Interpretations were newly in effect:

• IFRS 17 (Including the June 2020 amendment)	Insurance contracts
• Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture
• Amendment to IAS 1	Classification of liabilities as current or non-current
• Amendment to IFRS 3	Reference to the Conceptual Framework
• Amendment to IAS 16	Property, plant and equipment – proceeds before intended use
• Amendment to IAS 37	Onerous Contracts – cost of fulfilling a contract
• Annual improvements to IFRS Standards (2018-20)	Amendment to IFRS 1 First-time adoption of international financial reporting standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture
• Amendments to IAS 1 and IFRS Practical Statement 2	Disclosure of accounting policies
• Amendment to IAS 8	Definition of accounting estimates

In the current year, the Company, has applied the amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements (issued by the IASB in January 2020). The amendments specify the requirements for classifying liabilities as current or non-current.

The amendments clarify that the classification of liabilities as current or non-current should be based on rights which have substance and that are in existence at the end of the reporting period.

The company has implemented the amendments to IAS 1 from 1 April 2021 and applied the updates retrospectively, under which the prior year balances have been restated in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The adoption of the amendments has resulted in a reclassification of loans to group undertakings from current assets to non-current assets.

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 period.

Disclosure exemptions adopted

In preparing these financial statements the company has taken advantage of some of 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; and
- certain disclosures in respect of financial instruments.

Consolidation

In view of the fact that consolidated financial statements have been prepared by the company's parent undertaking, The 1887 Company Limited, the company has not prepared consolidated financial statements as permitted by s400 of the Companies Act 2006 and information is presented for the individual company and not the group.

Going concern

A full assessment of the appropriateness of the going concern method of preparation has been included in the Directors' Report. 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 the financial statements. The forecast reflects the growth potential and challenges faced by the company, and indicates, to the company's satisfaction, that it has resources more than sufficient to continue as a going concern for the foreseeable future.

The 1887 Company Limited has provided a letter of financial support to the company which together with the forecasts indicate, to the Directors' satisfaction, that the company has resources more than sufficient to continue in operational existence for the foreseeable future and therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

Property, plant and equipment

Property, plant and equipment are stated at cost net of depreciation and any provision for impairment.

No depreciation has been provided on freehold land. Depreciation of other fixed assets has been calculated on cost, on a straight-line basis by reference to the useful life of the assets. The principal annual rates used for this purpose are:

Freehold buildings	2% to 5%
Plant and machinery	5% to 33%
Casks	5% to 15%

Depreciation is not charged on assets under construction until the asset comes into use, at which point it will be moved to the appropriate category above.

Property, plant and equipment is reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable.

Revenue

Revenue comprise the sale of goods, interest and rents receivable from contracts with customers. Revenue is measured at the fair value of consideration received or receivable, excluding sales taxes, and reduced by any rebates and trade discounts allowed. The sale of goods are recognised depending upon individual customer terms based on the point at which the transfer of control is deemed to have been made. For most customers this is the point at which the goods are transported onto the ship for delivery but it can differ for some customers.

Revenue is recognised to the extent that it is highly probable that a material reversal will not occur and at the value the company expects to be entitled.

Investment income is recognised at the point the right to receive payment is established.

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 such as depreciation, warehousing rent and freight but excluding interest. Net realisable value is based on estimated selling price, less the estimated costs of completion and selling. The inventory is valued at standard cost which is reviewed at least annually. Provision is made for obsolete and slow-moving items where appropriate.

Investments

Fixed asset investments are stated at cost, net of any provision for impairment.

Taxation

Income tax expense comprises current and deferred tax. It is recognised in the income statement 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 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.

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. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all 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.

The company classifies its financial assets and liabilities into the following categories: amortised cost, fair value through other comprehensive income or fair value through the income statement.

Financial instruments (continued)

Amortised Cost
Financial asset measured at amortised cost, are assets held for the purpose of collecting contractual cash flows where the contractual terms of the financial asset give rise to cash flows, on a specified date, that are solely payments of principal and/or principal and interest on the principal amount outstanding.

Trade and other receivables are recognised initially at the transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less an allowance for expected credit loss (ECL). The amount of the ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the receivable. The ECL on financial assets is estimated using a provision matrix by reference to past default experience and an analysis of current financial position, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The company only writes off trade receivables when there is information that the debtor is in financial distress (liquidation or bankruptcy) and there is no prospect of recovery. The carrying amount of the asset is reduced by the allowance of ECL and the amount of the loss is recognised in the income statement within cost of sales.

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

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.

Effective interest rate

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts, (including all fees and transaction costs) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Hedge Accounting

The company designates as hedging instruments in respect of foreign currency risk in cash flow hedges. At the inception of the hedge relationship, the company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives, its strategy and at inception of the hedge and on an ongoing basis, the company documents whether the hedging instrument is effective in offsetting changes in cash flows of the hedged item attributable to the hedging risk. All derivatives designed in a cashflow hedge are designated in their entirety as the hedging instrument, with the exception of the Cross Currency Swaps. In the case of the Cross Currency Swaps, their foreign currency basis risk has been excluded and as such is treated as a cost of hedging.

The separate component of equity associated with the hedged item (the cash flow hedge reserve) is adjusted to the lower of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in fair value of the hedged item from inception of the hedge.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. Any remaining gain or loss on the hedging instrument is hedge ineffectiveness and is recognised in the income statement. Where the amount that has been accumulated in the cash flow hedge reserve related to a hedged forecast transaction that subsequently results in the recognition of a non-financial asset or liability,

it is removed from cash flow hedge reserve and included in the initial cost of the asset or liability. For hedges that relate to 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 Accounting (continued)

In accordance with IFRS 9's transition provision for hedge accounting, the company has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 April 2018 with the exception of the treatment of the currency basis component of foreign exchange derivatives designated in a qualifying cash flow hedging relationship which has been excluded as a 'cost of hedging'. This change has been applied retrospectively as is permissible under IFRS 9. The company's qualifying hedging relationships in place as at 1 April 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. On transition to IFRS 9 the unamortised proportion of the basis risk, bifurcated from the cross currency swap valuation, has been accounted for in the cost of hedging reserve and continues to be amortised over the remaining life of the underlying hedging item with an annual release to the income statement.

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 income statement over the vesting period with a corresponding credit to 'Share based payments reserve' in the statement of financial position.

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.

Intangible Assets

Intangible assets are primarily brands with a material value, which are long term in nature and are recorded at cost less appropriate provision for impairment if necessary. Such brands are only recognised where title is clear, brand earnings are separately identifiable and the brand could be sold separately from the rest of the business.

Brands, that in the opinion of the directors, on the basis of their assessment on the strength of the brands and industry, are regarded as having an indefinite economic life are not amortised. These assets are reviewed for impairment at least annually or where there is an indication that the assets may be impaired. The impairment reviews compare the carrying value of the brand with its value in use based on discounted future cash flows.

The assumptions used in the annual impairment reviews are included in note 8.

Goodwill acquired in a business combination is recorded at cost. Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, the cash-generating unit to which goodwill has been allocated are tested for impairment annually, or more frequently where there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Software system costs are stated at historical cost net of amortisation. Amortisation is charged on a straight-line basis over the useful life of the asset.

Software	10% to 33%

Leases

The company assesses whether a contract is or contains a lease, at inception of the contract. The company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease terms reflect the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

The company re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The company did not make any such adjustments during the years presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the company incurs an obligation for costs to dismantle and remove a lease asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the period of the lease the right of use asset is expected to be utilised. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Property, plant and equipment" policy.

Variable rents that do not depend on an index or rate are not included in the measurement of lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are charged to the income statement.

Estimation uncertainty and significant judgements

There are no significant judgements which the group has applied in the process of preparing the financial statements.
There are two key areas of estimation uncertainties with the company, valuation of pension assets and liabilities and the carrying value of brand assets and liabilities:

Pensions and other post-retirement benefits
The company operates both defined benefit pension schemes providing benefits based on final pensionable earnings, and a defined contribution scheme. The determination of any pension scheme surplus/deficit 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. Sensitivity analysis has been undertaken on these key assumptions as detailed in note 18.

Brand valuation
Assessment of the recoverable value of an intangible asset, the useful economic life of an asset, or that an asset has an indefinite useful life requires management estimate.

These assets are reviewed for impairment at least annually or when there is an indication that the asset may be impaired. The impairment reviews compare the carrying value of the brand with its value in use based on discounted future cash flow. The tests are dependent on management's estimates and judgements, in particular in relation to the forecasting of future cash flows, the discount rates applied to those cash flows and the expected long term growth rates. Such estimates and judgements are subject to change as a result of changing economic conditions and actual cash flows may differ from forecasts. Sensitivity analysis is undertaken on these key assumptions as outlined within note 8.

1. Revenue

The analysis of turnover 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 the company's revenue is as follows:

	2022 £m	2021 £m
Sale of cased goods	**118.5**	99.2
Sale of non-cased goods	**12.3**	10.8
Income from services rendered	**4.7**	1.9
Total Revenue	**135.5**	111.9

2. Investment income

	2022 £m	2021 £m
Dividends received	**9.7**	3.6

3. Finance Income and Costs

	2022 £m	2021 £m
Finance Income:		
Interest on defined benefit pension scheme	**0.2**	0.4
Interest receivable from group companies	**0.2**	0.2
Total finance income	**0.4**	0.6
Finance Costs:		
Interest payable to group companies	**(2.1)**	(1.9)
Other interest payable	**-**	(0.2)
Total finance costs	**(2.1)**	(2.1)

4. Profit before taxation

	2022 £m	2021 £m
Profit before taxation is stated after charging		
Inventory charged to income statement	**34.5**	31.2
Foreign exchange loss	**1.3**	0.6
Loss on sale of tangible fixed assets	**0.2**	0.2
Depreciation of tangible fixed assets	**2.9**	3.3
Amortisation of intangible fixed assets	**0.6**	0.6

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

Total fees payable to the company auditor for the audit of the financial statements in the year were £42,021 (2021: £40,020). There were no non audit fees paid in the current or prior years.

5. Employees

	2022 Number	2021 Number
The monthly average number of employees during the year was as follows:		
Engaged in distilling, blending and marketing of Scotch Whisky	**245**	221

	2022 £m	2021 £m
Employment costs during the year amounted to:		
Wages and salaries	**15.7**	11.7
Social security	**1.6**	1.5
Pension costs	**1.9**	1.5
Employee share schemes	**1.7**	0.1
Long-term incentive plans	**5.4**	1.2
Annual employee incentive schemes	**3.1**	-
	29.4	16.0

In the prior year, the company received government funding in the form of Covid-19 government support schemes of £0.7m, no such funding was received in the year to 31 March 2022. The figures above do not include the impact of these payments.

The remuneration including pension contributions of the directors that served during the year was £3.2m (2021: £1.6m). Two of the directors are accruing benefits under the defined benefits pension scheme in both years. One director exercised share options in the year (2021: one).

The highest paid director received emoluments (excluding pension contributions) of £1.4m (2021: £0.5m) and accrued an annual pension of £nil (2021: £nil) The director did not exercise share options in the year (2021: did). The aggregate of gain by the director exercising share rights during the year was £3,000 (2021: £3,000).

Employee share schemes reflect the costs for both the annual ShareSave scheme and the ShareReward scheme (when it is awarded), which rewards employees and directors for the achievement of performance targets.

Performance related payments included the Annual Incentive Plan and Long-Term Incentive Plan costs.

The Annual Incentive Plan rewards directors and senior executives on both personal targets and on annual performance results. Payments were partially triggered in the current year but were not triggered in the prior year.

The award made under the Long-Term Incentive Plan is in the form of shares and is based on targets set at the beginning of a three-year performance cycle. This was partially triggered in the current and prior years.

6. Taxation

	2022 £m	2021 £m
Current tax charge		
In respect of the current year	-	0.5
In respect of prior years	**0.2**	(1.4)
Total current tax	**0.2**	(0.9)
Deferred tax		
In respect of the current year	**0.6**	1.2
Effect of changes in tax rates	**3.1**	-
In respect of prior years	**(0.2)**	0.8
Total deferred tax (note 16)	**3.5**	2.0
Total tax	**3.7**	1.1

6. Taxation (continued)

The income tax expense for the year can be reconciled to the accounting profit as follows:

	2022	2021
	£m	£m
Profit before tax from continuing operations	14.7	13.8
Income tax expense calculated at 19% (2021: 19%)	2.8	2.6
Effect of income that is exempt from taxation	(1.9)	(0.7)
Effect of expenses that are not deductible in determining taxable profit	0.1	0.1
Effect on deferred tax balances due to changes in tax rates	3.1	-
Other	(0.4)	(0.3)
	3.7	1.7
Prior year adjustments	-	(0.6)
Income tax expense recognised in the income statement	3.7	1.1

The tax rate used for the reconciliation above is the corporation tax rate of 19% (2021: 19%) payable by corporate entities in the UK and on taxable profits under tax law in that jurisdiction.

7. Dividends

	2022	2021
	£m	£m
First interim dividend for 2022 paid at 6.7p per share (2021: 20.0p)	5.0	15.0

8. Intangible fixed assets

	Brands	Goodwill	Software	Total
	£m	£m	£m	£m
Cost				
At 1 April 2021	6.4	17.9	5.2	29.5
Disposals	-	-	(0.2)	(0.2)
At 31 March 2022	6.4	17.9	5.0	29.3
Amortisation				
At 1 April 2021	-	-	1.9	1.9
Charge for the year	-	-	0.6	0.6
Disposals	-	-	(0.2)	(0.2)
At 31 March 2022	-	-	2.3	2.3
Net book value				
At 31 March 2022	**6.4**	**17.9**	**2.7**	**27.0**
At 31 March 2021	6.4	17.9	3.3	27.6

At 31 March 2022, the carrying amount of the principal brands and goodwill acquired by Highland Distillers Limited are as follows:-

	2022
	£m
The Glenrothes	24.3

The Glenrothes brand is protected by a trademark, which is renewable indefinitely, in all of the major markets which it is sold. There are not believed to be any legal, regulatory or contractual provisions that limit the useful lives of the brand. The nature of the premium drinks industry is that obsolescence is not a common issue, with indefinite brand lives being commonplace. Accordingly, management believe that it is appropriate that the brand is treated as having an indefinite life for accounting purposes and is therefore not amortised.

8. Intangible fixed assets (continued)

Impairment testing and sensitivity analysis

Impairment tests are carried out annually or more frequently if events or circumstances indicate that the carrying amount may not be recoverable for intangible assets which are not amortised.

The recoverable amount of a cash generating unit (CGU) is determined based on the value in use calculation. These calculations use pre-tax discounted cash flow projections based on financial budgets approved by the Board which cover the three-year period. Where appropriate cashflows are extended over a longer period of time using management's best estimate of future performance. These cash flows reflect expectations of sales, growth, operating costs and margin, based on past experience and industry growth forecasts. Cashflow beyond the three years are extrapolated using the growth rates stated below: -

Market	Terminal growth rate %
Americas	2.5%
Asia	2.5%
Global Travel Retail	2.4%
Europe	2.1%
Russia, Emerging Europe, Middle East, Africa and Turkey	2.1%

The pre-tax weighted average cost of capital (WACC) is the basis for the discount rate of 9% (2021: 9%). The WACC reflects the pre-tax cost of debt-financing and the pre-tax cost of equity finance. Further risk premia are also applied according to management's assessment of any specific risks impacting on the CGU.

The terminal growth rates applied at the end of the forecast period are based on the long-term annual inflation rate of the CGU obtained from external sources. As at 31 March 2022, based on net present value, management concluded that the values in use of the CGU exceed their net asset value.

Sensitivity analysis was also carried out on the above calculations to review possible levels of impairment after adjusting discount rates. At a pre-tax discount rate of 9.5%, none of the CGUs were impaired. At a terminal growth rate of 2.0% none of the CGU's were impaired. Applying the impact of our cash flow sensitivities, none of our CGUs were impaired. Therefore, management has concluded that changes within reason to the key assumptions applied in assessing the value in use calculation would not result in a change to the impairment conclusions reached.

9. *Property, plant and equipment*

	Freehold Land and Buildings £m	Plant and Machinery £m	Casks £m	Assets Under Construction £m	Total £m
Cost					
At 1 April 2021	12.0	23.9	69.0	1.2	106.1
Additions	0.6	0.4	8.4	2.2	11.6
Disposals	(0.1)	(4.1)	(1.1)	-	(5.3)
Transfers	1.1	0.1	-	(1.2)	-
At 31 March 2022	13.6	20.3	76.3	2.2	112.4
Depreciation					
At 1 April 2021	5.9	16.5	25.6	-	48.0
Charge for the year	0.3	0.9	3.2	-	4.4
Disposals	(0.1)	(4.1)	(1.1)	-	(5.3)
At 31 March 2022	6.1	13.3	27.7	-	47.1
Net book value					
At 31 March 2022	**7.5**	**7.0**	**48.6**	**2.2**	**65.3**
At 31 March 2021	6.1	7.4	43.4	1.2	58.1

Included in freehold land and buildings is £0.2m (2021: £0.2m) in respect of freehold land which is not depreciated.

10. Right of use assets

The following assets are subject to lease arrangements.

	Plant, vehicles & equipment £m
Cost or valuation	
At 1 April 2021	0.3
Additions	-
At 31 March 2022	**0.3**
Depreciation	
At 1 April 2021	0.2
Charge for the year	-
At 31 March 2022	**0.2**
Net book value	
At 31 March 2022	**0.1**
At 31 March 2021	0.1

11. Fixed asset investments

	Subsidiary Undertakings £m
Cost and Net book value	
At 1 April 2021 and 31 March 2022	**30.8**

Principal subsidiary undertakings
The following entities are registered in the UK unless otherwise stated:

Name of company (registered address)	Holding	Proportion of issued share capital held	Nature of business and principal activity
Highland Distribution Company Limited (100 Queen Street, Glasgow, G1 3DN)	Ordinary shares	100%*	Holding Company
Highland Distribution Netherlands Limited (100 Queen Street, Glasgow, G1 3DN)	Ordinary shares	100%*	Holding Company
Highland Distribution Ventures Limited (100 Queen Street, Glasgow, G1 3DN)	Ordinary shares	100%*	Holding Company
Edrington Taiwan Limited (9F, No 9 Songgao Road, Xinyi Dist., Taipei City, Taiwan 11073)	Ordinary shares	87.5%	Sales and distribution of alcoholic beverages
Edrington Sweden AB (Luntmakargatan 46, 111, 37 Stockholm, Sweden)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
Edrington Norge AS (Radhusgata 30B NO-0151, Oslo, Norway)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
Edrington Finland OY (Firdonkatu T2 144 00520, Helsinki, Finland)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
Edrington Danmark A/S (Dronningens Tvaergade 9, 2 Copenhagen 1302, Denmark)	Ordinary shares	100%	Sales and distribution of alcoholic beverages

11. Fixed asset investments (continued)

Name of company (registered address)	Holding	Proportion of issued share capital held	Nature of business and principal activity
Edrington Shanghai Limited (Unit 03,10/F,Tower 2 Grand Gateway No1 Hong Qiao Road,Xuihui, Shanghai, China)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
Edrington Hong Kong Limited (Room 1020-1209A, 12/F, Exchange Tower, 33 Wang Chiu Road, Kowloon Bay, Hong Kong)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
Edrington Singapore Pte Limited (12 Marina View Asia Square, Tower 2 Level 24-01, Singapore 018961)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
The Edrington Group USA, LLC (18 West 24th Street, 4th Floor, New York, NY10010, USA)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
Edrington Middle East and Africa (Makrasykas 1, KBC North, Office 201, Strovolos, 2034 Nicosia, Cyprus)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
Edrington European Travel Retail Ltd (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
Edrington Mexico Ltd (Paseo de los Tamarindos 90, Piso 18, 05120, Cuajimalpa de Morelos, Ciudad de Mexico)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
Importadora EMEX Ltd (Paseo de los Tamarindos 90, Piso 18, 05120, Cuajimalpa de Morelos, Ciudad de Mexico)	Ordinary shares	100%	Importer of alcoholic beverages
Servicios EMEX Ltd (Paseo de los Tamarindos 90, Piso 18, 05120, Cuajimalpa de Morelos, Ciudad de Mexico)	Ordinary shares	100%	Provision of employment services
Edrington (Malaysia) SDN BHD (Unit 30-01, Tower A, Vertical business suite, Ave 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpar)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
BB&R Spirits Limited. (One Fleet Place, London, England, EC4M 7WS)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
Edrington UK Distribution Limited (formally Edrington Beam-Suntory UK Distribution Limited) (191 West George Street, Glasgow, Scotland, G2 2LD)	Ordinary shares	100%**	Sales and distribution of alcoholic beverages
Edrington France SAS (37 Rue Des Mathurins, 75008, Paris)	Ordinary Shares	100%***	Sales and distribution of alcoholic beverages

* Indicates that the investment is held directly by the company.
** Additional 50% was purchased on 2 August 2021.
*** Company was incorporated during the financial year.

11. Fixed asset investments (continued)

Joint venture undertakings:

Denview Limited (T/A Maxxium Russia) (Timur Frunze 11, Building 1, Business Center "Demidov", Moscow, 119021)	Ordinary shares	50%	Sales and distribution of alcoholic beverages
Maxxium Nederland BV (De Cusertstraat 89, 1081 CN, Amsterdam, the Netherlands)	Ordinary shares	50%	Sales and distribution of alcoholic beverages
Maxxium Russ (Timur Frunze 11, Building 1, Business Center "Demidov", Moscow, 119021)	Ordinary shares	50%	Sales and distribution of alcoholic beverages
Maxxium Cyprus Limited (Diomidous, 10, Alphamega-Akropolis Building, 3 Floor 3, Office 401, 2024, Nicosia, Cyprus)	Ordinary shares	50%	Sales and distribution of alcoholic beverages
Maxxium BeLux NV (NV Leuvensesteenweg 643-16, 1930, Zaventem)	Ordinary Shares	50%*	Sales and distribution of alcoholic beverages

* Company was incorporated during the financial year.

12. Long-term loans

	2022 £m	*Restated 2021 £m
Loan to group undertakings	**31.9**	33.6
	31.9	33.6

Prior year comparisons have been restated in accordance with IAS 8 to reallocate long-term intercompany loans from current to non-current assets. The loans were provided by Highland Distillers Limited to Highland Distribution Company Limited and Highland Distribution Ventures Limited. Although these are repayable on demand, Highland Distillers Limited does not expect to collect these loans amounting to £33.6m in the next 12 months.

13. Inventory

	2022 £m	2021 £m
Scotch whisky	**194.0**	187.1
Other inventory	**3.0**	3.2
	197.0	190.3

Within total inventory £161.3m relates to inventory which will be realised in greater than one year (2021: £150.1m).

14. Trade and other receivables

	2022 £m	*Restated 2021 £m
Trade receivables	**8.8**	4.9
Less – loss allowances	**-**	-
Trade receivables - Net	**8.8**	4.9
Amounts owed by group undertakings	**24.4**	16.4
Amounts owed by related party undertakings	**1.9**	8.3
Prepayments and accrued income	**0.4**	0.5
Other debtors	**3.1**	0.6
Trade and other receivables	**38.6**	30.7
Tax asset	**0.1**	-
	38.7	30.7

14. Trade and other receivables (continued)

*Prior year comparisons have been restated in accordance with IAS 8 to reallocate long-term intercompany loans from current to non-current assets. The loans were provided by Highland Distillers Limited to Highland Distribution Company Limited and Highland Distribution Ventures Limited. Although these are repayable on demand, Highland Distillers Limited does not expect to collect these loans amounting to £33.6m (note 12) in the next 12 months.

Credit terms vary across markets from cash in advance to 180 days and reflect customary practice within markets. In certain markets credit insurance reduces or eliminates the risk and this has been reflected within the expected credit loss calculation.

No interest is charged on outstanding trade receivables.

The company measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit loss on trade receivables are estimated using a provision matrix by reference to past default experience on the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The company has recognised an aggregated loss allowance of £21,480 in the year and £13,700 in the prior year.

The company only writes off trade receivables when there is information that the debtor is in financial distress (liquidation or bankruptcy) and there is no prospect of recovery.

The following table details the risk profile of the trade receivables based on the company's provision matrix:

	Trade receivables – days past due					
31 March 2022	**Not past due**	**<30**	**31-60**	**61-90**	**>90**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Expected credit loss rate	**0.2%**	**0.2%**	**0.1%**	**0.1%**	**0.1%**	
Expected total gross carrying amount at default	**8.4**	**0.4**	**0.1**	**(0.1)**	**0.0**	**8.8**
Lifetime ECL	**0.02**	**0.00**	**0.00**	**0.00**	**0.00**	**0.02**

	Trade receivables – days past due					
31 March 2021	Not past due	<30	31-60	61-90	>90	Total
	£m	£m	£m	£m	£m	£m
Expected credit loss rate	0%	0%	3.0%	28.0%	44.0%	
Expected total gross carrying amount at default	4.8	0.2	0.0	(0.1)	0.0	4.9
Lifetime ECL	0.00	0.00	0.00	0.03	(0.02)	0.01

The company has not recognised an expected credit loss on amounts owed by group or related party undertakings. This is on the basis that the counterparties to the receivables hold investments in the Group's distribution entities which could be disposed within a 12-month period to raise sufficient funds to repay the amounts due in full.

Amounts owed by group undertakings are interest bearing, unsecured, and repayable on demand.

15. Trade and other payables

	2022 £m	2021 £m
Current		
Trade creditors	**17.1**	3.9
Amounts owed to group undertakings	**41.2**	39.6
Amounts owed to related party undertakings	**0.2**	0.8
Accruals and other creditors	**29.0**	31.8
Other taxes and social security costs	**0.6**	0.4
Deferred consideration	**-**	-
Trade and other payables	**88.1**	76.5
Corporation tax payable	**-**	0.4
	88.1	76.9

Amounts due to group undertakings are interest bearing, unsecured, and repayable on demand.

16. Deferred Tax

	Cash flow hedges £m	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other temporary differences £m	Total £m
At 1 April 2021	(0.1)	(7.2)	(0.9)	0.5	(7.7)
Adjustment in respect of prior years	-	0.2	-	-	0.2
Charge/(credit) to income statement	-	(2.9)	(1.7)	0.9	(3.7)
Charge/ (credit) to other comprehensive income	0.1	-	(0.1)	-	-
At 31 March 2022	**-**	**(9.9)**	**(2.7)**	**1.4**	**(11.2)**

UK corporation tax rate changes

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. The deferred tax assets/liabilities at 31 March 2022 have been calculated based on these rates, reflecting the expected timing reversal of the related temporary differences (2021: 19%).

17. Share-based payments

Equity-settled share option scheme

The ultimate parent company, The Edrington Group Limited, has a share option scheme for all employees of Highland Distillers Limited. Options are exercisable at the market price of The Edrington Group Limited's ("Edrington") shares on the date of grant less a discount of 20%. 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. Options are forfeited if the employee leaves Edrington before the options vest.

Details of the share options outstanding at the balance sheet date, which relate to the company, are as follows.

	2022		2021	
	Number of Share Options	**Weighted Average Exercise Price (in £)**	Number of Share Options	Weighted Average Exercise Price (in £)
Outstanding at beginning of the year	**58,677**	**18.93**	100,410	17.64
Granted during the year*	**32,489**	**36.56**	-	-
Exercised during the year	**(30,118)**	**18.14**	(35,584)	15.31
Expired/transfers during the year	**160**	**19.76**	(6,149)	18.89
Outstanding at the end of the year	**61,208**	**28.68**	58,677	18.93
Exercisable at the end of the year	**Nil**		Nil	

The weighted average share price at the date of exercise for share options exercised during the year was £18.14 (2021: £15.31). The options outstanding at 31 March 2022 had a weighted average exercise price of £28.68 (2021: £18.93) and a weighted average remaining contractual life of 2.1 years (2021: 1.5 years). The fair value of the options granted in April 2022 is £0.3m (April 2021: £nil).

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

Grant date	April 2021	April 2020	April 2019
Weighted average share price	45.71	NA*	£24.70
Weighted average exercise price	36.56	NA*	£19.76
Expected volatility	12%	13%	11%
Expected life	3 years	3 years	3 years
Risk free rate	0.14%	0.7%	0.7%
Expected dividend yield	0.82%	NA*	1.7%

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

The company recognised total income of £0.1m during the year (2021: income of £0.1m) in relation to equity-settled and share-based payment transactions.

* There were no new ShareSave Schemes in the previous financial year.

18. Retirement benefits

Retirement benefits comprise:	**2022**	2021
	£m	£m
Defined benefit scheme	**15.3**	5.6
Other post-retirement benefits	**(1.2)**	(1.0)
Total retirement benefit assets	**14.1**	4.6

Defined benefit scheme

The company participates in a defined benefit pension scheme in the UK based on final salary which has been closed to new employees since February 2008. This is a defined benefit multi-employer scheme, of which the company recognises their share of costs as well as the assets and liabilities. On 31 October 2014 the scheme was closed to future accrual. The benefit commitments are funded in advance and the assets of the schemes are held in separate trustee administered funds. The contributions are determined by a qualified actuary on the basis of regular valuations using the projected unit method.

The most recent actuarial valuations of the Highland Distillers Limited pension scheme and other post-retirement benefits were undertaken on 5 May 2022. Both valuations were performed by independent, professionally qualified actuaries.

18. Retirement benefits (continued)

The major assumptions used by the actuary were:	2022	2021
Rate of increase of pensions in payment	**2.3%-3.85%**	2.2%-3.7%
Discount rate	**2.8%**	2.1%
Inflation assumption (RPI/CPI)	**3.7%/3.1%**	3.3%/2.7%
Medical benefits inflation assumption	**2.8%**	2.1%

The post retirement mortality assumption used to value the benefit obligation at 31 March 2022 is the S3 actuarial index adjusted by 94% (2021: 94%) for both males and females, plus an allowance for 'CMI 2019' with a long term improvement rate of 1.5%. In 2015, as permitted by scheme rules, the company has linked the deferred pension valuation in excess of Guaranteed Minimum Pension to CPI. Inflation-linked pension increases continue to be based on RPI.

The assets in the schemes and the expected rates of return were:

	2022	2021
	£m	£m
Bonds	**55.8**	49.4
Cash	**2.8**	2.5
Insured Pensions	**30.1**	33.0
Illiquid Debt	**15.4**	18.0
Total market value of assets	**104.1**	102.9
Present value of scheme liabilities	**(88.8)**	(97.3)
Surplus in pension scheme	**15.3**	5.6

Defined benefit schemes

Analysis of net credit to finance costs	2022	2021
	£m	£m
Expected return on pension scheme assets	**2.2**	2.5
Interest on pension scheme liabilities	**(2.0)**	(2.1)
Net credit to finance costs	**0.2**	0.4

Analysis of amount recognised in the statement of comprehensive income (OCI):	2022	2021
	£m	£m
Actual return less expected return on assets	**(4.0)**	(4.0)
Experience losses on liabilities	**(1.5)**	(0.3)
Changes in assumptions	**8.5**	(8.4)
Actuarial gain/(loss) recognised in OCI	**3.0**	(12.7)

	2022	2021
Reconciliation of fair value of scheme assets	**£m**	£m
Opening fair value of scheme assets	**102.9**	105.9
Expected return on assets	**2.2**	2.5
Employers' contributions	**6.5**	1.7
Actuarial losses	**(4.0)**	(3.1)
Benefits paid	**(3.5)**	(4.1)
Closing fair value of scheme assets	**104.1**	102.9

18. Retirement benefits (continued)

Reconciliation of defined benefit obligation	2022 £m	2021 £m
Opening defined benefit obligation	**(97.3)**	(89.6)
Past service cost including curtailment	**-**	(0.1)
Interest cost	**(2.0)**	(2.1)
Actuarial gains/(losses)	**7.0**	(9.6)
Benefits paid	**3.5**	4.1
Closing defined benefit obligation	**(88.8)**	(97.3)

Movement in asset during the year	2022 £m	2021 £m
Opening asset in scheme	**5.6**	16.3
Contributions	**6.5**	1.7
Gain on curtailment of scheme liabilities	**-**	(0.1)
Net interest cost	**0.2**	0.4
Actuarial gains/(losses)	**3.0**	(12.7)
Closing deficit in scheme	**15.3**	5.6

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Five year history:					
Total market value of assets	**104.1**	102.9	105.9	99.2	99.5
Present value of scheme liabilities	**(88.8)**	(97.3)	(89.6)	(98.2)	(94.7)
Surplus/(Deficit) in pension scheme	**15.3**	5.6	16.3	1.0	4.8

	2022	2021	2020	2019	2018
History of experience gains and losses:					
Difference between expected and actual return on scheme's assets (£m)	**(4.0)**	(4.0)	3.8	(2.9)	1.1
Percentage of scheme's assets	**(3.8%)**	(3.9%)	3.6%	(2.9%)	1.1%
Experience gains and losses on scheme's liabilities (£m)	**(1.5)**	(0.3)	1.4	0.2	(0.2)
Percentage of scheme's liabilities	**1.7%**	0.3%	(1.6%)	(0.2%)	0.2%
Total amount recognised in statement of comprehensive income (£m)	**3.0**	(12.7)	11.0	(7.8)	(3.0)
Percentage of scheme's liabilities	**(3.4%)**	13.1%	(12.3%)	8.0%	3.2%

18. Retirement benefits (continued)

Sensitivity analysis

The sensitivity of the present value of scheme liabilities to changes in the principal assumptions used at 31 March 2022 is set out below:

Assumption	Sensitivity	Financial impact on overall liability Year to 31 March 2022	Financial impact on overall liability Year to 31 March 2021
Discount rate	+/- 0.5%	**Decrease/increase by £8.0m**	Decrease/increase by £9.1m
Discount rate	+/- 1.0%	**Decrease/increase by £16.6m**	Decrease/increase by £18.8m
Mortality – increase in life	+/- 1 year	**Increase/decrease by £3.7m**	Increase/decrease by £3.6m
Increase in inflation	+/- 0.5%	**Decrease/increase by £3.0m**	Decrease/increase by £3.5m

Methods and assumptions used in preparing the sensitivity analysis

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

Mortality Assumptions	31 March 2022		31 March 2021	
	Males	**Females**	Males	Females
Average future life expectancy (in years) for a member aged 65 at 31 March	**22.8**	**24.6**	22.8	24.6
Average future life expectancy (in years) at age 65 for a member aged 45 at 31 March	**24.5**	**26.4**	24.5	26.4

Defined benefit schemes
The company paid deficit reduction payments of £6.5m (2021: £1.7m) to the pension schemes during 2022.

Defined contribution schemes
The company operates a number of defined contribution schemes for employees. The pension cost charge for the year in respect of the company's defined contribution schemes amounted to £2.2m (2021: £1.5m). As at 31 March 2022, contributions of £0.2m (2021: £0.2m) due in respect of the current reporting period had not been paid over to the scheme.

19. *Cash flow hedge reserve*

	£m
Balance at 1 April 2021	0.2
Gain arising on changes in fair value of hedging instruments (cash flow hedges)	
- Forward foreign exchange contracts	(0.1)
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	(0.3)
Balance at 31 March 2022	**(0.1)**

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

Cash flow Hedges

Foreign Exchange Forward Contracts
The company uses foreign exchange forward contracts to manage the transactional foreign exchange risk associated with anticipated sales and purchase transaction out to 24 months. Consistent with prior periods, when a forward contract is designated in a cash flow hedge relationship, the company has designated the change in fair value of the entire forward contract i.e. including the forward element, as the hedging instrument.

At the end of the reporting period the total notional amount of outstanding forward foreign exchange contracts to which the company is committed is £12.0m (2021: £24.9m). Changes in the fair value of the derivates that are designated as and are effective cash flow hedges amounting to £0.1m (2021: £1.4m) have been recognised in the cash flow hedge reserve. A net gain £0.2m (2021: gain £0.5m) has been transferred out of the cash flow hedge reserve to the income statement.

Financial Instruments not qualifying for hedge accounting
The company's policy does not permit the use of derivatives for trading purposes. However, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the hedged item naturally offset in the statement of comprehensive income.

These instruments include foreign exchange forward contracts to hedge transactional exposures denominated in foreign currencies. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement. Change in fair value of derivatives not designated as hedge at 31 March 2022 had a net nil impact in finance costs.

Derivative Financial Instruments - carrying value

	2022		2021	
	Assets	**Liabilities**	Assets	Liabilities
Current	**£m**	**£m**	£m	£m
Hedging derivatives - Cash flow hedges				
- Foreign exchange rates	**-**	**(0.1)**	0.3	(0.5)
Non Hedging derivatives				
- Foreign exchange rates	**-**	**-**	-	(0.1)
	-	**(0.1)**	0.3	(0.6)

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

20. *Derivative financial instruments (continued)*

The following table sets out the maturity profile and average foreign currency exchange rates of the hedging instruments used in the company's cash flow hedging strategies.

31 March 2022	**Maturity**	
Cash flow Hedges	**Up to One Year**	**One to Five Years**
Foreign Exchange Forward Contracts (GBP: EUR)		
- Notional Amount (£m)	2.1	-
- Average exchange rate	1.1056	-
Foreign Exchange Forward Contracts (EUR: GBP)		
- Notional Amount (£m)	7.1	2.7
- Average exchange rate	1.1513	1.1502

Hedge ineffectiveness resulting from cash flow hedging in the year was immaterial. The principal potential source of ineffectiveness has been identified as period (credit) valuation adjustments made to the hedging instruments when marked to market, which are not reflected in the periodic repricing of the associated hedged items.

A change in the timing of the cash flows of a designated hedged item and/or a reduction in the volume of the hedged item occurring subsequent to having been designated in a cash flow hedging relationship have also been identified as potential sources of ineffectiveness. Historically, such adjustments have not resulted in significant hedge ineffectiveness and are similarly not expected to generate significant ineffectiveness in future reporting periods.

As critical terms of the hedging instruments match those of their corresponding hedge items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements.

Since 100% of the national amount of the hedging instruments are designated against the equivalent principal amount of the associated hedged items, the hedge ratio for all live hedges is 1:1.

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 company's financial liabilities including derivative instruments on an undiscounted basis.

Where interest rate payments are on a floating rate basis, rates of each cash flow until maturity of the instruments are calculated based on the forward yield curve prevailing at 31 March 2022.

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

	2023	**2024**	**Total**
31 March 2022	**£m**	**£m**	**£m**
Payables	(87.5)	-	(87.5)
Loans and other borrowings	(193.1)	-	(193.1)
Interest on borrowings	(2.5)	-	(2.5)
Non-derivative financial liabilities	**(283.1)**	**-**	**(283.1)**
Amounts payable from foreign exchange contracts	(6.3)	(2.1)	(8.4)
Derivative instruments	**(6.3)**	**(2.1)**	**(8.4)**

21. Liquidity risk (continued)

	2022	2023	Total
31 March 2021	**£m**	**£m**	**£m**
Payables	(76.1)	-	(76.1)
Loans and other borrowings	(190.1)	-	(190.1)
Intertest on borrowings	(2.0)	-	(2.0)
Non-derivative financial liabilities	**(268.2)**	**-**	**(268.2)**
Amounts payable from foreign exchange contracts	(10.6)	(3.2)	(13.8)
Derivative instruments	**(10.6)**	**(3.2)**	**(13.8)**

22. Risk Management

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

Foreign exchange risk management
The company undertakes transactions denominated in foreign currencies and is therefore exposed to foreign exchange risk.

Foreign exchange contracts
It is company policy to enter into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to 24 months. The company implements a rolling policy which ensures that by the end of the current year, as a minimum 50% of anticipated currency contribution (excluding GBP) will be hedged within the next 12 months and 20% in the following 12 months. Refer to note 20 for further detail on derivatives outstanding as at the reporting date.

Interest rate risk management
Highland Distillers Limited is financed via an intercompany on demand loan with The 1887 Company Limited. The loan is a floating rate loan based on the prevailing 1 month SONIA rate + a margin of 0.8%, aligned with the external bank borrowing cost of The 1887 Group.

Other current intercompany loans used for management of working capital are at floating rate or in the case of Highland Distribution Netherlands Limited (HDN), Highland Distribution Financial Limited (HDF), Highland Distribution Ventures Limited (HDV) and Highland Distribution Company Limited (HDC) do not incur interest.

Highland Distillers Limited has an intercompany loan payable, denominated in GBP to Edrington Singapore PTE Ltd (ESPL). Interest on £40.1m of the loan (as at 31 March 2022) is charged at the prevailing 1 month SONIA rate (reflects ESPL external cost of borrowing.

Interest on the remaining £11.5m of the loan (as at 31 March 2022) is charged at 3.85% which reflects the prevailing cost of borrowing in China and the fact that the loan between HDL and ESPL mirrors a back to back loan between ESPL and Edrington Shanghai.

Highland Distillers Limited has an intercompany loan receivable, denominated in MXN Peso with Edrington Mexico, with an interest rate which mirrors the external loan applicable to Edrington Mexico. As at 31 March 2022 the rate was 9.73% (2021: 7.78%).

As at 31 March 2022 the average interest rate across all borrowings and deferred payments was 1.28% (2021: 1.1%).

The flowing table details the company's sensitivity to a 10% increase and decrease in currency rates and a 10bps increase and decrease in interest rates and the impact on profit and loss and equity.

22. Risk Management (continued)

The sensitivity analysis is based on outstanding foreign currency denominated monetary items and interest bearing debt on balance sheet as at 31 March 2022, adjusted for a 10% movement in foreign currency rates or 10bp movement in interest rates, to quantify the impact over a 12 month period.

The result of the sensitivity analysis should not be considered as projections of likely future events, gains or losses as actual results may different materially in the future as a result of developments in global financial markets impacting exchange rates and interest rate.

	Impact on income statement gain/(loss)		Impact on comprehensive income gain/(loss)	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
10% weakening of sterling	**(1.6)**	(1.4)	**0.8**	-
10% strengthening of sterling	**2.0**	1.8	**(0.9)**	-
10bp increase in interest rates	**(0.2)**	(0.2)	**-**	-
10bp decrease in interest rates	**0.2**	0.2	**-**	-

Credit Risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. Credit risk arises on cash balances, derivatives financial instruments and credit exposures to customers.

The carrying amount of financial assets represents the company'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 primarily with a long term credit rating within the A band. The company's policy is to spread the risk by using a number of banks to avoid significant concentration of credit risk.

Trade and other receivables exposures are managed locally in the operating units where they arise and credit limits are set as deemed appropriate for the customers.

The company has a large number of customers which are internationally dispersed. The company uses credit insurance to limit its risk to the third party customers.

Capital risk
The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity balance. The company's overall strategy remains unchanged from 2021.

The capital structure of the company consists of net debt and equity of the company (comprising issued capital, reserves and retained earnings) as detailed in the statement of changes in equity.

The company is not subject to any externally imposed capital requirements.

22. Risk Management (continued)

Reconciliation of financial instruments

31 March 2022	Fair Value £m	Amortised cost £m	Total £m	Current £m	Non-Current £m
Financial Assets					
Trade receivables	-	35.1	35.1	35.1	-
Cash and Cash equivalents	-	2.3	2.3	2.3	-
Derivatives in a hedge relationship	-	-	-	-	-
Long term loans	-	31.9	31.9	-	31.9
	-	69.3	69.3	37.4	31.9
Financial Liabilities					
Trade and other payables	-	(87.5)	(87.5)	(87.5)	-
Borrowings	-	(193.1)	(193.1)	(193.1)	-
Derivatives in a hedge relationship	(0.1)	-	(0.1)	(0.1)	-
	(0.1)	(280.6)	(280.7)	(280.7)	-
	(0.1)	**(211.3)**	**(211.4)**	**(243.3)**	**31.9**

31 March 2021	Fair Value £m	Amortised cost £m	Total £m	Current £m	*Restated Non-Current £m
Financial Assets					
Trade receivables	-	29.6	29.6	29.6	-
Cash and Cash equivalents	-	5.6	5.6	5.6	-
Derivatives in a hedge relationship	0.3	-	0.3	0.3	-
Long term loans	-	33.6	33.6	-	33.6
	0.3	68.8	69.1	35.5	33.6
Financial Liabilities					
Trade and other payables	-	(76.1)	(76.1)	(76.1)	-
Borrowings	-	(190.1)	(190.1)	(190.1)	-
Derivatives in a hedge relationship	(0.5)	-	(0.5)	(0.5)	-
Derivatives not classified as hedges	(0.1)	-	(0.1)	(0.1)	-
	(0.6)	(266.2)	(266.8)	(266.8)	-
	(0.3)	**(197.4)**	**(197.7)**	**(231.3)**	33.6

*Prior year comparisons have been restated in accordance with IAS 8 to reallocate long-term intercompany loans from current to non-current assets. The loans were provided by Highland Distillers Limited to Highland Distribution Company Limited and Highland Distribution Ventures Limited. Although these are repayable on demand, Highland Distillers Limited does not expect to collect these loans amounting to £33.6m in the next 12 months.

23. Borrowings

	2022	2021
	£m	£m
Current		
Loans with Group Companies	**(193.1)**	(190.1)

The loans with group companies represent working capital loans with the 1887 Company Limited (1887), Highland Distribution Netherlands Limited (HDN), Highland Distillers Group Limited (HDG), and Edrington Singapore PTE Ltd (ESPL).

Loans with HDN and HDG are non-interest bearing, interest on the loan with 1887 is charged at SONIA + a margin of 0.8% *(reflecting the cost of borrowing per the 1887 external RCF)*. A portion of the loan with ESPL (£40.1m as at 31 March 2022) is based on the prevailing one month SONIA rate with a further portion (£11.5m as at 31 March 2022) which mirrors a back to back loan between ESPL and Edrington Shanghai is based on the prevailing borrowing rate in China, as at 31 March 2022 was 3.85%.

The book value of the borrowing equates to the fair value.

Highland Distillers Limited is an obligor under The 1887 Company Limited Revolving Credit Facility and as such can borrow directly from the facility and borrowing of the 1887 Group are secured by guarantees from the floating charges over some of the assets of the Company.

24. Preference shares

The company holds preference shares to the value of £1 (2021: £1) in Edrington Singapore Pte Limited, a company engaged in the marketing and distribution of alcoholic beverages in South East Asia. In the year the company received dividends of £2.3m (2021: £1.2m) which is included in the total investment income disclosed in note 2.

25. 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 purchases of £51.1m (2021: £36.6m) from the Edrington Distillers Limited and also made purchases of £2.2m (2021: £1.1m) from Macallan Distillers Limited.

The company made sales to the following related parties:

	Sales to Related Parties	
	2022	2021
	£m	£m
Edrington Distillers Limited	**0.2**	0.6
Macallan Distillers Limited	**0.9**	0.9
Edrington Sweden AB	**7.5**	8.2
Edrington Danmark A/S	**2.3**	2.4
Edrington Norge AS	**1.3**	1.3
Edrington Singapore Pte Limited	**10.3**	6.2
Edrington Americas	**9.9**	9.0
Edrington Middle East & Africa	**5.6**	3.1
Edrington Finland	**0.6**	0.5
Edrington Mexico	**0.2**	0.1
Edrington UK	**55.3**	-
Edrington France	**0.1**	-
Joint Venture Undertakings	**33.2**	48.5

These companies are all under the common control of The Edrington Group Limited, the ultimate parent company of Highland Distillers Limited.

25. Transactions with related parties (continued)

Finance position with group companies are set out below:

	2022	*Restated 2021
	£m	£m
Balance Sheet Items:		
Borrowings (note 23)		
Parent	**(140.9)**	(165.0)
Group	**(52.2)**	(25.1)
Payables (note 15)		
Group	**(41.2)**	(39.6)
Joint Ventures	**(0.2)**	(0.8)
Receivables (note 14)		
Group	**24.4**	16.4
Joint Ventures	**1.9**	8.3
Non-current assets (note 12)		
Group	**31.9**	33.6

The payables and receivables outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties. Terms for group loans can be found in note 23.

Prior year comparisons have been restated in accordance with IAS 8 to reallocate long-term intercompany loans from current to non-current assets. The loans were provided by Highland Distillers Limited to Highland Distribution Company Limited and Highland Distribution Ventures Limited. Although these are repayable on demand, Highland Distillers Limited does not expect to collect these loans amounting to £33.6m in the next 12 months.

As permitted by FRS 101, the company has taken advantage of the disclosure exemption available under that standard in relation to the disclosure of key management personnel remuneration.

26. Other contractual obligations

Contracted but not provided for:	2022	2021
	£m	£m
- material purchase commitment	**72.5**	45.9
- capital commitment	**24.0**	28.8

Material purchase obligations include various long term purchase contracts entered into for the supply of certain materials, principally malt barley. The contracts are used to guarantee supply of these materials over the long term and to enable more accurate management of future costs.

Capital commitments represent contracts entered into for the provision of plant and machinery, casks and buildings.

27. Share Capital

	Number of Shares	£m
At 31 March 2022 and 2021		
75,000,000 Ordinary shares of £ 1 each – Authorised, called-up, issued and fully paid	**75,000,000**	**75.0**

28. Leases

The company leases several assets including buildings, plants, IT equipment. The average lease term is 4 years.

Amounts recognised in the income statement	**2022**	2021
	£m	£m
Depreciation expense on right-of-use assets	**0.1**	0.1
Expense related to short-term leases & low value assets	**0.1**	0.1
	0.2	0.2

29. Lease liabilities

	2022	2021
	£m	£m
Amounts due for settlement within 12 months	-	0.1
Amounts due to settlement after 12 months	-	0.1
	-	0.2

Maturity analysis	**2022**	2021
	£m	£m
Less than one year	-	0.1
One to two years	-	0.1
	-	0.2
Less unearned interest	-	-
	-	0.2

The company does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the company's treasury function.

30. Ultimate Controlling Party

The company's immediate parent company is The 1887 Company Limited, whose ultimate parent company is The Edrington Group Limited which is registered in Scotland and which is ultimately controlled by The Robertson Trust, a registered charity. Copies of The Edrington Group Limited financial statements, which is the largest group into which these financial statements are consolidated, are available from its registered office, 100 Queen Street, Glasgow, G1 3DN. The smallest group into which these financial statements are consolidated is The 1887 Company Limited and its financial statements are available from its registered office, 100 Queen Street, Glasgow, G1 3DN.