



EDRINGTON

## The Edrington Group Limited

### Annual Report and Financial Statements

for the year ended 31 March 2020

Company Registration No. SC036374

*The*  
MACALLAN

  
THE FAMOUS  
GROUSE

BRUGAL 

  
HIGHLAND  
PARK

THE  
GLENROTHES  
ESTD 1879  


  
SNOW  
LEOPARD

  
TEQUILA  
PARTIDA

WW

  
NOBLE OAK  
DOUBLE OAK BOURBON



*The*  
**MACALLAN**

  
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\* In the context of the Annual Report, the 'Company' or 'Edrington' refers collectively to The Edrington Group Limited, and its subsidiary and joint venture undertakings. Differentiation is made between Company and consolidated group results in the financial statements and the related independent auditor's report.



## Key Financial Highlights

### CORE REVENUE

2020 - £699.6m

2019 - £661.9m

2018 - £607.2m

+ 6%

Total revenue from our sales of continuing Edrington branded products on a constant currency basis.

#### ANALYSIS

Core revenue growth of 6% was greater than our volume growth of 3% reflecting the improved mix of higher value products together with the benefit of price increases.

### BRAND INVESTMENT

2020 - £133.2m

2019 - £133.0m

2018 - £123.9m

= 0%

Advertising and promotional expenditure on our core brands, excluding discounts on a constant currency basis.

#### ANALYSIS

Brand investment was flat versus last year and lower than planned due to the outbreak of COVID-19 and our inability to spend effectively across the last quarter. Our ratio of brand investment to core revenue was 19% in the year.

### CORE CONTRIBUTION

2020 - £248.2m

2019 - £219.7m

2018 - £207.2m

+ 13%

Profits from our branded sales and distribution at constant currency and after the deduction of overheads.

#### ANALYSIS

Core contribution is the key measure of the underlying performance of the business and the increase in the year represents strong growth from The Macallan and Brugal together with a tight control of our operating expenses.

### EARNINGS BEFORE INTEREST AND TAX\* (EBIT)

2020 - £246.0m

2019 - £223.2m

2018 - £206.6m

+ 10%

EBIT is a measure of the profit generated by the business before the impact of interest, tax, minority interest charges and items deemed to be exceptional in nature.

#### ANALYSIS

EBIT growth is lower than core contribution growth due to the impact of a stronger average £ during the year compared to last year.

\*before exceptional items



## Key Financial Highlights

### FREE CASH FLOW

2020 - £64.8m

2019 - £87.7m

2018 - £91.2m

⊖ 26%

Net cash flow excluding the movements in borrowings, shares, dividend payments, transformational capital expenditure and exceptional items.

#### ANALYSIS

Free cash flow represents the cash the business generates after maintaining our asset base. The decrease in the year represents an increased investment in casks and maturing stocks for the future growth of our brands and increased UK tax payments due to the new tax payment structure introduced by HMRC this year.

### RETAINED PROFIT\*

2020 - £90.3m

2019 - £91.6m

2018 - £87.9m

⊖ 1%

Earnings after tax and minority interests excluding exceptional items.

#### ANALYSIS

Profit for the year has decreased by 1% due to an £11.6m deferred tax charge net of minority interest resulting from the reversal of the decision to reduce the UK corporation tax rate to 17%.

\*before exceptional items

### STRATEGIC INVENTORIES

2020 - £845.1m

2019 - £756.2m

2018 - £685.3m

⊕ 12%

The net book value of our maturing inventories of whisky and rum and the casks in which they are held.

#### ANALYSIS

The 12% growth in strategic inventories results from our continued production of malt whisky substantially higher than current sales in order to support our projected growth over the next 12 years and beyond. The insurance and market value of our maturing whisky and rum is significantly higher than the carrying value.

### NET DEBT/EBITDA

2020 - 1.5

2019 - 1.8

2018 - 2.3

⊕ 17%

The ratio of bank and private placement debt at hedged rates, where applicable, after deduction of cash balances to reported earnings before interest, tax, depreciation and amortisation.

#### ANALYSIS

The 17% improvement in the ratio is driven by both an increase in our EBITDA together with a reduction in our net debt.



## Directors and Advisers

### **Directors**

C S Gillies, Chairman  
S J McCroskie, Chief Executive  
G R Hutcheon  
P A Hyde  
D H Richardson  
A M C Avis MBE  
S Fitzgerald  
S Hizuka

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### **Secretary**

M A Cooke

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### **Registered Office**

100 Queen Street  
Glasgow  
G1 3DN

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### **Independent Auditor**

Deloitte LLP  
Statutory Auditor  
110 Queen Street  
Glasgow  
G1 3BX

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### **Solicitors**

Dentons  
1 George Square  
Glasgow  
G2 1AL

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## Chairman's Statement

### Dear Shareholder

I am pleased to introduce our Annual Report for 2020. As I look back on the year just finished, I reflect on an exceptionally successful year which everyone involved with Edrington can be extremely proud of. By contrast, as I look forward to the years ahead, I recognise the unprecedented uncertainty that we along with many other companies face. However, I do so in the knowledge and quiet confidence that your company is built on strong foundations.

### 2019/20

The year just finished, the first under the leadership of our new Chief Executive, Scott McCroskie, was very successful. The new leadership team set out some bold, ambitious targets at the beginning of the year, based on the performance of the highest performing companies in our sector worldwide. Those targets were all hit. Core Revenues grew at 6%, and core contribution at 13%.

Those results were achieved in the face of considerable headwinds during the year including on/off Brexit planning, protests in Hong Kong and the imposition by the US of tariffs on malt whisky, before the tsunami of COVID-19 hit our markets in the fourth quarter. For further details on the performance during the year, please see the Chief Executive's review overleaf.

I would like to congratulate Scott, his leadership team and all our staff worldwide for their contributions to this exceptional result.

### Looking Ahead

As I write this in the midst of the COVID-19 pandemic, I am aware that it is a bit of a cliché to talk of uncertainty and unprecedented change. While we don't yet know the depth of the COVID-19 economic downturn or its length, we do know that the years immediately ahead of us will be materially more difficult for many businesses than the relatively benign conditions we have faced over the last decade.

Edrington will not be immune from those difficulties and challenges.

Higher taxation to pay for government debt, higher unemployment, and greater consumer debt will all hit discretionary expenditure. Not only will the ability to spend be impacted, it is possible that after the psychological shock of

COVID-19, individuals' willingness to spend could cut consumer spending even further. As for spirit sales, we are likely to face further downward pressure from fewer visits to restaurants, hotels, clubs and bars, while reduced air travel will impact travel retail sales.

Edrington started to plan for the impact of COVID-19 in the early months of this year, as the disease impacted first on our operations in China and across Asia Pacific. Our teams in APAC responded brilliantly to this huge challenge, and teams across the rest of the Edrington world have learned from their experience and adapted quickly to keep this great business operating.

Our people have shown great agility and ingenuity to prepare for new working patterns, many hundreds working from home. At our bottling facilities and distilleries in Scotland and the Dominican Republic they have created safe systems of working that have allowed us to maintain the crucial supply of our super premium spirits to our markets.

I would like to say a huge thank you to all our people across all international locations for their professionalism, tenacity and sacrifices during this incredibly challenging time.

### Our purpose

There is much talk in business these days of the 'purpose driven company'. Of how companies exist not just to satisfy their shareholders, but also to meet the needs of all their stakeholders including their employees, their communities and society at large.

In many respects Edrington was a purpose driven company long before the term was first used. As a result of the values the company has always had, inherited from the Robertson sisters, and reinforced by our unique ownership structure, we have long recognised our wider obligations to society.

That in turn has had a major influence on our strong culture and values, which I know from my own visits to markets around the world, extends well beyond our Scottish roots.

The strength that comes from that sense of purpose, our outstanding people, and the way they live and breathe the company's values of giving, integrity, excellence and respect, provides the foundation from which we face the future. While the short term may well prove difficult and require us to respond as we never before imagined, that foundation gives me confidence for the longer term.



## Chairman's Statement (continued)

### Suntory

A major development in the early months of 2020, was the cementing of our long-term relationship with Suntory with the sale by our principal shareholder The Robertson Trust and the Edrington Employee Benefit Trust of a 10% stake in Edrington to Suntory Holdings. Suntory have been shareholders in Macallan since the early 1990s, and we have long recognised the overlap in the values of the two organisations.

I would like to welcome Suntory as a shareholder in Edrington. We look forward to both companies benefitting from our strong partnership in the years ahead.

### Dividend

We recognise the importance of our annual dividend to our shareholders, both The Robertson Trust in funding their good works across Scotland and individuals for whom their Edrington dividend is a source of income. Consequently, we have long followed a dividend policy that has emphasised sustainability.

We have weighed that up against the uncertainty we face in our global markets and looked at the finances of the business in various different scenarios. While the company's resources are strong, your board has concluded that we should err on the side of caution this year and that it is in the long-term interests of our shareholders and other stakeholders to suspend this year's dividend.

We will do everything we can to restore the dividend as soon as conditions allow.

### Board Changes

I would like to extend a warm welcome to Shinichiro Hizuka, EVP Suntory Holdings who joined our board in March following Suntory's acquisition of its stake in Edrington.

I would also like to take this opportunity to thank David Richardson who steps down in September after seven years on our board. We have benefitted from David's wise counsel both as Chairman of our audit committee, and around the board table and wish him the very best in his retirement.

Finally, I would like to thank Martin Cooke who retires this summer as General Counsel and Company Secretary, after 31 years with the company. Among the many roles Martin has filled with distinction, he has acted as the primary liaison with our shareholders and I know they and we will miss his unfailing courtesy and deep knowledge of Edrington.

### The Bigger Picture

Edrington is an important part of a very successful industry in Scotland and globally, with an astonishing 42 bottles each second of Scotch Whisky shipped to 175 markets around the world. In Scotland, our industry supports 10,000 jobs directly and over 40,000 across the UK supply chain. We are Scotland's most successful export sector.

As we transition from addressing a global health crisis to facing up to the enormous economic challenges ahead, it is critically important that our industry and governments at home and abroad work together to allow us to play our part in the recovery process. Now more than ever, we look to our governments across the world to support successful businesses like Edrington and to do all that they can to keep trade free, flowing and fair.

**Crawford Gillies**

Chairman

18 June 2020



## Chief Executive's Review

This annual report details a highly successful year for Edrington and its brands. While this is welcome in its own right, it has also helped to ensure that our business is on a sound financial footing as it deals with the immediate impact of the COVID-19 crisis and prepares for the challenges that are yet to come.

Edrington has achieved a 13% year on year increase in core contribution in 2020, marking four consecutive years of profit growth. A buoyant spirits market has provided a helpful backdrop, but we have been able to outperform market value growth due to consistent long-term investment in our brands and the strengthening of our critical business capabilities.

We consider that the global trend for consumers to 'drink less but drink better' will continue beyond the current crisis, and that our core strategy of developing a portfolio of premium brands, supported by carefully targeted brand investment, remains the right path to future growth.

### COVID-19

The strong financial results set out in this report largely reflect a pre-COVID-19 world. At the year-end, Asia had just passed the initial peak of the outbreak, and limited activity in February and March adversely impacted our results. A sharp reduction in air travel also affected our business in airport shops. The negative impact on our results was partly mitigated as we postponed brand-building investment and reduced overhead expenditure as the threat from the virus became clear.

At the time of writing some of our major markets have started to reopen, with tentative steps being taken to restart economies. Our key concerns are that social distancing and consumer safety worries will lead to a prolonged period of closure or suppressed trading in bars and restaurants, where a meaningful proportion of the consumption of our brands takes place. We believe it will take several years for air travel to recover, which will adversely affect our sales in airport shops for some time. On top of this, high levels of unemployment, economic contraction and the impact of government efforts to repair national balance sheets could all affect consumer spending levels and consumption habits for some time to come. We expect these factors to make the trading environment in 2020 and beyond extremely challenging.

Our immediate response has been to minimise cash outflows and reduce costs and investment levels. We are actively seeking to capitalise on growth opportunities in e-commerce

and retail and are adapting the shape of the organisation accordingly. The long-term health of our brands is critical, so we will restore investment as performance shows signs of sustained recovery.

The response of our people to the pandemic has been inspiring. Our colleagues in Asia set an excellent example to the rest of our business of how to act during and after the immediate lockdown phase of the crisis and we are seeing teams around the world following suit. We are particularly grateful to our employees in manufacturing who have been unable to work at home and who have designed and implemented industry-leading safe working systems to ensure our production is sustained at levels not far below normal levels despite the challenges of social distancing.

It has been inspirational to see how Edrington people have brought our ethos of 'giving more' to life by looking for ways to support their communities all over the world during this crisis. We will highlight just a few examples in the sustainability section of this report. We have been proud to support essential workers by donating high strength alcohol to be used in the production of medical-grade hand sanitiser to support the relief effort in both the UK and the Dominican Republic.

We do not underestimate the challenges that the business will continue to face as we work to navigate through this crisis, and we expect all our stakeholders to be adversely affected. This report sets out some of the difficult decisions we have made across the business, to ensure that we emerge fit for future growth.

### Shareholder Transactions

Earlier this year we announced an agreement under which Suntory Holdings purchased a 10% stake in Edrington through the acquisition of ordinary 'B' shares from The Robertson Trust and the Edrington Employee Benefit Trust, our internal market-maker for employee share transactions.

This builds on the successful, long-standing strategic partnership between our two companies; Suntory has been a minority investor in The Macallan Distillers Ltd for more than three decades, as well as an important distributor of Edrington brands in several key international markets including Japan, Germany and Canada.



## Chief Executive's Review (continued)

The agreement has provided an inflow of funds to Edrington's principal shareholder, The Robertson Trust, which will allow it to give more to good causes across Scotland.

### Market Context

The global market for Scotch Whisky grew by 4.4% last year with exports approaching £5bn, and we are encouraged that Edrington's total Scotch portfolio has outperformed that benchmark.

In the USA, which is the world's leading market for premium spirits, Scotch Whisky was hit hard in October 2019 by the imposition of a 25% tariff on exports of single malts to the United States. Despite this, our portfolio of single malts has performed strongly and The Macallan maintained its leadership position in the category.

Our business in Hong Kong saw a modest adverse impact from social unrest.

Edrington Mexico completed its first year of operation by capturing a significant share of the single malt Scotch Whisky market for The Macallan. Unfortunately, we felt compelled to close our wholly-owned subsidiary in South Korea due to an increasingly difficult consumption, taxation and regulatory landscape in that market. I would like to record my appreciation of the excellent work done by our employees over the years in South Korea. Their efforts will ensure that The Macallan and other brands will enjoy growth in the future through our new distribution arrangements.

Closer to home, as a business with a significant proportion of its trade with Europe, we continued to work hard to be as prepared as possible for the outcome of Brexit negotiations with the EU.

### Performance Highlights

The Macallan is the world's number one single malt Scotch Whisky by value and one of the world's foremost luxury spirits. The brand had another outstanding year, most notably in China. Our European key city strategy has driven growth for The Macallan, particularly within its Prestige range.

Last year The Macallan released its oldest ever bottling with The Macallan Genesis, while the fifth annual release of The Macallan Edition series celebrated the natural colour that the brand is known for, with the Pantone Color Institute creating a unique shade of purple for Edition No. 5.

On our other single malts, Highland Park came under competitive pressure in the US and Europe, where the brand had a challenging 2020, but achieved double-digit growth in Russia and grew across Asia. The Glenrothes followed a digital-first approach, supported by a more premium product mix that included the launch of The Glenrothes 40-year-old as well as its existing 18-year-old and 25-year-old expressions, demand for which outstripped supply.

Our blended malt, Naked, has achieved its third year of double-digit volume growth, accelerating faster than both the blended malt and contemporary whisky categories. The brand is now available in more than 60 markets around the world, where its quality and distinctively naked packaging are encouraging consumers to 'Live Naked' in their own way.

The Famous Grouse invited the world to 'spend time in Grouse Country' this year. This skilfully tailored campaign led to volume and value growth in several key markets including Sweden, the Netherlands, Russia, Poland and Turkey. The brand has performed strongly in a challenging market, achieving a record market share in Scotland and the UK, however we saw contribution decline due to increased cost of goods which we have been unable to pass through in consumer pricing.

In its home market of the Dominican Republic, Brugal's value share of the market grew by double-digits as consumers show increased appetite for premium brands, while in Spain, a new consumer campaign has accelerated the growth of Extra Viejo in the premium rum category. Through the brand's super-premium expression, 1888, Brugal shared the mastery and complexity of rum making at events in Miami, Madrid, Cologne, Milan, London and Mexico City, doubling sales as a result.

Our partnership and innovation brands are continuing to develop within the USA market. We saw particularly promising results last year for Noble Oak bourbon, and we continue to be excited by the long term potential for Wyoming Whiskey and Tequila Partida. However, given the current economic environment and a revised outlook for these brands in the medium term, we have taken an impairment charge on our investments in Partida Tequila and Wyoming Whiskey in the year.



## Chief Executive's Review (continued)

### Strategy and Culture

Edrington's culture sets us apart. It informs our vision: to give more by building the world's leading portfolio of exceptional super premium spirits.

We will achieve that vision through relentlessly focusing our efforts on developing the right capabilities, carefully targeted investment in our brands and assets and through sharper ways of working.

We continued to invest in our people and skills last year. We increased the reach and scope of the Edrington Academy, which provides development tools on-demand to every employee. We extended the global Learning at Work festival and we brought together emerging and established leaders from around the world to learn from experts and - just as importantly - each other.

We have made further progress this year in creating a more diverse and inclusive workplace where everybody feels able to give their best. We have set targets for gender diversity in senior leadership and have made progress towards these.

Employee wellbeing was prioritised in 2019/20 as we seek to encourage our people to live healthy and well-balanced lives. The most recent example of this is our Modern Family Leave policy launched in April this year, which gives each employee who becomes a new parent around the world the right to 26 weeks' fully paid leave.

This year's excellent results and our future growth are underpinned by the Edrington values of giving, integrity, excellence and respect.

These values also form the foundation of our new sustainability strategy. We are proud of the relaunched strategy and it has been well received across the industry and by our colleagues. This year's sustainability report sets out six areas that we have identified as central to Edrington's responsibilities to our people, the communities in which we operate and the environment. These are expressed as performance targets and underpinned by a governance structure and performance indicators.

### Looking Forward

We do not underestimate the challenges that the business will continue to face as we navigate the COVID-19 crisis and emerge into an uncertain new environment. Having secured four consecutive years of growth, we anticipate a significant decline in global sales and profits in 2020/21.

We will manage the business prudently whilst we adapt rapidly to our new situation and seek to capitalise on new opportunities.

We consider that the business is well-equipped to respond to changes in both consumer preferences and the channels through which spirits are sold. Fundamentally our capabilities are strong, and our brands are in good health and remain desirable to consumers.

Edrington is powered by great people and exceptional brands. I am proud of the results we have achieved for the business this year, and I am confident that we will navigate through this crisis and emerge with a business fit for future growth.

**Scott McCroskie**  
Chief Executive

18 June 2020



## Financial Review

### MANAGEMENT KEY PERFORMANCE INDICATORS

	2020	2019	% movement
Volume (case equivalents)	<b>8.1m</b>	7.8m	3%
<b>Presented in constant currency rates:</b>			
Core revenue*	<b>£699.6m</b>	£661.9m	6%
Brand investment*	<b>£133.2m</b>	£133.0m	0%
Core contribution*	<b>£248.2m</b>	£219.7m	13%
<b>Presented in actual currency rates:</b>			
EBITDA	<b>£273.5m</b>	£247.4m	11%
Profit before tax (pre-exceptional)	<b>£222.4m</b>	£201.6m	10%
Profit for the year (pre-exceptional)	<b>£90.3m</b>	£91.6m	-1%
Free cash flow	<b>£64.8m</b>	£87.7m	-26%
Net debt/EBITDA	<b>1.5</b>	1.8	
Strategic Inventories	<b>£845.1m</b>	£756.2m	12%

### STATUTORY KEY PERFORMANCE INDICATORS

	2020	2019	% movement
Revenue	<b>£792.2m</b>	£730.9m	8%
Earnings before interest and tax	<b>£250.9m</b>	£218.2m	15%
Profit before tax	<b>£227.0m</b>	£196.6m	15%
Profit for the financial year	<b>£87.7m</b>	£158.7m	-45%
Total equity	<b>£1,105.9m</b>	£928.8m	19%

#### Volume

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

#### Core revenue

Total revenue from our sales of continuing Edrington branded products on a constant currency basis.

#### Brand investment

Advertising and promotional expenditure on our core brands, excluding discounts on a constant currency basis.

#### Core contribution

Profit from our branded sales and distribution on a constant currency basis and after the deduction of overheads.

#### EBITDA

Earnings before the deduction of interest, tax, depreciation and amortisation.

#### Profit before tax (pre-exceptional)

Profit before exceptional items and the deduction of tax.

#### Profit for the year (pre-exceptional)

Earnings after tax and minority interests excluding exceptional items.

#### Free cash flow

Net cash flow excluding the movements in borrowings, shares, dividend payments, expansionary capital expenditure and exceptional items.

#### Net debt/EBITDA

The ratio of bank and private placement debt at hedged rates, where applicable, after deduction of cash balances to reported earnings before interest, tax, depreciation and amortisation.

#### Strategic Inventories

The net book value of our maturing inventories of whisky and rum and the casks in which they are held.

\* A reconciliation of constant currency measures is provided at Note 36 to the accounts.



## Financial Review (continued)

### Group Financial Performance Overview

The financial performance of the Group this year reflects the continued strong demand for our brands, coupled with a controlled growth in our cost base to deliver our fourth year of profit growth. These results were delivered through a year with significant volatility and change in the wider global and economic environment. The impact of COVID-19 on our performance began in January 2020 in a number of Asian markets before spreading to our Global Travel Retail business and most of our domestic markets through the last six weeks of our financial year. We estimate that the reduction in our revenue during this period was broadly offset by a reduction in brand investment and overheads, resulting in an immaterial impact on our profit for the year to March 2020.

### Prior year restatement

Due to the incorrect elimination of inter-company sales with the Brugal Group of companies in the year to March 2019 we have restated the prior year income statement to reduce both Revenue and Cost of sales by £23.5m with no impact on profit. A reconciliation of the prior year disclosure compared to the current year is provided at Note 37.

### Group Financial Performance (reported on a constant currency basis)

#### Core revenue

Core revenue grew by 6% to £699.6m driven by the strong growth of The Macallan.

The growth in core revenue was faster than the 3% volume growth due to the benefits of both improved product mix and price increases on The Macallan and Brugal rum.

#### Brand investment

We invested £133.2m in brand-building marketing activities this year, which is flat versus last year. This investment level was lower than planned due to the outbreak of COVID-19 and our inability to spend brand investment effectively across quarter four. As a result our ratio of brand investment to core revenue has declined by one percentage point to 19%.

### Core contribution

Core contribution increased by 13% to £248.2m this year, a further acceleration of the trend we have seen over the last four years. The strong contribution growth was ahead of revenue growth as we implemented plans from the beginning of the fiscal year to manage the growth in our cost base and deliver improved efficiencies on our overheads and brand investment.

The Macallan grew contribution by 14%, and Brugal rum grew by an outstanding 33% driven by the premiumisation of the portfolio in its home market in the Dominican Republic. Malt whiskies have had a mixed year with an overall decline in contribution of 9%, with Highland Park being impacted by increased competition in its key markets of the UK and US. The Glenrothes performed well with growth of 10%. The Famous Grouse had a better year growing volume and revenue however contribution declined by 6% in a competitive market place where we were unable to pass on the effect of cost increases through higher consumer pricing.

At a regional level we experienced strong contribution growth in Asia Pacific and across Russia and Emerging Europe whilst the Americas limited the impact of the tariffs on single malt whisky by managing its cost base and brand investment. Global Travel Retail was impacted immediately by the COVID-19 outbreak, initially in Asia and then latterly through March across all markets. The Europe region declined due to the significant impact of COVID-19 on the on-trade channel in Spain.

### Statutory results (reported at actual currency rates)

Statutory group revenue (pre-exceptional) grew by 7% to £780.2m and pre-exceptional profit before tax increased by 10% to £222.4m. Revenue growth at a statutory level is ahead of core revenue as a result of a small increase in non-core revenue.

Profits attributable to Edrington Shareholders (before exceptional items) declined by 1% to £90.3m, which includes in the current year a charge of £11.5m to deferred tax due to the planned reduction of the UK corporation tax rate to 17% from 1 April 2020 not coming through and in the prior year included a profit of £3.6m (net of minority interests) relating to the discontinued activities of the Cutty Sark and The Glenturret brands.



## Financial Review (continued)

### Exceptional items

We have treated the financial impacts of the following one-off events as exceptional in the year:

- > We have released £14.9m of accruals for selling costs and brand investment in Edrington Taiwan which were incorrectly accrued in prior periods and not in line with our accounting policies.
- > We incurred restructuring costs of £3.1m following our decision to close our South Korean distribution subsidiary.
- > In relation to the purchase of the 10% shareholding in The Edrington Group by Suntory Holdings we incurred costs of £3.7m.
- > The disposal of our investment in the shortbread and biscuit company, Paterson Arran, resulted in a gain of £5.9m.

- > The value of our investments in Partida Tequila and Wyoming Whiskey has been impaired by £9.4m due to our revised outlook on the performance of the brands in the current economic environment.

Profits attributable to Edrington Shareholders including exceptional items declined by 45% to £87.7m, reflecting the profit from the sale of Cutty Sark and The Glenturret brands included in our 2019 results. Due to the high number of items in both the current and prior year that have an effect on the reported profit for the year we have included a table which sets out the growth rate before and after each item to aid the understanding of their effect.

### Statutory results table adjusted for non-recurring items

	2020	2019	% movement
Profit for financial year from continuing operations before adjustment for impact on deferred tax of changes to future UK tax rates	<b>£96.8m</b>	£88.0m	10%
Impact of deferred tax rate change (net of Minority interest of £5.0m)	<b>(£6.5m)</b>	-	
Profit for the financial year from continuing operations	<b>£90.3m</b>	£88.0m	3%
Discontinued operations	-	£3.6m	
Profit for the financial year pre-exceptional items	<b>£90.3m</b>	£91.6m	-1%
Exceptional items	<b>(£2.6m)</b>	£67.1m	
Profit for the financial year	<b>£87.7m</b>	£158.7m	-45%

### Interest

Net finance charges, totalling £23.9m, largely comprised interest costs on funding from the Group bank and US private placement debt.

The constituent elements of the interest charge comprised:

	2020	2019
Interest payable on funding	<b>(£25.5m)</b>	(£22.9m)
Interest expense on lease liabilities*	<b>(£0.9m)</b>	-
Non-qualifying cash flow hedge	<b>(£1.1m)</b>	(£2.7m)
Other finance costs	<b>(£1.4m)</b>	-
Interest on defined benefit pension scheme (note 27)	<b>£0.3m</b>	£0.6m
Other interest receivable	<b>£4.7m</b>	£3.4m
	<b>(£23.9m)</b>	(£21.6m)

\* Relates to the implementation of IFRS 16: Leases, no comparative in the prior year.



## Financial Review (continued)

### Cash flow and financial position

The prudent management of our debt has been a key priority in the last two years and we are pleased to be facing the initial impact of the COVID-19 outbreak with an improved leverage ratio and with significant headroom in our facilities which have long average maturities.

Net debt at 31 March 2020, excluding the impact of IFRS 16, was £451.8m, a decrease of £14.8m from 2019.

The reduction in net debt reflects greater cash inflows from the growth in trading, partially offset by increased investment in maturing whisky stocks and warehousing, and an increase in taxation payments due to the change in regulations in the UK on the timing of quarterly tax instalments.

The Group is financed by both US private placement notes and bank debt. During the year, we successfully refinanced our bank debt with a 5 year facility of £325m for the 1887 group and a 3 year facility of £50m for The Edrington Group company.

The consolidated group net debt to EBITDA ratio at 31 March 2020 was 1.5 times (2019: 1.8 times) and within the 1887 group, where the debt is principally held we finished the year with a ratio of 2.0 times (2019: 2.3 times) which is comfortably within the limit of our debt covenants.

We strengthened our financial position this year with total equity increasing by £177.1m to £1,105.9m. Total assets increased by £282.5m to £2,267.5m, primarily as a result of our investment in maturing whisky stocks. £26.0m of the increase was in property, plant & equipment, reflecting warehouse construction and cask purchases. Inventories, of which maturing whisky stocks account for the majority of the value, increased by £52.3m. The value of our investments has decreased due to the full write down of our investment in Partida Tequila and an impairment of our investment in Wyoming Whiskey. The creation of right-of-use assets, following implementation of IFRS 16, accounts for £26.4m of the increase in assets. An increase in our cash and other liquid resources of £110.4m are as a result of the increase in our borrowing noted below.

Total liabilities increased by £105.4m to £1,161.6m, primarily reflecting the increase in borrowing of £95.4m and the recognition of lease liabilities, in relation to the right-of-use assets totalling £30.3m.

### Post-employment benefit obligations

The Group operates two defined benefit pension schemes for employees of its principal UK subsidiaries. These have been closed since 2014. At the 31 March 2020, the Group had a surplus of £52.9m in relation to the post-employment benefit obligations of these schemes, as calculated in accordance with accounting standards. This is an increase of £45.8m from the £7.1m asset recognised at 31 March 2019.

Changes in the demographic and discount rate assumptions decreased the present value of the schemes' liabilities by £21.4m, while we also made a £1.7m allowance for additional costs related to the equalisation of Guaranteed Minimum Pensions. Deficit repair contributions of £14.3m were made in the year.

While this surplus position reflects the required accounting treatment for the post-employment benefit obligations, on an actuarial basis, the defined benefit schemes are in deficit. At the 31 March 2020, the deficit was valued at £54.5m, £14.4m lower than last year. The Group is committed to make payments to close this deficit by 2026. Given the current uncertainty on the outlook for the coming year, and the need to prudently manage cash, The Group have agreed with the trustees to postpone the annual deficit repayments of £14m for 12 months from 1 March 2020 and to make double payments over the following 12 months.

### Derivatives and financial instruments

The Group uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange and interest rates. The fair value of these instruments at 31 March 2020 is included in the Statement of Financial Position.

Assets of £41.1m (2019: £28.2m) related primarily to cross currency swaps. These are used to hedge the value of our private placement debt which is denominated in US dollars. At the prevailing year-end rate, the value of the asset increased compared with the prior year and this more than offset the reduction following repayment of dollar denominated private placement debt in the year.

Liabilities of £12.4m (2019: £6.8m) principally reflect the fair value of forward foreign exchange contracts, and interest rate swaps outstanding as at the 31 March 2020. The liability increased from the prior year in line with the movement in the year-end exchange rates on our key trading currencies which we hedge on a rolling 24-month basis and floating interest rates.



## Financial Review (continued)

### Share capital and dividends

Dividends for the year amounted to 12.4p compared with 41.7p in respect of last year.

A first interim dividend of 12.4p (2019: 12.2p) per share was paid on 8 November 2019. Given the current uncertainty in our global markets and after assessing the financial position of the group under a number of scenarios the board has concluded that no final dividend will be paid in July 2020 (2019: 29.5p).

### Summary

The Group has enjoyed a year of strong underlying profit growth resulting from the continued improvement in the mix of our products sold, the ability to increase prices due to our strong brand equities and a controlled and efficient growth on our cost base.

As we enter a period of uncertainty which will have a material impact on our sales and profits we do so with a strong underlying business and a strengthened balance sheet. We are responding quickly to the new trading outlook by reducing discretionary expenditure, capital expenditure and investment in strategic inventories. We are also stopping payments to all shareholders within the group including our subsidiaries, until we have a clearer picture of the outlook for our profits and cash flows. The steps we have taken to increase our debt facilities and relax our covenant tests over the next 12 months provide future stability for the group and give us the confidence that we can successfully navigate the short term challenges and be well placed to maximise the opportunities for growth thereafter.

### Going Concern

To assess the appropriateness of adopting the going concern basis for the Group, the directors have reviewed the strategic and financial plan together with the potential impact that COVID-19 will have on performance for the next two years. The assumption is that our operations, both in Scotland and Dominican Republic will remain open in line with safe working practices, and that our global supply chain continues to support the shipment of product to our markets.

Whilst it is challenging to forecast the future performance of the business in the current environment, we have assumed that there will be a significant reduction in both revenues and profits in the financial year to March 2021 due to reduced demand in the key sales channels of the on-trade (bars restaurants and hotels) and Global Travel Retail. We also anticipate that the demand in these two channels will continue to be lower in the following financial year to March 2022 albeit at reduced levels.

The Group have reviewed a number of different scenarios of revenue decline, together with substantial cost and cash savings, to assess the impact on the Group liquidity and our debt covenant conditions. We have also assessed a stress test scenario, which analyses the revenue decline the Group can support, together with cost and cash saving measures, before we reach the limit of our covenant conditions.

Our plan for the financial year to March 2021 assumed growth in revenue and underlying profitability similar to the year to March 2020. The stress test scenario has assumptions on revenue decline versus this plan as outlined below:

	20/21 HY1	20/21 HY2	20/21 FY	21/22 HY1	21/22 HY2	21/22 FY
Revenue Decline	65%	30%	43%	15%	10%	12%



## Financial Review (continued)

The Group has put in place plans to reduce costs and cash outflows which has an impact across our stakeholder groups. The plans can deliver cost savings that affect our EBITDA of £120m and additional reductions in cash outflows of £200m in the financial year to March 2021 which together provide a reduction in cash outflows of £320m as mitigation for the loss of cash inflow we will experience from the reduction in our sales. The key measures that we have identified are:

- > A reduction in discretionary spend of £32m including a hiring freeze, reduction in travel, a reduction in pay of our senior leaders of between 15% and 20% in the first half of the year and the elimination of all annual group bonus schemes for all employees during the financial year to March 2021. We have also included the benefit of accessing a number of different Government schemes, particularly with respect to pay support.
- > Brand investment will be reduced reflecting our inability to carry out spend effectively in the current circumstances. This could be reduced by up to 60%, depending on the performance of the business as we progress through the year.
- > Planned capital expenditure will be reduced by up to 80%, and our investment in maturing stock will be scaled back which will deliver savings on spirit production, casks and warehouses.
- > Agreement has been reached with the pension trustees of both pension schemes to postpone the annual deficit repair contributions for the financial year to March 2021 until the following financial year.
- > We are also stopping payments to all shareholders within the group including in our subsidiaries until we have a clearer picture of the outlook for our profits and cash flows.

### Debt facilities and covenant tests

The Group has taken steps to secure liquidity and additional borrowing headroom. The stress test scenario shows that with the current facilities the group has in place we will have debt headroom of £140m including the maturity of £142m of private placement debt in April 2021 and not accessing the Coronavirus Corporate Funding Facility. The key focus is the close management of our covenant conditions under our bank and private placement facilities. The Group has two underlying financial covenants, one that measures net debt/ EBITDA and the second EBITDA/net interest (banking covenant), EBIT/net interest (private placement covenant). The most sensitive

covenant through the next 18 months is the net debt/EBITDA covenant within the 1887 Group. The steps we have taken to secure liquidity and additional borrowing include:

- > An additional £50m committed facility from the bank syndicate which mirrors the existing £275m facility with maturity at December 2024.
- > A relaxation of a covenant condition on our banking facilities to bring it in line with the private placement facilities for September 2020 and March 2021 tests.
- > Approval to access the UK Government Coronavirus Corporate Financing Facility and the Group has been issued an issuer limit of £300m although we have not drawn down any funds under this facility.

In the group the majority of the lending facilities sit in The 1887 Group Limited company. The minimum facilities that will be in place in the 1887 Group for the following two years:

### Debt Facilities 1887 Group

	To 31 March 2021	To 31 March 2022
Committed bank facilities	£325m	£325m
US private placement debt	£482m	£340m
Total committed facilities	£807m	£665m
Access to CCFF (uncommitted)	£300m	-
Total facilities	£1,107m	£665m
Covenant Conditions		
Net Debt / EBITDA	<4.0x	<3.5x
EBITDA / net interest (banks)	>3.0x	>3.0x
EBIT/ net interest (private placement)	>3.0x	>3.0x

In addition, The Edrington Group Company Limited has £50m of committed bank facilities with a maturity of December 2022.

Performance in the initial two months of the financial year to March 2021 show that for the 1887 Group, in the height of the lockdown restrictions, revenue is 44% below our plan with the most severe impact being seen in Global Travel Retail and the On-Trade channel as forecast. We have outperformed our stress test scenario for revenue, profit and cash, and will continue to monitor and adjust our resources as we see the evolving performance across the different markets and channels.



## Financial Review (continued)

The results of these assessments were reviewed considering the financial position of the Group at 31 March 2020, the cost and cash mitigation measures available, and the access to ongoing funding facilities. Based on these assessments the Board of Directors have a reasonable expectation that the Group will be able to meet its financial obligations for the foreseeable future and have adequate resources to continue to operate for at least 12 months from the date of this annual report. The directors therefore consider it appropriate to adopt the going concern basis in preparing these financial statements.

### Principal Risk and Uncertainties

The responsibility for risk management and internal control systems resides with the board, with a framework to support the process for identifying, evaluating and managing financial and non-financial risks. The Audit Committee is responsible for the direct oversight of the Group Risk Management Committee and the internal control function.

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

The board regularly reviews the principal risks facing the Company including those that would impact its business model, future performance and solvency. It carried out its most recent triennial strategic risk review in March 2018 to help update the principal risks facing the Company and it is envisaged that the next triennial review will be carried out in March 2021. These reviews allow the board to assess the Company's risk appetite and ensure that the nature and extent of the significant risks facing the business are identified and adequately managed. In line with best practice, the assessment includes a review of the impact and likelihood of each risk, together with the controls in place to mitigate the risk.

Risk categories are predominantly macroeconomic or operational in nature. Macroeconomic risks relate to the external environment and the international markets in which

Edrington operates, over which the Company has less control. Operational risks include issues such as product quality, supply chain, or failure in business technology. The environment in which Edrington operates is becoming increasingly volatile and is constantly evolving, so the Company will remain vigilant to be sure that new and emerging risks are identified and assessed timeously, and that appropriate actions are taken to mitigate the impact of these risks on the business.

The COVID-19 outbreak has highlighted that a pandemic was not one of the principal risks that has been captured for the Company. It has however resulted in a number of the identified risks materialising simultaneously including increased financial risks, the ability of the Company to manufacture and a reduced demand across the markets. The Company has taken the appropriate action to protect our people and our operations. Mitigating actions have been put in place to help manage the impact on the business, and the situation continues to be monitored closely. The Company will review the interdependency of principal risks and how the size and speed of the impact of these can be accelerated with a single event such as a pandemic.

During the year the Audit Committee reviewed reports received from the internal audit teams. These have allowed the committee to assess the general control environment, identify control weaknesses and quantify associated risks. During the year an investigation was carried out as a result of an issue raised through the Speaking Up process regarding over accrual of brand investment and selling costs in Edrington Taiwan. This has resulted in the reversal of these accruals to a value of £14.9m which have been reported as an exceptional item in the year. Improvements have subsequently been made in the oversight and monitoring of key risk balances in our distribution subsidiaries.

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only therefore provide reasonable assurance against material misstatement or loss.



## Financial Review (continued)

### Principal Risks

The following represent what the board believes to be the most important risks and uncertainties that may impact the Company's ability to deliver its strategy effectively.

Identified Risk	Impact	Mitigating Actions
<b>Adverse political and social attitudes to alcohol</b>	<p>Damage to the reputation of Edrington or its brands.</p> <p>Impact on market access or the ability to promote its brands.</p>	<p>Edrington supports a responsible approach to alcohol and considers this a core element of its strategy to grow a sustainable, long-term business. The Company operates a CSR strategy that includes a Code of Conduct and a global Marketing Code reinforced by a global online training programme.</p> <p>Edrington's policies and campaigns are reviewed annually by the Marketing Code Committee.</p> <p>Edrington is a member of national and international organisations that work to encourage the responsible promotion and consumption of alcohol and reduce alcohol-related harms.</p>
<b>Geopolitical and Economic Conditions</b>	<p>Economic or political instability restricts market activity, affecting market access, demand or increased costs.</p>	<p>Brexit and geopolitical instability in a number of regions and markets continue to present a risk to trade and profitability. The Brexit Committee, which reports into the Group Risk Management Committee, meets regularly to monitor Brexit developments and oversee contingency planning.</p> <p>Edrington's diverse geographic spread reduces the exposure to specific market risks. Direct ownership of the Company's route to market in its major markets provides local insight combined with a robust central overview. This enables the Company to react quickly and flexibly to such changes.</p>
<b>Consumer Preferences</b>	<p>A change in consumer preferences for one or more of Edrington's brands in one or more key markets where a decline in brand popularity and/or market contraction would result in a reduced share of market.</p>	<p>The board closely monitors financial and operational key performance indicators which include a review of brand performance and equity strength across market segments and geographies.</p> <p>Edrington conducts an annual market and brands strategic planning process building on local market and brand strategy reviews. The board has also recognised the differing contribution and strengths of each of its principal brands globally and regionally and has strategically focused management in a way which recognises the different needs and focusses of each brand.</p>
<b>Brand Protection</b>	<p>Ineffective or inadequate protection of intellectual property rights, resulting in reputational damage, an increase in counterfeit goods and a decline in sales volumes and/or market share.</p>	<p>The Company invests considerable effort in proactively protecting its intellectual property rights. Edrington has a clear brand protection strategy and processes aimed at addressing the principal exposures and risks likely to affect alcoholic beverage brands. A specialist Brand Protection Committee reviews the principal components of brand protection: intellectual property management; authentication and security technologies for products and packaging; digital media, channel and communications monitoring; products and packaging compliance; and commercial behaviours. This is complemented by activities on brand security education, surveillance and enforcement.</p>



## Financial Review (continued)

Identified Risk	Impact	Mitigating Actions
<b>Regulatory Compliance</b>	Failure to comply with local laws and regulations, resulting in regulatory sanction, reputational damage and/or financial loss.	<p>Edrington has a management process to ensure that employees are aware of their responsibilities and all applicable regulatory requirements. Formal training sessions are undertaken throughout the year.</p> <p>Edrington proactively reviews its principal regulatory compliance obligations and controls, including, but not limited to, the new data protection regulations, competition laws, liquor laws, environmental laws, compliance with EU and UN trade and political sanctions, and local statutory laws (e.g. health &amp; safety).</p> <p>These activities are underpinned by a Code of Conduct, a Global Anti-Corruption Policy, and a Speaking-Up Policy which apply to all its employees, agents, distributors, contractors and suppliers. Contractual arrangements with key third parties must include provisions to establish required performance standards aligned with the Code.</p> <p>Induction procedures include evidenced completion of a standard on-line training course and assessment which covers the Code and its supporting policies. The course, which is translated into all the main languages spoken across the Company, is also periodically refreshed and retaken at all locations.</p>
<b>Financial Risks</b>	Exposure to market risk (including medium term movements in exchange rates, interest rates risk and commodity price risk), credit risk and liquidity risk, may adversely impact on profits.	<p>Financial risks are reviewed and managed by the Treasury Committee whose remit and authority levels are set by the board. The Treasury Committee's remit is to ensure compliance with the terms of borrowing facilities and to minimise financial risk arising from exposure to fluctuations in interest rates, foreign exchange rates and cash flow. Comprehensive policies are applied covering debt management, interest rate hedging, foreign exchange currency hedging and cash flow reporting. Approved financial instruments and authority levels are articulated through the policies with compliance monitored on a regular basis.</p> <p>The Treasury Committee reviews cash flow forecasts throughout the year and assesses headroom against banking covenants regularly. The Finance team utilises external tools to assess the credit limits offered to customers, it monitors trade receivable balances and takes prompt action on overdue accounts. Certain markets operate on a cash-on-delivery basis.</p> <p>Commodity price risk is managed through a combination of medium to long term contracts, covering periods from 2-3 years, and regular tender and review processes are held with suppliers.</p> <p>The spirits industry is sensitive to changes in tax and excise regulations. The effect of any future tax increases on the</p>



## Financial Review (continued)

Identified Risk	Impact	Mitigating Actions
<b>Financial Risks (continued)</b>		<p>Company's sales in a given jurisdiction cannot be precisely measured and is ultimately outwith the Company's control.</p> <p>Edrington's financial control environment is subject to review by both internal and external audit. The focus of internal audit is to proactively work with and challenge the business to ensure an appropriate control environment is maintained.</p>
<b>Cyber</b>	Theft, failure or corruption of digital assets and/or key systems could have an adverse impact on the business and profits.	<p>Led by our business technology function, the business has carried out a business wide information risk management review, enhanced by its cyber incident response plan, and implemented a user awareness training and education programme.</p> <p>Edrington has also increased system patching, updates and monitoring, and carried out penetration testing. It has performed a SAP System User Role Review to eliminate excessive access and segmented the network to protect mission-critical networks from general access networks.</p>
<b>Major Operational Failure</b>	Major supply chain failure affecting supply of raw materials or equipment, loss of maturing inventory or the customer orders process.	<p>Assets managed by the business include intangible brand assets, plant and equipment, people and business technology. Disaster recovery, incident management plans and contingency measures are in place and tested regularly.</p> <p>Edrington's wood and cask supply is reviewed regularly and long-term agreements and processes established to provide reasonable assurances of a sufficient and sustainable supply of casks that meet Edrington's high quality requirements.</p> <p>Contingency bottling/blending options are refreshed and tested to ensure that Edrington's operations can be maintained in the event of loss or impairment of its own facilities.</p> <p>Energy and water supplies are reviewed to ensure continuity, sufficiency and quality of supply. A contract to supply renewable energy, to The Macallan distillery over the long-term, contributes to fossil fuel reduction targets.</p>

Approved and signed on behalf of the board

**Paul A Hyde**  
Chief Financial Officer

18 June 2020



# 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 both to the organisation and its stakeholders.

The board welcomes the introduction of the Wates Corporate Governance Principles for Large Private Companies (the 'Wates Principles'); for the year ended 31 March 2020, the board adopted and applied the Wates Principles and this section outlines how Edrington has incorporated these Principles into the business operations:-

## WATES PRINCIPLES

### Principle 1 – Purpose and Leadership

Edrington has a well-developed and defined purpose and strategy. Our vision, as set out in the Edrington 2025 strategy, is to give more by building the world's leading portfolio of exceptional super premium spirits. We will achieve that vision through focusing our efforts on developing the right capabilities, targeted investment in our brands and assets and through sharper ways of working.



The board fosters effective stakeholder relationships aligned to the Company's purpose. Further details on stakeholder engagement are included in the Section 172(1) Statement in this section of the annual report.

Strategy and values are clearly articulated throughout the business, including at our annual Edrington Leadership Conference and in management roadshows. All employees have the opportunity to attend an annual Year in Review event delivered by a member of the senior management team. This allows employees to understand financial and strategic plans

and to ask questions of senior management. There are also regular townhall sessions in each location where members of the executive team host an interactive session encouraging questions, thoughts and opinions from the employee base. These coincide with regular executive visits to Edrington locations throughout the world.

On culture and values, the board asked employees to give their views on Edrington's culture and values through an employee survey in May 2019. The output of this survey led to Edrington's values being reformulated as Giving, Integrity,



## Corporate Governance (continued)

Excellence and Respect in June 2019. More generally, in order to monitor culture and to take account of the views of the workforce, Edrington has in place an employee engagement survey programme. The survey is run every two years, with pulse surveys operating at intervals in between. The board assesses the results of the engagement survey and forms an action plan to put in place improvements. Management at Edrington also engages with recognised trade union partners through partnership meetings, which are held on a quarterly basis. The annual Board evaluation questionnaire also asks for Board members to give feedback on the culture at board level. Finally, the business also monitors absenteeism rates and uses exit interviews to assist in monitoring the Company's culture.

Edrington believes it has in place workforce policies and practices that are consistent with the Company's values and with the long-term sustainable success of Edrington and has established transparent policies in relation to raising concerns about misconduct and unethical practices. Through its Speaking Up Policy, Edrington enables employees to anonymously raise matters of concern relating to the interests of others, or the interests of the Company.

### Principle 2 – Board Composition

At 31 March 2020, the board comprises the non-executive chairman, three executive directors and four non-executive directors, and is supported by the Group Company Secretary. The roles of Chair and Chief Executive are separated.

The board believes that its composition – its size, mix of expertise and balance of executive and non-executive directors – is appropriate and that it has an appropriate balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. A biography of each director can be found on the Group's website at [www.edrington.com/our-company](http://www.edrington.com/our-company). David Richardson is the Senior Director appointed on behalf of The Robertson Trust. Crawford Gillies, Stephanie Fitzgerald and Alice Avis MBE are considered by the board to be independent directors. Following Suntory Holdings Limited's acquisition of its stake in Edrington, Shinichiro Hizuka was appointed as a non-executive director on 12 March 2020.

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. Further information on the Nomination Committee and other board committees is set out in the "Board Committees" section below.

### Evaluation of 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.

In addition to overall board effectiveness reviews, the individual performance of executive directors is monitored in the Group's UK performance appraisal programme and by the Remuneration Committee. Furthermore, the Senior Director seeks feedback on the chairman annually by way of a questionnaire filled in by both the non-executive and executive directors.

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 Group'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.

### Principle 3 – Director Responsibilities

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 Group'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 Group's budget together with its annual report and financial statements. The board retains overall responsibility for the Group's system of internal control, including the financial controls designed to give reasonable assurance against material financial misstatement or loss.



## Corporate Governance (continued)

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 Group'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 and the chair ensures that sufficient time is made available for meaningful discussion. 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 in the "Board Committees" section below.

### Principle 4 – Opportunity and Risk

The board promotes the long-term sustainable success of the Company by considering and assessing how the Company creates and preserves value over the long-term. The Company works to a five-year strategy cycle and the board holds a two-day strategy session each year.

In the year ended 31 March 2020, a dedicated Strategy and Innovation team, reporting to the Chief Financial Officer, was established to assist in the identification of future opportunities for innovation and entrepreneurship. The Strategy and Innovation team reports to each board meeting and significant opportunities are considered and approved at board level.

The responsibility for risk management and internal control systems resides with the board, with a framework to support the process for identifying, evaluating and managing financial and non-financial risks. The board regularly reviews the principal risks facing the Company including those that would impact its business model, future performance and solvency. To assist with this, the board carries out triennial reviews with the most recent being carried out in March 2018 and the next review expected March 2021. These reviews allow the board to assess the Company's risk appetite and ensure that the nature and extent of the significant risks facing the business are identified and adequately managed. These reviews consider both the likelihood and impact of the relevant risks and ultimately determine which risks will be included on the Company's Strategic Risk Register.

The Group Risk Management Committee maintains the Strategic Risk Register and also provides scoring on these risks. New and emerging risks are identified in a number of ways – through the board directly, through the Group Risk Management Committee, or in a "bottom-up" process by the relevant Business Units presenting to the Group Risk Management Committee in scheduled reviews. The Audit Committee is responsible for the direct oversight of the Group Risk Management Committee and the internal control function. The Group Risk Management Committee reports to the Audit Committee and the Audit Committee chair attends at least one Group Risk Management Committee meeting per annum.

The board, through delegation to Audit Committee and ultimately the Group Risk Management Committee, has established an internal control framework with clearly defined roles and responsibilities for those involved.

Further details on the Company's risks and uncertainties are set out on pages 17-19 of the Strategic Report. The COVID-19 crisis has highlighted the importance of monitoring emerging threats and the importance of risk management generally. While the Strategic Risk Register included geopolitical and economic conditions and key market reliance as strategic risks, it did not include a risk factor for global pandemic and the business had not anticipated an event leading to the wide-ranging global restrictions we have seen in response to the COVID-19 pandemic. As we navigate the COVID-19 crisis, the learnings from that process will be built into our future risk management and business continuity processes.



## Corporate Governance (continued)

### Principle 5 – Remuneration

Details of the Company's remuneration policy are set out in the Remuneration Committee section below on page 29.

Directors' remuneration, which is determined by the Remuneration Committee, is benchmarked triennially with the assistance of independent specialist consultants.

Edrington reports gender pay statistics annually and has in place a series of improvement actions and targets to ensure demonstrable progress towards our commitment of narrowing the gender pay gap. In 2019 our mean gender pay gap of 15.3% represents a decrease of 12.8 percentage points (2018: 28.1%) and the median pay gap of 10.4% represents a decrease of 4.1 percentage points (2018: 14.5%).

### Principle 6 – Stakeholder Relationship and Engagement

The board fosters effective stakeholder relationships aligned to the Company's purpose. Further details on stakeholder engagement are set out in the Section 172(1) Statement below.

This board considers how the Company's activities may impact both current and future stakeholders, including impacts on the environment, with a particular emphasis on sustainability. Further detail on Edrington's sustainability strategy and programmes are included in the Corporate Sustainability and Responsibility section on pages 33-36.

The Group maintains a website ([www.edrington.com](http://www.edrington.com)) to provide up-to-date, detailed information on the Group's values as well as its operations and brands, including sections on news and business performance. All significant Group announcements are available on this site, as are annual financial reports. The Group's corporate affairs team manages external communications and can be reached at [corporatecommunications@edrington.com](mailto:corporatecommunications@edrington.com).

### Section 172(1) Statement

The board's priority is to ensure that the directors have acted both individually and collectively in the way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole with regards to all its stakeholders and to the matters set out in paragraphs a-f of Section 172(1) of the Companies Act 2006. You can read more on how the board have regard to the matters set out in paragraphs a-f of Section 172(1) in the following sections of this annual report:

(a)	the likely consequence of any decision in the long term <i>Wates Principles</i>	– pages 20-23
<hr/>		
(b)	the interests of the company's employees <i>Wates Principles</i> <i>Stakeholder Engagement</i>	– pages 20-23 – pages 23-28
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(c)	the need to foster the company's business relationships with suppliers, customers and others <i>Stakeholder Engagement</i>	– pages 23-28
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(d)	the impact of the company's operations on the community and the environment <i>Stakeholder Engagement</i>	– pages 23-28
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(e)	the desirability of the company maintaining a reputation for high standards of business conduct <i>Corporate Sustainability and Responsibility</i>	– pages 33-36
<hr/>		
(f)	the need to act fairly as between members of the company <i>Stakeholder Engagement</i>	– pages 23-28

### Stakeholder Engagement

Effective engagement with our key stakeholders is critical to the long-term success of the Company. Dialogue with stakeholders helps the board understand the effects of company policies and practices, predict future developments and trends, and re-align strategy.

The Company undertook a stakeholder mapping exercise in 2019 to identify stakeholder relationships and the Board will continue to focus on enhancing engagement with key stakeholders. The table below sets out our key stakeholders, how we engaged with them during the year and, where relevant, the impact of that engagement on the Company's strategy and the principal decisions taken during the year. The board recognises that stakeholder engagement takes place at both the operational day-to-day level within the business and at a board level. In all cases, the level of engagement informs the board, both in relation to stakeholder concerns and the likely impact on decision-making throughout the year. The board uses its regular meetings as a mechanism to address and meet its obligations under Section 172(1) of the Companies Act 2006.



## Corporate Governance (continued)

Key Stakeholder	Principal Methods of Engagement	How this stakeholder group influenced Board / committee discussions and decisions
<b>Shareholders</b>	<p>The Company's principal shareholder is The Robertson Trust (the "<b>Trust</b>") and representatives from the Trust and from the Company meet regularly and where practicable prior to Edrington Board meetings, through the Trust's Investor Relations Committee (the "<b>IRC</b>"). 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, thus providing an effective and meaningful engagement forum. The Chief Executive and Chief Financial Officer 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 development and business outlook. In addition, the Audit, Remuneration and Nomination Committees report to the Trust on their respective activities.</p> <p>The Company also maintains regular dialogue with employee shareholders through a variety of mechanisms, including an employee engagement survey programme and regular Year in Review and townhall sessions (please see "Employees" below for more detail on engagement with employees more generally).</p> <p>The Company regularly corresponds with other shareholders and all shareholders were invited to briefings led by the Chief Executive Officer and the Chief Financial Officer in relation to business performance and the investment by Suntory in the Company in January and February 2020. The Company has identified the need to hold an annual briefing to other shareholders and this will be implemented in the coming year.</p> <p>Each shareholder receives access to an electronic copy of the Group's annual report and audited financial statements, together with an unaudited interim financial report.</p>	<p>The Chief Executive and Chief Financial Officer brief the board on discussions with shareholders and the views of shareholders are taken into account in the decision-making of the board.</p> <p>The board is aware that the priorities and strategic imperatives of shareholders will not all be the same. For instance, some shareholders may prioritise dividends, whereas others (particular employee or ex-employee minority holders of B ordinary shares) may prioritise share liquidity. The board aims to understand the views of shareholders and to act fairly as between members of the Company.</p> <p>In March 2020, Suntory completed an investment in the Company by acquiring B ordinary shares in the Company from The Robertson Trust. While the transaction was ultimately a private arrangement between the Trust and Suntory, the board was involved in negotiations to ensure so far as possible the best outcome for the Company for the benefit of its members as a whole. To that end, the board was able to secure the participation of The Edrington Group Limited Employee Benefit Trust in the transaction, which ultimately creates more liquidity for minority shareholders in the market for B ordinary shares.</p> <p>The briefings held by the Company with minority shareholders in January and February 2020 have re-emphasised that liquidity in the internal market for B ordinary shares in the Company and dividend policy remain the priority issues for many minority shareholders and these issues continue to inform the board's decision-making.</p> <p>Given the current uncertainty in our global markets as a result of the COVID-19 outbreak and after assessing the financial position of the group under a number of scenarios the board has concluded that no final dividend will be paid in July 2020. This has been agreed with key shareholders and aligns with the impacts on other stakeholders during this period.</p>



## Corporate Governance (continued)

Key Stakeholder	Principal Methods of Engagement	How this stakeholder group influenced Board / committee discussions and decisions
<b>Employees</b>	<p>The Group is committed to engaging employees at all levels regarding matters which affect them and the performance of the Group. The board takes its responsibilities to hear and understand our employees' voice seriously and firmly believes that good corporate governance is underpinned by board members meaningfully engaging with stakeholders, including the employees.</p> <p>Employees of the Group are entitled to participate in share ownership as part of approved incentive and savings schemes and may continue to hold their shares in the Group after retirement.</p> <p>Edrington has in place an employee engagement survey. The survey is run every two years, with pulse surveys operating at intervals in between. Our most recent survey, which was conducted early in 2020, confirmed an overall employee engagement score of 73%, an improvement of 5% from the last survey, with particular improvement in the area of communication.</p> <p>Edrington also surveys its employees on important matters that relate to the Company's culture and values. For instance, in May 2019 all employees were offered the opportunity to feedback on what they believe to be important from a culture and values perspective.</p> <p>Currently all employees have the opportunity to attend an annual Year in Review event delivered by a member of the senior management team. This allows employees to understand detailed financial and strategic plans for the performance year and beyond and ask questions of senior management.</p> <p>There are also regular townhall sessions in each location where members of the executive team host an interactive session encouraging questions, thoughts and opinions from the workforce. These coincide with regular executive visits to Edrington locations throughout the world.</p> <p>Executives at Edrington also undertake breakfast sessions aimed at fostering constructive and trusting relationships between executives and employees. In addition, the Executive Committee host "Ask the Exec" sessions at the talent development programmes and the annual Edrington Leadership Conference.</p> <p>The Company has also established the "Balance Network", the remit of which is to promote diversity within Edrington. The network is sponsored by the Chief Executive and the Group HR Director and allows employees at all levels within the organisation to candidly engage on the topic of diversity.</p>	<p>A report from the Group HR Director is submitted to each board meeting and the results of employee engagement surveys are also presented at board meetings.</p> <p>The output of the employee survey on organisational values in May 2019 led directly to Edrington's values being reformulated as Giving, Integrity, Excellence and Respect in June 2019.</p> <p>In 2020/21 we will re-establish our staff forum (which has been on hiatus since 2018) on a formal basis and appoint members from a representative cross-section of employees in the business. The intent is to support meaningful engagement with employees on a number of topics that have a direct impact on the employees.</p> <p>Towards the end of the financial year, engagement with our employees, trade union partners and the paramount importance of employee safety informed our decision to cease Global Supply Chain operations with effect from 25 March 2020 in light of the COVID-19 pandemic. Subsequently, we have continued to engage with our trade union partners and employee representatives on designing COVID-19 safe systems of working in order to recommence operations. A controlled start took place from 6 April 2020.</p>



## Corporate Governance (continued)

Key Stakeholder	Principal Methods of Engagement	How this stakeholder group influenced Board / committee discussions and decisions
<b>Joint Venture Partners and Co-Investors</b>	<p>Regular interaction with our joint venture partners and co-investors takes place in a number of different forums. For instance, there are four board meetings per year of the Highland Distillers Group and The 1887 Company Limited at which directors appointed by our partner William Grant &amp; Sons are present. Similarly, there are four board meetings of The Macallan Distillers Limited per year at which directors appointed by our partner Suntory are present. Alliance Board meetings are also held with Beam Suntory in respect of our joint venture distribution entities Edrington-Beam Suntory UK Distribution Limited, Maxxium España SL, Denview Limited (t/a Maxxium Russia) and Maxxium Rus. A Brugal &amp; Co., S.A. annual general meeting is held each year to which the minority holders of Brugal &amp; Co., S.A. are invited and at which they can ask questions of the Brugal &amp; Co. S.A. board.</p>	<p>The Chief Executive and Chief Financial Officer brief the board on discussions with joint venture partners and co-investors and their views are taken into account in the decision-making of the board.</p>
<b>Customers</b>	<p>We have regular engagement with our customers through face-to-face meetings, conferences and events. Quarterly and annual performance reviews are generally held by Edrington's commercial teams with our distributors, allowing for structured feedback from our distributors.</p>	<p>Customers and channels are reviewed in annual Performance and Strategy Reviews, which are attended by, among others, the Chief Executive, the Chief Financial Officer, the Managing Director for Group Operations and relevant unit and commercial teams. Engagement with customers informs discussion at these Performance and Strategy Reviews.</p> <p>During the year we engage with certain key customers on new product development and launches.</p>
<b>Suppliers</b>	<p>We have regular engagement with our suppliers through face-to-face meetings, conferences and events.</p> <p>The Company has formal quarterly reviews with key suppliers, which involve senior management and cover quality, service, commercials, innovation, key business updates, strategic reviews and our vendor rating scores. With other suppliers, we generally have bi-annual reviews.</p> <p>We actively engaged with key suppliers to ensure we had sufficient stocks of key raw materials and finished goods in preparation for Brexit.</p>	<p>Updates on significant supply chain activities and issues are provided to Board meetings and are considered and discussed by the directors.</p> <p>Engagement with key suppliers during the year informed the board's discussions and decisions regarding the annual budgeting and long-term strategic planning processes for the Group.</p>



## Corporate Governance (continued)

Key Stakeholder	Principal Methods of Engagement	How this stakeholder group influenced Board / committee discussions and decisions
<b>Trade Associations</b>	<p>Edrington is an active member of the Scotch Whisky Association (the 'SWA'). The SWA is governed by a Council of 16 members, elected at its Annual General Meeting. Our Chief Executive currently Chairs the SWA Council and our Chief Financial Officer serves as a member on the Council. Edrington has regular engagement with the SWA through a variety of forums and the Chief Executive and Chief Financial Officer serve on the SWA Council.</p> <p>At the international level, Edrington is a member of the Distilled Spirits Council of the United States (DISCUS), the Dominican Rum producers' association (ADOPRON), spiritsEUROPE (which represents producers of spirits drinks at the European level), and the Asia Pacific International Spirits and Wine Alliance (APISWA).</p> <p>Edrington's Corporate Affairs team regularly engages and actively partakes in the work of these trade bodies on pertinent matters, including understanding potential changes to the regulatory framework, promoting moderate consumption and advancing industry standards.</p>	<p>Where relevant, updates on engagement with the SWA, ADOPRON, DISCUS, spiritsEUROPE and APISWA are provided to the board by the Chief Executive or Chief Financial Officer.</p>
<b>Pension Trustees</b>	<p>Edrington operates two principal pension schemes based on final pensionable salary in addition to a number of schemes based on defined contributions. The assets of the schemes are held separately from those of the Group.</p> <p>There is regular interaction between the chair of the pension trustees in respect of the defined benefit schemes and Edrington's Chief Financial Officer and Group Company Secretary.</p> <p>Route map meetings are also held twice annually with the pension trustees, including attendance from the Chief Financial Officer among others.</p>	<p>The Chief Financial Officer and Group Company Secretary brief the board on the views of the pension trustees on matters of relevance.</p> <p>Following engagement with the Company, and in light of the COVID-19 crisis, the Pension Trustees have agreed to a 12 month postponement of deficit repair contributions for both final salary pension schemes.</p>



## Corporate Governance (continued)

Key Stakeholder	Principal Methods of Engagement	How this stakeholder group influenced Board / committee discussions and decisions
<b>Lenders</b>	<p>Our Treasury team is in regular contact with our banking partners and Private Placement note holders. Annual review meetings are held with our lenders where business performance, future plans and strategy are presented to our lenders and they have the opportunity to ask questions and give their views to management. The Chief Financial Officer attends these review meetings. In addition, regular updates on performances are shared with our lenders.</p>	<p>The Company's lenders give their views on key areas of financial risk management strategy. These are regularly discussed by the Treasury Committee and additionally the Chief Financial Officer briefs the board on the views of the Company's lenders.</p> <p>During the year, the Company completed a bank refinancing and held a strategy update for our lenders, including our new additional banking partners.</p> <p>Towards the end of the financial year (and continuing into the new financial year), the Company has been engaging directly with its lenders in relation to the impact of the COVID-19 crisis, including providing scenario assessments and action plans for the management of cashflow and compliance with covenant conditions.</p>
<b>HM Revenue &amp; Customs</b>	<p>Edrington aims to develop and maintain professional working relationships with HM Revenue &amp; Customs. Regular dialogue is maintained with our relationship manager and the business has an annual Business Risk Review with HM Revenue &amp; Customs which is attended by the Chief Financial Officer and Group Tax Manager, among others.</p>	<p>The Chief Financial Officer briefs the board on tax matters.</p>
<b>Government and Regulatory Bodies</b>	<p>Edrington is committed to working constructively with all government and regulatory bodies across its office locations.</p> <p>Through our trade and industry associations (see above), executive directors and members of the Corporate Affairs team, among others, maintain open and positive dialogue with this group of stakeholders, building trust and reputation.</p>	<p>The Company aims to comply with all laws and regulations wherever it operates, and we actively monitor changes to these requirements.</p> <p>The Chief Executive, Chief Financial Officer and Group Company Secretary brief the board on the impact of relevant regulatory changes; this is assessed and taken into account when making decisions.</p>



## Corporate Governance (continued)

### 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.

### 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 board appointments and both senior executive and non-executive succession planning.

The Committee is responsible for leading the process for new appointments to the board and ensuring that these appointments bring the required skills, knowledge, experience and diversity to the board. As part of this, the Committee reviews the structure, size and composition of the Board to ensure it is made up of the right people to direct the Company in the successful execution of its strategy. The Committee is also responsible for formulating succession plans for both executive and non-executive directors, as well as reviewing the overall talent and succession plans for Edrington's leadership group.

### Remuneration Committee

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

Together with the committee, the Group 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.

The principles of Edrington's executive remuneration strategy, frameworks and programmes are designed to:

- > Apply a pay for performance philosophy that directly links executive reward to the achievement of individual results and the strategic goals and performance of Edrington;

- > Align remuneration to business outcomes that deliver value to shareholders;
- > Balance incentives appropriately to reward superior performance in the short term and sustained performance over the long term;
- > Drive a performance culture by setting challenging objectives and rewarding individual performance;
- > Be transparent, consistent and fair; and
- > Ensure remuneration is globally aligned but with local flexibility, where required, to be competitive in the relevant employment marketplace.

### 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. 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 Group, and the methods used to account for significant or unusual transactions. During the year the committee reviewed the additional reporting requirements under IFRS 16: Leases, IFRIC23: Uncertain tax treatments and additional reporting requirements in relation to Section 172(1) of the Companies Act 2006.

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.



Corporate Governance (continued)

*External auditor*

Deloitte LLP were appointed auditors on 5 November 2019. Deloitte’s appointment followed a review of recent changes in reporting regulations and will allow Grant Thornton UK LLP to continue to provide independent services in relation to share valuations. Following this appointment and during the remainder of the year, the Audit Committee monitored the relationship with the auditor and assessed their performance, cost-effectiveness, objectivity and independence. The committee will assess the effectiveness of Deloitte LLP’s appointment in relation to the 2020 audit in October 2020. The board is satisfied that the auditor is independent of the Group and that best practice is being observed.

Deloitte 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. There was no non-audit work completed by Deloitte during the financial year.

Further information on the Audit, Remuneration and Nomination Committees and other advisory sub-committees established by the board is set out below.

Committee	Members	Remit
<b>Nomination Committee</b>	Crawford Gillies (chair) Alice Avis MBE Stefanie Fitzgerald David Richardson Scott McCroskie	> reviews structure, size and composition of board > recommends appointments and considers succession planning
<b>Remuneration Committee</b>	Alice Avis MBE (chair) David Richardson Crawford Gillies	> sets remuneration policy > sets executive director remuneration and incentives > approves annual performance objectives > approves granting of long-term incentives
<b>Audit Committee</b>	David Richardson (chair) Stefanie Fitzgerald Crawford Gillies Shinichiro Hizuka	> 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



## Corporate Governance (continued)

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
<b>Capital Expenditure Committee</b>	Graham Hutcheon	<ul style="list-style-type: none"> <li>&gt; develops five year capital expenditure plan</li> <li>&gt; ensures evaluation of business cases and that resources allocated on an appropriate basis</li> <li>&gt; ensures risks and interdependencies are clearly understood</li> <li>&gt; manages liquidity requirements and post evaluation reviews</li> </ul>
<b>Corporate Sustainability &amp; Responsibility Committee</b>	Lindsay McGarvie (Corporate Affairs Director)	<ul style="list-style-type: none"> <li>&gt; ensures Edrington conducts business in a socially responsible and ethical way</li> <li>&gt; setting and adhering to industry standards on responsible consumption of alcohol</li> <li>&gt; identification and monitoring of performance against targets on environmental sustainability</li> <li>&gt; in conjunction with The Trust and Edrington's network of Trust Ambassadors, ensures the business supports local communities in which it operates</li> </ul>
<b>Marketing Code Committee</b>	Alice Avis MBE	<ul style="list-style-type: none"> <li>&gt; sets marketing policy in compliance with industry standards to ensure responsible marketing practice</li> <li>&gt; reviews marketing practice on an annual basis and maintains processes for complying with marketing code prospectively</li> </ul>
<b>Group Risk Management Committee</b>	Lindsay Campbell (Group Finance Director)	<ul style="list-style-type: none"> <li>&gt; identifies and evaluates principal risks</li> <li>&gt; reviews the adequacy of risk management processes</li> <li>&gt; recommends improvements in risk management processes</li> <li>&gt; reports material findings to the Audit Committee</li> </ul>
<b>Treasury Committee</b>	Paul Hyde	<ul style="list-style-type: none"> <li>&gt; ensures compliance with the terms of group borrowing facilities</li> <li>&gt; minimises financial risk arising from exposure to fluctuations in foreign exchange rates, interest rates liquidity and counterparty risk</li> <li>&gt; determines hedging policy on interest rates and currency</li> <li>&gt; approves significant decisions on commercial credit limits</li> <li>&gt; monitors and approves cash signing authority in the Company</li> </ul>



## Corporate Governance (continued)

Committee	Chairman	Remit
<b>IT Steering Committee</b>	Euan Fraser (Director of Business Technology)	<ul style="list-style-type: none"><li>&gt; ensures that the technology strategic plan aligns with business priorities and return on investment</li><li>&gt; approves proposed technology projects, and scrutinises ongoing activity</li><li>&gt; audits completed projects to ascertain effectiveness</li><li>&gt; oversees cyber security management and monitors cyber security improvements</li></ul>
<b>Brand Protection Committee</b>	Martin Cooke	<ul style="list-style-type: none"><li>&gt; 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.</li></ul>
<b>Brexit Committee</b>	Martin Cooke	<ul style="list-style-type: none"><li>&gt; monitors Brexit developments</li><li>&gt; oversees contingency planning in relation to Brexit</li></ul>



## 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.

We launched a new, ambitious sustainability strategy in 2019. This is based on six areas that we have identified as important for Edrington's heritage, people and brands. Our targets also reflect existing commitments, particularly those set out in the Scotch Whisky Association's environmental strategy. Edrington has been an active contributor to the Association's environmental strategy since it was launched in 2009 and is working with the Association on a refreshed strategy that will be launched later in 2020.

The strategy is driven by Edrington's sustainability committee, which meets on a monthly basis and is chaired by our Corporate Affairs Director. Senior members of the company head up each of the six workstreams. The overall strategy is sponsored at board level by the Managing Director, Group Operations. In addition to the committee, in 2019/20 we formed a global group of Edrington Sustainability Champions, whose role is to create and embed local initiatives across our sites in all regions to help deliver our strategy.

Our sustainability strategy is underpinned by a governance structure and key performance indicators for delivery. It references the United Nations' Sustainable Development Goals throughout. We are proud of our relaunched strategy and it has been well received by the industry and our colleagues.

### 1. Promoting Responsible Consumption

*Every decision and action we take will be underpinned by leadership on the responsible consumption of our brands.*

**KPI – % of marketing, communications and sales employees who are compliant in marketing code training. 2019 performance 96% [target: 95%]**

We structure our work under three pillars that represent our commitments to our people, communities and consumers:

- > **Our people** – We support our people to work and live as alcohol responsibility ambassadors
- > **Our partnerships** – We work in partnership with organisations that promote alcohol responsibility
- > **Our brands** – Our brands will promote alcohol responsibility to the people who enjoy them

A healthy population and a relationship of trust with consumers are vital to the success of our business. Our responsibility starts with ensuring our brands are distilled, packaged and promoted to a consistently high standard everywhere in the world. However, we know that alcohol can be misused. We have an important role to play in promoting responsible attitudes to alcohol.

The Edrington Marketing Code was updated this year with substantial new measures relating to digital compliance, gender stereotyping and events management. A new online training code is being developed for launch in 2020.

Our annual Alcohol Responsibility Week reinforces this training and gives all our employees the information and support they need to make positive choices around alcohol, whether in their work or home life.

In our markets, we work with and fund organisations that support responsible consumption and work to reduce the harms associated with alcohol misuse. A selection of the work supported by Edrington in the past year includes:

- > Edrington is a contributing partner to the Scotch Whisky Association's Scotch Whisky Action Fund.
- > Edrington funds the Best Bar None programme through our UK joint venture, Edrington-Beam Suntory UK.
- > Edrington is a funder of Drinkaware, an independent charity in the UK working to reduce alcohol misuse and harm and help people make better choices about drinking.
- > In 2020, Edrington became a founding funder of CAP Scotland, contributing £30,000 over three years.
- > 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 US, Edrington is represented on the board of the Foundation for Advancing Alcohol Responsibility.



Corporate Sustainability and Responsibility (continued)

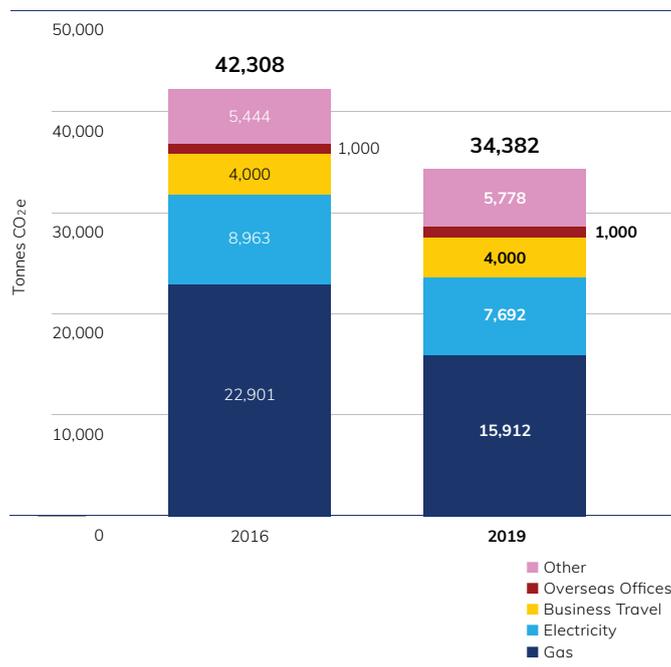
**2. Cutting our Carbon Footprint**

*Edrington will be a carbon neutral business by 2030 for our distilleries, offices and travel. We will reduce our greenhouse gas emissions by at least 70% compared to 2016 levels and aim to lock up any balance through local habitat creation and restoration predominantly in Scotland. We will work with our suppliers to reduce their greenhouse gas emissions. Our long-term ambition is for all Edrington activities and those of our supply chain to be net zero for greenhouse gases.*

**KPI – Greenhouse gas emissions from Edrington business operations and travel. 2019 GHG emissions: 34,381 tCO<sub>2e</sub> [2016 benchmark 42,307 tCO<sub>2e</sub>. 2030 target 12,700 tCO<sub>2e</sub>]**

We have set ambitious targets to reduce our greenhouse gas emissions in our industry, recognising both the importance of every sector taking fast action on climate change. Using 2016 as a benchmark, we aim to reduce our greenhouse gas emissions to a maximum of 12,700 tCO<sub>2e</sub> by 2030. We recognise that achieving this 70% reduction in the greenhouse gas emissions that we are directly responsible for will be challenging and we anticipate that any remaining emissions will be offset responsibly through investing in environmental projects, primarily in Scotland.

**Our Greenhouse Gas Footprint from Business Operations and Travel**



Our 2019 greenhouse gas footprint from business operations and travel was 19% lower compared to our 2016 benchmark year, while our production grew by 5% and our distillation capacity grew 8%. Our progress has been primarily driven by reductions in gas use and efficiency measures. The opening of our new distillery on The Macallan Estate fuelled by Estover’s Speyside combined heat and power (CHP) plant was a particular highlight.

We have reported our emissions in line with the Greenhouse Gas Protocol Corporate Standard. This document reports Scope 1 and 2 emissions from our operations as well as the majority of Scope 3 emissions from business travel in line with the Streamlined Energy and Carbon Reporting requirements (SECR). Our wider Scope 3 emissions include agriculture, packaging and other indirect emissions sources. We aim to report voluntarily on these in future years, and also to work with our supply chain to take action to reduce these emissions.

We also calculated our intensity metric against the litres of spirit we produce. We currently produce 1.6 kg of CO<sub>2e</sub> per litre of spirit produced.

Our Scottish distilleries are 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. In addition, we sourced 30% of our energy requirements in 2019 from renewable sources in the UK, significantly ahead of Scottish Government targets.

To support our objective of becoming carbon neutral for the greenhouse gas emissions we are directly responsible for, we aim to lock up any balance through ecological habitat creation and conservation predominantly in Scotland, capturing and storing carbon that would otherwise be emitted to the atmosphere. In addition to the offset of carbon emissions, this approach will help protect wildlife, preserve or expand open space, and restore biological communities.

**3. Protecting Water Resources**

*We will use water carefully and, in water scarce areas, we will work with our suppliers and others to help them save more water than we use.*

**KPI - Net water used in our operations in Scotland and the Dominican Republic in water scarce areas. [2019: 828m litres]**

Water is an essential ingredient in all of our products. Our sustainability strategy focusses on cutting water use in the Dominican Republic (DR) as this is our key production location that is forecast to experience water shortages. Our ambition



## Corporate Sustainability and Responsibility (continued)

is to cut water use in our production and bottling facilities on the island and to then work with our supply chain and others to help them cut water use by 2030.

Managing water use in Scotland is also important. Our malt whisky distilleries are on track to meet the SWA's 2020 target of improving distilling water efficiency by 10% and our regulator, The Scottish Environmental Protection Agency (SEPA), most recently rated all of our distilleries sites as 'Excellent,' including for water consumption. Full details are available by searching for our distilleries at SEPA's website.

We will develop a full plan for delivery of our water objectives in 2020, together with a programme to measure and report consumption accurately across our global operations.

### 4. Great People

*We will cultivate an inclusive environment where all employees can be themselves and are motivated to give their best.*

#### KPIs:

- > **Employee engagement in top quartile of companies**
- > **33% of senior leaders will be female by 2022**
- > **Minimum of 50% female candidates at first round interview for every recruitment**

We are proud to give careers to 3,500 people in Edrington, 70% of whom are based outside Scotland. Our aim is to provide a fully inclusive and engaging place to work where every colleague can contribute to Edrington's success. In order to achieve this, we have introduced progressive initiatives and policies focussing on engagement, wellbeing, diversity and inclusion as well as rewarding our great people fairly and encouraging them to develop and grow their careers.

#### Wellbeing

In early 2019/20 we launched Edrington's Wellbeing Framework to all employees. Our new framework focussing on three key areas: *Mind, Body and Lifestyle*, was developed to connect and co-ordinate existing activities across Edrington, and to help us introduce new initiatives globally and regionally. We delivered a number of activities under each of these headings over the course of the past year.

#### Employee Engagement

We were pleased with an employee engagement score of 73% earlier this year which is a significant increase from 68% in 2018. While this is just below 76%, which is deemed top quartile, it is an excellent result and evidence that our continued action plans are having a positive impact. The areas we particularly focussed on after the last survey were around leadership and communication, both of which have improved significantly. In addition, our China team was awarded the prestigious "Best Employer" certification by our survey provider Kincentric as they scored top quartile in engagement, agility, and talent focus.

With a participation rate of 87% we are confident that we have received feedback from the vast majority of employees, and we remain committed to working with all teams to further analyse the results and put actionable plans in place.

#### Diversity & Inclusion

As with many organisations, we have work to do to ensure we foster a diverse and inclusive culture that enables diversity of thought.

In recent years we have focussed on gender diversity and on our commitment of narrowing the gender pay gap. We have made further progress last year in terms of our gender pay gap in the UK. Our mean gender pay gap of 15.3% represents a decrease of 12.8% (2018: 28.1%) and the median pay gap of 10.4% represents a decrease of 4.1% (2018: 14.5%). We are not yet where we want to be, but we are confident we have the right measures and actions in place to continue to narrow our gender pay gap. For example, in February 2020 we announced our new Modern Family Leave policy that will provide 26 weeks' fully paid family leave to all new parents. All permanent Edrington employees, both women and men, with more than one year of service whose child is born, adopted or fostered will be entitled to this new benefit. This is a greatly enhanced offering particularly for our international locations.

We also put targets in place measuring our male to female ratio at first round interviews for every recruitment with an aim to have at least 50% candidates being female. While some areas achieve this, our overall number is around 35% and we will continue to focus on improving this. We also committed to having 33% female leaders (defined as pay grade 19+) by 2022 and we are confident that we have the right plan to help us achieve this.

We continue to encourage our employee diversity and inclusion network, the Balance group, which is sponsored by our CEO, to drive our D&I agenda and it has made great progress in driving up engagement across the business. The business has also started to broaden the agenda to include ethnicity and age in the wider efforts.



## Corporate Sustainability and Responsibility (continued)

### 5. Giving More

*We will continue our positive contribution to society and the communities that we live and work in, with Giving More at the centre of everything we do.*

#### KPIs:

- > **Total Giving More donations**
- > **Two volunteer days on average used per employee per year**
- > **Global Giving More communication four times per year**

The value of giving is woven into the history and fabric of our business in a way that is unique in our industry. This ethos was inherited from our principal shareholder – The Robertson Trust – Scotland’s largest independent grant-making trust. Since 1961, through the dividends received from Edrington, The Trust has donated £283m to a variety of causes. Last year alone, to help deliver its vision of a fair and compassionate Scotland where everyone is valued and able to flourish, The Trust gave £20m to charitable organisations and supported talented young people facing barriers to education.

In the UK, Edrington and The Robertson Trust continue doing good together – both matching the charitable fundraising of employees. Thanks to this support, £1 raised for charity by an Edrington employee in the UK becomes £3 after additional contributions from The Robertson Trust and Edrington. In 2019/20 the total raised and donated by Edrington employees to causes in Scotland was £697,700 (2018/19: £674,000).

The value of giving that lies at the core of Edrington’s company history is something that every employee cherishes and is proud of. As Edrington has grown internationally, we have encouraged our people to contribute to the wellbeing of the communities in which they live and work. Across our office locations, employees are supported in making a real difference by championing causes they feel passionate about. To do this, Edrington sets aside 1% of pre-tax earnings each year for charitable giving by its employees worldwide, with their fundraising efforts being double matched. Last year Edrington empowered its people across the world to make donations valued at £2m, bringing the total raised and donated by Edrington’s international employees to £11.7m since 2012.

At Edrington, we see participation in Giving More as a key ingredient of a healthy lifestyle and staying true to our heritage. A healthy lifestyle is as much about getting involved and contributing to the health and wellbeing of our societies

as it is about personal wellbeing. That is why in 2019/20 we increased the volunteering days from three to four days’ paid leave to encourage employees to volunteer in their communities. Our staff are encouraged to make use of these days to give back and support inspirational causes.

### 6. Working with our suppliers

*We will work with our suppliers so every key raw material we buy meets an independent standard for social and environmental performance and we understand and address our key climate change risks.*

**KPI - % of suppliers who have an independent standard for social and environmental performance [measurement to be developed in 2020]**

From the barley we use in our Scotch Whisky brands to the casks in which our spirits mature, a strong supply chain is essential to Edrington’s success. Many of our suppliers have worked with Edrington for decades. Our strategy seeks to build on this continuity and to work with our partners to ensure that every key product we source for our brands meets an independent standard for social and environmental performance. With our business grounded in nature and the natural environment we also want to make sure that our crops and our products are resilient for the future.

Our Scotch Whisky brands are on track to meet the Scotch Whisky Association target of increasing the recycled content of packaging to more than 40%. In 2019 the recycled content in our packaging was 39%.

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. Edrington uses predominantly clear glass to allow consumers to see the natural colour of its malt whiskies. As a result of the strength of our super premium portfolio Edrington is not currently on track to meet the SWA’s target of reducing packaging weight by 10% by 2020.

We 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 2020.

### Results for the year

The Company's financial results, which are detailed in the income statement, cover the year to 31 March 2020.

Dividends for the year amounted to 12.4p (2019: 41.7p). An interim dividend of 12.4p (2019: 12.2p) per share was paid on 8 November 2019. The directors agreed that in the current uncertain circumstances there is a need to conserve cash and therefore no final dividend will be paid in July 2020 (2019: 29.5p). The aggregate dividends recognised in the year amounted to £25.3m (2019: £24.9m).

Revenue (pre-exceptional) for the year amounted to £780.2m (2019: £730.9m) resulting in a profit before tax (pre-exceptional) of £222.4m (2019: £201.6m) and overall profit for the financial year (pre-exceptional) of £173.8m (2019: £167.3m). Exceptional items totalling (£2.6m) (2019: £67.1m) (after taxation and minority interest) were incurred, leading to a profit for the year, attributable to Edrington shareholders, of £87.7m (2019: £158.7m).

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.



## Directors' Report (continued)

The ShareReward Scheme allows Edrington 'B' Ordinary Shares to be awarded annually to eligible employees of the 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 2020.

### Executive incentive plans

An Annual Incentive Plan rewards executive directors and senior executives based on the Company's finance results and the executives' individual performance against business objectives.

The Annual Incentive Plan was fully triggered in respect of the year to 31 March 2020 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 a cash incentive. 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 fully triggered in respect of the three year period ended 31 March 2020.

### Disabled employees

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

### Employee Engagement

A summary of how the Company engages with its employees is detailed within the "Stakeholder Engagement" section within the Corporate Governance report.

### Business Relationships

Fostering business relationships with our suppliers, customers and lenders is key to the success of the business. Further details of our engagement with our business partners is detailed within the "Stakeholder Engagement" section within the Corporate Governance report.

### Corporate Governance

The group has adopted and is complying with the Wates Principles which apply to financial years beginning on or after 1 January 2019. Further detail on the compliance with each of the principles is detailed within the "Corporate Governance" report on pages 20-23.

### Going Concern

The Company has carried out assessments of the future trading performance and cash flows with sensitivities completed to reflect the current uncertain environment and is discussed on pages 14-16 of the Strategic Report. The results of these assessments were reviewed considering the financial position of the Group at 31 March 2020, the cost and cash mitigation measures available to it, and the access to ongoing funding facilities. Based on these assessments the Board and directors have a reasonable expectation that the Group will be able to meet its financial obligations for the foreseeable future and have adequate resources to continue to operate for at least 12 months from the date of this annual report. The directors therefore consider it appropriate to adopt the going concern basis in preparing these financial statements.

### Auditors

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

Approved and signed on behalf of the board

**Martin Cooke**

Group Company Secretary

18 June 2020



# Independent Auditor's Report

to the members of The Edrington Group Limited  
for the year ended 31 March 2020

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

In our opinion:

- > the financial statements of The Edrington Group Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's profit for the year then ended;
- > the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- > the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- > the consolidated income statement;
- > the consolidated statement of comprehensive income;
- > the consolidated and parent company balance sheets;
- > the consolidated and parent company statements of changes in equity;
- > the consolidated cash flow statement;
- > the statement of accounting policies; and
- > the related notes 1 to 37.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further

described in the auditor's responsibilities for the audit of the financial statements section of our report.

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

### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- > the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

### 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 in respect of these matters.



## Independent Auditor's Report (continued)

### Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the 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 is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

#### Opinions on other matters prescribed by the Companies Act 2006

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

- > the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- > the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

### Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- > adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- > the parent company financial statements are not in agreement with the accounting records and returns; or
- > certain disclosures of directors' remuneration specified by law are not made; or
- > we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Colin Gibson CA**

(Senior statutory auditor)

For and on behalf of Deloitte LLP  
Statutory Auditor  
Glasgow, United Kingdom

18 June 2020



# Group Consolidated Income Statement

year ended 31 March 2020

	Note	Pre- Exceptional 2020 £m	Exceptional (Note 2) 2020 £m	Total* 2020 £m	Restated Pre- Exceptional (Note 37) 2019 £m	Exceptional (Note 2) 2019 £m	Restated Total* (Note 37) 2019 £m
<b>Revenue</b>	<b>1</b>	<b>780.2</b>	<b>12.0</b>	<b>792.2</b>	730.9	-	730.9
Cost of sales		(518.6)	0.1	(518.5)	(497.5)	-	(497.5)
<b>Gross profit</b>		<b>261.6</b>	<b>12.1</b>	<b>273.7</b>	233.4	-	233.4
Other administration costs		(22.0)	(3.7)	(25.7)	(19.7)	(5.0)	(24.7)
<b>Group operating profit</b>		<b>239.6</b>	<b>8.4</b>	<b>248.0</b>	213.7	(5.0)	208.7
Share of profit in Joint Ventures	12	6.9	-	6.9	8.7	-	8.7
(Cost)/ Income from other investments	3	(0.5)	(9.4)	(9.9)	0.8	-	0.8
Gain on sale of investment		-	5.9	5.9	-	-	-
<b>Earnings before interest and tax</b>		<b>246.0</b>	<b>4.9</b>	<b>250.9</b>	223.2	(5.0)	218.2
Finance income	4	5.0	-	5.0	4.0	-	4.0
Finance costs	4	(26.1)	(0.3)	(26.4)	(22.9)	-	(22.9)
Other finance costs	4	(2.5)	-	(2.5)	(2.7)	-	(2.7)
<b>Profit before taxation</b>	<b>5</b>	<b>222.4</b>	<b>4.6</b>	<b>227.0</b>	201.6	(5.0)	196.6
Taxation	7	(48.6)	(2.5)	(51.1)	(37.9)	0.4	(37.5)
<b>Profit for the year from continuing operations</b>		<b>173.8</b>	<b>2.1</b>	<b>175.9</b>	163.7	(4.6)	159.1
Profit for the year from discontinued operations	34	-	-	-	3.6	77.0	80.6
<b>Profit for the financial year</b>		<b>173.8</b>	<b>2.1</b>	<b>175.9</b>	167.3	72.4	239.7
Attributable to non-controlling interests		(83.5)	(4.7)	(88.2)	(75.7)	(5.3)	(81.0)
<b>Profit for the financial year attributable to owner</b>		<b>90.3</b>	<b>(2.6)</b>	<b>87.7</b>	91.6	67.1	158.7

All the activities of the Group are classed as continuing other than those identified in note 34.

The notes and accounting policies on pages 48 to 104 form an integral part of these financial statements.

\* IFRS 16 was adopted on 1 April 2019 without restating prior year figures. As a result of this the primary statements are shown on an IFRS 16 basis for 2020 and an IAS17 basis for 2019. Note 35 provides a reconciliation of the two measures.



# Group Statement of Comprehensive Income

year ended 31 March 2020

	2020 £m	2019 £m
Profit for the year attributable to owner	87.7	158.7
Profit for the year attributable to non-controlling interests	88.2	81.0
	<b>175.9</b>	<b>239.7</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Actuarial gain/(loss) on pension schemes net of non-controlling interests		
Group	22.7	11.0
Associates and joint ventures	10.3	7.3
Non-controlling interests	8.9	3.6
Movement in deferred tax on pension schemes		
Group	(4.1)	(1.4)
Associates and joint ventures	(2.0)	(1.2)
Non-controlling interests	(1.3)	(1.1)
Pension fees paid direct to Pension Fund	(0.2)	(0.2)
Revaluation reserve movement	0.2	0.2
Movement in financial instruments taken straight to reserves		
Group	0.1	2.5
Non-controlling interests	(0.1)	(2.5)
Cash flow hedge reserve movement	-	(1.2)
Cost of hedging reserve movement	(0.3)	0.5
Capital gains tax on sale of shares by the Employee Benefit Trust	(2.7)	-
<b>Items that will be or have been reclassified to profit or loss</b>		
Exchange differences on foreign operations		
Group	(0.2)	(11.3)
Associates and joint ventures	(1.2)	(1.4)
Non-controlling interests	(1.6)	(7.1)
Exchange difference on foreign dividend	(1.5)	(1.4)
Movement on deferred tax taken straight to reserves		
Group	(2.1)	(2.9)
Non-controlling interests	1.3	(0.7)
Share based payment movements	(0.9)	(0.3)
Non-controlling interest share of Share based payment movements	(0.2)	(0.2)
Cash flow hedge reserve movement	5.3	(3.8)
Cash flow hedge amounts recycled	0.2	-
Other comprehensive income/(loss) attributable to parent	23.6	(18.8)
Other comprehensive income/(loss) attributable to non-controlling interest	7.0	(5.1)
<b>Total other comprehensive income/(loss) for the year</b>	<b>30.6</b>	<b>(23.9)</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>206.5</b>	<b>215.8</b>
<b>Attributable to parent</b>	<b>111.3</b>	<b>139.9</b>
<b>Attributable to non-controlling interest</b>	<b>95.2</b>	<b>75.9</b>
<b>Total</b>	<b>206.5</b>	<b>215.8</b>

The notes and accounting policies on pages 48 to 104 form an integral part of these financial statements.



# Statement of Financial Position

as at 31 March 2020

	Note	Company		Group	
		2020 £m	2019 £m	2020 £m	2019 £m
<b>Non-current assets</b>					
Intangible assets	9	-	-	407.5	404.4
Property, plant and equipment	10	-	-	550.5	524.5
Right-of-use assets	11	-	-	26.4	-
Investment in subsidiary undertakings	12	318.4	316.8	-	-
Investment in joint ventures	12	-	-	70.3	62.5
Investments in other interests	12	-	-	14.3	22.3
Derivative financial instruments	20	-	-	41.1	27.6
Deferred tax asset	21	-	-	40.1	35.1
Pension and other employment assets	27	-	-	48.1	2.1
<b>Non-current assets</b>		<b>318.4</b>	316.8	<b>1,198.3</b>	1,078.5
<b>Current assets</b>					
Inventories	13	-	-	619.4	567.1
Trade and other receivables	15	3.3	0.2	170.5	175.6
Assets held for sale	14	-	-	0.8	1.0
Derivative financial instruments	20	-	-	-	0.6
Cash and liquid resources		57.9	28.3	268.8	158.4
Current tax asset	15	-	0.2	9.7	3.8
<b>Current assets</b>		<b>61.2</b>	28.7	<b>1,069.2</b>	906.5
<b>Total assets</b>		<b>379.6</b>	345.5	<b>2,267.5</b>	1,985.0

The notes and accounting policies on pages 48 to 104 form an integral part of these financial statements.



Statement of Financial Position (continued)

	Note	Company 2020 £m	2019 £m	Group 2020 £m	2019 £m
<b>Equity and liabilities</b>					
<b>Equity</b>					
Share capital	22	6.3	6.3	6.3	6.3
Share premium		0.5	0.5	0.5	0.5
Merger reserve		-	-	29.5	29.5
Capital reserve		-	-	35.8	35.8
Capital redemption reserve		1.3	1.3	1.3	1.3
Revaluation reserve		-	-	6.5	6.7
Liability for share based payments		4.6	3.3	4.6	3.3
Retained earnings		256.5	255.5	571.4	463.2
Cash flow hedge reserve	24	-	-	(3.8)	(9.3)
Cost of hedging reserve	24	-	-	0.1	0.4
Equity attributable to owners of the parent		269.2	266.9	652.2	537.7
Non-controlling interests	12	-	-	453.7	391.1
<b>Equity</b>		<b>269.2</b>	266.9	<b>1,105.9</b>	928.8
<i>Non-current liabilities</i>					
Borrowings	17	29.8	-	675.5	558.1
Lease liabilities	31	-	-	24.1	-
Deferred tax liabilities	21	3.0	3.4	150.0	120.3
Derivative financial instruments	20	-	-	1.9	3.1
Other liabilities	16	-	-	0.4	-
Deferred consideration	16	-	-	-	13.0
<b>Non-current liabilities</b>		<b>32.8</b>	3.4	<b>851.9</b>	694.5
<i>Current liabilities</i>					
Trade and other payables	16	73.9	75.1	72.5	58.3
Borrowings	17	-	-	45.9	67.9
Lease liabilities	31	-	-	6.2	-
Derivative financial instruments	20	-	-	10.5	3.7
Current tax liabilities	16	-	-	15.9	48.3
Other liabilities	16	3.7	0.1	158.7	183.5
<b>Current liabilities</b>		<b>77.6</b>	75.2	<b>309.7</b>	361.7
<b>Total liabilities</b>		<b>110.4</b>	78.6	<b>1,161.6</b>	1,056.2
<b>Total equity and liabilities</b>		<b>379.6</b>	345.5	<b>2,267.5</b>	1,985.0

In the year to 31 March 2020, The Edrington Group Company made a profit of £27.5m (2019: £50.8m).

The notes and accounting policies on pages 48 to 104 form an integral part of these financial statements.

The consolidated financial statements of The Edrington Group Limited (registered number SC036374) were approved by the Board of Directors and signed on behalf of the Board:

**S McCroskie**  
Director  
18 June 2020

**P A Hyde**  
Director  
18 June 2020



## Consolidated Statement of Changes in Equity

year ended 31 March 2020

Group	Share capital £m	Share premium £m	Merger reserve £m	Capital reserve £m	Capital redemption reserve £m	Revaluation reserve £m	Liability for share based payments £m	Retained earnings £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Total attributable to owners of parent £m	Non-controlling interests £m	Total equity £m
<b>Balance at 1 April 2019</b>	6.3	0.5	29.5	35.8	1.3	6.7	3.3	463.2	(9.3)	0.4	537.7	391.1	928.8
Effect of the adoption of IFRS 16 and IFRIC 23	-	-	-	-	-	-	-	(0.8)	-	-	(0.8)	(0.1)	(0.9)
Adjusted balance at 1 April 2019	6.3	0.5	29.5	35.8	1.3	6.7	3.3	462.4	(9.3)	0.4	536.9	391.0	927.9
Dividends (note 8)	-	-	-	-	-	-	-	(25.3)	-	-	(25.3)	(32.5)	(57.8)
Share based payments (note 26)	-	-	-	-	-	-	1.3	-	-	-	1.3	-	1.3
Disposal of shares	-	-	-	-	-	-	-	28.2	-	-	28.2	-	28.2
<b>Transaction with owners</b>	-	-	-	-	-	-	1.3	2.9	-	-	4.2	(32.5)	(28.3)
Profit for the year	-	-	-	-	-	-	-	87.7	-	-	87.7	88.2	175.9
Other comprehensive income	-	-	-	-	-	-	-	18.4	-	-	18.4	7.0	25.4
Cash flow hedge reserve (note 24)	-	-	-	-	-	-	-	-	5.5	(0.3)	5.2	-	5.2
Revaluation reserve	-	-	-	-	-	(0.2)	-	-	-	-	(0.2)	-	(0.2)
<b>Total comprehensive income for the year</b>	-	-	-	-	-	(0.2)	-	106.1	5.5	(0.3)	111.1	95.2	206.3
<b>Balance at 31 March 2020</b>	<b>6.3</b>	<b>0.5</b>	<b>29.5</b>	<b>35.8</b>	<b>1.3</b>	<b>6.5</b>	<b>4.6</b>	<b>571.4</b>	<b>(3.8)</b>	<b>0.1</b>	<b>652.2</b>	<b>453.7</b>	<b>1,105.9</b>
<b>Balance at 1 April 2018</b>	6.3	0.5	29.5	35.8	1.3	6.9	3.7	349.9	(4.3)	(0.1)	429.5	351.1	780.6
Dividends (note 8)	-	-	-	-	-	-	-	(24.9)	-	-	(24.9)	(35.9)	(60.8)
Issue of share capital under share-based payment (note 26)	-	-	-	-	-	-	(0.4)	-	-	-	(0.4)	-	(0.4)
Buy back of shares	-	-	-	-	-	-	-	(6.2)	-	-	(6.2)	-	(6.2)
<b>Transaction with owners</b>	-	-	-	-	-	-	(0.4)	(31.1)	-	-	(31.5)	(35.9)	(67.4)
Profit for the year	-	-	-	-	-	-	-	158.7	-	-	158.7	81.0	239.7
Other comprehensive income	-	-	-	-	-	-	-	(14.3)	-	-	(14.3)	(5.1)	(19.4)
Cash flow hedge reserve (note 24)	-	-	-	-	-	-	-	-	(3.8)	0.5	(3.3)	-	(3.3)
Amounts reclassified from cash flow hedge reserve to fixed assets	-	-	-	-	-	-	-	-	(1.2)	-	(1.2)	-	(1.2)
Revaluation reserve	-	-	-	-	-	(0.2)	-	-	-	-	(0.2)	-	(0.2)
<b>Total comprehensive income for the year</b>	-	-	-	-	-	(0.2)	-	144.4	(5.0)	0.5	139.7	75.9	215.6
<b>Balance at 31 March 2019</b>	<b>6.3</b>	<b>0.5</b>	<b>29.5</b>	<b>35.8</b>	<b>1.3</b>	<b>6.7</b>	<b>3.3</b>	<b>463.2</b>	<b>(9.3)</b>	<b>0.4</b>	<b>537.7</b>	<b>391.1</b>	<b>928.8</b>

The notes and accounting policies on pages 48 to 104 form an integral part of these financial statements.



# Company Statement of Changes in Equity

year ended 31 March 2020

Company	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Liability for share based payments £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
<b>Balance at 1 April 2019</b>		6.3	0.5	1.3	3.3	-	255.5	266.9
Dividends	8	-	-	-	-	-	(26.5)	(26.5)
Share based payments	26	-	-	-	1.3	-	-	1.3
<b>Transactions with owners</b>		-	-	-	1.3	-	(26.5)	(25.2)
Profit for the period		-	-	-	-	-	27.5	27.5
<b>Total comprehensive income for the year</b>		-	-	-	-	-	27.5	27.5
<b>Balance at 31 March 2020</b>		<b>6.3</b>	<b>0.5</b>	<b>1.3</b>	<b>4.6</b>	<b>-</b>	<b>256.5</b>	<b>269.2</b>
	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Liability for share based payments £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
<b>Balance at 1 April 2018</b>		6.3	0.5	1.3	3.7	(0.1)	234.1	245.8
Dividends	8	-	-	-	-	-	(26.1)	(26.1)
Own shares acquired in the period		-	-	-	(0.4)	-	-	(0.4)
Buy back and cancellation of shares		-	-	-	-	-	(3.3)	(3.3)
<b>Transactions with owners</b>		-	-	-	(0.4)	-	(29.4)	(29.8)
Profit for the period		-	-	-	-	-	50.8	50.8
Cash flow hedge reserve	24	-	-	-	-	0.1	-	0.1
<b>Total comprehensive income for the year</b>		-	-	-	-	0.1	50.8	50.9
<b>Balance at 31 March 2019</b>		<b>6.3</b>	<b>0.5</b>	<b>1.3</b>	<b>3.3</b>	<b>-</b>	<b>255.5</b>	<b>266.9</b>

The notes and accounting policies on pages 48 to 104 form an integral part of these financial statements.



# Group Cash Flow Statement

year ended 31 March 2020

	2020 £m	2019 £m
<b>Operating activities</b>		
Operating profit	248.0	208.7
Adjustments for:		
Depreciation	24.4	19.5
Amortisation of intangible assets	3.1	4.6
Gain on sale of fixed assets	0.6	1.0
Other non-cash movements	0.9	-
<b>Operating cash flows before movements in working capital</b>	<b>277.0</b>	<b>233.8</b>
Increase in inventories	(37.2)	(51.8)
Decrease in receivables	7.2	0.2
(Decrease)/increase in payables	(30.3)	6.7
Employer pension contributions paid	(13.5)	(14.4)
Other non-cash movements	5.6	1.6
<b>Cash generated by operations</b>	<b>208.8</b>	<b>176.1</b>
Tax on profit paid	(60.7)	(28.8)
<b>Net cash from operating activities</b>	<b>148.1</b>	<b>147.3</b>
<b>Investing activities</b>		
Dividends received	0.2	0.2
Dividends received from joint ventures undertakings	5.6	5.6
Purchase of property, plant and equipment	(70.4)	(68.8)
Purchase of intangible assets	(2.7)	(4.0)
Sale of property, plant and equipment	5.4	8.5
Sale of intangible assets	0.2	-
Disposal of investment	0.1	119.7
Net cash transfer on disposal	-	(0.2)
Investment in associates and joint ventures	-	(10.5)
Acquisition of subsidiary	(5.0)	-
<b>Net cash (used in)/generated from investing activities</b>	<b>(66.6)</b>	<b>50.5</b>
<b>Financing activities</b>		
Interest paid	(25.5)	(23.9)
Interest received	5.0	4.0
Sale of own shares	25.0	-
Net proceeds from EBT share transactions	3.1	(6.2)
Repayment of lease liabilities	(6.6)	-
Equity dividends paid	(25.3)	(24.9)
Dividends paid to non-controlling interests in subsidiaries	(32.5)	(35.9)
Drawdown of private placement debt	-	220.0
Repayment of private placement debt	-	(47.3)
Drawdown of revolving credit facilities	186.0	-
Repayment of revolving credit facilities	(115.0)	-
Drawdown of other loans	1.8	-
Repayment of other loans	(3.1)	-
Repayment of bank loans	-	(282.1)
<b>Net cash generated from/(used in) financing activities</b>	<b>12.9</b>	<b>(196.3)</b>
<b>Net increase in cash and liquid resources</b>	<b>94.4</b>	<b>1.5</b>
<b>Cash and liquid resources at beginning of year</b>	<b>152.2</b>	<b>149.1</b>
Effect of foreign exchange rate changes	0.6	1.6
<b>Cash and liquid resources at end of year (note 25)</b>	<b>247.2</b>	<b>152.2</b>

The notes and accounting policies on pages 48 to 104 form an integral part of these financial statements.



## Accounting Policies

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

### Basis of preparation

The Edrington Group Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in Scotland. The address of the Company's registered office is shown on page 4.

The principle activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the strategy report on pages 5-19.

These financial statements, which are presented in Sterling, have been prepared on the going concern basis, under the historical cost convention, with except of financial instruments that are measured at revalued amounts or fair value at the end of each reporting period, as explained in the accounting policies below and in accordance with the Companies Act 2006, with the Group reporting under IFRS and Company reporting under FRS101. All values are to the nearest £m except where otherwise stated.

The Group financial statements consolidate the financial statements of the Company, its subsidiary undertakings, joint ventures and associates.

Subsidiary undertakings are entities in which the Group has a controlling interest.

Control is achieved when the Company:

- > has the power over the investee;
- > is exposed, or has rights, to variable return from its involvement with the investee; and
- > has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Joint venture undertakings are entities in which the Group holds an interest on a long term basis and which are jointly controlled by the Group, with one or more ventures, under a contractual agreement. To the extent that they are material, the Group financial statements include the appropriate share of their results and reserves. In the Group financial statements, joint ventures are accounted for using the gross equity method.

The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated income

statement from the date the Company gains control until the date when the Company ceases to control the subsidiary. Where the Group acquires a controlling interest in an existing joint venture undertaking, goodwill arising is calculated on a piecemeal basis. For each tranche of shares acquired, the cost of that tranche is compared with the related share of net assets at fair value at the date of acquisition. This treatment of goodwill on a piecemeal basis is permitted by IFRS 3: Business Combinations, and in the opinion of the directors gives a true and fair view of the separate transactions. This is a departure from the requirements of the Companies Act 2006 which requires identifiable assets and liabilities of the undertaking acquired to be included in the consolidated balance sheet at their fair value at the date of acquisition.

### Adoption of new and revised standards

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

- > IFRS 9 (amendments) Prepayment Features with Negative Compensation;
- > IFRS 17 Insurance Contracts;
- > IAS 19 (amendments) Plan Amendment, Curtailment or Settlement;
- > Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs; and
- > IFRS 9 and IAS 39 (amendments) Interest rate benchmark reform.

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

**IFRS 16 Leases** (effective periods beginning after 1 January 2019).

In the current year, the Group, for the first time, has applied IFRS 16 Leases (as issued by the IASB in January 2016). The financial impact of the initial application is discussed further in note 35 with reconciliations of the Income Statement, Statement of Financial Position and Cashflow.

IFRS 16 introduces new or amended requirements with respect to lease accounting. As a result, the Group as a lessee has recognised a right of use asset representing its right to



## Accounting Policies (continued)

use the underlying asset and a lease liability representing its obligation to make lease payments. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Group's consolidated financial statement is described below with further details of the new requirements and the financial impact of these on the Group described in note 35.

The Group has implemented IFRS 16 from 1 April 2019 and has chosen to use the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2019. Accordingly, the comparative information for 2019 has not been restated.

### *Impact of the new definition of a lease*

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess where a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 14 will continue to be applied to those leases entered into or modified before 1 April 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 April 2019 (whether it is a lessor or lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

### *Impact on Lessee Accounting*

#### *Former operating leases*

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- > Recognises a right-of-use asset and a lease liability in the consolidated statement of financial position at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses.

Depreciation is recognised on a straight line basis over the period of the lease the right of use asset is expected to be utilised. The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease or when this is not readily attainable the Group's incremental borrowing rate (IBR). Generally the Group uses its incremental borrowing rate as the discount rate;

- > Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement; and
- > Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated income statement.

The Group's weighted average IBR applied to lease liabilities at the application date is 2.65%. Operating lease commitments previously disclosed under IAS 17 totalled £25.6m, compared to £31.8m of lease liabilities recognised at initial application of IFRS16.

Lease incentives (e.g. free rent periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in a recognition of lease incentive liabilities, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

The Group has elected to account for short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers or office furniture), using the practical expedients permitted by IFRS 16, recognising a lease expense on a straight-line basis.

#### *Former finance leases*

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated income statement.



## Accounting Policies (continued)

### *Impact on Lessor Accounting*

The Group has not identified any circumstances in which under IFRS 16 it would have a lessor arrangement and as such this does not have a material effect on the Group's consolidated income statement.

### **IFRIC 23**

During the year the group adopted IFRIC 23 uncertainty over income tax treatments for the period beginning 1 April 2019. The interpretation clarifies the application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatment. The Group has reviewed its income tax treatment and applied the recommended two-step methodology in terms of recognition and measurement of liabilities for uncertain tax positions. The group has adopted the interpretation using a modified retrospective approach. The reassessment of current and deferred taxes in accordance with IFRIC 23 resulted in an increase of £0.5m in retained earnings at transition due to a decrease in the income tax payable of £2.0m.

### **IFRS 9 (amendments interest rate benchmark reform)**

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

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

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

- > The Group has floating rate bank debt, linked to GBP LIBOR, which it cash flow hedges using interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.

- > The Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

The Group has chosen to early apply the amendments to IFRS 9/IAS 39 for the reporting period ending 31 March 2020, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

### **Disclosure exemptions adopted**

In preparing these financial statements the Company has taken advantage of certain disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- > a statement of cash flows and related notes;
- > the requirement of IAS 24 related party disclosures to disclose related party transactions entered into between two or more members of The Edrington Group as they are wholly-owned within The Edrington Group;
- > disclosure of key management personnel compensation;
- > capital management disclosures;
- > certain share based payments disclosures;
- > business combination disclosures; and
- > disclosures in respect of financial instruments.

### **Going Concern**

A full assessment of the appropriateness of the going concern method of preparation has been included in the Strategic Report. Edrington 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.



## Accounting Policies (continued)

### Foreign currencies

The Company's functional currency is Sterling.

While the Group's presentational currency in its consolidated financial statements is Sterling, it conducts business in many currencies. As a result it is subject to foreign currency risk due to exchange rate movements which will affect the Group's transactions and translation of the results and underlying net assets of its operations.

Transactions in foreign currencies are translated at the spot rate at the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at each balance sheet date, with exchange gains and losses recognised in the consolidated income statement.

### Foreign operations

Trading results denominated in foreign currency are translated into Sterling at average rates of exchange during the year. Assets and liabilities are translated at the rates of exchange ruling at the year-end except where rates of exchange are fixed under contractual arrangements. Differences on exchange arising from the retranslation of the opening net assets of foreign subsidiaries denominated in foreign currency are taken to reserves together with the differences between the income statements translated at average rates and rates ruling at the year-end.

### Revenue Recognition

Revenue comprises the sale of goods, royalties and rents receivable from contracts with customers. Revenue is measured at the fair value of consideration received or receivable, excluding sales tax, and reduced by any rebates and trade discounts allowed. The sale of goods are recognised depending upon individual customer terms based on the point at which the transfer of control is deemed to have been made. For most customers this is the point at which the goods are transported onto the ship for delivery but it can differ for some customers. Revenue is recognised to the extent that it is highly probable that a material reversal will not occur and at the value the Group expects to be entitled.

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

### Exceptional items

Exceptional items are those that, in management's judgement, need to be disclosed by virtue of their size or incidence. These items are included within the income statement caption to which they relate, and are separately disclosed in the notes to the accounts, and on the face of the consolidated income statement.

### Leases

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

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

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

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

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

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using



## Accounting Policies (continued)

the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

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

- > The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- > The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- > A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

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

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

Whenever the Group incurs an obligation for costs to dismantle and remove a lease asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

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

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

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

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

### Property, plant and equipment and depreciation

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

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

Buildings	2% to 5%
Plant, vehicles, equipment	5% to 33%
Casks	5% to 15%

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

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

### Intangible assets

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

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

The assumptions used in the annual impairment reviews are included in note 9.

Software system costs are stated at historical cost net of amortisation. Amortisation is charged on a straight line basis over a 10 year period.



## Accounting Policies (continued)

### Investments

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

An associate is an undertaking in which the Group has a long term equity interest and over which it has the power to exercise significant influence. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group's interest in the net assets of associates and joint ventures is reported in investments in the consolidated balance sheet and its interest in their results is included in the consolidated income statement.

Investments in associates and joint ventures are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The impairment review compares the net carrying value with the recoverable amount, where the recoverable amount is the higher of the value in use calculated as the present value of the Group's share of the associate's future cash flows and its fair value less costs to sell. Associates and joint ventures are initially recorded at cost including transaction costs.

### Acquisitions

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- > deferred tax assets or liabilities arising on acquisition and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- > 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 are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's

previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the income statement as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts



## Accounting Policies (continued)

and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

### Inventory

Inventory is valued at the lower of cost and net realisable value. Cost is defined as the production cost (including distillery overheads) or purchase price, as appropriate, plus carrying costs such as depreciation, warehousing rent and freight but excluding interest. Net realisable value is based on estimated selling price, less the estimated costs of completion and selling. Provision is made for obsolete and slow-moving items where appropriate.

### Current assets held for sale

Current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate, the investment, or the portion of the investment in the associate that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate.

After the disposal takes place, the Group accounts for any retained interest in the associate in accordance with IFRS 9 unless the retained interest continues to be an associate, in which case the Group uses the equity method (see the accounting policy regarding investments above).

### Operating profit

Operating profit is stated after a goodwill write off or charging restructuring costs but before the share of results of associates, investment income, share of profit after tax in joint venture and finance costs.

### Taxation

Income tax expense comprises current and deferred tax. It is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

#### Current Tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. Taxable income differs from the profit before tax reported in the Group consolidated income statement because of items of income/expense which are taxable/deductible in other years ("temporary differences") and items that are never taxable/deductible ("permanent differences"). Current tax is measured using tax rates enacted or substantively enacted at the reporting date.

#### Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.



## Accounting Policies (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

### Uncertain tax provisions

The Group is required to estimate the corporate tax in each of the many jurisdictions in which it operates. Management is required to estimate the amount that should be recognised as a tax liability or tax asset in many countries which are subject to tax audits which by their nature are often complex and can take several years to resolve. Current tax balances and tax provisions are based on management's judgement and interpretation of country specific tax law and the probability that the tax authority will accept the tax treatment used or planned to be used in the tax filing made.

### Other liabilities

Other liabilities are primarily provisions which are liabilities of uncertain timing or amounts. A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and which will result in an outflow of economic benefit. Provisions are discounted where the effect is materially different to the original undiscounted amount, and represent the directors' best estimate of likely settlement.

### Deferred consideration

Deferred consideration comprises amounts due for assets received. These are measured at amortised cost and the amounts due payable are split between those due within one year and those due out with one year.

### Share based payments

The Edrington Group, issues equity-settled share based payments to certain Group employees (ShareReward Scheme). The fair value at grant date of the shares granted is charged to the Company's income statement over the vesting period with a corresponding credit to 'Share based payments reserve' in the statement of financial position.

In addition, The Edrington Group also provides employees with the ability to save for a three year period to buy Edrington 'B' Ordinary Shares at 80% of the market price (ShareSave Scheme). The fair value of the share options awarded is determined at the grant date and is expensed on a straight line basis over the three year vesting period, based on an estimate of the shares that will ultimately vest.

The fair value of shares and options granted is calculated at grant date using the Black-Scholes model and in accordance with IFRS 2 Share Based Payments.

The parent Company reflects the fair value of the shares issued to subsidiary undertakings to enable them to meet their obligations under the share based payment incentive schemes as an additional investment.

### Financial Instruments

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

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the income statement. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

When the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and contributions relating to equity instruments are debited directly to equity.

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



## Accounting Policies (continued)

### *Amortised Cost*

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

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

### *Financial asset and liabilities at fair value through profit or loss*

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

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and at banks and deposits which are readily convertible to known amounts of cash and have an original maturity of three months or less.

### **Hedge Accounting**

The Group designates derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives, its strategy and at inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effect in offsetting changes

in cash flows of the hedged item attributable to the hedged risk. All derivative designated in a cash flow hedge are designated in their entirety as the hedging instrument, with the exception of the Cross Currency Swaps. In the case of the Cross Currency Swaps, the foreign currency basis risk has been excluded and as such is treated as a cost of hedging.

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

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. Any remaining gain or loss on the hedging instrument is hedge ineffectiveness and is recognised in the income statement. Where the amount that has been accumulated in the cash flow hedge reserve relates to a hedged forecast transaction that subsequently results in the recognition of a non-financial asset or liability, it is removed from cash flow hedge reserve and included in the initial cost of the asset or liability. For hedges that relate to a financial asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the income statement.

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

### **Effective interest rate**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is



## Accounting Policies (continued)

the rate that exactly discounts the estimated future cash receipts, (including all fees and transaction costs) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### Pensions and other post-retirement benefits

Edrington operates two principal pension schemes based on final pensionable salary in addition to a number of schemes based on defined contributions. The assets of the schemes are held separately from those of the Group.

Defined benefit scheme assets are measured at fair value. Scheme liabilities which represent the present value of obligation are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the balance sheet. A net surplus is recognised only to the extent that it is recoverable by the Group.

For defined benefit schemes the amounts charged to operating profit are the gains/losses from settlements and curtailments. These are included as part of staff costs. Past service costs are spread over the period until the benefits vest. Interest on the scheme liabilities and the expected return on the scheme assets are included in other finance costs. Actuarial gains and losses are reported in the statement of comprehensive income.

For defined contribution schemes the amount charged to the income statement in respect of pension costs is the contributions payable in the year. Any differences between contributions payable in the year and the contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

In addition, the Company pays other post retirement discretionary benefits which are accounted for in accordance with IAS 19 Retirement Benefits. In the view of the directors, there is no future legal commitment to pay these benefits. However, a constructive obligation exists as it has been custom and practice to pay them in the past; therefore, the most appropriate treatment is to provide for the full potential liability in the accounts.

### Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported on a net basis only when the Group has a legally enforceable right to set off the amounts and either intends to settle on a net basis, or to realise the asset or liability simultaneously.

### Accounting for The Edrington Group Limited Employee Benefit Trust

The Edrington Group Limited as the sponsoring company of The Edrington Group Limited Employee Benefit Trust recognises the assets and liabilities of the Employee Benefit Trust in the Group's accounts as it has deemed control under the guidance of IFRS 10.

The Group accounts for the Employee Benefit Trust as follows:

- > Until such time as the Company's own shares held by the Employee Benefit Trust vest unconditionally in employees, the consideration paid for the shares is deducted from Consolidated Statement of Changes in Equity.
- > Other assets and liabilities (including borrowings) of the Employee Benefit Trust are recognised as assets and liabilities of the Group.
- > Consideration paid or received for the purchase or sale of the Company's own shares in the Employee Benefit Trust is shown as a separate amount in the Consolidated Statement of Changes in Equity.
- > No gain or loss is recognised in the income statement or statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own shares.
- > Finance costs and any administration expenses are charged as they accrue.
- > Any dividend income arising on own shares is excluded from the income statement.



## Accounting Policies (continued)

### Estimation uncertainty and significant judgements

The key estimation uncertainty and significant judgements applies to valuation of pension assets and liabilities:

#### Pensions and other post-retirement benefits

The Group operates both defined benefit pension schemes providing benefits based on final pensionable earnings, and a defined contribution scheme. The determination of any pension scheme surplus/deficit is based on assumptions determined with independent actuarial advice. The assumptions used include discount rate, inflation, pension increases, salary increases, the expected return on scheme assets and mortality assumptions. Sensitivity analysis has been undertaken on these key assumptions as detailed in note 27.

In addition the following sources of estimation uncertainty had an effect on the carrying value of assets and liabilities:

#### Brand Valuation

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

These assets are reviewed for impairment at least annually or when there is an indication that the asset may be impaired. The impairment reviews compare the carrying value of the brand with its value in use based on discounted future cash flow. The tests are dependent on management's estimates and judgements, in particular in relation to the forecasting of future cash flows, the discount rates applied to those cash flows and the expected long term growth rates. Such estimates and judgements are subject to change as a result of changing economic conditions and actual cash flows may differ from forecasts. Sensitivity analysis is undertaken on these key assumptions as outlined within note 9.

### Valuation of equity acquisition

The Group holds minority equity stakes with a number of key strategic partners. The valuation of each equity stake requires management judgement in both the calculation of future cash flows and the appropriateness of the discount rate used.

The estimates and judgements around future cash flows are subject to change as a result of changing economic conditions and actual cash flows may differ from forecasts. Management have performed sensitivity analysis on the discount rate applied and are satisfied that a change in the rate applied will not result in a material change in the valuation.



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# EDRINGTON

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*The*  
**MACALLAN**

  
**THE FAMOUS  
GROUSE**

**BRUGAL** 

  
**HIGHLAND  
PARK**

**THE  
GLENROTHES**  
ESTD 1879  




  
**TEQUILA  
PARTIDA**



  
**NOBLE OAK**  
DOUBLE OAK BOURBON

Please enjoy our brands responsibly