



Corporate Governance

As a private business, Edrington is not required to follow the UK Corporate Governance Code. It is, however, committed to the highest standards of both governance and corporate citizenship, and the Company therefore voluntarily observes those elements of governance and disclosure that are appropriate and add value to the organisation and for its stakeholders.

The board welcomes the introduction of the updated 2018 UK Corporate Governance Code (the '**2018 Code**') and the Wates Corporate Governance Principles for Large Private Companies (the '**Wates Principles**') which apply to financial years beginning on or after 1 January 2019. The Company is reviewing the content of the 2018 Code and the Wates Principles and will adopt these as the Company's corporate governance regime to the extent it is deemed beneficial, proportionate and realistic to do so. The Company will report further on this in next year's annual report.

1. Board composition

At 31 March 2019, the board comprises the non-executive chairman, three executive directors and three non-executive directors, and is supported by the Group Company Secretary. The board believes that its composition – its size, mix of expertise and balance of executive and non-executive directors - is appropriate. David Richardson is the Independent Director.

The board's process on nominations is undertaken by the Nomination Committee, and includes assessing the composition of the board and its governance structures as well as considering appointments and succession planning.

Ian Curle retired as chief executive officer in March 2019 after 15 years in the role and has been succeeded by Scott McCroskie.

2. The role of the board

The board is collectively responsible for the long-term success of the Company. The chairman is responsible for ensuring that the board is effective and is led in the appropriate way. The offices of chairman and chief executive are separate and distinct and the division of responsibilities between them is clearly established.

The board, which meets at least five times a year, has responsibility for defining and executing the Company's strategy, for reviewing trading performance and funding levels, assessing acquisitions and disposals, changes to the structure of the business and overall corporate

governance issues. The board also approves the Company's budget together with its annual report and financial statements.

The board retains overall responsibility for the Company's system of internal control, including the financial controls designed to give reasonable assurance against material financial misstatement or loss.

The board believes the financial controls in place, together with the Edrington values, allow it to meet its responsibility for the integrity and accuracy of the Company's accounting records, and also to provide timely and accurate financial information to enable it to discharge its duties.

The directors attend all board and relevant committee meetings. If directors are unable to attend meetings in person or by telephone they are given the opportunity to be consulted and to comment in advance of the meeting. Board papers are circulated at least five working days prior to each board or committee meeting to ensure that directors have sufficient time to review them before the meeting. Documentation includes detailed reports on current trading and full papers on matters where the board is required to give its approval.

Day to day management and control of the business is delegated to the executive directors and they routinely meet together and with other senior managers as appropriate. Where possible ad hoc committees of the board are appointed to deal with matters which it is known will need to be dealt with between scheduled board meetings.

All directors have a responsibility to ensure that the strategies proposed by the executive directors are properly considered and challenged, and that the performance of the Company is monitored in the appropriate way.

The board has delegated certain responsibilities to established committees, details of which are set out later in the statement.

3. Board effectiveness

On an annual basis, each director is asked to complete an evaluation on board structure, the governance process, strategy and leadership before conducting a one-to-one interview with the chairman. Based on the findings and the responses from each director, the chairman prepares a report on the overall effectiveness of the board, which is then discussed by the board and any recommendations arising from it are implemented.



Corporate Governance (continued)

In addition to overall board effectiveness reviews, the individual performance of executive directors is monitored in the Company's UK performance appraisal programme and by the Remuneration Committee.

Each director is responsible for ensuring that they remain up to date in their skills and knowledge of the Company, and the training needs of the board and its committees are regularly reviewed. Particular emphasis is placed on ensuring that directors are aware of proposed legislative changes in areas such as remuneration, corporate governance, financial reporting and sector specific issues. All directors are also encouraged to visit the Company's operating locations.

The board is able to approve potential conflicts of interest within the director group. Directors are required to inform the board of any actual or potential conflicts which may arise with their other professional or personal interests.

4. Shareholders

The Company's principal shareholder is The Robertson Trust (the 'Trust') and representatives from the Trust (Shonaig Macpherson CBE, Lorne Crerar and Mark Laing) and from the Company (Crawford Gillies, David Richardson, Scott McCroskie and Paul Hyde) meet regularly, and where practicable prior to Edrington Board meetings, through the Trust's Investor Relations Committee (the 'IRC'). The IRC is the principal forum through which the Trust manages its investment in the Company, monitors the Company's performance and allows the exchange of ideas. The chief executive and chief financial officer will present Edrington's strategic plan annually, and at each meeting will provide an update on the performance and progress of the business. The board also meets formally with the Trust on an annual basis to report on financial performance, strategic developments and business outlook. The Audit, Remuneration and Nomination committees report to the Trust on their respective activities.

Employees of the Company are entitled to participate in share ownership as part of approved incentive and savings schemes and may continue to hold their shares in the Company after retirement.

Each shareholder receives access to an electronic copy of the Company's annual report and audited financial statements, together with an unaudited interim financial report, and the Company provides employees with regular updates on financial performance, business issues and employee matters through business-wide and local team communications.

The Company also maintains a website (www.edrington.com) to provide up-to-date, detailed information on the Company's values as well as its operations and brands, including sections on news and business performance. All significant Company announcements are available on this site, as are annual financial reports. The Company's corporate affairs team manages external communications and can be reached at publicaffairs@edrington.com or by telephone at the number given at the back of the report.

5. Board committees

In discharging its governance responsibilities, the board has established committees to provide oversight and guidance in certain areas on its behalf. Three principal committees report directly to the board and are supported by a number of advisory committees as detailed below. Each committee is governed by terms of reference, or similar mandate, which define their purpose, duties and interaction with the board, Company or other committees.

5.1 Nomination Committee

The Nomination Committee is chaired by Crawford Gillies and meets at least twice per year to assess the composition of the board and its governance structures as well as considering appointments and both senior executive and non-executive succession planning.

5.2 Remuneration Committee

The Remuneration Committee is chaired by Alice Avis MBE and meets at least twice per year.

Together with the committee, the Company determines directors' remuneration policy with reference to an external triennial benchmarking review prepared with the assistance of independent specialist consultants. In addition, the committee recommends and monitors the level and structure of remuneration for senior management and reviews a number of reward initiatives and development programmes for all Edrington wholly-owned businesses.

5.3 Audit Committee

The Audit Committee, chaired by David Richardson, meets at least three times a year. Two of the meetings are with the external auditors and senior members of the management team and finance function to discuss audit planning, review statutory accounts and address issues arising from the audit.



Corporate Governance (continued)

It also considers the ongoing independence of the auditor and the effectiveness of the audit process. The conclusions of the committee are reported to the board before the board approves the annual results. The opportunity is taken at each meeting for the committee to discuss matters with the auditor without management present. The committee also addresses risk management and internal controls, where they might receive presentations from senior members of the management team and finance function and approve risk management plans going forward.

Financial statements and audit

The Audit Committee has reviewed the plan presented by the external auditor and agreed the scope of the audit work. During the audit process, the committee kept under review the consistency of accounting policies on a year to year basis and across the Company, and the methods used to account for significant or unusual transactions.

The financial statements were reviewed in detail prior to their submission to the board. Following the audit, the committee discussed the issues arising and any matters the auditor wished to discuss. The committee also assessed the effectiveness of the audit process through discussion with the auditor.

External auditor

During the course of the year the Audit Committee monitored the relationship with the auditor and assessed their performance, cost-effectiveness, objectivity and independence. The board is satisfied that the auditor is independent of the Company and that best practice is being observed.

Grant Thornton UK LLP regularly report to the committee to confirm compliance with their own policies, procedures and ethical standards in relation to auditor objectivity and independence. The Audit Committee has established a policy in relation to the use of statutory auditors for non-audit work and will award work to the firm which provides the best commercial solution with reference to the skills, expertise and suitability of the firm.

The chief financial officer may approve specific engagements up to £50,000 cumulatively and the chairman of the Audit Committee may approve specific engagements up to £100,000. Fees in excess of £100,000 are subject to approval of the full committee. During the year the Company made limited use of specialist teams within Grant Thornton UK LLP for non-audit work. The total fees paid to Grant Thornton UK LLP amounted to £0.3m (2018: £0.3m), of which £0.1m (2018: £0.1m) related to non-audit work.



Corporate Governance (continued)

Committee	Members	Remit
Nomination Committee	Crawford Gillies (chair) Alice Avis MBE Stefanie Fitzgerald David Richardson Scott McCroskie	<ul style="list-style-type: none"> > reviews structure, size and composition of board > recommends appointments and considers succession planning
Remuneration Committee	Alice Avis MBE (chair) David Richardson Crawford Gillies	<ul style="list-style-type: none"> > sets remuneration policy > sets executive director remuneration and incentives > approves annual performance objectives > approves granting of long-term incentives
Audit Committee	David Richardson (chair) Stefanie Fitzgerald Crawford Gillies	<ul style="list-style-type: none"> > reviews and monitors financial results and reporting > approves audit planning > monitors internal financial controls > oversees external audit relationships > considers auditor appointment > reviews audit effectiveness > oversees risk management

The advisory sub-committees established by the board, whose remits are outlined below, comprise certain executive directors and senior members of the Edrington management team:

Committee	Chairman	Remit
Capital Expenditure Committee	Graham Hutcheon	<ul style="list-style-type: none"> > develops five year capital expenditure plan > ensures evaluation of business cases and that resources allocated on an informal basis > ensures risks and interdependencies are clearly understood > manages liquidity requirements and post evaluation reviews
Corporate Sustainability & Responsibility Committee	Lindsay McGarvie (Corporate Affairs Director)	<ul style="list-style-type: none"> > ensures Edrington conducts business in a socially responsible and ethical way > setting and adhering to industry standards on responsible consumption of alcohol > identification and monitoring of performance against targets on environmental sustainability > in conjunction with The Trust and Edrington's network of Trust Ambassadors, ensures the business supports local communities in which it operates



Corporate Governance (continued)

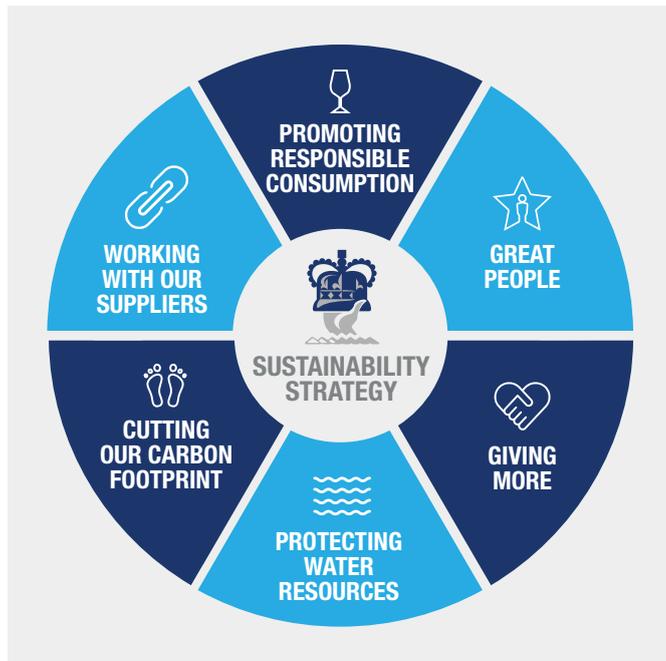
Committee	Chairman	Remit
Marketing Code Committee	Alice Avis MBE	<ul style="list-style-type: none">> sets marketing policy in compliance with industry standards to ensure responsible marketing practice> reviews marketing practice on an annual basis and maintains processes for complying with marketing code prospectively
Group Risk Management Committee	Martin Cooke	<ul style="list-style-type: none">> identifies and evaluates principal risks> reviews the adequacy of risk management processes> recommends improvements in risk management processes> reports material findings to the Audit Committee
Treasury Committee	Paul Hyde	<ul style="list-style-type: none">> ensures compliance with terms of group borrowing facilities> minimises financial risk arising from exposure to fluctuations in foreign exchange rates, interest rates and cash flow> determines hedging policy on interest rates and currency> approves significant decisions on commercial credit limits> monitors and approves cash signing authority in the Company
IT Steering Committee	Euan Fraser (Director of Business Technology)	<ul style="list-style-type: none">> ensures that technology strategic plan aligns with business priorities and return on investment> approves proposed technology projects, and scrutinises ongoing activity> audits completed projects to ascertain effectiveness
Brand Protection Committee	Martin Cooke	<ul style="list-style-type: none">> seeks to establish structures, responsibilities and actions to eliminate or mitigate the unauthorised, unfair or illegal diversion, exploitation of, or damage to, Edrington's brands and their value.
Brexit Committee	Martin Cooke	<ul style="list-style-type: none">> monitors Brexit developments> oversees contingency planning in relation to Brexit



Corporate Sustainability and Responsibility

Edrington was created to be a company that makes a positive contribution to the communities in which we live and work. We have worked for more than a century and a half to build a responsible and sustainable business. This report details Edrington's sustainability programmes for the year to 31 March 2019.

In May 2019, Edrington announced its new sustainability strategy. Its six target areas of Promoting Responsible Consumption, Great People, Giving More, Protecting Water Resources, Cutting our Carbon Footprint and Working with Suppliers are each aligned to the UN's Sustainable Development Goals.



Giving More

Giving More is woven into the history and fabric of our business in a way that is unique to the industry.

The company's principal shareholder is The Robertson Trust, which was established in 1961 by the Robertson sisters, who donated their shares in the business founded by their grandfather. Elspeth, Agnes and Ethel Robertson wished to ensure that the family business could continue the family's legacy of support for Scottish charities. The Robertson Trust uses its dividends from Edrington to improve the quality of life and realise the potential of people and communities in Scotland. Since 1961 The Robertson Trust has given £263 million to charities, making it Scotland's largest independent grant-making Trust.

Giving More plays a fundamental role inside our business too. The company encourages its employees to become involved

with charitable causes they feel passionate about, helping them volunteer, raise funds and meet their personal goals.

Every Edrington employee has three days paid leave every year to work for a charity making a difference in their community. Some use this individually, while other teams work together on projects for charities. In larger Edrington locations we organise large scale partnerships with charities where as many employees as possible can work together to create a real transformation in their community. Examples of Giving More activities in 2018/19 can be seen on the Edrington website.

When our employees raise funds for a charity, Edrington matches those funds to double the value. The Robertson Trust also matches funds raised for charities in Scotland, thereby turning every £1 into £3.

- > In 2018/19, the total raised and donated by Edrington employees to good causes in Scotland was £674,000 (2018: £585,000).
- > Employees organized 169 fundraising activities in Scotland last year (2018: 147)

As Edrington's international business has grown, the company has developed initiatives to bring the spirit of The Robertson Trust to life outside Scotland. Since 2012, Edrington has donated 1% of pre-tax earnings to charities chosen by international employees.

- > Last year, the total raised and donated by Edrington's international employees was £2.2 million, making a total of £9.72 million since 2012.

Alcohol in Society

Promoting responsible consumption is one of the six key areas of Edrington's new sustainability strategy.

Edrington has built a successful business based on the quality of our brands, consumer trust and responsible self-regulation. Our role begins by ensuring that our brands are packaged and promoted to a consistently high standard everywhere in the world. We train employees who work in sales, marketing, events and procurement in the Edrington Marketing Code. Employees renew their training every two years and the company has a training compliance target of 95% at any one time.

We believe we can achieve more in partnership, so Edrington works with and funds organisations that support responsible consumption and work to reduce the harms associated with alcohol misuse. Here is a selection of the work supported by Edrington in the past year.



Corporate Sustainability and Responsibility (continued)

Responsibility and Our People

Edrington's Alcohol Responsibility Week is an annual week-long international campaign which reaches employees across more than 20 countries. It is designed to give every one of our people the information and support they need to make positive choices around alcohol, whether in their work or home life.

In 2018/19 the company worked with Drinkaware, the UK's leading source of alcohol responsibility information, to host their 'Drinkaware at Work' training.

Outside the UK, regional leaders led events to champion Alcohol Responsibility Week and give the campaign a local context. Other activities included a 'low and no-alcohol' cocktail masterclass where an Edrington mixologist shows employees how to make a range of mixed drinks that include either one unit of alcohol, or none at all.

Edrington's occupational health team worked with the 'Drink Wise, Age Well' to run information sessions in its site in Scotland.

Responsibility in Action

In Scotland, Edrington is a contributing partner to the Scotch Whisky Association's Scotch Whisky Action Fund, a 5-year commitment with the aim of supporting innovative projects that tackle alcohol-related harm. The fund is independently managed by Foundation Scotland. In the four years the fund has operated it has funded 37 projects.

Through its UK joint venture, Edrington-Beam Suntory UK, Edrington funds the Best Bar None programme, which raises standards in the hospitality industry.

Edrington is a member of the European Spirits Group and spiritsEUROPE, an organisation that represents spirits producers and co-ordinates a network of 31 national associations.

Through the Asia Pacific International Wine and Spirits Alliance (APIWSA), Edrington has contributed to tailored alcohol responsibility campaigns in China, Vietnam, Korea, Singapore, Cambodia, Indonesia, Thailand and Taiwan.

In the Americas, Edrington chairs the Foundation for Advancing Alcohol Responsibility. Known as Responsibility.org, this independent, national, not-for-profit organisation leads the fight to eliminate drink driving and underage drinking and promotes responsible decision-making regarding alcohol. FAAR programmes engage with law enforcement, public officials, educators, parents, and students.

Environmental

In a world of seven billion people who depend on shared natural resources, today's consumers expect sustainability to be at the heart of a responsible business. Edrington structures its sustainability agenda in line with the Scotch Whisky Association's Environmental Strategy, which is considered to be the only one in Scotland embracing an entire business sector.

Launched in 2009, the SWA's environmental strategy sets ambitious targets driving sustainability. In addition to this, where it is appropriate for our business, Edrington aligns its sustainability agenda to the principles of the United Nations' Sustainable Development Goals.

Energy

Edrington is on track to meet the Scotch Whisky Association's 2020 target of improving energy efficiency by 7.6%. Edrington's distilleries in Scotland are 11.3% more efficient than the 2008 base line year when measurement started.

Edrington's new Macallan Distillery is on track to source 95% of its energy requirements from renewable sources by 2019. This has been achieved by partnering with Estover Energy to supply steam from its biomass plant adjacent to the distillery, and Helius Energy/CoRDE to supply electricity from its biomass cogeneration plant located in nearby Rothes. This will take Edrington's UK sites energy sourcing to 50% from renewable sources, significantly ahead of both the SWA and Scottish Government targets. Under the company's new sustainability strategy we expect to see this increase in 2020.

Responsible Water Use

Protecting Water Resources is a key area of Edrington's sustainability strategy. Our Scotch whisky distilleries are on track to meet the 2020 target of improving distilling water efficiency by 10%.

The Scottish Environmental Protection Agency's most recent report rated all Edrington's sites as 'Excellent'. Full details are available on the SEPA website.



Corporate Sustainability and Responsibility (continued)

Sustainable Packaging

The growing popularity of premium spirits around the world is accompanied by consumer demand for bottles and packaging that convey the heritage and value of the spirit. This is driving up glass and packaging weights, particularly in the case of single malt Scotch whiskies. The strength of Edrington's super premium portfolio means that it is not currently on track to meet the SWA's target of reducing packaging weight and recycled content targets.

Edrington will continue to work with suppliers and industry partners to find opportunities to support the industry's aim of reducing packaging. Our business will listen to consumers and be ready to respond rapidly to trends that support packaging innovation.



Directors' Report

The directors present the audited financial statements for the year ended 31 March 2019.

Results for the year

The Company's financial results, which are detailed in the income statement, cover the year to 31 March 2019.

An interim dividend of 12.2p (2018: 12.0p) per share was paid on 9 November 2018. The directors agreed a further interim dividend of 29.5p per share which will be paid on 12 July 2019, making a total of 41.7p per share (2018: 40.9p per share) for the year. The aggregate dividends recognised in the year amounted to £24.9m (2018: £24.4m) excluding proposed dividends that were not approved by the balance sheet date.

As we continue in a period of significant investment in assets and inventories to support the long term growth of our brands, the directors believe it is prudent to aim to broadly maintain the value of the dividend after adjusting for inflation rather than increasing in line with the underlying performance of the business.

Revenue for the year amounted to £754.4m resulting in a profit before tax (pre-exceptional) of £201.6m and overall profit for the financial year (pre-exceptional) of £91.6m. Exceptional items totalling £67.1m (2018: (£1.3m)) (after taxation and minority interest) were incurred, leading to a profit for the year, attributable to Edrington shareholders, of £158.7m (2018: £86.6m).

A detailed review of the Company's business strategy along with associated risks and uncertainties is included within the strategic report.

Directors' responsibilities for the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group 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;
- > state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and whether UK Accounting Standards and applicable laws have been followed for the Parent Company financial statements, subject to any material departures disclosed and explained in the financial statements; and
- > prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the Group and Parent Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Parent 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 Group and Parent Company's auditor is unaware; and
- > the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Employee share schemes

The Company operates two share schemes for eligible employees.

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

The ShareReward Scheme allows Edrington 'B' Ordinary Shares to be awarded annually to eligible employees of the



Directors' Report (continued)

Company. The employee's entitlement to receive shares is dependent on the growth in the Company's profit in the year, attributable to shareholders, exceeding inflation by a pre-determined amount. The scheme has been approved by HM Revenue and Customs. The Company charges the annual fair value of this scheme to the income statement, if the performance criteria have been met.

The ShareReward Scheme was triggered in respect of the year ended 31 March 2019.

Executive incentive plans

The Company operates two incentive plans for senior executives.

An Annual Incentive Plan rewards (a) executive directors based on the Company's financial results and the executives' individual performance against business objectives and (b) senior executives based on the Company's performance and the executives' individual performance against business objectives.

The Annual Incentive Plan was partially triggered in respect of the year to 31 March 2019 and the associated costs of this plan have been charged to the income statement.

The Long Term Incentive Plan rewards senior executives based on the Company's performance over a three year period, by awarding Edrington 'B' Ordinary Shares. The Company charges any associated costs to the income statement over the period of the plan. The performance conditions, which are more demanding than that for the Annual Incentive Plan, were partially triggered in respect of the three year period ended 31 March 2019.

Disabled employees

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

Going Concern

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

Auditors

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

Approved and signed on behalf of the board

Martin Cooke
Group Company Secretary

12 June 2019