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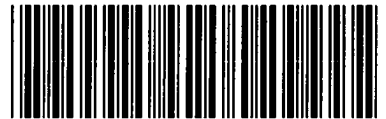
Whyte and Mackay Group Limited

Directors' Report and Financial Statements

Year ended 31 December 2018

Registered number: SC221954

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COMPANIES HOUSE

Whyte and Mackay Group Limited
Directors' report and financial statements
Year ended 31 December 2018

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Whyte and Mackay Group Limited

Directors and advisers

Directors

W Co
J Cortes
J Domecq
B H Donaghey
Dr A Tan

Registered office

St Vincent Plaza
4th Floor
319 St Vincent Street
Glasgow
G2 5RG

Independent statutory auditor

Grant Thornton UK LLP
Chartered Accountants and Statutory Auditor
110 Queen Street
Glasgow
G1 3BX

Solicitors

Wright, Johnston & Mackenzie LLP
302 St Vincent Street
Glasgow
G2 5RZ

Bankers

Bank of Scotland
The Mound
Edinburgh
EH1 1YZ

Whyte and Mackay Group Limited

Strategic report for the year ended 31 December 2018

The directors present their report together with the audited financial statements for the year ended 31 December 2018.

Principal activities

During the year ended 31 December 2018, the Group's principal activities were the production, marketing and distribution of Scotch whisky, vodka, liqueurs and other alcoholic drinks. Core brands include The Dalmore, Jura, Fettercairn and Tamnavulin malt whiskies, Vladivar vodka, Glayva liqueur, Whyte and Mackay, Claymore and John Barr blended Scotch whiskies and Shackleton, a blended malt whisky. The Group also distributed Harvey's Bristol Cream Sherry under a distribution agreement with Bodegas Fundador.

Strategy

The Group's overriding objective is to operate as a global branded drinks business which delivers sustainable rates of growth and returns that increase overall shareholder value. The Group operates throughout the world both directly and through distribution partners.

The Group will seek to continue to extend its global reach focusing primarily on its Scotch business but also developing in other alcoholic beverage categories.

Business review

In 2018 the profit for the Group increased with continued growth in our core brands. The Dalmore and Jura brands in particular performed strongly, supported by continued strategic marketing investment. Higher volumes through the Group's production assets drove positive operational gearing which, coupled with tight control over supply chain costs and overheads, contributed to the profit for the period.

Operating profit has increased by 44% on the prior year as our core brands continue to grow both domestically and internationally. The operating profit of £28,835,000 (2017: £19,996,000) is after exceptional costs of £1,068,000 (2017: £685,000 income). The Group's operating profit before exceptional costs was £29,903,000 in 2018 (2017: £19,311,000), with EBITA before exceptional costs (earnings before interest, tax, and amortisation) of £32,488,000 in 2018 (2017: £21,766,000). The Group has returned a profit for the financial year of £13,206,000 (2017: £10,094,000).

The Group is committed to research and development activities in order to secure its position as one of the market leaders in the production, marketing and distribution of Scotch whisky, vodka, liqueurs and other alcoholic drinks. This mainly manifests itself in the launch of new products but also extends to improving and optimising our production assets and processes.

Key performance indicators ("KPI's")

Turnover

Group turnover has increased by 11% through continued growth in our core brands.

EBITA margin (%)

EBITA margin before exceptional items has increased to 20% in the current year.

Principal risks and uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks. The key business risks affecting the Group are set out below:

Competition

Whyte and Mackay faces competition from a number of international companies as well as local and regional companies in the countries in which it operates. This competition puts pressure on pricing, margins and ultimately market share, and impacts on overall results. In order to mitigate this risk, management monitor market prices on an on-going basis and take steps to safeguard the overall competitive position of the business.

Material costs

The raw materials used for the production of spirits are largely commodities that are subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural uncertainty and Government controls. If commodity price changes result in unexpected increases in raw materials cost or the cost of packaging materials, Whyte and Mackay may not be able to increase its selling prices to completely offset these increased costs without suffering reduced volume, turnover and operating profit. The Group mitigates this risk through effective supplier selection, procurement practices and effective monitoring of commodity markets supplemented by making appropriate price increases wherever possible.

Inventory risk

Whyte and Mackay has a substantial inventory of aged stocks which mature over periods of up to 60 years. As at 31 December 2018 the historical cost of this stock amounted to £230,077,000 (2017: £201,149,000). The maturing inventory is stored in various locations across Scotland, and the loss through contamination, fire or other natural disaster of all or a portion of the stock could result in a significant reduction in supply of products. Consequently consumer demand for these products would not be met, and turnover and profitability would be adversely affected. This risk is partially mitigated by ensuring appropriate insurance coverage is in place and physical protection of the stock.

Whyte and Mackay Group Limited

Strategic report for the year ended 31 December 2018 (continued)

Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The group's overall risk management programme focusses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group's principal financial instruments, other than derivatives, comprise interest bearing loans, cash and cash equivalents. The main purpose of these financial instruments is to manage the Group's funding and liquidity requirements. The Group has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Risk management is carried out by the finance management team, approved by the Credit Committee. The finance management team identifies, evaluates and hedges financial risks as follows:

During the year the company set up a committee to review the implications of the United Kingdom leaving the European Union. The company has considered the risks presented by Brexit and at this stage do not perceive any material risk to the company's viability. The company will keep this under review as exit negotiations progress.

Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily in respect of the US dollar, Canadian dollar and Euros. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

The company's treasury risk management policy is to hedge net trading receipts in each major foreign currency using a layered rolling program. Forwards and swaps are used to hedge 100% of forecast exposure out 12 months, 50% out 24 months and 25% out 36 months.

Interest rate risk

The Group has an exposure to interest rate fluctuations on its borrowings and can manage these by the use of interest rate swaps. The objectives for the mix between fixed and floating rate borrowings are set to reduce the impact of an upward change in interest rates while enabling benefits to be enjoyed if interest rates fall. At the reporting date, the revolving credit facility is on a floating variable rate and the cashflow interest rate risk is considered minimal.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate banking facilities, by continuously monitoring forecast and actual cash flows on a daily, monthly and annual basis and matching the maturity profiles of financial assets and liabilities. The Group has at its disposal additional undrawn facilities which further reduces liquidity risk.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet their contractual obligations and arises principally from amounts receivable from customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed and updated on a regular basis by the Treasury, Risk and Capital Committee.

Concentrations of credit risk with respect to trade receivables are limited at the year end due to the Group's customer base being large and unrelated. There were no significant concentrations of credit exposure at the year end relating to other aspects of credit. Management therefore believe there is no further credit risk provision required in excess of the normal provision for doubtful receivables.

The carrying amount of financial assets disclosed at note 14, which includes trade receivables net of impairment losses, derivative financial instruments and cash represents the Group's maximum exposure to credit risk.

Environmental policy

The Group has an environmental policy which commits it to ensuring that its activities are conducted in ways which comply with the law and, so far as is reasonably and commercially practicable, do not harm the environment.

Employees

The Group gives full and fair consideration to the employment of disabled persons for suitable jobs, as well as their training, career development and promotion within the Group. Every effort is made to continue the employment of persons who become disabled whilst in the Group's employment.

The Group maintains its commitment to proactive programmes for involving its employees in its affairs. This is achieved in a variety of ways, including employee briefings, and by consultation with recognised trade unions.

The Group's bonus schemes encourage employees at all levels to contribute to the Group's short and long term goals.

Political and charitable donations

During the year the Group gave no donation to any political organisation (2017: £nil). The Group made charitable donations of £15,000 during the year (2017: £15,000).

Whyte and Mackay Group Limited

Strategic report for the year ended 31 December 2018 (continued)

Going concern

As disclosed in these accounts the Group has produced a profit for the financial year of £13,206,000 (2017: £10,094,000) and has net assets of £169,186,000 at 31 December 2018 (2017: £158,383,000). Based on the current trading projections and continued support through intercompany funding from Emperador UK Limited, the directors consider that it is appropriate for the accounts to be prepared on a going concern basis.

Approved by the board of directors and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'B H Donaghey', written over a horizontal line.

B H Donaghey
Director
23rd May 2019

Whyte and Mackay Group Limited

Directors' report for the year ended 31 December 2018

The financial statements incorporating the results for the year ended 31 December 2018 are set out on pages 8 to 29. The directors do not recommend the payment of a dividend in 2018 (2017: £nil) with the profit for the financial year of £13,206,000 (2017: £10,094,000) being taken to reserves.

Risk management objectives and policies including exposure to price, credit and liquidity risk have been disclosed within the strategic report.

Directors

The directors of the Group who were in office during the year and up to the date of signing the consolidated financial statements were:-

W Co
J Cortes
J Domecq
B H Donaghey
Dr A Tan

Auditors

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Statement of Directors' responsibilities

The directors are responsible for preparing the strategic report and directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the consolidated and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:


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

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

The directors confirm that:

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

Approved by the board of directors and signed on its behalf by:



B H Donaghey
Director
23rd May 2019

Whyte and Mackay Group Limited

Independent auditor's report to the members of Whyte and Mackay Group Limited

Opinion

We have audited the financial statements of Whyte and Mackay Group Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statement of changes in equity, consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

As explained in note 1 to the group financial statements, the group in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view of the consolidated financial position of the group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for year then ended in accordance with IFRSs as issued by the IASB.

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 group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 to you in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

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

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

Whyte and Mackay Group Limited

Independent auditor's report to the members of Whyte and Mackay Group Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 5, 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 the 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 group's and the 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 the directors 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 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 it 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 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

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.



Andrew Howie
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor, Chartered Accountants
Glasgow
28th May 2019

Whyte and Mackay Group Limited
Consolidated income statement

		Year ended 31 December 2018 £ 000	Year ended 31 December 2017 £ 000
	Notes		
Revenue	2	189,937	192,702
Excise duties		(30,728)	(49,529)
Net revenue		159,209	143,173
Operating profit before exceptional items	2	29,903	19,311
Exceptional items	3	(1,068)	685
Operating profit	2	28,835	19,996
Finance income	6	5,959	7,224
Finance costs	6	(17,464)	(15,767)
Profit before income tax		17,330	11,453
Income tax expense	7	(4,124)	(1,359)
Profit for the period attributable to equity holders of the parent		13,206	10,094

Consolidated statement of other comprehensive income

		Year ended 31 December 2018 £ 000	Year ended 31 December 2017 £ 000
	Notes		
Profit for the period attributable to equity holders of the parent		13,206	10,094
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial (losses) / gains on retirement benefits	18	(2,896)	11,666
Tax on items taken directly to equity	7	492	(1,983)
		(2,404)	9,683
Items that may be subsequently reclassified to profit or loss			
Currency translation differences	17	1	13
Other comprehensive (expense) / income for the period, net of tax		(2,403)	9,696
Total comprehensive income / (expense) for the period attributable to equity holders of the parent		10,803	19,790

The above results relate to continuing operations.

The accounting policies and notes on pages 12 to 29 form an integral part of these consolidated financial statements.

Whyte and Mackay Group Limited
Registered number: SC221954
Consolidated and parent company balance sheets

		31 December 2018	31 December 2018	31 December 2017 restated	31 December 2017
	Notes	Group £000	Company £000	Group £000	Company £000
Non-current assets					
Intangible assets	8	34,262	-	36,694	-
Property, plant and equipment	9	101,529	-	91,164	-
Investments	10	-	247,422	-	247,422
Available-for-sale financial assets	10	118	-	118	-
Retirement benefit obligations	18	2,168	-	985	-
Deferred tax assets	7	-	-	1,219	-
		138,077	247,422	130,180	247,422
Current assets					
Inventories	11	243,201	-	212,860	-
Trade and other receivables	12	64,659	-	72,836	-
Derivative financial instruments	14	-	-	292	-
Cash and cash equivalents	14	5,598	-	3,266	-
		313,458	-	289,254	-
Total assets		451,535	247,422	419,434	247,422
Current liabilities					
Interest bearing loans and borrowings	13	(206,764)	(416,189)	(189,025)	(386,493)
Trade and other payables	15	(60,843)	-	(62,414)	-
Derivative financial instruments	14	(649)	-	-	-
Current tax liabilities	15	(482)	-	-	-
Provisions for other liabilities	16	(2,718)	-	(3,596)	-
		(271,456)	(416,189)	(255,035)	(386,493)
Non-current liabilities					
Provisions for other liabilities	16	(9,517)	-	(6,016)	-
Deferred tax liabilities	7	(1,376)	-	-	-
		(10,893)	-	(6,016)	-
Total liabilities		(282,349)	(416,189)	(261,051)	(386,493)
Net assets		169,186	(168,767)	158,383	(139,071)
Equity					
Share capital	17	46,003	46,003	46,003	46,003
Share premium	17	16,312	16,312	16,312	16,312
Foreign currency translation reserve	17	(171)	-	(172)	-
Retained earnings	17	107,042	(231,082)	96,240	(201,386)
Total equity		169,186	(168,767)	158,383	(139,071)

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company income statement. The loss for the parent company for the period was £29,696,000 (2017: £27,578,000).

The accounting policies and notes on pages 12 to 29 form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the board of directors and were signed on its behalf by:



B H Donaghey
Director
23rd May 2019

Whyte and Mackay Group Limited
Consolidated and parent company statement of changes in equity

	Share capital £ 000	Share premium £ 000	Foreign currency translation reserve £ 000	Retained Earnings £ 000	Total Equity £ 000
Consolidated 2017					
Balance as at 1 January 2017	46,003	16,312	(185)	76,463	138,593
Comprehensive income					
Profit for the year	-	-	-	10,094	10,094
Other comprehensive income					
Actuarial gains on retirement benefits	-	-	-	11,666	11,666
Tax on items taken directly to equity	-	-	-	(1,983)	(1,983)
Currency translation differences	-	-	13	-	13
Balance as at 31 December 2017	46,003	16,312	(172)	96,240	158,383
Consolidated 2018					
Balance as at 1 January 2018	46,003	16,312	(172)	96,240	158,383
Comprehensive income					
Profit for the year	-	-	-	13,206	13,206
Other comprehensive income					
Actuarial losses on retirement benefits	-	-	-	(2,896)	(2,896)
Tax on items taken directly to equity	-	-	-	492	492
Currency translation differences	-	-	1	-	1
Balance as at 31 December 2018	46,003	16,312	(171)	107,042	169,186
Parent company 2017					
Balance as at 1 January 2017	46,003	16,312	-	(173,808)	(111,493)
Comprehensive income					
Loss for the year	-	-	-	(27,578)	(27,578)
Balance as at 31 December 2017	46,003	16,312	-	(201,386)	(139,071)
Parent company 2018					
Balance as at 1 January 2018	46,003	16,312	-	(201,386)	(139,071)
Comprehensive income					
Loss for the year	-	-	-	(29,696)	(29,696)
Balance as at 31 December 2018	46,003	16,312	-	(231,082)	(168,767)

The accounting policies and notes on pages 12 to 29 form an integral part of these consolidated financial statements.

Whyte and Mackay Group Limited
Consolidated statement of cashflows

	Notes	Year ended 31 December 2018 £ 000	Year ended 31 December 2017 £ 000
Cash flows from operating activities			
Profit for the year		13,206	10,094
Income tax expense	7	4,124	1,359
Finance income and expense	6	11,505	8,543
Depreciation, amortisation and impairment		5,585	5,317
Decrease / (increase) in trade and other receivables		8,469	(4,450)
Increase in inventories		(27,742)	(18,523)
Increase / (decrease) in trade and other payables		1,602	(507)
Net retirement benefit cost	18	(4,000)	(4,000)
Cash expended from operations		12,749	(2,167)
Income tax paid		(555)	(1)
Net cash expended from operating activities		12,194	(2,168)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		382	3
Purchases of property, plant and equipment	9	(16,257)	(15,637)
Purchases of intangible assets	8	(153)	(733)
Net cash outflow from investing activities		(16,028)	(16,367)
Cash flows from financing activities			
Proceeds from borrowings	13	6,430	9,500
Loan repayment to parent company	21	(6)	(30)
Interest received		911	915
Interest paid	6	(1,170)	(759)
Net cash used in financing activities		6,165	9,626
Net increase / (decrease) in net cash and cash equivalents		2,331	(8,909)
Exchange differences	17	1	13
Net cash and cash equivalents at beginning of the period	14	3,266	12,162
Net cash and cash equivalents at end of the period		5,598	3,266
Cash and cash equivalents note to the financial statements:			
Cash and cash equivalents	14	5,598	3,266
Cash and cash equivalents in the cash flow statement		5,598	3,266

The accounting policies and notes on pages 12 to 29 form an integral part of these consolidated financial statements.

The Company has not prepared a statement of cashflows as no cash was held in the current or prior period.

Whyte and Mackay Group Limited

1. Significant accounting policies

General information

Whyte and Mackay Group Limited ("the company") and its subsidiaries (together, "the Group") produce, market and distribute Scotch whisky, vodka, liqueurs and other alcoholic drinks in the UK, Europe and International markets. The group operates five distilleries and a bottling hall in Scotland. The company is a private limited company and is incorporated and domiciled in the UK. The address of its registered office is St Vincent Plaza, 319 St Vincent Street, Glasgow, G2 5RG.

Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as endorsed and adopted for use in the European Union (IFRS) and in accordance with the Companies Act 2006.

Basis of preparation

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, except for certain items of property, plant and equipment which were valued at fair value being deemed cost at date of transition to IFRS, derivative financial instruments and the assets and liabilities of the defined benefit pension scheme which are stated at fair value through profit or loss. These financial statements are presented in Sterling.

During the year the Group reviewed the classification of Liabilities and has opted to reclassify £2m from Other Accrued Expenses to Provisions. The comparative Balance Sheet has been restated by £3m, there is no other impact.

Critical accounting estimates and judgements

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of the amount, events or actions, ultimately actual results may differ from those estimates. The key estimates and assumptions used in these consolidated financial statements are set out below.

Retirement benefit obligations

A qualified independent actuary undertakes the estimation of the present value of the Group's obligations under the defined benefit pension scheme using assumptions taken from a range of possible actuarial assumptions. These assumptions may not be borne out in practice, especially due to the long timescales involved. Details of assumptions employed to determine the liability at the balance sheet date are set out in the notes to the consolidated financial statements. The valuation of scheme assets is based on the fair value at the balance sheet date. As these assets are not intended to be sold in the short-term, their value may change significantly prior to realisation.

Taxation

Judgement is required in determining the provision for income taxes. There are many transactions and calculations whose ultimate tax treatment is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes are likely to be due. The Group recognises deferred tax assets and liabilities based on estimates of future taxable income and recoverability. Where a change in circumstance occurs, or the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax balances in the year in which that change or outcome is known.

Testing intangible assets for impairment

The Group tests annually whether intangible assets with an indefinite life have any impairment. The recoverable amounts of cash generating units are determined based on value-in-use calculations which require estimating future cash flows. If actual cash flows are lower than estimated there is a risk that future impairments would be necessary. In addition the Group reassesses the useful life of intangible assets with finite lives. Further details are set out in the relevant accounting policy note.

Property, plant and equipment

It is necessary for the group to make use of judgement when determining the useful life of the property, plant and equipment. Details of these estimates are set out in the relevant accounting policy note.

Whyte and Mackay Group Limited

1. Significant accounting policies (continued)

Standards, interpretations and amendments to published standards that are not yet effective

Management is in the process of assessing the impact of all new accounting standards, interpretations and amendments to IFRS that were issued prior to 31 December 2018, but not yet effective on that date. The most relevant standards that are applicable to the Group, but that were not implemented early, are the following:

IFRS 16 - Leases. This standard requires lessees to recognise assets and liabilities for all the leases, unless the lease term is 12 months or less or the underlying asset is low value. As at 31 December 2018 the Group holds a significant number of operating leases which currently, under IAS 17 are expensed on a straight-line basis over the lease term.

Retrospective application in the comparative year ending 31 December 2018 is optional. The Group expects that it will not take this optional application and will apply the standard from the transitional date using the modified retrospective approach, adjusting opening retained earnings and not re-stating comparatives. This involves calculating the right-of-use asset and lease liability based on the present value of remaining lease payments on all applicable lease contracts as at the transition date.

The Group has collated the operating lease information across the company in order to assess the updated cumulative adjustment on transition. If the new requirements were adopted in 2018, profit before tax would change by an immaterial amount, whilst lease liabilities and property, plant and equipment are estimated to increase between £11m and £19m.

Standards effective from 1 January 2018

IFRS 9 - Financial Instruments

IFRS 9 - Financial instruments replaces IAS 39 (Financial Instruments - Recognition and measurement) and addresses the classification, measurement of financial instruments, introduces new principles for hedge accounting and a new forward-looking impairment model for financial assets.

IFRS 9 is effective for the group as from 1 January 2018. The group considered the new classification and measurement criteria and this does not have an impact on the primary statements of the group. With the exception of derivatives and the assets and liabilities of the defined benefit pension scheme, which are recorded at fair value, all financial assets and liabilities will be valued at amortised cost. All classes of financial assets and liabilities had, in accordance with IAS 39 and IFRS 9, the same carrying values as at 1 January 2018.

The new impairment model requires the recognition of allowances for doubtful debt based on expected credit losses (ECL), rather than only incurred credit losses as is the case under IAS 39. Given the high credit quality of the financial assets, the adoption of the expected loss approach has not resulted in any material increase in the impairment loss.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 is effective for the group as from 1 January 2018. The core principle of the new standard is that revenue is recognised when control of the goods or services are transferred to the customer and provides a five step model to be applied to all sales contracts. The new standard provides further guidance on the measurement of sales contracts which have discounts or rebates as well as the classification of expenses between revenue and cost of sales.

During the year the group carried out a review of the current revenue recognition criteria and classification of discounts and advertisement and promotional spend and their compliance with the new standard, considering the 5 key steps. The review has involved consideration of the recognition of promotional payments, and this has not identified any material additional items which should be classified as a revenue item under the new standard.

Going concern

The Group meets its day-to-day working capital requirements through its bank facilities. The Group forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within facilities available to it. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements. Further information on the Group's borrowings is given at note 13.

Whyte and Mackay Group Limited

1. Significant accounting policies (continued)

Basis of consolidation

The group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2018. All subsidiaries have a reporting date of 31 December. All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable. The group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when 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 subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue represents amounts receivable from the sale of cased and bulk alcohol, and includes warehouse rents receivable. Revenue includes excise duties and is stated net of discounts, returns and sales taxes. Revenue is recognised depending upon individual customer terms at the time of despatch, delivery or some other specified point when the risk of loss transfers. On application of IFRS 15 some changes in accounting policy resulted, principally in respect of variable consideration receivable for where the criteria applied for deducting future promotional payments from the initial revenue recognition was more stringent than the previous policy. The revised policy establishes that revenue is recognised to the extent that it is highly probable that a reversal in the amount of revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently settled.

Whyte and Mackay Group Limited

1. Significant accounting policies (continued)

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income and expense that have been shown separately due to the significance of their nature or amount.

Leasing

Where the Group has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Other leases are treated as operating leases, with payments (net of any incentives received from the lessor) and receipts taken to the income statement on a straight-line basis over the period of the lease.

Property, plant and equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation. Historical cost includes purchase price and directly attributable costs of bringing the asset into the location and condition where it is capable for use. Borrowing costs are capitalised.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

Land is not depreciated. Buildings are depreciated on a straight-line basis over 50 years.

Other property, plant and equipment are depreciated on a straight-line basis at annual rates estimated to allocate the cost to residual value of each asset over its useful life from the date it is available for use. Assets in the course of construction are not depreciated until they are available for use. The principal useful lives used are as follows:

Plant and machinery: 10-20 years

Casks: 20 years

Vehicles, fittings and equipment: 3-15 years

Residual values and useful lives are reviewed on an annual basis with the effect of any changes in estimate being accounted for on a prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within cost of sales in the consolidated income statement.

Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Intangible assets acquired separately from a business are reported at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets that are regarded as having indefinite useful economic lives are not amortised. Intangible assets that are regarded as having limited useful economic lives are amortised on a straight-line basis over those lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The Group's brands acquired in a business combination are regarded as having indefinite useful economic lives and have not been amortised. These brands are protected in all of the major markets where they are sold by trademarks, which are renewable indefinitely. There are not believed to be any legal, regulatory or contractual provisions that limit the useful lives of these brands. The nature of the premium drinks industry is that obsolescence is not a common issue, with indefinite brand lives being commonplace, and the Group has a number of brands that were originally created more than 100 years ago. Accordingly the directors believe that it is appropriate that the brands are treated as having indefinite lives for accounting purposes.

Whyte and Mackay Group Limited

1. Significant accounting policies (continued)

Intangible assets (continued)

Separately acquired trademarks and distribution rights are shown at historical cost less accumulated amortisation and accumulated impairment losses. These brands are amortised over 20 years on a straight-line basis.

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 15 years.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset. If the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount of the cash generating unit to which the asset belongs is determined. Value in use is calculated by discounting estimated future cash flows using an appropriate weighted average cost of capital rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, an appropriate proportion of production and other overheads (including depreciation), but not borrowing costs. Net realisable value is the estimated selling price for inventories in the normal course of business, less applicable variable selling expenses. Provision is made, where appropriate, for obsolete, slow moving and defective stocks.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle that obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Provisions for restructuring are recognised for direct expenditure on business reorganisations where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken on or before the balance sheet date.

Employee benefits

Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. Where the Group provides long-term employee benefits, the cost is accrued to match the rendering of the services by the employees concerned.

The Group closed the Defined Benefit Pension Scheme to future accrual on 1 April 2012 and now operates a defined contribution pension plan. The defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The defined benefit plan defines the amount of pension benefit that the Groups employees will receive on retirement, usually dependent on a number of factors including age, length of service and compensation.

Whyte and Mackay Group Limited

1. Significant accounting policies (continued)

Employee benefits (continued)

The liability recognised in the consolidated balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the end of the reporting period less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation.

Past service costs and gains and losses on settlements and curtailments are recognised immediately in income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in finance income and expense in the consolidated income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Contributions under the defined contribution pension plan are charged to operating expenses in the consolidated income statement as they arise. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is charged or credited directly to other comprehensive income or equity if it relates to items that are credited or charged to equity. Otherwise tax is recognised in the consolidated income statement.

The current income tax charge is measured based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Current tax assets or liabilities on the balance sheet are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except for deferred tax liabilities arising from the initial recognition of goodwill and if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is measured, on an undiscounted basis, using tax rates and laws that are enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented net only if there is a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Financial assets

The group classifies its financial assets in the following categories: at fair value through profit or loss; loans and receivables; and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at recognition.

Whyte and Mackay Group Limited

1. Significant accounting policies (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the consolidated balance sheet. Trade and other receivables are non-interest bearing and are stated at their nominal amount that is usually the original invoiced amount less any provision for impairment. Cash and cash equivalents comprise cash in hand and deposits held at call with banks with a maturity of three months or less. In the consolidated statement of cashflows, cash and cash equivalents includes bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

The company does not hold cash and cash equivalents therefore no company cashflow statement is disclosed.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Financial liabilities

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised in the consolidated income statement over the term of the borrowings using the effective interest rate.

Trade payables are non-interest bearing and are stated at their nominal value.

Derivative financial instruments

The activities of the Group expose it directly to the financial risks of changes in foreign exchange rates. The Group uses forward foreign exchange contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recorded and subsequently measured at fair value. The treatment of changes in fair value of derivatives depends on the derivative classification and whilst transactions may be effective hedges in economic terms they may not always qualify for hedge accounting. Due to the nature of the Group's forward foreign exchange contracts hedge accounting is not adopted. Consequently, movements in fair value that do not qualify for hedge accounting are recognised as finance income and expense in the consolidated income statement as they arise.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

Transactions in currencies other than sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at historical cost that are denominated in foreign currencies are translated at the rates prevailing at the date when the historical cost was determined. Gains and losses arising on retranslation are included in the consolidated income statement.

Whyte and Mackay Group Limited

1. Significant accounting policies (continued)

Foreign currency translation (continued)

On consolidation, the assets and liabilities of the Group's overseas operations, including goodwill and fair value adjustments arising on the acquisition of a foreign entity, are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognised in other comprehensive income and recognised directly in the Group's foreign currency translation reserve. On disposal of a foreign operation, any cumulative exchange differences held in equity are recycled through the consolidated income statement.

Equity, reserves and dividend payments

Share capital represents the nominal (par) value of shares that have been issued. Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Other components of equity include the following:

- remeasurement of net defined benefit liability – comprises the actuarial gains and losses from changes in demographic and financial assumptions and the return on plan assets
- translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into Sterling
- reserves for AFS financial assets – comprises gains and losses relating to these types of financial instruments

Retained earnings includes all current and prior period retained profits. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the 12 months ended 31 December 2018

2. Profit from operations

An analysis of the Group's profit from operations is as follows:

	December 2018	December 2018	December 2018	December 2017	December 2017	December 2017
		Exceptional Items	Total		Exceptional items	Total
	£000	£000	£000	£000	£000	£000
Revenue	189,937	-	189,937	192,702	-	192,702
Excise duties	(30,728)	-	(30,728)	(49,529)	-	(49,529)
Net revenue	159,209	-	159,209	143,173	-	143,173
Cost of sales	(111,743)	-	(111,743)	(107,740)	-	(107,740)
Gross profit	47,466	-	47,466	35,433	-	35,433
Distribution costs	(2,234)	-	(2,234)	(1,972)	-	(1,972)
Selling and administration expenses	(15,329)	(1,068)	(16,397)	(14,150)	685	(13,465)
Profit from operations before exceptional items	29,903	(1,068)	28,835	19,311	685	19,996
Exceptional items	(1,068)	1,068	-	685	(685)	-
Profit from operations	28,835	-	28,835	19,996	-	19,996

	December 2018	December 2017
	£000	£000
Profit from operations is stated after charging / (crediting)		
Exceptional items	1,068	(685)
Depreciation of property, plant and equipment - owned assets	3,000	2,860
Gain on disposal of property, plant and equipment	(89)	(3)
Amortisation of definite life acquisition intangibles	2,297	2,287
Amortisation of software intangibles	288	170
Cost of inventories recognised as an expense	78,234	75,202
Operating lease rental expense - buildings	1,522	1,522
Operating lease rental expense - other	409	403
Trade receivables impairment	50	690
Audit services		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	85	81
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries, pursuant to legislation	15	15
- Tax services	78	60
- All other services	6	2

The depreciation charged to the consolidated income statement includes depreciation charged direct from property, plant and equipment and that element of depreciation absorbed against inventory expensed through cost of sales.

3. Exceptional Items

Items that are material either because of their size or their nature, or that are non-recurring are considered as exceptional items and are presented within the line items to which they best relate. During the year, the exceptional items as described below have been included in selling and administration expenses in the consolidated income statement.

Exceptional selling and administration expenses relate to the reorganisation of continuing operations and are categorised as follows:

	2018 Total £000	2017 Total £000
Redundancy	(300)	790
Onerous lease provision	1,337	(1,039)
Dilapidations	60	63
Route to market restructuring	(1,008)	(615)
Other restructuring	979	116
	1,068	(685)

Redundancy

Redundancy and other employee costs reflects release of prior year accruals.

Onerous lease provision

This provision was set up in relation to leasehold property in Edinburgh, which was vacant or sublet at a discount. Movements in the provision take account of current market conditions and expected future vacant periods.

Dilapidations

Provisions for dilapidations reflect the estimated cost to return leased properties in Glasgow and Edinburgh under tenant repairing clauses, to the landlord at the end of the tenancy in a specified condition.

Route to market restructuring

Route to market restructuring relates to the provision releases associated with changes to route to market structures in both domestic and international markets.

Other restructuring

Other restructuring costs include non-recurring legal and professional fees and expenses incurred in relation to certain projects undertaken during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the 12 months ended 31 December 2018

4. Employees

The average number of people employed by the Group is set out in the table below.

	December 2018 Number	December 2017 Number
By Activity		
Sales, distribution and administration	206	184
Production	311	321
	517	505

The employee benefit expense recognised in the consolidated income statement is as follows:

	December 2018 £000	December 2017 £000
Wages and salaries	25,015	23,666
Social security costs	2,658	2,521
Pension costs - defined contribution plans	2,567	2,567
	30,240	28,754

5. Directors emoluments

	December 2018 £000	December 2017 £000
Aggregate emoluments	651	657
Highest paid director	651	657

There were no retirement benefits accruing to any directors in the current or prior period under the defined benefit pension scheme.

6. Finance Income and expense

Group	December 2018 £000	December 2017 £000
Finance income		
Interest receivable on cash and cash equivalents	2	1
Interest income on defined benefit pension scheme assets	5,039	5,007
Foreign exchange gains	9	537
Fair value gains on financial instruments at fair value through profit or loss	-	765
Other interest receivable	909	914
	5,959	7,224
Finance expense		
Interest payable on bank loans	(923)	(412)
Interest payable on loans from related parties	(10,393)	(9,653)
Fair value losses on financial instruments at fair value through profit or loss	(941)	-
Provisions: unwinding of discount	-	(45)
Defined benefit scheme administration costs	(247)	(302)
Interest cost on defined benefit pension scheme liabilities	(4,960)	(5,355)
	(17,464)	(15,767)
Net finance expense	(11,505)	(8,543)

Company

Interest on loans with related parties expensed through the parent company profit and loss account in the period amounted to £29,696,000 (2017: £27,578,000).

7. Taxation

Group

Taxation recognised in the consolidated income statement is as follows:

	December 2018 £000	December 2017 £000
Current tax		
Current tax on profits for the year	1,032	-
Overseas tax	5	1
Total current tax	1,037	1
Deferred tax		
Origination and reversal of temporary differences	2,858	1,778
Adjustments in respect of prior years	229	(420)
Impact of change in UK tax rate	-	-
Total deferred tax	3,087	1,358
Income tax expense	4,124	1,359

Tax reconciliation to UK statutory rate

The difference between the consolidated income statement expense and the standard rate of corporation tax in the UK is explained below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the 12 months ended 31 December 2018

7. Taxation (continued)

	December 2018 £000	December 2017 £000
Profit before tax	17,330	11,453
Tax at the UK corporation tax rate of 19% (2017: 19.25%)	3,293	2,205
Tax effects:		
Expenses not deductible for tax purposes	938	451
Group relief	(6)	(314)
Tax losses for which no deferred income tax asset was recognised	-	(328)
Rate difference	(335)	(236)
Remeasurement of deferred tax - change in the UK tax rate	-	-
Adjustment in respect of prior years deferred income tax and capital allowances	229	(420)
Excess foreign tax suffered	5	1
Income tax expense	4,124	1,359

The tax rate was 19% (2017: 19.25%).

A number of changes to the UK Corporation tax system were announced in the March Budget Statement, and substantively enacted as part of the Finance Act (No.2) 2015 on 26 October 2015, with the main rate of corporation tax reduced from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. The Finance Act (2016), substantively enacted on 15 September 2016, further reduced the corporation tax rate to 17% from 1 April 2020 and the recognised deferred tax balances have been re-measured to 17%.

In addition to the amounts recorded in the consolidated income statement, deferred tax relating to the remeasurement of retirement benefit obligations totalling £492,000 credit (2017: £1,983,000 charge) was recognised through other comprehensive income.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	December 2018 £000	December 2017 £000
Deferred tax (liabilities) / assets:		
Deferred tax (liabilities) / assets to be recovered after more than 12 months	(1,376)	1,219

The gross movement on the deferred income tax account is as follows:

	December 2018 £000	December 2017 £000
Balance at beginning of period	1,219	4,562
Adjustment in respect of prior years deferred income tax	(229)	418
Remeasurement of deferred tax - change in the UK tax rate	-	-
Accelerated capital allowances and other short term timing differences	(2,858)	(1,778)
Tax credit / (charge) relating to components of other comprehensive income	492	(1,983)
Balance at end of period	(1,376)	1,219

The following are the major deferred tax assets and liabilities recognised by the Group without taking into consideration the offsetting of balances within the same tax jurisdiction, and the movements thereon, during the current and prior reporting periods.

	December 2018 Accelerated tax depreciation £000	December 2018 Retirement benefit obligations £000	December 2018 Other temporary differences £000	December 2018 Total £000	December 2017 Accelerated tax depreciation £000	December 2017 Retirement benefit obligations £000	December 2017 Other temporary differences £000	December 2017 Total £000
Net deferred tax asset / (liability) at beginning of period	2,599	(167)	(1,213)	1,219	3,002	2,437	(877)	4,562
Income statement	(1,853)	(694)	(540)	(3,087)	(403)	(621)	(336)	(1,360)
Statement of recognised income and expense	-	492	-	492	-	(1,983)	-	(1,983)
Net deferred tax (liability) / asset at end of period	746	(369)	(1,753)	(1,376)	2,599	(167)	(1,213)	1,219

Deferred tax assets and liabilities have been offset where the Group has a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to income taxes levied by the same tax jurisdictions.

A deferred tax liability of £1,376,000 (December 2017: asset - £1,219,000) has been recognised in respect of these temporary differences.

A deferred tax asset of £5,585,000 (December 2017: £5,444,000) which has not been recognised relates to capital losses.

Accelerated tax depreciation relates to plant and equipment and computer software.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. Intangible assets
Group

	Brands £000	Trademarks £000	Distribution rights £000	Computer software £000	Total acquisition intangibles £000
Cost					
At 1 January 2018	38,082	14,134	29,346	2,637	84,199
Additions	-	-	-	153	153
Disposals	-	-	-	-	-
At 31 December 2018	38,082	14,134	29,346	2,790	84,352
Accumulated amortisation and impairment					
At 1 January 2018	23,792	13,305	9,657	751	47,505
Charge for the year	-	829	1,468	288	2,585
Disposals	-	-	-	-	-
At 31 December 2018	23,792	14,134	11,125	1,039	50,090
Net book value					
At 31 December 2017	14,290	829	19,689	1,886	36,694
At 31 December 2018	14,290	-	18,221	1,751	34,262

The Group does not amortise its brands acquired in a business combination as there is no foreseeable limits on the time they are expected to provide future cash flows. They are tested annually for impairment. Recoverable amount is based on a value in use calculation. To calculate this, the cashflow projections are based on financial budgets approved by management covering a 5 year period. Key assumptions include a discount rate of 10% and long term growth rate of 2%. These calculations indicate that no impairment was necessary in the carrying value.

In arriving at the conclusion that a brand has an indefinite life, management considers the fact that the Group is a brands business and expects to hold and support brands for an indefinite period. The Group supports its brands through spending on consumer marketing and through significant investment in promotional support, which is deducted in arriving at net net sales.

Separately acquired distribution rights are shown at historical cost less accumulated amortisation and accumulated impairment losses. These brands are amortised over 20 years on a straight-line basis. The estimated remaining useful life of separately acquired distribution rights at 31 December 2018 is 13 years.

Computer software is amortised on a straight-line basis over estimated useful lives ranging from 3 to 15 years.

The Company did not hold any intangible assets during the period.

9. Property, plant and equipment
Group

	Land and buildings £000	Plant and machinery £000	Vehicles, fittings and equipment £000	Total property, plant and equipment £000
Cost				
At 1 January 2018	54,712	80,037	2,270	137,019
Additions	4,253	11,348	656	16,257
Disposals	-	(389)	-	(389)
At 31 December 2018	58,965	90,996	2,926	152,887
Accumulated depreciation				
At 1 January 2018	11,997	33,250	608	45,855
Charge for the year	1,158	4,068	373	5,599
Disposals	-	(96)	-	(96)
At 31 December 2018	13,155	37,222	981	51,358
Net book value				
At 31 December 2017	42,715	46,787	1,662	91,164
At 31 December 2018	45,810	53,774	1,945	101,529

Contracts placed for future capital expenditure relating to property, plant and equipment not incurred and not provided in the consolidated financial statements at the reporting date amounted to £6,252,000 (December 2017: £4,257,000).

The Group do not hold any assets under finance lease.

The Company did not hold any property, plant and equipment during the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the 12 months ended 31 December 2018

10. Investments and available-for-sale financial assets

Group	December 2018 £000	December 2017 £000
Available-for-sale financial assets	118	118

Non-current investments include the holding of 14.0% of the £1 ordinary shares of The Scotch Whisky Heritage Centre Limited, an unlisted company registered in Scotland, the principal activity of which is the operation of a visitor attraction in Edinburgh. These shares are measured at cost as they do not have a quoted market price in an active market and their fair value cannot be measured reliably.

The maximum exposure to credit risk at the reporting date is the carrying value of the investments. None of these financial assets is either past due or impaired.

Company (cost)

Investment in group undertakings	December 2018 £000	December 2017 £000
	247,422	247,422

The directors believe that the carrying value of the investments is supported by their underlying net assets.

11. Inventories

Group	December 2018 £000	December 2017 £000
Raw materials and consumables	3,568	3,501
Maturing whisky inventories	230,077	201,149
Finished goods	9,556	8,210
	243,201	212,860

The Company did not hold any inventories during the period.

12. Trade and other receivables

	December 2018 Group £000	December 2018 Company £000	December 2017 Group £000	December 2017 Company £000
Trade receivables	53,778	-	60,466	-
Less: provision for impairment	(1,160)	-	(1,085)	-
	52,618	-	59,381	-
Prepayments and accrued income	1,359	-	1,370	-
Other receivables	10,072	-	9,914	-
Amounts owed by group undertakings	610	-	2,171	-
	64,659	-	72,836	-

The movement on the provision for impairment of trade receivables is as follows:

	December 2018 £000	December 2017 £000
Balance at beginning of year	1,085	523
Income statement charge	50	690
Utilised	25	(128)
Balance at end of year	1,160	1,085

13. Interest bearing loans and borrowings

	December 2018 Group £000	December 2018 Company £000	December 2017 Group £000	December 2017 Company £000
Current liabilities				
Amounts due to related parties	145,651	416,189	135,264	386,494
Bank loans	61,113	-	53,761	-
Total interest bearing loans and borrowings	206,764	416,189	189,025	386,494

During the year the Group refinanced a 3 year term loan to fund the working capital requirements of the business. This term loan was secured by a floating charge over Whyte and Mackay Limited's assets, including a pledge over the Company's maturing stocks up to the value of the facility.

14. Financial Instruments and financial risk management

Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. Management review and agree policies for the management of these risks on a regular basis. Further details of the risks and management policies are included in the strategic report.

Capital management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the group may adjust the amount of dividends paid to the shareholders, return capital to shareholders or issue new shares.

The group monitors capital using its gearing ratio, calculated as net borrowings divided by total capital.

Financial assets and financial liabilities

Financial assets and financial liabilities as disclosed in the consolidated and parent company balance sheets are shown in the table below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the 12 months ended 31 December 2018

14. Financial instruments and financial risk management (continued)

	Category	Group December 2018 £000	Company December 2018 £000	Group December 2017 £000	Company December 2017 £000
Cash and cash equivalents	1	5,598	-	3,266	-
Cash and cash equivalents in the cash flow statement		5,598	-	3,266	-
Bank loans - current	2	(61,113)	-	(53,761)	-
Amounts due to related parties	1	(145,651)	(416,189)	(135,264)	(386,494)
Derivative financial instruments	3	(649)	-	292	-
Available-for-sale financial assets	4	118	-	118	-
Trade and other receivables excluding prepayments	1	62,690	-	69,295	-
Trade and other payables excluding non-financial liabilities	2	(60,843)	-	(62,414)	-
		(199,850)	(416,189)	(178,468)	(386,494)
Financial assets		68,406	-	72,971	-
Financial liabilities		(268,256)	(416,189)	(251,439)	(386,494)
		(199,850)	(416,189)	(178,468)	(386,494)

1. Loans and receivables
2. Financial liabilities at amortised cost
3. Fair value through profit or loss
4. Available-for-sale

The fair value of derivative financial instruments is based on market price of these instruments at the balance sheet date and are classified as level 2 in the fair value hierarchy under IFRS 13. Fair value is determined using observable interest rates corresponding to the maturity of the contract. The effects of non-observable inputs are not significant.

Available-for-sale financial assets are carried at cost as their fair value cannot be reliably measured.

The fair value of all other financial assets and liabilities approximates to the carrying amount because of the short maturity of these instruments.

Net gains and losses on financial assets and financial liabilities

	December 2018 £000	December 2017 £000
Interest receivable on cash and cash equivalents	2	1
Fair value (losses) / gains on financial instruments at fair value through profit or loss	(941)	765
Interest payable on bank loans	(923)	(412)
Interest payable on loans from related parties	(10,393)	(9,653)
	(12,255)	(9,299)

Liquidity risk

The contractual maturity profile of the anticipated future cash flows including interest in relation to the Group's financial liabilities, on an undiscounted basis and which, therefore, differs from both the carrying value and fair value, is as follows:

	Trade and other payables	Bank loans	Related parties	Total	Trade and other payables	Bank loans	Related parties	Total
	December 2018 £000	December 2018 £000	December 2018 £000	December 2018 £000	December 2017 £000	December 2017 £000	December 2017 £000	December 2017 £000
Within one year	56,440	61,174	150,536	268,150	59,656	53,814	138,022	251,492
Contractual cash flows	56,440	61,174	150,536	268,150	59,656	53,814	138,022	251,492
Effect of interest	-	(61)	-	(61)	-	(53)	-	(53)
	56,440	61,113	150,536	268,089	59,656	53,761	138,022	251,439

Interest rate risk

The interest rate profile of the Group's interest bearing financial instruments are set out below. In the case of non-current financial liabilities, the classification includes the impact of interest rate swaps which convert the debt to fixed rate.

	Floating rate	Fixed rate	Total	Floating rate	Fixed rate	Total
	December 2018 £000	December 2018 £000	December 2018 £000	December 2017 £000	December 2017 £000	December 2017 £000
Financial liabilities						
Interest bearing loans and borrowings						
Current						
Sterling	61,113	145,651	206,764	53,761	135,264	189,025
Financial assets						
Cash and cash equivalents	5,598	-	5,598	3,266	-	3,266

Sensitivity analysis

The Group monitors its interest rate exposure on a regular basis by applying forecast interest rates to the Group's forecast net debt profile after taking into account its existing hedges. The Group also calculates the impact on profit and loss of a defined interest rate shift for all currencies. Based on the simulations performed, the impact on profit or loss before taxation of a +/-100 basis point shift on floating rate net debt at the reporting date would be £555,000 (2017: £505,000).

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for the 12 months ended 31 December 2018

14. Financial instruments and financial risk management (continued)

Credit risk

The ageing of trade receivables at the reporting date was:

	December 2018 Gross £000	December 2018 Impairment £000	December 2017 Gross £000	December 2017 Impairment £000
Not past due	44,783	-	49,768	-
Past due 1-30 days	5,129	-	7,214	24
Past due 31-60 days	655	-	1,577	89
Past due 61-90 days	2,653	28	(256)	3
Past due + 90 days	558	1,132	2,163	969
	53,778	1,160	60,465	1,085

The carrying amount of trade receivables is denominated in the following currencies:

	December 2018 £000	December 2017 £000
Sterling	49,303	55,280
Euro	1,210	979
US Dollar	1,597	2,312
Canadian Dollar	508	810
	52,618	59,381

The allowance for doubtful debts has been calculated based on past experience and is in relation to specific customers. Given the large and unrelated nature of our customer base, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

The carrying amount of financial assets which includes trade receivables net of impairment losses, derivative financial instruments and cash represents the Group's maximum exposure to credit risk. The total carrying value of financial assets at 31 December 2018 amounted to £68,406,000 (2017: £72,971,000)

15. Trade and other payables

Group	December 2018 £000	December 2017 £000
Current liabilities		
Trade payables	7,649	8,719
Social security and other taxes excluding income tax	13	2,840
Corporation tax	482	-
Amounts owed to group undertakings	4,885	2,758
Accrued expenses and deferred income	46,055	45,906
Other payables	2,241	2,191
	61,325	62,414

The Company has no trade and other payables.

16. Provisions

	Onerous lease & dilapidation provision £000	Other provisions £000	Total £000
At 1 January 2018	6,604	3,008	9,612
Recognised in the income statement	3,797	(1,008)	2,789
Utilised in the year	(166)	-	(166)
At 31 December 2018	10,235	2,000	12,235

	December 2018 £000	December 2017 £000
Current liabilities	2,718	3,596
Non-current liabilities	9,517	6,016
Total provisions	12,235	9,612

Onerous lease provisions

These provisions were set up in relation to leasehold properties in Glasgow and Edinburgh, which are vacant or sublet at a discount. The provisions take account of current market conditions, expected future vacant periods, expected future sublet benefits and are calculated by discounting expected cash outflows on a pre-tax basis over the remaining period of the lease which at 31 December 2018 is between 1 and 12 years.

Other provisions

Other provisions relates to the provision associated with route to market structures in both domestic and international markets.

17. Equity

Group and Company

	December 2018 Group	December 2018 Company	December 2017 Group	December 2017 Company
Authorised				
4,600,349,728 Ordinary shares of 1p each	46,003	46,003	46,003	46,003
Allotted, called up and fully paid share capital				
4,600,349,728 Ordinary shares of 1p each	46,003	46,003	46,003	46,003
Share premium	16,312	16,312	16,312	16,312
Foreign currency translation reserve	(171)	-	(172)	-
Retained earnings	107,042	(231,082)	96,240	(201,386)
Total equity	169,186	(168,767)	158,383	(139,071)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the 12 months ended 31 December 2018

18. Retirement benefit obligations

The latest formal valuation of the Scheme has been updated to 31 December 2018 by a qualified independent actuary.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 2018 %	December 2017 %
Rate of increase in pensionable salaries	2.4	2.3
Rate of increase in pensions in payment (RPI subject to maximum of 5% p.a.)	3.3	3.1
Rate of increase in pensions in payment (RPI subject to maximum of 5% and minimum of 3% p.a.)	3.8	3.7
Discount rate applied to scheme liabilities	3.0	2.6
Inflation assumption	3.4	3.3

Assumptions regarding future mortality are set based on actuarial advice in accordance with S2 series base tables adjusted by 115% with an allowance for future improvements based on Continuous Mortality Investigation 'CMI' 2017 projections with a 6.5 smoothing parameter and a long term improvement rate of 1% p.a. Future improvements applied are based on each individual's birth year. These assumptions translate into the following average life expectancies.

	December 2018 Years	December 2017 Years
Average future life expectancy for a current pensioner aged 65 in 2018		
- Male	20.2	20.2
- Female	22.2	22.0
Average future life expectancy for a non-pensioner aged 45 in 2018		
- Male	21.2	21.2
- Female	23.4	23.2

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The GMP equalisation value has not been booked due to this not being material.

The amounts recognised in the consolidated income statement and other comprehensive income in respect of the defined benefit pension scheme is as follows:

	December 2018 £000	December 2017 £000
Consolidated income statement		
Finance income		
Interest income on scheme assets	5,039	5,007
Finance expense		
Interest cost on defined benefit pension scheme liabilities	(4,960)	(5,355)
Amount charged to the consolidated income statement	79	(348)
	December 2018 £000	December 2017 £000
Other comprehensive income		
Experience loss / (gain) on pension scheme assets	11,279	(11,721)
Experience (gain) / loss on benefit obligation	(534)	(67)
(Gain) / loss on pension scheme liabilities due to change in financial assumptions	(7,983)	5,223
Loss / (gain) on pension scheme liabilities due to change in demographic assumptions	134	(5,101)
Actuarial loss / (gain) recognised	2,896	(11,666)
The actual return on scheme assets was	(6,240)	16,728

The cumulative amount of actuarial losses before deferred tax recognised in the statement of recognised income and expense is £28,468,000 (December 2017: £25,572,000).

The amount included in the consolidated balance sheet in respect of the defined benefit pension scheme is as follows:

	December 2018 £000	December 2017 £000
Equities	78,763	88,127
Corporate bonds	35,826	36,954
Property	8,792	8,590
Diversified growth funds	11,695	12,300
LDI	33,058	-
Cash pending investment	1,634	822
Index linked gilts	13,602	45,339
Fair value of scheme assets	183,370	192,132
Present value of defined benefit obligation	(181,202)	(191,147)
Surplus in the scheme	2,168	985

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for the 12 months ended 31 December 2018

18. Retirement benefit obligations (continued)

Movements in the present value of the defined benefit obligation were as follows:

	December 2018 £000	December 2017 £000
Present value of defined benefit obligation at beginning of period	191,147	194,051
Interest cost	4,960	5,355
Actuarial (gains) / losses on benefit obligation	(8,383)	55
Benefits paid	(6,522)	(8,314)
Present value of defined benefit obligation at end of period	181,202	191,147

Movements in the fair value of scheme assets were as follows:

	December 2018 £000	December 2017 £000
Fair value of scheme assets at beginning of period	192,132	179,718
Interest income on scheme assets	5,039	5,007
Return on assets in excess of interest income	(11,279)	11,721
Employer contributions	4,000	4,000
Benefits paid	(6,522)	(8,314)
Fair value of scheme assets at end of period	183,370	192,132

The history of experience adjustments is as follows:

	December 2018 £000	December 2017 £000
Present value of defined benefit obligation	(181,202)	(191,147)
Fair value of scheme assets	183,370	192,132
Surplus in the scheme	2,168	985
Experience adjustments on scheme liabilities	(8,383)	55
As a percentage of the present value of the defined benefit obligation	4.63%	-0.03%
Experience adjustments on scheme assets	(11,279)	11,721
As a percentage of the fair value of plan assets	-6.15%	6.10%

It is expected that contributions to the scheme during the year ending 31 December 2019 will be £4 million.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	December 2018 £000	December 2017 £000
Increase of 0.25% in discount rate	7,721	8,543
Decrease of 0.25% in discount rate	(8,267)	(9,169)
Increase of 0.1% in inflation	(1,876)	(2,057)
Decrease of 0.1% in inflation	1,839	2,022
Increase of one year in life expectancy	(6,046)	(6,298)

19. Operating lease arrangements

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 19 years, and are renewable at the end of the lease period at market rate. The Group also leases company car fleet and other vehicles under cancellable operating lease agreements. The lease expenditure charged to the consolidated income statement is disclosed at note 2.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 2018 £000	December 2017 £000
No later than one year	2,512	2,447
Later than 1 year and no later than 5 years	8,136	8,241
Later than 5 years	17,158	19,106
	27,806	29,794

A number of the leased buildings have been sublet to external tenants.

At the reporting date the total of future minimum sublease payments expected to be received under non-cancellable subleases was:

	December 2018 £000	December 2017 £000
No later than one year	298	367
Later than 1 year and no later than 5 years	485	1,080
	783	1,447

20. Contingent liabilities

The Group has no material contingent liabilities at 31 December 2018 (31 December 2017: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the 12 months ended 31 December 2018

21. Related parties

Group

The Group's ultimate controlling party is Alliance Global Group, Inc. ("AGI"), a company incorporated in the Philippines, and the Philippine parent undertaking and controlling entity is Emperador Inc. ("EMP").

The ultimate UK parent undertaking and controlling entity is Emperador Holdings (GB) Limited. The immediate UK parent company with a controlling interest is Emperador UK Limited.

Both AGI and EMP prepare consolidated financial statements, which include the results of Emperador Holdings (GB) Ltd. The annual reports of AGI and EMP are available at the Philippines Stock Exchange website ("edge.pse.com.ph") and respective websites ("allianceglobalinc.com" and "emperadorbrandy.com").

(a) Trading transactions

During the year the Group sold products to Emperador Distillers Inc, the trading subsidiary of EMP resident in the Philippines. The value of sales during the period was £1,062,727 (2017: £798,298) and is based on the price lists in force and terms available to third parties. The Group also purchased management services totalling £2,080,237 (2017: £637,108) from Emperador Asia PTE Limited in respect of support provided in the Asian region. The Group sold no cased products in 2018 (2017: £7,337) to Emperador Asia PTE Limited. The Group purchased cased products totalling £10,890,838 (2017: £12,054,324) from Bodegas Fundador a trading subsidiary of Grupo Emperador resident in Spain. The Group recharged strategic marketing costs and margin true-up costs totalling £1,180,133 (2017: £4,061,150) to Bodegas Fundador. The Group sold cased products totalling £207,039 (2017: Nil) to Pedro Domecq S.A. de C.V. a trading subsidiary of Grupo Emperador resident in Spain.

(b) Balances arising from sale and purchase of goods and services

	December 2018 £000	December 2017 £000
Emperador Distillers Inc	233	335
Emperador Asia PTE Limited	7	7
Bodegas Fundador	331	1,829
Pedro Domecq S.A. de C.V.	39	-
Receivables from related parties:	610	2,171
Emperador Asia PTE Limited	1,475	369
Bodegas Fundador	3,410	2,389
Payables to related parties:	4,885	2,758

(c) Loans from related parties

	December 2018 £000	December 2017 £000
Balance at beginning of period	135,264	125,641
Loans advanced during the period	-	-
Loan repayments made during the period	(6)	(30)
Interest charged	10,393	9,653
Balance at end of period	145,651	135,264

Key management compensation

The compensation paid or payable to key management for employee services is shown below:

	December 2018 £000	December 2017 £000
Salaries and other short-term employee benefits	2,144	2,058
Post-employment benefits	104	92
Other long-term benefits	590	570
	2,838	2,720

22. Subsequent events

There were no material subsequent events.

23. Subsidiaries

The principal subsidiary companies of the Group are as follows:

Company	Country of Incorporation	Description of shares held	% of issued share capital held	Trade
Whyte and Mackay Limited	Scotland	Ordinary	100%	Whisky production, marketing and distribution
Whyte and Mackay Warehousing Limited	Scotland	Ordinary	100%	Warehousing and blending
Whyte and Mackay (Americas) Limited, LLC *	USA	Ordinary	100%	Marketing services

* wholly owned subsidiary of Whyte & Mackay Limited

The Group's dormant subsidiaries are:

Wauchope Moodie & Company Limited	Grey Rogers & Co. Limited	The Whisky Works Ltd
W. & S. Strong Limited	GPS Realisations Limited	Goldman Distillery Limited
WMB Realisations Limited	Glentalla Limited	Whyte and Mackay Global Limited
Kyndal Spirits Limited	Glavya Liqueur Limited	
Whyte & Mackay Distillers Limited	Findlater Scotch Whisky Limited	
Watson & Middleton Limited	Fettercairn Distillery Limited	
TDL Realisations Limited	Ewen & Company Limited	
The Sheep Dip Whisky Company Limited	Edinburgh Scotch Whisky Company Limited	
Ronald Morrison & Co. Limited	Dalmore Distillers Limited	
Pentland Bonding Company Limited	Bruce & Company (Leith) Limited	
John E. McPherson & Sons Limited	Dalmore Whyte & Mackay Limited	
Charles McKinlay & Company Limited	William Muir Limited	
Longman Distillers Limited	Invergordon Distillers Limited	
Loch Glass Distilling Company Limited	Lycidas (437) Limited	
Leith Distillers Limited	Invergordon Distillers (Holdings) Limited	
Kensington Distillers Limited	Isle of Jura Distillery Company Limited	
Jarvis Halliday & Company Limited	Invergordon Distillers Group Limited	
Invergordon Gin Limited	Tamnavulin-Glenlivet Distillery Company Limited	
Hay & MacLeod Limited	St Vincent Street (437) Limited	
Whyte and Mackay Holdings Limited	Whyte and Mackay Property Limited	
KI Trustees Limited	London Society of Mixologists	