Highland Spring Limited

Annual report and consolidated financial statements

Registered number SC067339

31 December 2021

Contents

Strategic Report

The directors submit their strategic report for the year ended 31 December 2021.

Principal activity

The principal activity of the Group is the bottling and sale of natural source waters, both branded and private label.

Overview of business performance and strategy

During 2021, Highland Spring again extended its position as the UK's leading natural source water brand against a backdrop of the COVID-19 pandemic which continued to significantly impact sales volumes during the year, however the business demonstrated once again the strength of the Highland Spring brand and its operational resilience to again grow market share and increase operating profit from continuing operations.

A focus on growing the Highland Spring brand continues to be the main priority of the business, within increasing focus on expanding the business's portfolio of products and packaging formats with the emphasis on doing this in an environmentally sustainable manner. 2021 saw Highland Spring brand diversify in to canned flavoured water, a first for Highland Spring Group. 2021 also saw diversification and investment within Plain Still water, with the introduction of the Highland Spring 10 litre Hydration pack.

Despite a challenging 2021, we remain confident in our long-term approach of continuing to promote the provenance of our brand, providing category leading expertise, focusing on environmental sustainability and ensuring overall value creation as the wider economy and the bottled water category recover from the impact of the COVID pandemic.

In summary:

- Highland Spring extended its position as the UK's No.1 brand in 2021 (*source: Zenith 2022*). Highland Spring brand UK sales volumes grew by 6.3% to 348.6Mn Litres in 2021, securing a 10.0% share of the total UK plain packaged water volumes (excluding coolers).
- This extended the gap between Highland Spring and its nearest competitor to 87.3Mn Litres or 33%.
- Across the total market after the strong growth during lockdown sparkling plain water volumes fell back in 2021... Volume of plain sparkling water was down by 3.9% year on year, bringing total sparkling volume back to 2019 levels. Sparkling water share dropped from 17.7% of plain bottled water in 2020 to 15.5% in 2021. Within that, Highland Spring retained its position as the no.1 Plain Sparkling Water brand, with a 9.7% share of the category, up from 7.4% in 2020 (*source: Zenith 2022*).
- Still plain water volumes grew by 11.8% in 2021. Highland Spring brand grew still volume by 6.1% up 17.9m litres. Highland Spring retained position as no. 1 Plain Still Water Brand, with a share of 10.1%.

In 2021, the business made an underlying operating profit (operating profit from operations after adding back non trading costs) of £3,436k. The business has recovered in 2021 from the COVID pandemic, however its 'impact has resulted in a volume shortfall as well as having an adverse impact on sales mix as consumer shopping habits changed, with consumption taking place in the home following the closure of hospitality and High Street channels. The business has continued to take steps to improve operational efficiencies and reduce overhead costs under continuous improvement plans.

Strategic Report *(Continued)*

Overview of business performance and strategy *(continued)*

Environmental sustainability remains at the heart of all business activities and the Group continues to move forward with key projects including:

- The construction of a rail siding, costing the Group £5.5m to date, adjacent to our Highland Spring facility in Perthshire which will enable the Group to move goods in a more environmentally sustainable way, taking 8,000 HGV movements a year off the roads and reducing its carbon footprint by 3,200 tonnes. This facility is expected to be fully commissioned during summer 2022.
- The business was Carbon Neutral at the end of 2021 (scope 1 & 2 market-based emissions) with a stated ambition to reduce Carbon Emissions by 50% by 2030 and to be Net Carbon Zero by 2040.
- The launch of a first in category 100% recycled shrink wrap trial.
- The continued expansion of the Highland Spring eco bottle range which is made from 100% recycled PET (cap and label excluded).

The business will continue to drive forward its long-term strategy to invest in and develop innovative solutions which provide healthy hydration in an environmentally sustainable way, to reflect the markets projected annual growth which, according to Zenith, is expected to accelerate from 2022 to 2024 as the economy recovers from the COVID pandemic.

Category and brand performance

Following a challenging 2020, the total UK water drinks market grew in 2021 to 3.48bn litres, up +9.1% vs 2020. Total market volumes in 2021, following a strong second half of the year, were back to near 2019 pre-pandemic levels (*source: Zenith 2022*). The majority of the growth in packaged plain water in 2021 came from Branded water products +17.3%, which accounted for 54% of market volume. Plain still water drove overall category growth, with volume sales up 11.8% vs 2020. Plain sparkling water sales fell in 2021 vs 2020, down 3.9%, driven by own label sparkling water (Source: Zenith 2022). Top 10 Sparkling brands grew volume by 21.0% in 2021 vs 2020. Flavoured waters and Juice waters both saw double digit growth in 2021 vs 2022 (*source: Zenith 2022*).

Total Highland Spring Group sales of 483.6Mn litres were up slightly 0.8% despite exiting a significant low margin Own Label contract in 2020. Total Group volumes accounted for a share of 13.9% of the total UK Bottled Water market. (*source: Zenith 2022*).

Central to the group's strategy is the continued development and growth of the Highland Spring brand. During 2021 the group was proud to see strong volume growth of 20.6 million litres, the brand performed to retain and extend its position as the UK's No. 1 plain bottled water brand with a healthy market share of 10.0% (*source: Zenith 2022*).

- Highland Spring brand consolidated its position as the UK's No.1 brand in 2021, extending the gap to its nearest competitor to 87.3Mn Litres or 33%. (*source: Zenith 2022*).

Changes in consumer and shopper behaviours as well as external factors, continued to impact on sales performance in 2021:

- A change in sales mix, saw volume moving from bigger bottles to smaller bottles, as the out of home channels reopened with the relaxing of COVID restrictions.
- Challenges due to shortages of CO2, lack of haulage drivers, labour shortages, materials shortages, and rising costs caused supply pressures.
- A fall in the number of promotions run across the market in 2021, in order to ensure supply.

Strategic Report *(Continued)*

Category and brand performance *(continued)*

The biggest retail change in 2021 was the reopening of the out of home channels, as COVID restrictions eased in May 2021. From mid-2021 shoppers chose to shift spend back to shopping in traditional bricks and mortar stores, with online share of Total Grocery spend dropping from a high of 15.4% in Feb 2021 to 12.2% share in Dec 2021 (*source: Kantar 2021*). Within the on-line channel, 2021 saw further expansion of Q-Commerce companies.
The market is expected to see continued growth in plain bottled water volumes in 2022 vs 2021 (*source: Zenith 2022* estimate +2.6%) as the impact of lockdown comes to an end, combined with rising inflation and financial uncertainty.

The plain packaged water market longer-term forecast is of low single digit growth per annum from 2022 to 2026, with volumes expected to reach 3.8bn litres in 2026 (*source: Zenith 2022*).

Business activities

The business is committed to reducing its carbon footprint and impact on the planet, and in 2021, launched is commitment to achieve net zero carbon emissions by 2040. This is five years ahead of the Scottish Government's proposed 2045 Net Zero target, and 10 years ahead of the UK Government's deadline. The Group has also signed-up to the United Nation's Race to Zero campaign, underscoring our commitment to working towards a healthy and resilient net zero future.

While our efforts continue to focus on long-term permanent carbon reduction emissions to make a positive impact now, the business met its target of achieving carbon neutrality across its UK operations (scope 1 and 2 market based emissionsl) at the end of 2021. The Carbon Trust certified the business carbon neutral for its UK operations 2019 baseline period in accordance with the internationally recognised PAS 2060. A key part of our commitment to reducing emissions throughout our UK operations includes purchasing all our electricity from 100% renewable sources by 2022.

The Group continued its focus on innovation by exploring new sustainable packaging formats and reducing the amount of packaging we use. In recent years, we have reduced the weight of our smaller PET plastic bottles by 20% and we are actively taking steps to reduce the weight of our larger PET plastic bottles.

All Highland Spring bottles and cans are 100% recyclable, and we were the first brand to introduce a range made from 100% recycled plastic (cap and label excluded), which we expanded across most of our bottle formats in 2021. Ultimately, the business is on a journey to reach 100% recycled plastic content (excluding caps and labels) across the entire Highland Spring PET product range by 2025. We are taking a holistic approach to packaging sustainability and following our category-leading trial of 100% recycled materials (rLDPE) in shrink wrap, this was launched in selected retailers in 2021 and will be rolled-out further across our range in 2022.

Working towards a truly circular economy, the Group supports the introduction of a Deposit Return Scheme (DRS) in Scotland and the UK and sees this as crucial to increasing recycling rates, reducing litter and increasing the availability of good quality recycled materials for us to use in our products. Highland Spring Group are a founder member of Circularity Scotland, a not-for-profit body, which represents a combination of drinks producers, trade associations and retailers, who have been appointed by the Scottish Government as the Scheme Administrator to oversee the operation of a Scottish DRS. Through collaboration with other members, we will work to achieve 90% recycle rate target for the overall number of containers collected by the scheme by 2024.

Our new product launches continue to perform well which includes flavoured cans which are infinitely recyclable (*source: Alupro*), and our 10L Hydration Pack, which following the success of this launch, has been complemented by a 5L Hydration Pack, both of which keep fresh for up to four weeks once opened and offers a refillable solution to consumers in or out of the home.

Strategic Report *(Continued)*

Business Activities *(continued)*

The Group continued to be proactive in our work to encourage our consumers to recycle their Highland Spring bottles and cans through recycling messaging on our packaging, and via our partnership with environmental charity Hubbub. The #InTheLoop initiative encourages recycling-on-the-go across UK local authorities and in 2021 expanded into Telford & Wrekin. We also continued our annual support of the charity Waste and Resources Action Plan's national Recycle Week campaign, promoting recycling messages across our social media channels, and as a member of our trade association the Natural Source Waters Association, who were a primary sponsor in 2021.

At the end of 2021, The Good Shopping Guide named Highland Spring the leading ethical bottled water brand in the UK for the fourteenth year in a row. We continue to achieve annual organic accreditation from The Soil Association for our catchment area, which we have held for over 20 years, demonstrating our commitment to responsible land and water stewardship. We abstract no more than 3% of the rain that falls on our catchment, ensuring the long-term sustainability of one of the planet's most valuable resources for generations to come. The creation of a biodiversity programme in partnership with the Forth Rivers Trust charity, aims to support healthy eco-systems and increase flora, fauna and wildlife on our catchment area in The Ochil Hills, Perthshire by 2025.

The business has been focused on supporting key social causes during the COVID-19 pandemic with free-of-charge donations of water. A dedicated partnership with the Scottish Ambulance Service was established and over 200,000 bottles of water donated to their crews across 2020/21, to ensure they stay healthily hydrated as they go about their critical work. Additionally, over 68,000 bottles were donated to other NHS services in Scotland and across the UK including Nightingale hospitals.

The business is now in the final stages of constructing a new dedicated rail freight facility in Blackford to enable the business to maximise its use of rail in the supply chain. The facility is due to be operational in summer 2022. This will remove 8,000 lorry movements from the road and save 3,200 tCO_2e per annum. This is part of the business's ultimate goal to have a net zero end to end supply chain.

Financial Performance

In 2021, the Group reported an improved trading year, where consumer buying patterns started to change and the wider economy began its recovery from 2020 levels of COVID.

We have reported full year operating profit from continuing activities before non-trading administration costs for the year of £3,436k, which is £2,182k higher than 2020. This represents an exceptional result for the business and demonstrates the Group's ability to proactively respond to a crisis, delivered whilst still in the midst of a global pandemic, and reflects a high level of resilience and agility.

The Group had a slow start to the trading year whilst the UK was experiencing regional COVID lockdowns. Thereafter, we saw volumes begin to increase back in line with expectations. The wider UK FMCG supply chain was adversely impacted during the summer and into the autumn with many sectors experiencing staff shortages, where haulage was particularly badly hit. The Group worked collaboratively with its customers and logistics partners during this period and customer service levels held up well against industry benchmarks. This enabled the Group to deliver a strong sales performance in the second half of the year which resulted in financial results for the year exceeding expectations. The business continued to take early proactive decisions and actions as well as the continued and ongoing work to drive improved efficiencies which carried on from 2020.

The Group has achieved this through the following:

- Significant operational efficiencies across both manufacturing and supply chain
- Reductions in discretionary spend across both volume and non-volume related costs
- Investments in additional production capacity to enable the expansion of the Group's product portfolio

Strategic Report *(Continued)*

Financial Performance *(continued)*

Immediately following the COVID outbreak, sales volumes dropped by more than 20% against the same period in 2019. In addition to the adverse sales volume trend, the average sales price pence per litre was also adversely impacted as some consumers moved from single small bottle formats to multi-pack large bottle formats for in home consumption. We have seen both of these trends continue to reverse in 2021, however we anticipate that some of the hospitality and out of home channels will never return to pre-COVID levels as hybrid ways of working will result in more people working from home and less commuting to their place of work.

During the latter part of 2021, as global demand increased, we saw significant inflationary increases in raw material prices and distribution and utility costs. We anticipate further cost increases in 2022 and the invasion of Ukraine is likely to result in price increases being higher than previously anticipated and likely sustained for a longer period. The business has successfully delivered commercial initiatives and continues to explore other options to reduce the impact of these inflationary pressures.

In June 2022 the Group completed a re-financing process to ensure suitable funding levels are maintained, covering both short-term . The refinance provides the business with adequate levels of funding to meet its growth aspirations over the financing period. These facilities total £54.3m and are in place for a minimum period of 3 years. These facilities, comprise £26.3m Asset Based Lending facility, £25m Term Loan and £3m RCF (revolving credit facility). This will provide the required headroom for the business' strategic objectives.

The directors are confident of the continued success both of the core brand and the broader portfolio of products the Group supplies.

The principal risks and uncertainties affecting the business include the following:

- *Environmental risks:* the Group places considerable emphasis upon environmental compliance in each area of its business and not only seeks to ensure ongoing compliance with relevant legislation but also strives to ensure that environmental best practice is incorporated into its key processes. The Company is registered with the Eco-Management and Audit scheme (EMAS), which aims to "recognise and reward those organisations that go beyond minimum legal compliance and continuously improve their environmental performance"
- *Debtors:* the Group maintains strong relationships with each of its key customers and has established credit control parameters. Appropriate credit terms are agreed with all customers and these are closely managed. In addition, the Group maintains credit insurance in relation to higher risk customers.
- *Major disruption/disaster:* business continuity planning is reviewed regularly. The Group runs its own "Risk Management" programme whilst retaining external specialists on PR and industry matters to support the in-house skills.
- *The effect of legislation or other regulatory activities:* the Group monitors forthcoming and current legislation regularly.
- *Foreign currency exchange:* the Group monitors closely short, medium and long term exchange rates and has a policy of, where possible, employing a natural hedge of matching currency receipts against currency payments. Where there is no natural hedge the Group also enters forward exchange contracts where appropriate to reduce risk.
- *Raw material availability and prices:* the Group monitors raw material sources on a global basis and negotiates forward purchase contracts where appropriate on raw materials, utility costs and Packaging Recovery Notes. Raw material prices in particular increased significantly in 2021 mainly due to market increases in PET, however utility costs were largely hedged in the year.
- *IP management:* all appropriate measures are taken to protect the Group's intellectual property rights and to minimise the risk of infringement by third party rights. This includes the retention of external specialist IP lawyers to protect the Group's intellectual property rights.
- *Competitive risk:* the Group operates in highly competitive markets. The wide range of customers and sectors that the Group operates in reduces the possible effect of action by a single competitor.
- *Funding risk:* the Group is funded by a combination of bank facilities, including hire purchase arrangements, and inter Group loans. Adequacy of available facilities and compliance with relevant covenant tests is monitored on an ongoing basis.

Strategic Report *(Continued)*

Financial Performance *(continued)*

- *Political risk:* the vote in favour of a UK exit from membership of the European Union has resulted in greater economic uncertainty and foreign exchange rate volatility, and has affected the fiscal, monetary, legal and regulatory landscape to which the Group's operations are subject, as well as increasing the possibility of another referendum on the question of Scottish independence from the UK. The Group remains politically neutral and carefully monitors developments to enable it to respond to whatever decision is reached. The Group has limited exports to mainland Europe and is not exposed to any material risk to sales revenues.
- *COVID-19:* The pandemic has increased the likelihood and/or potential impact of our risk portfolio, however the Group continues to monitor these risks and implement mitigating actions as required.

Key financial performance indicators include the monitoring of the management of profitability and working capital.

Key non-financial performance indicators include the monitoring of our employees' health and safety in addition to the Group's environmental impact and energy consumption.

Ratio	**2021**	2020	Measure
Financial			
Return on capital	**11%**	(30)%	Profit before tax/net assets
Gross profit percentage **	**40%**	37%	Gross profit/turnover
Turnover per employee (£000) **	**259**	220	Turnover/average number of employees
Operating profit per employee (£000) **	**9.5**	3.1	Operating profit/average number of employees
Non-financial			
Reportable accidents per employee	**0.008**	**0.012**	Reportable accidents/average number of employees
Rainfall on catchment area bottled	**<3%**	<2%	Litres Bottled/Annual rainfall in boreholes catchment area
UK sales of the Highland Spring Brand (millions of litres)	**355.2**	323.6	Litre sales of Highland Spring Brand

** From continuing operations and before non-trading costs

Strategic Report *(Continued)*

Section 172 (1) Statement

The directors are aware of their duty to promote the success of the company. Set out below are the issues, factors and stakeholders the directors consider relevant in complying with s172 (1) (a) to (f) and how the directors have come to that opinion.

(a) **Long Term Strategy**: The principal asset of the business is the lease of the Boreholes which are on land owned by the ultimate parent company. The long-term strategy of the business is to leverage benefits from that asset. Further details of how that is being achieved are addressed in the Business Review and Performance sections of the Strategic Report.

(b) **Employees**: The business is committed to engagement with its employees. Through the internal website, The Source, there are weekly staff updates and a monthly live streamed Town Hall where employees are encouraged to submit questions and to participate in it. A number of onsite socially distanced Town Hall events have been held with all employees and we expect these events to be more regular when all COVID restrictions are lifted.

(c) **Relationships with Customers, Suppliers and Others**: The business primarily deals with UK retailers with whom it has close relationships in areas such as pricing and promotions. It also holds to the retailer policies and procedures and is regularly audited by them. There are a number of key suppliers to whom UK retailer policies and procedures are flowed down. As set out in the Strategic Report, the Group is at the forefront of the Industry through Industry Associations and contact with Government.

(d) **Community and the Environment**: The Strategic Report deals with the actions taken by the business in relation to plastic use. Other environmental actions include investment in a railway siding which will significantly reduce traffic in the community and vehicle emissions, and research into cleaner energy and alternative packaging.

(e) **Business Conduct**: The business is committed to a high level of business conduct. The Bribery Act 2010 has been rolled out to all employees who have received relevant coaching and training. The 2015 Modern Slavery Act imposes condition on the business and its Supply Chain: the business has taken steps to ensure it is compliant with this.

(f) **Shareholders**: The Al Tajir family own the ultimate parent company and members of the family are Directors of the Company.

By order of the board

L Montgomery
Director

Blackford
Perthshire
PH4 1QA
Scotland
3rd August 2022

Directors' Report

The directors submit their Annual Report and the audited financial statements for the year ended 31 December 2021.

Finance

The Group is funded through a combination of bank facilities, inter Group loans and hire purchase arrangements. Adequacy of facilities and compliance with relevant covenant tests are monitored on an ongoing basis.

In June 2022 the Group completed a re-financing process to ensure suitable funding levels are maintained, covering both short-term working capital requirements and the capital investment ambitions of the business in its five-year plan. The refinance provides the business with adequate levels of funding to meet its growth aspirations over the financing period. The facilities total £54.3m, comprising £26.3m Asset Based Lending facility, £25m Term Loan and £3m RCF (revolving credit facility) and are in place for a minimum period of 3 years.

Having regard to the Group's exceptional performance in 2021 and its positive start to 2022 and the overall economic environment, the directors have reviewed the Group's forecasts taking account of reasonable possible changes in trading performance and are satisfied that the Group is well placed to manage its financial position for the foreseeable future.

Following a difficult trading year in 2019, the business reviewed its strategy and as a consequence the Group's profitability has increased since that year and during the period of the COVID-19 pandemic. This reflects the business's greater resilience, flexibility and agility and the directors are confident that the business will continue to respond to the ongoing trading challenges.

Employees

The Group currently employs a number of disabled employees and gives full and fair consideration to applications for employment made by disabled persons, continues where possible the employment of people who become disabled while they are with the Group and ensures suitable training, career development and opportunities for the promotion of disabled persons employed by it.

Streamlined Energy and Carbon Reporting

The Group's annual UK energy use (MWh) and associated greenhouse gas emission (CO_2e tonnes) were as follows:

		2021	2020	**UoM**
Energy Consumption		**23,879**	23,026	MWh
Scope	**Emission Source**			
Scope 1	Natural Gas	25	20	tCO_2e
Scope 1	Gas Oil	198	283	tCO_2e
Scope 1	Transportation	389	360	tCO_2e
Scope 2	Electricity	5,042	5,343	tCO_2e
	Total	**5,654**	6,006	tCO_2e
Emissions Intensity Ratio		**11.3**	12.1	$kgCO_2$ /thousand litre produced

Methodology

An operational control approach was used to define the Greenhouse Gas emissions boundary i.e. the emissions from UK operation of all buildings plus company-owned and leased transport. The information was collected and reported in line with the methodology set out in the UK Government's Environmental Reporting Guidelines. Emissions have been calculated using the latest conversion factors provided by the UK Government and there are no material omissions from the mandatory reporting scope. Scope 2 emissions from purchased electricity have been measured using a location-based approach. The energy consumption (MWh) detailed in the table above includes electricity and natural gas.

Directors' Report *(Continued)*

During 2021, the Group established its 2019 emissions baseline from which emissions reductions targets will be set. This baseline includes scope 1 and 2 emissions and all relevant scope 3 emissions.

Streamlined Energy and Carbon Reporting *(Continued)*

Energy Efficiency

The Group remains committed to improving energy efficiency across all sites. During 2021, we continued the roll out of LED lighting and commenced an options appraisal to decarbonise heating at our Blackford site. Alternative technologies such as electric boilers and air source heat pumps are being considered to switch away from fossil fuels. In partnership with Blackford Farms Ltd, the business prepared a planning application for a 7Mw solar farm with battery storage which was submitted in April 2022. The potential development would provide the business with around 30% of its electricity requirements from renewable sources via a private wire connection whilst also providing wider community benefits. The solar farm would contribute to the business's sustainability strategy and support our ambition to reach net zero emissions by 2040.

Charitable Donations

During the year, the company made donations of £216k *(2020: £216k)* to the Altajir Trust.

Dividend

No dividends *(2020: £Nil)* were paid in the year. The directors do not propose a final ordinary dividend in respect of the current financial year *(2020: £Nil)*.

Directors

The directors who held office during the year were as follows:

HE MM Al Tajir
M Al Tajir
K Al Tajir
L Montgomery

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

L Montgomery
Director

Blackford
Perthshire
PH4 1QA
Scotland

3rd August 2022

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the Group and parent Company 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 they have elected to prepare the Group and parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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 Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of Highland Spring Limited ("the Company") for the year ended 31 December 2021 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated and company statement of changes in equity, the consolidated cash flow statement and related notes, including the accounting policies in note 1.
In our opinion the financial statements:

• give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;

• have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and

• have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.
Going concern
The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").
In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

• we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
• we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect
Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

• Enquiring of directors as to the Group's high-level policies and procedures to prevent and detect fraud and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
• Reading Board minutes.
• Using analytical procedures to identify any unusual or unexpected relationships.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIGHLAND SPRING LIMITED (CONTINUED)

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as promotional rebates and provisions in relation to inventory. On this audit we do not believe there is a fraud risk related to revenue recognition because the revenues consist of routine, non-complex transactions that are subject to systematic processing
We did not identify any additional fraud risks.
We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.
We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.
Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance, through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, employment law, and certain aspects of company legislation recognising the nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evidence from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon. Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIGHLAND SPRING LIMITED (CONTINUED)

audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

• we have not identified material misstatements in the strategic report and the directors' report;

• in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

• in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception
Under the Companies Act 2006, we are required to report to you if, in our opinion:

• adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
• the parent Company 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 these respects.

Directors' responsibilities
As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent 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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's *responsibilities*
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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities
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.

L Niccolls

Lyn Niccolls (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS
5 August 2022

Consolidated Profit and Loss Account

for the year ended 31 December 2021

	Note	2021 £000	2020 £000 *Continuing*	2020 £000 *Discontinued*	2020 £000 *Total*
Turnover	*2*	**94,140**	87,604	495	88,099
Cost of sales		**(56,904)**	(54,822)	(785)	(55,607)
Gross profit/(loss)		**37,236**	32,782	(290)	32,492
Distribution costs		**(25,239)**	(22,374)	(33)	(22,407)
Administrative expenses		**(8,561)**	(9,153)	(37)	(9,190)
Administrative expenses – non-trading costs	*3*	**(779)**	(1,014)	(65)	(1,079)
Operating profit/(loss)	*3*	**2,657**	241	(425)	(184)
Interest receivable and similar income	*6*	**124**	71	-	71
Interest payable and similar charges	*7*	**(2,076)**	(1,698)	-	(1,698)
Profit/(loss) before taxation		**705**	(1,386)	(425)	(1,811)
Tax on profit/loss	*8*	**(436)**	(283)	-	(283)
Profit/(loss) for the financial year		**269**	(1,669)	(425)	(2,094)

The loss for the year recognised in the accounts of the Company was £201k *(2020: loss £1,669k).*

During 2020 the Group discontinued the activities within Speyside Glenlivet (HSL) Company Limited. All the Group's other activities are continuing in the current and preceding year.

The Group has no other comprehensive income in the current or prior year.

The accompanying notes form an integral part of these financial statements.

Consolidated and Company Balance Sheet
at 31 December 2021

	Note	**Group 2021 £000**	Group 2020 £000	**Company 2021 £000**	Company 2020 £000
Fixed assets					
Intangible assets	*9*	**452**	507	**452**	507
Tangible assets	*10*	**39,725**	41,936	**39,692**	**41,903**
Investments	*11*	**-**	**-**	**301**	**301**
		40,177	**42,443**	**40,445**	**42,711**
Current assets					
Stocks	*12*	**5,564**	**5,916**	**5,564**	**5,874**
Debtors	*13*	**21,672**	**14,289**	**21,555**	**14,795**
Cash at bank and in hand		**4,178**	**3,568**	**4,168**	**3,531**
		31,414	**23,773**	**31,287**	**24,200**
Creditors: amounts falling due within one year	*14*	**(62,696)**	**(51,621)**	**(62,767)**	**(51,776)**
Net current liabilities		**(31,282)**	**(27,848)**	**(31,480)**	**(27,576)**
Total assets less current liabilities		**8,895**	**14,595**	**8,965**	**15,135**
Creditors: amounts falling due after more than one year	*15*	**-**	**(7,000)**	**-**	**(7,000)**
Provisions for liabilities					
Deferred tax liability	*17*	**(2,639)**	**(1,608)**	**(2,639)**	**(1,608)**
Net assets		**6,256**	**5,987**	**6,326**	**6,527**
Capital and reserves					
Called up share capital	*19*	**10,000**	**10,000**	**10,000**	**10,000**
Profit and loss account		**(3,744)**	**(4,013)**	**(3,674)**	**(3,473)**
Shareholders' funds		**6,256**	**5,987**	**6,326**	**6,527**

These financial statements were approved by the board of directors on 3rd August 2022 and were signed on its behalf by:

L Montgomery
Director

Company registered number: SC067339

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity 2020

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2020	10,000	(1,919)	8,081
Loss for the year	-	(2,094)	(2,094)
Balance at 31 December 2020	**10,000**	**(4,013)**	**5,987**

Consolidated Statement of Changes in Equity 2021

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2021	10,000	(4,013)	5,987
Profit for the year	-	269	269
Balance at 31 December 2021	**10,000**	**(3,744)**	**6,256**

Company Statement of Changes in Equity 2020

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2020	10,000	(1,804)	8,196
Loss for the year	-	(1,669)	(1,669)
Balance at 31 December 2020	**10,000**	**(3,473)**	**6,527**

Company Statement of Changes in Equity 2021

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2021	10,000	(3,473)	6,527
Loss for the year	-	(201)	(201)
Balance at 31 December 2021	**10,000**	**(3,674)**	**6,326**

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

for year ended 31 December 2021

	Note	2021 £000	2020 £000
Cash flows from operating activities			
Profit/(Loss) for the year		**269**	**(2,094)**
Adjustments for:			
Depreciation, amortisation and impairment		**5,230**	**5,790**
Interest receivable and similar income		**(124)**	**(71)**
Interest payable and similar charges		**2,076**	**1,698**
Taxation		**436**	**283**
		7,887	**5,606**
Other non-cash operating items;			
Foreign exchange movement		**35**	**(47)**
Working capital cash items;			
(Increase) in trade and other debtors		**(4,921)**	**(74)**
Decrease in stocks		**352**	**1,268**
Increase in trade and other creditors		**5,518**	**1,458**
		949	**2,652**
Other cash operating items;			
Tax received		**606**	**191**
Net cash from operating activities		**9,477**	**8,402**
Cash flows from investing activities			
Acquisition of tangible fixed assets	*10*	**(2,964)**	**(5,238)**
Net cash from investing activities		**(2,964)**	**(5,238)**
Cash flows from financing activities			
Proceeds from new loan	*16*	**-**	**2,862**
Repayment of loans	*16*	**(194)**	**-**
Capital element of hire purchase repayments	*16*	**(1,641)**	**(1,599)**
Loans to parent undertaking		**(2,474)**	**(859)**
Interest received		**89**	**71**
Interest paid		**(1,681)**	**(1,542)**
Financing costs paid		**(2)**	**(61)**
Net cash from financing activities		**(5,903)**	**(1,128)**
Net increase in cash and cash equivalents		**610**	**2,036**
Cash and cash equivalents at 1 January		**3,568**	**1,532**
Cash and cash equivalents at 31 December		**4,178**	**3,568**

The accompanying notes form an integral part of these financial statements.

Notes
(forming part of the financial statements)

1 Accounting policies

Highland Spring Limited (the "Company") is a Company limited by shares and incorporated and domiciled in the UK.

These Group and parent Company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The parent Company is included in the consolidated financial statements and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent Company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period
- A separate parent Company Cash Flow Statement with related notes
- Key Management Personnel compensation
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1

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

Judgements made by the directors, in the application of these accounting policies, are considered to have no significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year. Critical judgements are described in note 25.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The directors have considered the financial position of the Group, including its cash flows, liquidity position and financial projections until the end of Quarter 2, 2023. As highlighted in the Directors' Report, the Group and Company are currently funded through a combination of bank loans, Asset Based Lending facilities, inter Group loans and hire purchase arrangements.

In June 2022 the Group completed a re-financing process to ensure suitable funding levels are maintained, covering both short-term working capital requirements and the capital investment ambitions of the business in its five-year plan. This comprises a 3 year £54.3m facility which is split: £26.3m asset based lending, £25m term loan and £3m revolving credit facility, expiring in June 2025. The refinance provides the business with adequate levels of funding to meet its growth aspirations over the financing period and, as at the date of performing the going concern assessment, means the Group are in a net current asset position.

Having regard to the Group's exceptional performance in 2021 and positive trading performance to date in 2022 and the overall economic environment, the directors have reviewed the Group's cash flow forecasts for a period of 12 months from the date of approval of these financial statements taking account of reasonable possible downsides in trading performance, including the increased cost of raw materials and the potential impact of COVID 19 on the operations and its financial resources. The directors are satisfied that the Group will have sufficient funds to meet its liabilities as they fall due for that period and furthermore will remain in compliance with banking covenants

Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. This is considered appropriate for the following reasons:

- On the basis of a further COVID 19 lockdown in the first 2 months of 2023, and applying trading performance assumptions from previous lockdowns, the Group is forecasted to have sufficient resources to meet its liabilities for this period and thereafter

- In order to mitigate any impact of a further lockdown on the Group, management would actively reduce overhead costs to offset in part the downturn in trading

Notes *(continued)*

1 Accounting policies *(continued)*

- In the face of additional increases in raw material and other commodity related prices, further scenarios have been considered with regards to potential recovery of such increases from customers which reflect previous agreements under those circumstances

- The completion of £54.3m refinance in June 22 comprising £26.3m Asset Based Lending facility, £25m Term Loan and £3m RCF (revolving credit facility)

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to the balance sheet date. The acquisition method of accounting has been adopted.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

1.4 Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

1.5 Basic financial instruments

Trade and other debtors/creditors

Trade debtors are recognised at transaction price, less provision for impairment. A provision for impairment of trade debtors is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables, determined by reference to previous experience of recoverability for receivables. Trade creditors are recognised at transaction price.

Interest-bearing borrowings classified as basic financial instruments

Borrowings are recognised at fair value, net of transaction costs incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes *(continued)*

1 Accounting policies *(continued)*

1.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items in tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Depreciation is provided to write off the cost less estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	2%-33% per annum on cost
Factory, boreholes and pipelines (long leasehold property)		2%-33% per annum on cost
Plant and machinery	-	over 3 to 50 years
Motor vehicles	-	20%-33% per annum on cost
Office and computer system equipment	-	10%-50% per annum on cost
Other fixtures and fittings	-	over 2 to 15 years

1.7 Intangible assets and goodwill

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations and on consolidation is capitalised. Goodwill is amortised to nil by equal instalments over its estimated useful life.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use.

The basis for choosing useful lives is an assessment of period of expected future benefit at the point of acquisition.

Goodwill is amortised on a straight line basis over its useful life which is estimated to be 20 years. Goodwill has no residual value.

The Company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

1.8 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour, transport and appropriate factory overheads.

The Group maintains a stock of maintenance spares to facilitate the timely and orderly execution of ongoing maintenance programmes, as well as emergency repairs, in relation to the Group's plant and equipment. Such maintenance spares are recorded at cost, less such provisions as are considered necessary by the directors to reflect any obsolescence of relevant parts.

1 Accounting policies *(continued)*

1.9 Employee benefits

Defined contribution plans

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

1.10 Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.11 Turnover

Revenue is the net invoiced sales value, after deducting relevant promotional costs and exclusive of value added tax of goods supplied to external customers during the year. Sales are recorded based on the price specified in the sales invoices, net of any agreed discounts and rebates.

Revenue is recognised when the goods have been despatched to the buyer and the amount can be measured reliably. Sales related discounts and rebates are calculated based on the expected amounts necessary to meet the claims of the Group's customers in respect of these discounts and rebates.

1.12 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Interest receivable and interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, and net foreign exchange losses that are recognised in the profit and loss account.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Notes *(continued)*

1 Accounting policies *(continued)*

1.13 Grants

The accruals model is adopted for grant income. Revenue grants are recognised when they become receivable and are netted off the associated expense.

1.14 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes *(continued)*

2 Analysis of Turnover

	2021 £000	2020 £000
Turnover by geographical market:		
United Kingdom	91,518	85,604
Rest of Europe (including Channel Islands)	158	132
Other export markets	2,464	2,363
	94,140	88,099

3 Expenses, income and auditor's remuneration

	2021 £000	2020 £000
Included in profit are the following expenses/(income):		
Goodwill amortisation	55	55
Depreciation	5,175	5,735
Hire of Plant and Machinery	465	493
Non trading costs	779	1,079
Rent of boreholes and land at Blackford	1,000	1,000
COVID-19 support	(236)	(986)

Non-trading costs

The above costs comprise Group restructuring activities undertaken during 2021(£389k), cost of closed facilities (£90k) and LTIP costs for senior management (£300k).

The COVID-19 support comprises grants under the Job Retention Scheme £229k (*2020: £979k*) and rates reduction of £7k (*2020: £7k*).

	2021 £000	2020 £000
Auditor's remuneration:		
Audit of these financial statements	88	76
Amounts receivable by the Company's auditor and its associates in respect of:		
Taxation compliance services	38	28
Taxation advisory services	5	11
All other services	3	3

Notes *(continued)*

4 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year was as follows (note £300k LTIP costs are included in 'Non-trading costs' above):

	2021	2020
	No	No
Nunber of employees analysed by category:		
Production	**275**	316
Selling and distribution	**28**	31
Administration	**60**	61
Total	**363**	408

	2021	2020
	£000	£000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	**12,899**	13,242
Social security costs	**1,369**	1,385
Contributions to defined contribution plans	**835**	909
	15,103	15,536

5 Directors' remuneration

	2021	2020
	£000	£000
Directors' remuneration	**594**	767

The emoluments of the highest paid director were £594k *(2020: £767k)*, and Company pension contributions of £nil *(2020: £nil)* were made on his behalf.

6 Interest receivable and similar income

	2021	2020
	£000	£000
Foreign currency gain	**35**	-
Interest from related parties	**89**	71
	124	71

7 Interest payable and similar charges

	2021	2020
	£000	£000
Bank overdraft and other loans repayable within five years	**749**	720
Other interest on loan from group undertaking	**737**	572
HP agreements	**197**	250
Amortisation of loan arrangement fees	**393**	109
Foreign currency loss	**-**	47
Total other interest payable and similar charges	**2,076**	1,698

Notes *(continued)*

8 Taxation

Total tax expense/(benefit) recognised in the profit and loss account:

	2021 £000	2020 £000
Current tax		
Current tax on income for the period	**144**	-
Prior period adjustment – corporation tax	**(739)**	-
Total current tax	**(595)**	-
Deferred tax (see note 18)		
Reversal of timing differences	**222**	**233**
Change in tax rate	**633**	**43**
Adjustments in respect of prior years	**176**	**7**
Total deferred tax	**1,031**	**283**
Total tax	**436**	**283**

Reconciliation of effective tax rate

	2021 £000	2020 £000
Profit/(loss) for the year	**269**	(2,094)
Total tax expense	**436**	283
Profit/(loss) excluding taxation	**705**	(1,811)
Tax using the UK corporation tax rate of 19% *(2020: 19%)*	**134**	(344)
Effects of:		
Expenses not allowable for tax purposes	**2**	26
Fixed asset timing differences	**222**	357
Deferred tax rate	**633**	43
Deferred tax asset not recognised	**-**	194
Adjustments to tax charge in respect of previous periods	**(555)**	7
Total tax expense/(benefit) included in profit or loss	**436**	283

The finance act 2021 was substantially enacted in May 2021 and has increased the corporation tax rate from 19% to 25% with effect from 1 April 2023. The deferred taxation balance has been measured using the rates expected to apply in the reporting periods when the timing differences reverse.

Notes *(continued)*

9 Intangible assets and goodwill

Group and Company	**Goodwill £000**
Cost	
Balance at 1 January 2021 and 31 December 2021	**1,092**
Amortisation and impairment	
Balance at 1 January 2021	**585**
Amortisation for the year	**55**
Balance at 31 December 2021	**640**
Net book value	
At 1 January 2021	507
At 31 December 2021	**452**

Amortisation and impairment charge

The amortisation, impairment charge and impairment reversals are recognised in Administrative expenses in the profit and loss account. The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. The goodwill arises from the acquisition of the Greencore bottled water division and the Directors were of the opinion on acquisition the useful life of goodwill was 20 years. On the implementation of FRS 102 the Directors have considered the remaining net book value of goodwill and its remaining useful life and continue to amortise the balance over 20 years from the date of acquisition.

10 Tangible fixed assets

Group	**Land and buildings £000**	**Plant and equipment £000**	**Fixtures and fittings £000**	**Long leasehold £000**	**Assets under the course of construction £000**	**Total £000**
Cost						
Balance at 1 January 2021	5,199	91,646	2,112	20,530	4,324	123,811
Additions	-	-	-	-	2,964	2,964
Transfers	16	117	581	-	(714)	-
Balance at 31 December 2021	5,215	91,763	2,693	20,530	6,574	126,775
Depreciation and impairment						
Balance at 1 January 2021	1,501	69,894	1,632	8,848	-	81,875
Depreciation charge for the year	181	4,381	152	461	-	5,175
Balance at 31 December 2021	1,682	74,275	1,784	9,309	-	87,050
Net book value						
At 1 January 2021	**3,698**	**21,752**	**480**	**11,682**	**4,324**	**41,936**
At 31 December 2021	**3,533**	**17,488**	**909**	**11,221**	**6,574**	**39,725**

Notes *(continued)*

10 Tangible Fixed Assets *(continued)*

Included within plant and machinery for both the Group and Company are assets held under hire purchase contracts with a net book value of £8,518k *(2020: £9,825k)*. Depreciation of £1,307k *(2020: £1,331k)* was charged in the year in respect of these assets. Included in fixed assets is land of £950k *(2020: £950k)* which is not depreciated.

Company

	Land and Buildings £000	Plant and equipment £000	Fixtures and fittings £000	Long leasehold £000	Assets under the course of construction £000	Total £000
Cost						
Balance at 1 January 2021	5,199	91,156	2,099	20,529	4,324	123,307
Additions	-	-	-	-	2,964	2,964
Transfers	16	117	581	-	(714)	-
Balance at 31 December 2021	5,215	91,273	2,680	20,529	6,574	126,271
Depreciation and impairment						
Balance at 1 January 2021	1,501	69,436	1,621	8,846	-	81,404
Depreciation charge for the year	181	4,381	152	461	-	5,175
Balance at 31 December 2021	1,682	73,817	1,773	9,307	-	86,579
Net book value						
At 1 January 2021	**3,698**	**21,720**	**478**	**11,683**	**4,324**	**41,903**
At 31 December 2021	**3,533**	**17,456**	**907**	**11,222**	**6,574**	**39,692**

11 Fixed asset investments

Company

	Shares in subsidiary undertakings £000
Cost	
At beginning and end of year	**301**

Notes *(continued)*

11 Fixed Asset Investments *(continued)*

Subsidiary undertakings

	Country of Registration/ Incorporation	Registered office	Proportion of ordinary share capital held	Principal activity
Gleneagles Spring Water Company Limited	United Kingdom	The Maltings, Moray Street, Blackford, Perthshire, PH4 1QF	100%	Non-trading
Speyside Glenlivet (HSL) Company Limited	United Kingdom	Stirling Street, Blackford, Perthshire, PH4 1QA	100%	Non-trading
Lothian Shelf (674) Limited	United Kingdom	Stirling Street, Blackford, Perthshire, PH4 1QA	100%	Non-trading
Associated undertakings				
Highland Renewables Limited	United Kingdom	Stirling Street, Blackford, Perthshire, PH4 1QA	49%	Evaluation of renewable energy opportunities

The company has provided a parent company guarantee in respect of Speyside Glenlivet (HSL) Company Limited as at 31st December 2021. Accordingly, its financial statements for the year then ended have not been audited. Highland Renewables Limited as of its last accounts for the year ended 31 December 2021 had negative net worth of £(14)k (2020 £(12)k) and made a loss for the year of £2k (2020 loss £1k). Given the quantum of these numbers, no adjustment is made.

12 Stocks

	Group 2021 £000	Group 2020 £000	**Company 2021 £000**	Company 2020 £000
Raw materials and consumables	**1,444**	1,677	**1,444**	1,635
Finished goods	**2,790**	2,984	**2,790**	2,984
Maintenance Stocks	**1,330**	1,255	**1,330**	1,255
	5,564	5,916	**5,564**	5,874

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £31,659k *(2020: £30,760k)*.

Notes *(continued)*

13 Debtors

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Trade debtors	**13,033**	8,475	**13,033**	8,475
Amounts owed by group undertakings	**-**	-	**676**	513
Amounts owed by parent undertakings	**6,331**	3,860	**5,694**	3,860
Amounts owed by related undertaking	**27**	24	**27**	24
Other debtors	**17**	94	**17**	87
Prepayments and accrued income	**1,920**	1,480	**1,839**	1,480
Corporation tax debtor	**344**	356	**269**	356
	21,672	14,289	**21,555**	14,795

All debtors are due within one year.

14 Creditors: amounts falling due within one year

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Other loans	**8,000**	1,000	**8,000**	1,000
Bank loans and overdrafts	**21,796**	21,598	**21,721**	21,598
Finance lease obligations	**6,701**	8,342	**6,701**	8,342
Trade creditors	**8,815**	11,421	**8,796**	11,325
Amounts owed to related undertakings	**-**	-	**269**	269
Group tax relief	**51**	51	**-**	128
Other taxation and social security	**2,041**	2,357	**2,045**	2,329
Other creditors	**733**	487	**733**	487
Accruals and deferred income	**14,559**	6,365	**14,502**	6,298
	62,696	51,621	**62,767**	51,776

The 'Other Loans' balance relates to the £8,000,000 loan balance due to a related company Park Tower Investments Limited ('PTIL') which has the same ultimate parent Company. As at the balance sheet date, except for the Permitted Shareholder Payments subject to conditions, the directors of both the Company and PTIL acknowledged that the loan was subordinated debt and could not be repaid under the terms of the previous banking agreement with HSBC, prior to its expire in June 2022. As a result of the re-financing completed post year-end, based on the agreement with Breal Zeta ('BZ'), and separate subordination agreement with BZ and PTIL £6,000,000 of this loan will be subordinated and will not be due for payment until the BZ debt expires in June 2025. On completion of the new financing facilities, £2,000,000 was permitted to be repaid. £1,000,000 was repaid in June 2022 and a further £1,000,000 is expected to be repaid in August 2022 when outstanding conditions subsequent to the new banking agreement have been satisfied.

Notes *(continued)*

15 Creditors: amounts falling after more than one year

	Group 2021 £000	Group 2020 £000	**Company 2021 £000**	Company 2020 £000
Other loans (see note 22)	**-**	**7,000**	**-**	**7,000**
	-	**7,000**	**-**	**7,000**

16 Other interest-bearing loans and borrowings

The contractual terms of the Group's and parent Company's interest-bearing loans and borrowings, which are measured at amortised cost, are as follows:

	Group 2021 £000	Group 2020 £000	**Company 2021 £000**	Company 2020 £000
Creditors falling due within less than one year				
Secured bank loans	**21,796**	21,598	**21,721**	21,598
Hire purchase contracts	**6,701**	8,342	**6,701**	8,342
Other loans (see note 22)	**8,000**	1,000	**8,000**	1,000
	36,497	30,940	**36,422**	30,940
Creditors falling due more than one year				
Other loans (see note 22)	-	7,000	-	7,000
	-	7,000	-	7,000

Notes *(continued)*

16 Other interest-bearing loans and borrowings *(continued)*

Analysis of debt	**Group 2021 £000**	Group 2020 £000	**Company 2021 £000**	Company 2020 £000
Debt can be analysed as falling due:				
In less than one year	**36,497**	30,940	**36,422**	30,940
Between two and five years	**-**	7,000	**-**	7,000
	36,497	37,940	**36,422**	37,940

The bank loan represents borrowings made against a revolving cash facility ("RCF") which is rolled on a quarterly basis, an inventory finance facility and invoice receivables facilities. The RCF is secured by a bond and floating charge over the fixed assets of the Group. The inventory and receivables facilities are secured against the Company inventory and trade debtors respectively. Interest on the RCF is charged at LIBOR + 2.5%. Interest on the inventory is charged at LIBOR + 4.05% and receivables non recourse and recourse facilities are charged at LIBOR + 3.85% and LIBOR + 3.95% respectively. The bank borrowings are stated net of £21k *(2020: £413k)* of loan issue costs

Obligations under hire purchase contracts are secured by related assets. Other loans are unsecured..

17 Deferred tax liabilities

Deferred tax liabilities are attributable to the following:

Group and Company	**Liabilities 2021 £000**	Liabilities 2020 £000
Accelerated capital allowances	**2,639**	1,608
Tax liabilities	**2,639**	1,608

In addition to the deferred tax liability above, the Group has the following deferred tax asset at 25% *(2020: 19%)* which has not been recognised due to the uncertainty surrounding its recoverability.

Group	**2021 £000**	2020 £000
Trading losses of subsidiary undertakings	**1,369**	1,138
Accelerated capital allowances	**40**	19
	1,409	1,157

Notes *(continued)*

18 Employee benefits

Defined contribution plans

Group

The Group operates a defined contribution GPP scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension charge in the year represents contributions payable by the Group to the fund and amounted to £835k *(2020: £909k)*. Contributions totalling £65k *(2020: £91k)* were payable to the fund at the year end and included in creditors.

19 Capital

Share capital

Group and Company	**2021**	2020
	£000	£000
Allotted, called up and fully paid		
10,000k Ordinary shares of £1 each	**10,000**	10,000

20 Operating leases

The Group had annual commitments under non-cancellable operating lease rentals as follows:

	Land and Buildings 2021 £000	Land and Buildings 2020 £000
Less than one year	**1,000**	1,000
Between one and five years	**4,000**	4,000
More than five years	**72,250**	73,250
	77,250	78,250

During the year £1,000k was recognised as an expense in the profit and loss account in respect of operating leases *(2020: £1,000k)*.

21 Commitments

Capital commitments

Contractual commitments to purchase tangible fixed assets at the year-end were £1,212k *(2020: £300k)* for the Group and Company.

A bond and floating charge exists over certain of the Group and Company's fixed assets and related undertakings relating to debt of £5,900k *(2020: £8,300k)* held in the accounts of Ochil Holdings Limited, the Company's immediate parent company.

Notes *(continued)*

22 Related parties

Group

Transactions with key management personnel

Total compensation of key management personnel (including the directors) in the year amounted to £1,510k *(2020: £1,425k)*.

Other related party transactions

(i) Included in the accounts are amounts charged by Blackford Farms Limited, relating to management of the catchment areas within the Blackford Estate, totalling £808k *(2020: £638k)*. There were no amounts outstanding at the year-end *(2020: £k nil)*. Both the Company and Blackford Farms Limited are under the same ultimate ownership.

(ii) Included in the accounts are amounts charged by an immediate parent Company, Ochil Holdings Limited, relating to the factory site and water boreholes areas of Blackford Estate, totalling £1,000k *(2020: £1,000k)*. There were no amounts outstanding at the year-end *(2020: £k nil)*.

(iii) The Company has a loan from Park Tower Investments Limited of £8,000k. Interest is charged on this loan at 6% above Base; the charge for the year was £737k *(2020: £572k)*. Interest of £1,462k remains outstanding at 31 December 2021 *(2020: £725k)*. During the year no repayment *(2020: £k nil)* was made in respect of outstanding interest on this loan. At the balance sheet date, the Company was owed £k nil from Park Tower Investments Limited *(2020: £k nil)*. Both the Company and Park Tower Investments Limited are under the same ultimate ownership.

(iv) At the balance sheet date, the Company was owed £27k *(2020: £24k)* by Highland Renewables Limited. The Company charged £k nil *(2020: £k nil)* in interest on this loan during the financial year. Both the Company and Highland Renewables Limited are under the same ultimate ownership. L Montgomery is a Director of both Highland Spring Limited and Highland Renewables Limited.

(v) During 2021, the Company loaned £2,367k *(2020: £790k)* to Ochil Holdings Ltd. At the balance sheet date, the Company was owed £5,531k *(2020: £2,975k)* by Ochil Holdings Limited. Interest is charged on this loan at 2% above LIBOR; the charge for the year was £88k *(2020: £73k)*. Interest of £189k remains outstanding at 31 December 2021 *(2020: £101k)*. Both the Company and Ochil Holdings Limited are under the same ultimate ownership.

(vi) At the balance sheet date, the Company was owed £743k *(2020: £743k)* by Hope Sixteen (No. 87) Limited. Interest is charged on this loan at 2% above LIBOR; the charge for the year was £16k *(2020: £22k)*. Interest of £57k remains outstanding at 31 December 2021 *(2020: £41k)*. Both the Company and Hope Sixteen (No. 87) Limited are under the same ultimate ownership.

(vii) During the year, the company made donations of £216k (*2020: £216k*) to the Altajir Trust. The trust was founded by HE MM Altajir.

23 Ultimate parent Company and parent Company of larger group

The directors regard Park Tower Holdings Establishment, which is registered in Liechtenstein, to be the ultimate parent Company and controlling party. The Company's immediate parent undertaking is Hope Sixteen (No. 87) Limited, which is registered in Scotland and prepares Group accounts which can be obtained from Companies House, 139 Fountainbridge, Edinburgh EH3 9FF.

Notes *(continued)*

24 Post Balance Sheet Events

The Group received £1m in March 2022 as part of a COVID business interruption claim dating back to March 2020 covering 3 months of trade. This will be recognised in the 2022 financial statements.

For 2021 reporting purposes bank loans and HP were recognised as being repayable within one year. In June 2022 the Group completed a re-financing process to ensure suitable funding levels are maintained, covering both short-term working capital requirements and the capital investment ambitions of the business in its five-year plan. This comprises a 3 year £54.3m facility which is split: £26.3m asset based lending, £25m term loan and £3m revolving credit facility. Repayments due against these loans will proportionally be reclassified as 'amounts falling due after more than one year' in line with term of the facilities agreement in the 2022 financial statements.

The 'Other Loans' balance relates to the £8,000,000 loan balance due to a related company Park Tower Investments Limited ('PTIL') which has the same ultimate parent Company. As at the balance sheet date, except for the Permitted Shareholder Payments subject to conditions, the directors of both the Company and PTIL acknowledged that the loan was subordinated debt and could not be repaid under the terms of the previous banking agreement with HSBC, prior to its expire in June 2022. As a result of the re-financing completed post year-end, based on the agreement with Breal Zeta ('BZ'), and separate subordination agreement with BZ and PTIL £6,000,000 of this loan will be subordinated and will not be due for payment until the BZ debt expires in June 2025. On completion of the new financing facilities, £2,000,000 was permitted to be repaid. £1,000,000 was repaid in June 2022 and a further £1,000,000 is expected to be repaid in August 2022 when outstanding conditions subsequent to the new banking agreement have been satisfied.

25 Accounting estimates and judgements

Certain critical accounting judgements in applying the Company's accounting policies are described below.

Stock

The recoverability and value of inventories are kept under constant review and provision is made where appropriate.

Debtors

The recoverability of trade and other receivables are kept under constant review and provision is made where appropriate.

Accruals

The liabilities for advertising and promotional accruals are based on estimates of contractual obligations and kept under constant review.