

Highland Distillers Limited

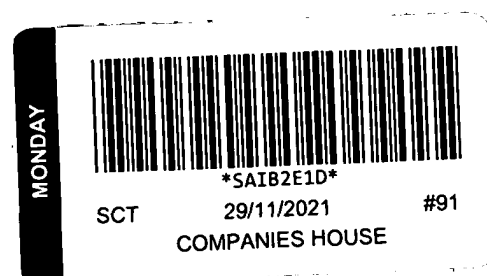
*Annual report and financial statements for the
year ended 31 March 2021*

COMPANIES HOUSE

29 NOV 2021

EDINBURGH

Company Registration No. SC158731



Directors and advisers

Highland Distillers Limited

Directors

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I.P. Boyadjian
L.M. Campbell

Company Secretary

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Annual report and financial statements

Highland Distillers Limited

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Strategic Report

Highland Distillers Limited

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.

Business model

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

Investing in our brands is key to attaining this vision along with the businesses ability to focus on what makes a difference, to adapt at pace and to challenge and embrace diversity of thought.

This culture provides strength and inspiration for the challenges ahead.

Market Context

COVID-19 had a very significant impact on our operations, affecting our employees, customers and consumers. Lockdowns meant that many outlets selling our products were forced to close, with bars, restaurants, hotels and Duty Free stores especially badly affected. In most markets retail stores remained open and they, along with e-commerce sales, picked up most of the demand from the restricted channels. The business responded by reprioritising channels, stock allocations and brand investment, and by building capability in areas such as e-commerce. We anticipate that disruption will continue for some time, but that demand for our products will remain healthy. The reopening of on-trade and travel retail will shift demand back towards these channels so the business will have to remain agile to deploy our resources effectively.

Exports to the USA, which is the world's largest market for premium spirits, were hit hard by a 25% tariff on Single Malt Scotch Whiskies that was in place from October 2019 until March this year. We are encouraged by the recent agreement between the UK and US governments to suspend tariffs for five years, and grateful for the continuing efforts of the Scotch Whisky Association and the UK Government to resolve the dispute permanently.

We have worked hard since the outcome of the referendum in 2016 to be as prepared as possible for Britain leaving the EU. Thanks to the expertise of our Brexit team, the business had planned for a range of scenarios, and we navigated the end of the transition period with minimal disruption.

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.

Edrington's risk management processes minimise its exposure to unforeseen events and identified risks, allowing the business to focus on delivering its strategic objectives.

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 March 2021 to help update the principal risks facing the company. 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 Edrington's operating environment and external factors, the review of principal risks will be performed by both the Executive Committee and the board on an annual basis going forward.

Risk categories are predominately 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 Edrington operates is becoming increasingly volatile and constantly evolving, so the company will remain vigilant to be sure that new risks are identified and assessed on a timely basis, and that appropriate actions are taken to mitigate the impact of these risks on the business.

Strategic Report (continued)

Highland Distillers Limited

Principal risks and uncertainties (continued)

The COVID-19 outbreak resulted in several of the previously identified risks materialising simultaneously. These included increased financial risks, the ability of the Group to manufacture and a reduced demand across the markets. The Group was able to react promptly and apply the necessary mitigating actions to protect our people and our operations. The knock-on effect of measures required to address the ongoing impact of COVID-19 continues to be monitored closely, including the interdependency of principal risks and how the size and speed of the impact of these can be accelerated with a single event such as a pandemic or a natural disaster.

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 control 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 changes on tariffs 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, due to the increased focus on the 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.

Identified Risk	Impact	Mitigating Actions
Geopolitical and economic conditions	Economic or political instability restricts market activity, affecting market access, demand or increased costs.	The group's diverse geographic spread reduces the exposure to specific market risks. Direct ownership of the route to market in its major markets provides local insight combined with a robust central overview. This enables the company and group to react quickly and flexibly to such changes.
Cyber attack	Theft, failure or corruption of digital assets and/or key systems could lead to business disruption, reputational damage and have an adverse impact on profit.	<p>The group has further enhanced its system and information management security in the light of increased remote working as a result of the pandemic.</p> <p>An annual business-wide information risk management assessment is carried out which reviews and updates the cyber incident response plan. Additional guidelines and training are provided regularly to all employees as part of a user awareness training and education programme.</p> <p>Edrington carries out ongoing activities to review and enhance security, including vulnerability management monitoring and testing measures, the segregation of the network to protect business critical systems, and ongoing enhancements on authenticating user access to our systems.</p>

Strategic Report (continued)

Highland Distillers Limited

Identified Risk	Impact	Mitigating Actions
Product contamination	Product contamination due to human error or malicious intent may result in reputational damage and financial loss due to fines and damage management.	<p>Manufacturing processes are reviewed and monitored regularly to ensure full compliance with Hazard Analysis and Critical Control Point (HACCP), ISO and Food Safety standards.</p> <p>All relevant employees have received appropriate training and there is an internal program in place to continuously review and ensure compliance with all relevant manufacturing standards.</p>
Misuse of consumer personal data	Inadequate management of consumer data could lead to reputational damage and financial loss due to penalties and fines.	<p>Further resource is being put in place to ensure the business continues to comply with all necessary data privacy and data security regulations as the business expands its digital activities and increases the use of personal data.</p> <p>Data Privacy compliance is a core element of Edrington's Code of Conduct and annual training is provided to support this.</p> <p>Additional IT Security measures have been introduced including data encryption and contractual protections with key third party data processors.</p>
Long-term impact of COVID-19 on consumer drinking behaviours	The impact of ongoing COVID-19 measures may significantly change consumer behaviours and choice of category, resulting in loss of revenue.	<p>Ongoing monitoring of consumer behaviours and brand performance are performed both at local market and brand strategy reviews. Regular monitoring of key performance indicators including brand performance, and brand health across key market segments and geographies, are in place.</p> <p>Continued focus on delivering the premiumisation strategy is enabled through the increase in e-commerce footprint and Direct to Consumer activities.</p>
Adverse political and social attitudes to alcohol	Tighter restrictions on alcohol promotion, sales and/or consumption may limit market access resulting in loss of revenue.	<p>The group supports a responsible approach to alcohol and considers this a core element of its strategy to grow a sustainable, long-term business.</p> <p>The group is a member of national and international organisations that work to encourage the responsible promotion and consumption of alcohol and reduce alcohol-related harms.</p> <p>Our company Code of Conduct and Global Marketing Code proactively promote responsible drinking and are reinforced through the group-wide training programme.</p> <p>The group's policies and campaigns are reviewed annually by the Marketing Code Committee.</p>

Strategic Report (continued)

Highland Distillers Limited

Identified Risk	Impact	Mitigating Actions
Counterfeit products and brand protection	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.	<p>The group invests considerable effort in proactively protecting its intellectual property rights. The group has a clear brand protection strategy with processes aimed at addressing the principal exposures and risks likely to affect alcoholic beverage brands.</p> <p>Cross-functional brand protection reviews are performed and complemented by activities on brand security education, surveillance and enforcement in order to identify and address any potential counterfeit.</p> <p>A group-wide review of brand protection activities and oversight is being performed in order to further enhance efficiency and effectiveness of brand protection effort.</p>
Sustainability	Failure to meet our key sustainability goals results in supply chain disruption or revenue loss.	With the appointment of the Head of Sustainability within the group, a sustainability strategy has been developed to address the key environmental concerns, including carbon emissions, habitat conservation, raw material protection and the promotion of a circular economy.
Disruption of production / supply chain	Major supply chain failure affecting the supply of raw materials or equipment, loss of maturing inventory or the customer orders process.	<p>Assets managed by the business include plant and equipment, people and business technology. Disaster recovery, incident management plans and contingency measures are in place and tested regularly.</p> <p>Contingency bottling/blending options are in place and assessed regularly to ensure that the company's operations can be maintained in the event of a loss or impairment of its own facilities.</p> <p>Energy and water supplies are reviewed to ensure continuity, sufficiency and quality of supply.</p>

Strategic Report (continued)

Highland Distillers Limited

Statutory Key Performance Indicators

	2021	2020
Volume (case equivalents '000)	3,302	3,648
Revenue decline	-10.9%	-19.8%
Operating Profit Margin	10.5%	10.9%
Profit before tax	£13.8m	£20.3m
Profit for the financial year	£12.7m	£16.0m

The key performance indicators used by the company to measure and assess performance are explained below. In the year to 31 March 2021 the key financial performance indicators show that the business remains in good health despite the fall in revenue primarily as a result of the global pandemic.

Definitions

Volume

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

Revenue decline

The movement in value of revenue recorded in the year relative to the prior year.

Operating Profit Margin

Operating profit after exceptional items, divided by revenue.

Profit before tax

Profit before the deduction of taxation.

Profit for the financial year

Profit for the financial year is defined as earnings after tax.

Revenue

The revenue of the company decreased by 11% to £111.9m (2020: £125.6m) with volumes decreasing by 9%. The decrease is primarily due to the reduction of revenue from cased goods which was 10% lower than the prior year reflecting challenges presented by the pandemic on demand for our brands, particularly the malt whiskies which are more exposed to on-trade and travel retail channels.

Operating profit margin

The operating margin of Highland Distillers Limited remained at 11% in the current year. This is attributable to cost reduction measures and our focus on protecting the level of brand investment in the year.

Profit before tax

The profit before tax was £13.8m (2020: £20.3m) which represents a 32% decrease; reflecting the trading impact of the pandemic with decreased levels of investment income.

Profit for the financial year

Profit for the financial year has decreased by £3.3m due to the points noted above offset by a lower tax charge in the year.

Strategic Report (continued)

Highland Distillers Limited

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 group 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.

In 2020, our reported CO₂e emissions reduced by 25% compared to 2019. Our carbon intensity ratio (kg CO₂e per litre of pure alcohol produced) reduced by 10%. The company considers that these numbers reflect the impact of the global pandemic on the business, which resulted in the temporary closure of our distilleries in Scotland and almost no business travel.

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.

In 2020 we sourced 31% of our energy requirements from renewable sources in the UK. This is ahead of Scottish Government targets, and we expect to make further progress during 2021.

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

7 September 2021

Directors' Report

Highland Distillers Limited

The directors present their Annual Report together with the audited financial statements for the year ended 31 March 2021.

Review of the business

The financial results for the company, which are detailed in the income statement on page 15, cover the year ended 31 March 2021. An analysis on Key Performance Indicators is disclosed within the Strategic Report on pages 2 to 7.

Dividends of £15.0m (2020: £25.0m) were paid during the financial year. Given the current uncertainty in our global markets and after assessing the financial position of the company and group under a number of scenarios the board has concluded that no final dividend (2020: nil) will be paid for 31 March 2021.

The financial position of the company remains strong, with total equity of £106.2m (2020: £120.0m).

Further details on the performance of the business are detailed within the Strategic Report on pages 2 to 7.

Future developments

The roll-out of COVID-19 vaccines gives us hope that the worst of the pandemic is behind us. However, the risk of outbreaks in countries with low vaccination rates and the threats from vaccine-resistant variants will be with us for some time to come. Despite the uncertainties we believe we are well placed to navigate these challenges. We have demonstrated our ability to adapt to a crisis and we have emerged in good shape. A strong balance sheet and the recent and forthcoming investments in brand-building and developing our capabilities provides a solid basis on which to build.

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 2021 is included in the statement of financial position. An analysis of financial instruments can be found in note 19. 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 2 to 5.

Directors

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

G. R. Hutcheon (resigned 7 June 2021)
A. Baroutsis
I.P. Boyadjian
L.M. Campbell

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.

Eddington 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 2020, confirmed an overall employee engagement score of 73%, an improvement of 5% from the last survey, with particular improvement in the area of communication.

Directors' Report (continued)

Highland Distillers Limited

Employee involvement (continued)

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.

Engagement with our employees and trade union partners and the paramount importance of employee safety have informed our decisions relating to Global Supply Chain operations in light of the COVID-19 pandemic. We engaged extensively with our trade union partners and employee representatives on designing COVID-19 safe systems of working in order to recommence operations following a shutdown of operations in the UK on 25 March 2020. A controlled start took place from 6 April 2020 and engagement with our trade union partners and employee representatives has continued throughout the year.

We have also engaged with employees on ways of working as COVID-19 restrictions begin to ease, including surveys in relation to employee preferences. Decisions on future ways of working will be informed by this engagement.

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.

The ShareReward Scheme was withdrawn for the performance year ended 31 March 2021.

Directors' Report (continued)

Highland Distillers Limited

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.	Updates on significant supply chain activities and issues are provided to board meetings and are considered and discussed by the directors.
Suppliers (continued)	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.	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 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.	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 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 group manages its corporate governance is detailed within the "Corporate Governance" section within the Strategic Report on page 7.

Directors' Report (continued)

Highland Distillers Limited

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 2 to 5.

Going concern

To assess the appropriateness of adopting the going concern basis for The 1887 Group Limited, and the company, the directors have reviewed the strategic and financial plan together with the continuing impact that COVID-19 will have on performance for the next two years. The results of these assessments were reviewed considering the financial position of The group and company at signing date, the cost and cash mitigation measures available, and access to ongoing funding facilities.

The 1887 Company Limited, a parent company within the wider Group, has provided a letter of financial support to the company in light of the current challenges faced due to the COVID-19 pandemic. The letter of support 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.

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.

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.

Directors' Report (continued)

Highland Distillers Limited

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



L. M. Campbell
Director
7 September 2021

Independent auditor's report

For the year ended 31 March 2021

Highland Distillers Limited

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 2021 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 29.

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.

Independent auditor's report (continued)

For the year ended 31 March 2021

Highland Distillers Limited

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.

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.

Independent auditor's report (continued)

For the year ended 31 March 2021

Highland Distillers Limited

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, CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
7 September 2021

Income Statement

for the year ended 31 March 2021

Highland Distillers Limited

	Note	2021 £m	2020 £m
Revenue	1	111.9	125.6
Cost of sales		(98.3)	(109.0)
Gross profit		13.6	16.6
Administrative expenses		(1.9)	(2.9)
Operating profit		11.7	13.7
Investment income	2	3.6	7.9
Earnings before interest and taxation		15.3	21.6
Finance income	3	0.6	0.4
Finance costs	3	(2.1)	(1.7)
Profit before taxation	4	13.8	20.3
Taxation	6	(1.1)	(4.3)
Profit for the financial year		12.7	16.0

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

The accounting policies and notes on pages 19 to 46 form an integral part of these financial statements.

Statement of Comprehensive Income

for the year ended 31 March 2021

Highland Distillers Limited

	2021 £m	2020 £m
<i>Profit for the year attributable to owner after exceptional items</i>	12.7	16.0
Items that will not be reclassified to profit or loss		
Actuarial (loss)/ gain on pension scheme (note 17)	(12.7)	11.0
Movement in post-retirement benefits taken straight to reserves	-	0.1
Movement on deferred tax on pension scheme (note 15)	2.6	(1.9)
Share based payment movements	(1.7)	(0.4)
Movement on deferred tax on financial instruments taken straight to reserves (note 15)	(0.4)	(0.1)
Pension fees paid direct to scheme	(0.2)	(0.1)
Cash flow hedge reserve movement (note 18)	1.4	-
Items that will or have been reclassified to profit or loss		
Cash flow hedge reserve movement (note 18)	0.5	0.3
Total other comprehensive (expense)/ income for the year	(10.5)	8.9
Total comprehensive income for the year	2.2	24.9

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 2021

Highland Distillers Limited

	Note	2021 £m	2020 £m
Non-Current Assets			
Fixed assets			
Intangible assets	8	27.6	28.2
Property, plant and equipment	9	58.1	54.5
Right of use assets	10	0.1	0.1
Investments	11	30.8	30.8
Preference shares	23	-	-
Retirement benefits	17	4.6	15.3
		<u>121.2</u>	<u>128.9</u>
Current Assets			
Inventory	12	190.3	181.5
Trade and other receivables	13	64.3	83.3
Derivative financial instruments	19	0.3	0.1
Cash at bank and in hand		5.6	6.4
		<u>260.5</u>	<u>271.3</u>
Total Assets		<u>381.7</u>	<u>400.2</u>
Equity and Liabilities			
Called up share capital	26	75.0	75.0
Share based payment reserve		0.4	1.4
Cash flow hedge reserve	18	0.2	(1.7)
Retained earnings		30.6	45.3
Total Equity		<u>106.2</u>	<u>120.0</u>
Non-current Liabilities			
Deferred tax liabilities	15	7.7	7.9
Derivative financial liabilities	19	-	0.9
Lease liabilities	28	0.1	0.1
Total Non-current Liabilities		<u>7.8</u>	<u>8.9</u>
Current Liabilities			
Trade and other payables	14	76.5	85.8
Tax liability	14	0.4	1.2
Borrowings	22	190.1	182.0
Derivative financial liabilities	19	0.6	2.2
Lease liabilities	28	0.1	0.1
Total Current Liabilities		<u>267.7</u>	<u>271.3</u>
Total Liabilities		<u>275.5</u>	<u>280.2</u>
Total Equity and Liabilities		<u>381.7</u>	<u>400.2</u>

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

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
7 September 2021

Statement of Changes in Equity

For the year ended 31 March 2021

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 2020		75.0	1.4	(1.7)	45.3	120.0
Profit for the year		-	-	-	12.7	12.7
Other comprehensive expense		-	-	-	(12.4)	(12.4)
Cash flow hedge reserve	18	-	-	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

	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 2019		75.0	1.0	(2.0)	45.5	119.5
Effect of the adoption of IFRS 16 and IFRIC 23		-	-	-	0.2	0.2
Adjusted balance 1 April 2019		75.0	1.0	(2.0)	45.7	119.7
Profit for the year		-	-	-	16.0	16.0
Other comprehensive income		-	-	-	8.6	8.6
Cash flow hedge reserve	18	-	-	0.3	-	0.3
Total comprehensive income for the year		-	-	0.3	24.6	24.9
Dividends	7	-	-	-	(25.0)	(25.0)
Share based payment expense		-	0.4	-	-	0.4
Transaction with owners		-	0.4	-	(25.0)	(24.6)
Balance at 31 March 2020		75.0	1.4	(1.7)	45.3	120.0

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

Accounting policies

Highland Distillers Limited

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 except 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 7.

Adoption of new and revised standards

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

- Amendments to references to the conceptual framework in IFRS Standards;
- IFRS 3 (amendments) – definition of business;
- IAS 1 and IAS 8 (amendments) – definition of material;
- IFRS 9, IAS 39 and IFRS 7 (amendments) – interest rate benchmark reform.

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

- IFRS 17 Insurance Contracts – onerous contracts – cost of fulfilling a contract;
- IFRS 17 (amendments) – insurance contracts;
- Annual Improvements to IFRS Standards 2018-2020 Cycle Amendments to property, plant and equipment – proceeds before intended use;
- IFRS 3 (amendments) annual improvements to IFRS Standards 2018-2020 (May 2020);
- IAS 37 (amendments) reference to the Conceptual Framework;
- IFRS 4, IFRS 7, IFRS 9, IFRS 16 (amendments) interest rate benchmark reform – phase 2;
- IAS 1 (amendments) IFRS 17, definitions and classifications;
- IFRS 10 and IAS 28 (amendments) classification of liabilities as current or non-current.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the company in future periods.

IFRS 9 (amendments interest rate benchmark reform) (effective for reporting periods beginning on or after 1 January 2020)

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures.

The application of the amendments impacts the Group's accounting in the following ways:

- The Group has floating rate bank debt, linked to GBP LIBOR, which it cash flow hedges using interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.
- The Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

Accounting policies (continued)

Highland Distillers Limited

Adoption of new and revised standards (continued)

The Group took the decision to apply the amendments to IFRS 9/IAS 39 for the reporting period ending 31 March 2020. Adopting these amendments allows the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

IFRS 16 (amendments) COVID-19 Related Rent Concessions (effective for reporting periods beginning on or after 1 June 2020)

This amendment provides lessees with an exemption from assessing where a COVID-19 related rent concession as it there were not lease modifications. This also required the lessees to apply the exception retrospectively but does not require restatement of prior period figures. The company has taken this exemption where a COVID-19 related rent concession was received.

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 challenges and growth potential 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.

In addition The 1887 Company Limited, a parent company within the wider Group, has provided a letter of financial support to the company in light of the current challenges faced due to the COVID-19 pandemic.

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%

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, royalties, 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.

Accounting policies (continued)

Highland Distillers Limited

Revenue (continued)

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, less any provision for diminution in value.

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.

Accounting policies (continued)

Highland Distillers Limited

Financial instruments

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

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such

in the balance sheet. 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 profit and loss.

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 profit or loss immediately unless the derivative is designated as an effective hedging instrument, in which event the recognition in profit or loss depends on the nature of the hedge relationship.

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.

Accounting policies (continued)

Highland Distillers Limited

Hedge Accounting (continued)

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.

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%
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Accounting policies (continued)

Highland Distillers Limited

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 consolidated 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.

Accounting policies (continued)

Highland Distillers Limited

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 group, valuation of pension assets and liabilities and the carrying value of brand assets and liabilities:

Pensions and other post-retirement benefits

The Group 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 17.

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.

Notes to the financial statements

Year to 31 March 2021

Highland Distillers Limited

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:

	2021 £m	2020 £m
Sale of cased goods	99.2	110.3
Sale of non-cased goods	10.8	12.5
Income from services rendered	1.9	2.8
Total Revenue	111.9	125.6

2. Investment income

	2021 £m	2020 £m
Dividends received	3.6	7.9

3. Finance Income and Costs

	2021 £m	2020 £m
Finance Income:		
Interest on defined benefit pension scheme	0.4	0.1
Interest receivable from group companies	0.2	0.3
Total finance income	0.6	0.4
Finance Costs:		
Interest payable to group companies	(1.9)	(1.1)
Other interest payable	(0.2)	(0.6)
Total finance costs	(2.1)	(1.7)

4. Profit before taxation

	2021 £m	2020 £m
Profit before taxation is stated after charging		
Inventory charged to income statement	31.2	31.7
Foreign exchange loss	0.6	1.9
Loss on sale of tangible fixed assets	0.2	0.4
Depreciation of tangible fixed assets	3.3	3.5
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 the cost of sales.

Total fees payable to the company auditor for the audit of the financial statements in the year were £40,020 (2020: £39,663). There were no non audit fees paid in the current or prior years.

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

5. Employees

	2021 Number	2020 Number
The monthly average number of employees during the year was as follows:		
Engaged in distilling, blending and marketing of Scotch Whisky	221	228
	2021	2020
Employment costs during the year amounted to:	£m	£m
Wages and salaries including incentive scheme payments	13.0	17.8
Social security	1.5	1.3
Pension costs	1.5	1.5
	16.0	20.6

In the year the company received government funding in the form of COVID-19 government support schemes of £0.7m. The figures above do not include the impact of these payments.

The remuneration including pension contributions of the directors that served during the year, with the exception of G.R. Hutcheon, was £1.6m (2020: £5.1m). G.R. Hutcheon was remunerated by a fellow Edrington subsidiary and the amount was not directly recharged. Two of the directors are accruing benefits under the defined benefits pension scheme in both years. One director exercised share options in the year (2020: one).

The highest paid director received emoluments (excluding pension contributions) of £0.5m (2020: £1.8m) and accrued an annual pension of nil (2020: £0.1m). The director did exercise share options (2020: Did). The aggregate of gain by the director exercising share rights during the year was £3,000 (2020: £2,000).

No incentive payments are being made in respect of the financial year 2020/21 as all annual and long-term incentives were cancelled as part of our cost reduction measures implemented at the beginning of the year. The amount included for long term incentive includes amounts earned in the periods through 2019 - 2020 together with an accrual for potential future payments that may or may not be earned for the years ending 31 March 2022 and 31 March 2023.

6. Taxation

	2021 £m	2020 £m
Current tax charge		
In respect of the current year	0.5	1.7
In respect of prior years	(1.4)	(0.5)
Overseas tax	-	0.2
Total current tax	(0.9)	1.4
Deferred tax		
In respect of the current year	1.2	0.4
Effect of changes in tax rates	-	0.7
In respect of prior years	0.8	1.8
Total deferred tax (note 15)	2.0	2.9
Total tax	1.1	4.3

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

6. Taxation (continued)

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

	2021 £m	2020 £m
Profit before tax from continuing operations	13.8	20.3
Income tax expense calculated at 19% (2020: 19%)	2.6	3.9
Effect of income that is exempt from taxation	(0.7)	(1.7)
Effect of expenses that are not deductible in determining taxable profit	0.1	0.2
Effect on deferred tax balances due to changes in tax rates	-	0.7
Other	(0.3)	(0.1)
	1.7	3.0
Prior year adjustments	(0.6)	1.3
Income tax expense recognised in profit or loss	1.1	4.3

The tax rate used for the reconciliation above is the corporation tax rate of 19% (2020: 19%) payable by corporate entities in the UK and on taxable profits under tax law in that jurisdiction.

7. Dividends

	2021 £m	2020 £m
First interim dividend for 2021 paid at 20.0p per share (2020: 33.3p)	15.0	25.0

8. Intangible fixed assets

	Brands £m	Goodwill £m	Software £m	Total £m
Cost				
At 1 April 2020 and 31 March 2021	6.4	17.9	5.2	29.5
Amortisation				
At 1 April 2020	-	-	1.3	1.3
Charge for the year	-	-	0.6	0.6
At 31 March 2021	-	-	1.9	1.9
Net book value				
At 31 March 2021	6.4	17.9	3.3	27.6
At 31 March 2020	6.4	17.9	3.9	28.2

At 31 March 2021, the carrying amount of the principal brands and goodwill acquired by Highland Distillers Limited are as follows:-

	2021 £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.

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.

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

8. Intangible fixed assets (continued)

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% (2020: 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 2021, 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	Total £m
Cost				
At 1 April 2020	11.9	23.2	64.4	99.5
Additions	1.2	0.8	5.9	7.9
Disposals	-	-	(1.3)	(1.3)
At 31 March 2021	13.1	24.0	69.0	106.1
Depreciation				
At 1 April 2020	5.6	15.6	23.8	45.0
Charge for the year	0.3	0.9	3.0	4.2
Disposals	-	-	(1.2)	(1.2)
At 31 March 2021	5.9	16.5	25.6	48.0
Net book value				
At 31 March 2021	7.2	7.5	43.4	58.1
At 31 March 2020	6.3	7.6	40.6	54.5

Included in freehold land and buildings is £0.2m (2020: £0.2m) in respect of freehold land which is not depreciated.

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

10. Right of use assets

The following assets are subject to lease arrangements.

	Plant, vehicles & equipment £m
Cost or valuation	
At 1 April 2020	0.2
Additions	0.1
At 31 March 2021	0.3
Depreciation	
At 1 April 2020	0.1
Charge for the year	0.1
At 31 March 2021	0.2
Net book value	
At 31 March 2021	0.1
At 31 March 2020	0.1

11. Fixed asset investments

	Subsidiary Undertakings £m
Cost and Net book value	
At 1 April 2020 and 31 March 2021	30.8

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

11. Fixed asset investments (continued)

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 Korea Limited (5F, 570 Samsung-ro, Gangman-gu, Seoul 06163)	Ordinary shares	100%	Sales and distribution of alcoholic beverages
Edrington Sweden AB (Luntnakargatan 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
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 24 th 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

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

11. Fixed asset investments (continued)

Name of company (registered address)	Holding	Proportion of issued share capital held	Nature of business
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%	Sale and distribution of alcoholic beverages
BB&R Spirits Limited (One Fleet Place, London, England, EC4M 7WS)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
Joint venture undertakings: Maxxium Espana SL (C/Mahonia, 2 – Planta 2, 28043 Madrid, Spain)	Ordinary shares	50%	Sales and distribution of alcoholic beverages
Edrington-Beam Suntory UK Limited (191 West George Street, Glasgow, Scotland, G2 2LD)	Ordinary shares	50%	Sales and distribution of alcoholic beverages
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

* Indicates that the investment is held directly by the company.

12. Inventory

	2021 £m	2020 £m
Scotch whisky	187.1	181.1
Other inventory	3.2	0.4
	190.3	181.5

Within total inventory £150.1m relates to inventory which will be realised in greater than one year (2020: £155.7m).

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

13. Trade and other receivables

	2021 £m	2020 £m
Trade receivables	4.9	9.0
Less – loss allowances	-	(0.2)
Trade receivables - Net	4.9	8.8
Amounts owed by group undertakings	50.0	52.0
Amounts owed by related party undertakings	8.3	19.9
Prepayments and accrued income	0.5	0.4
Other debtors	0.6	2.2
	64.3	83.3

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 £13,700 in the year and £195,000 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:

31 March 2021	Trade receivables – days past due					Total £m
	Not past due £m	<30 £m	31-60 £m	61-90 £m	>90 £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

31 March 2020	Trade receivables – days past due					Total £m
	Not past due £m	<30 £m	31-60 £m	61-90 £m	>90 £m	
Expected credit loss rate	0.1%	0.2%	13.2%	27.9%	33.3%	
Expected total gross carrying amount at default	7.6	0.7	0.2	0.2	0.3	9.0
Lifetime ECL	0.01	0.00	0.03	0.06	0.10	0.20

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, non-interest bearing, unsecured and repayable on demand.

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

14. Trade and other payables

	2021 £m	2020 £m
Current		
Trade creditors	3.9	4.1
Amounts owed to group undertakings	39.6	42.3
Amounts owed to related party undertakings	0.8	0.3
Accruals and other creditors	31.8	33.7
Corporation tax payable	0.4	1.2
Deferred consideration	-	5.0
Other taxes and social security costs	0.4	0.4
	76.9	87.0

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

15. Deferred Tax

	Cash flow hedges	Accelerated tax depreciation	Retirement benefit obligations	Other temporary differences	Total
	£m	£m	£m	£m	£m
At 1 April 2020	0.3	(7.1)	(2.9)	1.8	(7.9)
Adjustment in respect of prior years	-	0.7	(0.2)	(1.3)	(0.8)
Charge to income statement	-	(0.8)	(0.4)	-	(1.2)
Charge/ (credit) to other comprehensive income	(0.4)	-	2.6	-	2.2
At 31 March 2021	(0.1)	(7.2)	(0.9)	0.5	(7.7)

UK corporation tax rate changes

A UK corporation tax rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. To the extent the company has taxable profits, this will increase the company's future current tax charge accordingly. The deferred tax liability at 31 March 2021 has been calculated at 19% (2020: 19%).

In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. If the company has taxable profits, this will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax liability would have increased by £2.4m.

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

16. 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.

	2021		2020	
	Number of Share Options	Weighted Average Exercise Price (in £)	Number of Share Options	Weighted Average Exercise Price (in £)
Outstanding at beginning of the year	100,410	17.64	107,111	16.25
Granted during the year	-	-	31,417	19.76
Exercised during the year	(35,584)	15.31	(27,430)	15.06
Expired/transfers during the year	(6,149)	18.89	(10,688)	16.51
Outstanding at the end of the year	58,677	18.93	100,410	17.64
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 £15.31 (2020: £15.06). The options outstanding at 31 March 2021 had a weighted average exercise price of £18.93 (2020: £17.64) and a weighted average remaining contractual life of 1.5 years (2020: 2 years). The fair value of the options granted in April 2021 is £nil (April 2020: £0.1m).

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

	April 2020	April 2019	April 2018
Grant date	NA*	£24.70	£22.67
Weighted average share price	NA*	£19.76	£18.14
Weighted average exercise price	NA*	£19.76	£18.14
Expected volatility	13%	11%	8%
Expected life	3 years	3 years	3 years
Risk free rate	0.7%	0.7%	0.9%
Expected dividend yield	NA*	1.7%	1.9%

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 (2020: income of £0.1m) in relation to equity-settled and share-based payment transactions.

* There were no new ShareSave Scheme in the current financial year.

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

17. Retirement benefits

Retirement benefits comprise:	2021	2020
	£m	£m
Defined benefit scheme	5.6	16.3
Other post-retirement benefits	(1.0)	(1.0)
Total retirement benefit assets	4.6	15.3

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 at 6 April 2019. Both valuations were performed by independent, professionally qualified actuaries.

The major assumptions used by the actuary were:	2021	2020
Rate of increase of pensions in payment	2.2%-3.7%	1.8%-3.4%
Discount rate	2.1%	2.4%
Inflation assumption (RPI/CPI)	3.3%/2.7%	2.7%/1.9%
Medical benefits inflation assumption	2.1%	5.40%

The post retirement mortality assumption used to value the benefit obligation at 31 March 2021 is the S3 actuarial index adjusted by 94% (2020: 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:

	2021	2020
	£m	£m
Bonds	49.4	43.9
Cash	2.5	10.7
Insured Pensions	33.0	32.7
Illiquid Debt	18.0	18.6
Total market value of assets	102.9	105.9
Present value of scheme liabilities	(97.3)	(89.6)
Surplus in pension scheme	5.6	16.3

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

17. Retirement benefit liabilities (continued)

Defined benefit schemes

	2021	2020
	£m	£m
Analysis of net credit to finance costs		
Expected return on pension scheme assets	2.5	2.3
Interest on pension scheme liabilities	(2.1)	(2.2)
Net credit to finance costs	0.4	0.1

	2021	2020
	£m	£m
Analysis of amount recognised in the statement of comprehensive income (OCI):		
Actual return less expected return on assets	(4.0)	3.8
Experience gains and losses on liabilities	(0.3)	1.4
Changes in assumptions	(8.4)	5.8
Actuarial (loss)/gain recognised in OCI	(12.7)	11.0

	2021	2020
	£m	£m
Reconciliation of fair value of scheme assets		
Opening fair value of scheme assets	105.9	99.2
Expected return on assets	2.5	2.3
Employers' contributions	1.7	4.2
Actuarial (losses)/gain	(3.1)	3.7
Benefits paid	(4.1)	(3.5)
Closing fair value of scheme assets	102.9	105.9

	2021	2020
	£m	£m
Reconciliation of defined benefit obligation		
Opening defined benefit obligation	(89.6)	(98.2)
Past service cost including curtailment	(0.1)	-
Interest cost	(2.1)	(2.2)
Actuarial (losses)/gains	(9.6)	7.3
Benefits paid	4.1	3.5
Closing defined benefit obligation	(97.3)	(89.6)

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

17. Retirement benefits (continued)

	2021	2020
	£m	£m
Movement in asset during the year		
Opening asset in scheme	16.3	1.0
Contributions	1.7	4.2
Gain on curtailment of scheme liabilities	(0.1)	-
Net interest cost	0.4	0.1
Actuarial (losses)/gains	(12.7)	11.0
Closing deficit in scheme	5.6	16.3

	2021	2020	2019	2018	2017
	£m	£m	£m	£m	£m
Five year history:					
Total market value of assets	102.9	105.9	99.2	99.5	98.8
Present value of scheme liabilities	(97.3)	(89.6)	(98.2)	(94.7)	(101.2)
Surplus/(Deficit) in pension scheme	5.6	16.3	1.0	4.8	(2.4)

	2021	2020	2019	2018	2017
History of experience gains and losses:					
Difference between expected and actual return on scheme's assets (£m)	(4.0)	3.8	(2.9)	1.1	16.1
Percentage of scheme's assets	(3.9%)	3.6%	(2.9%)	1.1%	16.3%
Experience gains and losses on scheme's liabilities (£m)	(0.3)	1.4	0.2	(0.2)	(4.5)
Percentage of scheme's liabilities	0.3%	(1.6%)	(0.2%)	0.2%	4.4%
Total amount recognised in statement of comprehensive income (£m)	(12.7)	11.0	(7.8)	(3.0)	6.1
Percentage of scheme's liabilities	13.1%	(12.3%)	8.0%	3.2%	(6.1%)

Sensitivity analysis

The sensitivity of the present value of scheme liabilities to changes in the principal assumptions used at 31 March 2021 is set out below:

Assumption	Sensitivity	Financial impact on overall liability Year to 31 March 2021	Financial impact on overall liability Year to 31 March 2020
Discount rate	+/- 0.5%	Decrease/increase by £9.1m	Decrease/increase by £8.1m
Discount rate	+/- 1.0%	Decrease/increase by £18.8m	Decrease/increase by £17.1m
Mortality – increase in life	+/- 1 year	Increase/decrease by £3.6m	Increase/decrease by £3.8m
Increase in inflation	+/- 0.5%	Decrease/increase by £3.5m	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.

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

17. Retirement benefits (continued)

Mortality Assumptions	31 March 2021		31 March 2020	
	Males	Females	Males	Females
Average future life expectancy (in years) for a member aged 65 at 31 March	22.8	24.6	22.2	24.5
Average future life expectancy (in years) at age 65 for a member aged 45 at 31 March	24.5	26.4	24.0	26.3

Defined benefit schemes

The company paid deficit reduction payments of £1.7m (2020: £4.2m) to the pension schemes during 2021. The company agreed to catch up on the deferred deficit repair payments from the 12 months to March 2021 during the 12 months to 31 March 2021.

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 £1.5m (2020: £1.5m). As at 31 March 2021, contributions of £0.2m (2020: £0.2m) due in respect of the current reporting period had not been paid over to the scheme.

18. Cash flow hedge reserve

	£m
Balance at 1 April 2020	(1.7)
Gain arising on changes in fair value of hedging instruments (cash flow hedges)	
- Forward foreign exchange contracts	1.4
Cumulative loss arising on changes in fair value of hedging instruments reclassified to profit or loss	
- Forward foreign exchange contracts	0.5
Total movement in cash flow hedge reserve	1.9
Balance at 31 March 2021	0.2

19. 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 £24.9m (2020: £51.8m). Changes in the fair value of the derivatives that are designated as and are effective cash flow hedges amounting to £1.4m (2020: £15.3m) have been recognised in the cash flow hedge reserve. A net gain £0.5m (2020: loss £15.6m) has been transferred out of the cash flow hedge reserve to the income statement.

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

19. Derivative financial instruments (continued)

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 2021 had a net nil impact in finance costs.

Derivative Financial Instruments - carrying value

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Current				
Hedging derivatives - Cash flow hedges				
- Foreign exchange rates	0.3	(0.5)	0.1	(1.9)
Non Hedging derivatives				
- Foreign exchange rates	-	(0.1)	-	(0.3)
	<u>0.3</u>	<u>(0.6)</u>	<u>0.1</u>	<u>(2.2)</u>
Non-current				
Hedging derivatives - Cash flow hedges				
- Foreign exchange rates	-	-	-	(0.9)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.9)</u>
	<u>0.3</u>	<u>(0.6)</u>	<u>0.1</u>	<u>(3.1)</u>

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

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 2021	Maturity	
	Up to One Year	One to Five Years
Cash flow Hedges		
Foreign Exchange Forward Contracts (GBP: USD)		
- Notional Amount (£m)	3.9	-
- Average exchange rate	1.5594	-
Foreign Exchange Forward Contracts (GBP: EUR)		
- Notional Amount (£m)	7.8	2.1
- Average exchange rate	1.1000	1.1056
Foreign Exchange Forward Contracts (EUR: GBP)		
- Notional Amount (£m)	6.2	3.3
- Average exchange rate	1.1284	1.1364

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 notional 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.

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

20. 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 2021.

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.

	2022	2023	2024	2025	2026	2027 and there-after	Total
31 March 2021	£m	£m	£m	£m	£m	£m	£m
Payables	(76.1)	-	-	-	-	-	(76.1)
Loans and other borrowings	(190.1)	-	-	-	-	-	(190.1)
Interest 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)
	2021	2022	2023	2024	2025	2026 and there-after	Total
31 March 2020	£m	£m	£m	£m	£m	£m	£m
Payables	(85.4)	-	-	-	-	-	(85.4)
Loans and other borrowings	(182.0)	-	-	-	-	-	(182.0)
Interest on borrowings	(0.2)	-	-	-	-	-	(0.2)
Non-derivative financial liabilities	(267.6)	-	-	-	-	-	(267.6)
Amounts payable from foreign exchange contracts	(25.6)	(7.8)	-	-	-	-	(33.4)
Derivative instruments	(25.6)	(7.8)	-	-	-	-	(33.4)

21. 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 19 for further detail on derivatives outstanding as at the reporting date.

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

21. Risk Management (continued)

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 Libor 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. Interest on £17m of the loan (as at 31 March 2021) is charged at the prevailing 1 month GBP Libor rate + 2% (reflects ESPL external cost of borrowing).

Interest on £17m of the loan (as at 31 March 2021) is charged at the prevailing 1 month GBP Libor rate + 2% (reflects ESPL external cost of borrowing).

Interest on the remaining £7.5m (as at 31 March 2021) is charged at a rate of 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 rates which mirrors the external loan applicable to Edrington Mexico. As at 31 March 2021 the rate was 7.78% (2020: 9.42%).

As at 31 March 2021 the average interest rate across all borrowings and deferred payments was 1.1% (2020: 0.9%).

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.

The sensitivity analysis is based on outstanding foreign currency denominated monetary items and interest bearing debt on balance sheet as at 31 March 2021, 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)	
	2021	2020	2021	2020
	£m	£m	£m	£m
10% weakening of sterling	(1.4)	(2.0)	-	(1.7)
10% strengthening of sterling	1.8	2.5	-	2.0
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.

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

21. Risk Management (continued)

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 2020.

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.

Reconciliation of financial instruments

31 March 2021					
	Fair Value £m	Amortised cost £m	Total £m	Current £m	Non-Current £m
Financial Assets					
Trade receivables	-	63.2	63.2	63.2	-
Cash and Cash equivalents	-	5.6	5.6	5.6	-
Derivatives in a hedge relationship	0.3	-	0.3	0.3	-
	<u>0.3</u>	<u>68.8</u>	<u>69.1</u>	<u>69.1</u>	<u>-</u>
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)	-
	<u>(0.6)</u>	<u>(266.2)</u>	<u>(266.8)</u>	<u>(266.8)</u>	<u>-</u>
	<u>(0.3)</u>	<u>(197.4)</u>	<u>(197.7)</u>	<u>(197.7)</u>	<u>-</u>

31 March 2020					
	Fair Value £m	Amortised cost £m	Total £m	Current £m	Non-Current £m
Financial Assets					
Trade receivables	-	80.7	80.7	80.7	-
Cash and Cash equivalents	-	6.4	6.4	6.4	-
Derivatives in a hedge relationship	0.1	-	0.1	0.1	-
	<u>0.1</u>	<u>87.1</u>	<u>87.2</u>	<u>87.2</u>	<u>-</u>
Financial Liabilities					
Trade and other payables	-	(85.4)	(85.4)	(85.4)	-
Borrowings	-	(182.0)	(182.0)	(182.0)	-
Derivatives in a hedge relationship	(3.1)	-	(3.1)	(2.2)	(0.9)
	<u>(3.1)</u>	<u>(267.4)</u>	<u>(270.5)</u>	<u>(269.6)</u>	<u>(0.9)</u>
	<u>(3.0)</u>	<u>(180.3)</u>	<u>(183.3)</u>	<u>(182.4)</u>	<u>(0.9)</u>

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

22. Borrowings

	2021	2020
	£m	£m
Current		
Loans with Group Companies	(190.1)	(182.0)

The current loans with group companies represent working capital loans with the 1887 Company Limited (1887), Highland Distribution Netherlands Limited (HDN), Highland Distribution Financial Limited (HDF), Highland Distribution Company Limited (HDC) and Edrington Singapore PTE Ltd.

Loans with HDN and HDF are non interest bearing, interest on the loan with 1887 is charged at Libor + a margin of 0.8% (reflecting the cost of borrowing per the 1887 external RCF. A portion of the loan with Edrington Singapore PTE Ltd (£17m as at 31 March 2021) is based on the prevailing one month London Interbank Offer Rate (LIBOR) + a margin of 2.00% with a further portion (£7.575m as at 31 March 2021) which mirrors a back to back loan between ESPC and Edrington Shanghai is based on the prevailing borrowing rate in China, as at 31 March 2021 was 3.85%.

The rate applicable to the loan with 1887 reflected the fact that the 1887 had borrowed externally for a 3 month period from March to June before the base rate was reduced from 0.75% to 0.1%. Interest on the intercompany loan to end of March therefore reflected the Base Rate applicable at the time of entering into the 3 month external loan.

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.

23. Preference shares

The company holds preference shares to the value of £1 (2020: £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 £1.2m (2020: £4.2m) which is included in the total Investment Income disclosed in note 2.

24. 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 £36.6m (2020: £45.7m) from the Edrington Distillers Limited and also made purchases of £1.1m (2020: £1.2m) from Macallan Distillers Limited.

The company made sales to the following related parties:

	Sales to Related Parties	
	2021	2020
	£m	£m
Edrington Distillers Limited	0.6	2.8
Macallan Distillers Limited	0.9	0.9
Edrington Sweden AB	8.2	5.3
Edrington Danmark A/S	2.4	2.1
Edrington Norge AS	1.3	1.0
Edrington Singapore Pte Limited	6.2	16.2
Edrington Americas	9.0	8.0
Edrington Middle East & Africa	3.1	1.4
Edrington Finland	0.5	-
Edrington Mexico	0.1	-
To Joint Venture Undertakings	48.5	46.7

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

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

24. Transactions with related parties (continued)

Finance position with group companies are set out below:

	2021 £m	2020 £m
Balance Sheet Items:		
Borrowings (note 22)		
Parent	(165.0)	(175.0)
Group	(25.1)	(7.0)
Payables (note 14)		
Group	(39.6)	(42.3)
Joint Ventures	(0.8)	(0.3)
Receivables (note 13)		
Group	50.0	52.0
Joint Ventures	8.3	19.9

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 22.

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.

25. Other contractual obligations

Contracted but not provided for:	2021 £m	2020 £m
- material purchase commitment	45.9	51.4
- capital commitment	28.8	19.5

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.

26. Share Capital

	Number of Shares	£m
At 31 March 2021 and 2020		
75,000,000 Ordinary shares of £ 1 each – Authorised, called-up, issued and fully paid	75,000,000	75.0

Notes to the financial statements (continued)

Year to 31 March 2021

Highland Distillers Limited

27. Leases

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

Amounts recognised in the income statement	2021
	£
Depreciation expense on right-of-use assets	0.1
Expense related to short-term leases & low value assets	0.1
	<u>0.2</u>

28. Lease liabilities

	2021	2020
	£m	£m
Amounts due for settlement within 12 months	0.1	0.1
Amounts due to settlement after 12 months	0.1	0.1
	<u>0.2</u>	<u>0.2</u>

Maturity analysis	2021	2020
	£m	£m
Less than one year	0.1	0.1
One to two years	0.1	0.1
	<u>0.2</u>	<u>0.2</u>
Less unearned interest	-	-
	<u>0.2</u>	<u>0.2</u>

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.

29. 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.