Financial Review

STATUTORY KEY PERFORMANCE INDICATORS	2022	2021	2020	vs. 2021	vs. 2020
Revenue	**£981.0m**	£625.6m	£792.2m	57%	24%
Earnings before interest and tax	**£296.8m**	£196.7m	£250.9m	51%	18%
Profit before tax	**£275.9m**	£178.4m	£227.0m	55%	22%
Profit for the financial year	**£94.9m**	£81.5m	£87.7m	16%	8%
Total equity	**£1,226.5m**	£1,153.8m	£1,105.9m	6%	11%

MANAGEMENT KEY PERFORMANCE INDICATORS	2022	2021	2020	vs. 2021	vs. 2020
Volume (case equivalents)	**8.6m**	7.6m	8.1m	13%	6%
Presented in constant currency rates:					
Core revenue*	**£821.2m**	£568.0m	£670.6m	45%	22%
Brand investment*	**£170.7m**	£116.9m	£127.3m	46%	34%
Core contribution*	**£295.6m**	£192.8m	£230.8m	53%	28%
Presented in actual currency rates:					
EBITDA	**£321.1m**	£220.9m	£273.5m	45%	17%
Profit before tax (pre-exceptional)	**£270.7m**	£171.3m	£222.4m	58%	22%
Profit for the year (pre-exceptional)	**£91.8m**	£77.6m	£90.3m	18%	2%
Free cash flow*	**£131.4m**	£122.5m	£64.8m	7%	103%
Net debt/EBITDA	**1.1**	1.7	1.5		
Strategic inventories	**£889.7m**	£835.3m	£791.0m	8%	14%

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

Marketing expenditure on our core brands, on a constant currency basis.

Core contribution

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

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 and free cash flow is provided at Note 35 to the accounts.

Group Financial Performance Overview

We faced an unprecedented impact on our results last year and as such we consider comparisons to results before the impact of Covid-19 to be a useful indicator of the underlying performance of the business. This report will therefore show 2019/20 numbers in addition to the customary year-on-year comparisons.

The strength of the rebound in our results this year has surpassed our expectations and has been delivered despite the continuing challenges of Covid restrictions and supply chain interruptions. Our people deserve enormous credit for the part that every one of them have played in delivering these outstanding results.

Our sustained levels of high brand investment, the return of consumers to on-trade settings and the positioning of the majority of our brands in the faster growing ultra-premium category has driven exceptional demand for our brands this year.

Our core revenue grew by 45% and our core contribution by 53% on the previous year but the most important metric is that our core contribution is now 28% higher than our pre-pandemic results for the year to March 2020. This means that our results are now higher than the plan that we set ourselves pre-Covid for the year to March 2022 and we have recovered all of the lost ground from last year.

During the year we returned to normalised levels of distillery production, capital expenditure and pension scheme contributions along with the reinstatement of the annual dividend policies. Despite these additional cash outflows our strong underlying performance resulted in an increased free cashflow and improved debt ratios.

Group Financial Performance (reported on a constant currency basis)

Core revenue

Core revenue grew to £821.2m, up 45% on the prior year, with strong growth across all our business units as we benefited from the reopening of the on-trade and travel retail. It is testament to our premiumisation strategy that our core revenue per case grew by 28% in the year as a result of an improved product and channel mix, excellent commercial execution, and consumer price rises. Our core revenue is now 22% higher than our pre-covid year to March 2020.

Brand investment

Brand investment is a critical component in the success of Edrington as it supports our brand equities and the growth in the number of consumers of our brands. During the year our brand teams executed a record level of investment; £170.7m, up 46% on the previous year, representing a re-investment level of 21% of net sales which is up from 19% in 2020. This investment included a focus on consumer education, high quality and creative marketing campaigns, innovative collaborations and the launch of outstanding new products.

Core contribution

Core contribution grew at 53%, faster than our core revenue, reflecting strong growth in our higher margin products. We also benefited from a continued partial suppression of our normal level of operating costs as Covid restrictions resulted in a lower level of business travel than normal. Our core contribution is now 28% higher than our pre-covid performance.

The Macallan performance was particularly strong this year as its reputation for quality and innovation continued to drive growth in consumer demand. The brand delivered a number of exciting new product launches including The Macallan Reach and The Macallan Harmony. The accelerated development of our direct-to-consumer sales channel was a key growth driver in Asia.

The Malt Whiskies business unit contribution growth was driven by Highland Park with strong demand in key markets including the USA. The Glenrothes continued to premiumise with an increased focus on prestige products, driving higher net sales value per case. Naked Malt is showing promising momentum in the on-trade after the relaunch in 2021. We chose to significantly increase the investment in these brands during the year in order to support and accelerate their future growth potential.

The Famous Grouse continued its recent positive performance with growth driven by excellent performance in the UK and Sweden and the reopening of the on-trade in Southern Europe.

The Brugal business unit maintained its recent excellent net sales growth, through outstanding innovation in the Dominican Republic, the bounce back of the on-trade in Spain and the strong growth of Brugal 1888, the brand's ultra-premium expression.

This year saw the reopening of our travel retail business. While results remain understandably below pre-pandemic levels, the channel has made a faster recovery than anticipated with stronger and more sustainable profitability. The Americas has rebounded well from the twin challenges of tariffs and Covid. Our other regions of Europe, The Dominican Republic, Asia and REEMEAT, have delivered outstanding growth to generate profits which are substantially higher than pre-Covid. Strong consumer demand, particularly for our prestige products combined with outstanding innovation and commercial execution have been the key drivers.

Statutory results (reported at actual currency rates)

Statutory group revenue (pre-exceptional) grew by 57% to £981.0m and pre-exceptional profit before tax increased by 58% to £270.7m. The increase in statutory revenue is greater than the increase in core revenue due to the inclusion of non-core revenue on sales of third-party brands following our acquisition of Edrington UK Distribution Limited “Edrington UK”.

Profits attributable to Edrington Shareholders (before exceptional items) increased by 18% to £91.8m. This includes the impact of the change in UK corporation tax enacted in the year, which resulted in a non-recurring deferred tax charge of £26.6m (net of minority interests).

Exceptional items

The gain on acquisition of the remaining 50% of the issued share capital of Edrington UK (formerly Edrington Beam Suntory UK Distribution Limited) and the gain on disposal of 50% of the share capital of Maxxium España SL have been treated as an exceptional item in the year resulting in a gain of £22.2m.

The decision to stop shipping to Russia as a result of the Russia/Ukraine conflict has led to the decision to fully write down the carrying value of our investment in the entities involved in trade in this region. This has resulted in a non-cash impairment charge of £17.7m after tax.

Profits attributable to Edrington Shareholders including exceptional items increased by 16% to £94.9m. We have included a table below which sets out the movement before and after exceptional items in the current and prior years along with the current year deferred tax rate change to aid the understanding of their effect compared to the underlying trading performance.

Statutory results table adjusted for non-recurring items

	2022	2021	2020	vs. 2021	vs. 2020
Profit for the financial year - before adjustment for impact on deferred tax of changes to future UK tax rates	**£118.4m**	£77.6m	£96.8m	53%	22%
Impact of deferred tax rate change - net of Minority interest of £19.6m (2020: £5.0m)	**(£26.6m)**	-	(£6.5m)		
Profit for the financial year - pre-exceptional items	**£91.8m**	£77.6m	£90.3m	18%	2%
Exceptional items	**£3.1m**	£3.9m	(£2.6m)		
Profit for the financial year	**£94.9m**	£81.5m	£87.7m	16%	8%

Interest

Net finance charges, totalling £20.9m, largely comprised interest costs on funding from the Group bank and US private placement debt.

	2022	2021	2020
Interest on defined benefit pension scheme	**£0.5m**	£1.4m	£0.3m
Other interest receivable	**£1.7m**	£4.9m	£4.7m
Interest payable on funding	**(£15.0m)**	(£25.7m)	(£25.5m)
Interest expense on lease liabilities	**(£0.7m)**	(£0.7m)	(£0.9m)
Non-qualifying cash flow hedge	**(£6.0m)**	£3.2m	(£1.1m)
Other finance costs	**(£1.4m)**	(£1.4m)	(£1.4m)
	(£20.9m)	(£18.3m)	(£23.9m)

Cash flow and financial position

Our net debt at 31 March 2022 was £350.5m (excluding the impact of lease liabilities), a decrease of £25.0m from 2021.

The improvement in the operating cashflow reflects the underlying strong performance of the business allowing for the reinstatement of normalised cash outflows including pension deficit repair contributions, investment in capital expenditure and dividends to shareholders.

The Group is financed by both US private placement notes and bank debt. The consolidated group net debt to EBITDA ratio at 31 March 2022 was 1.1 times (2021: 1.7 times) and within the 1887 Group, where the debt is principally held, we finished the year with a ratio of 2.3 times (2021: 2.3 times) which is comfortably within the limit of our debt covenants.

We maintained a robust financial position this year with total equity increasing by £72.7m to £1,226.5m. Total assets increased by £229.8m (10%) to £2,451.0m, primarily as a result of the increase in the defined benefit pension asset together with assets acquired as part of the acquisition of Edrington UK. Property, plant and equipment increased by £37.4m reflecting our cask purchases in the year. Inventories, of which maturing whisky stocks account for the majority of the value, increased by £80.2m. The value of our investments has decreased due to the impairment of our investment in Cyprus and Russia, the disposal of our joint venture Maxxium España and the purchase of the remaining 50% of Edrington UK which moves this out of our joint venture assets. A decrease in our cash and other liquid resources of £14.6m reflects the reinstatement of dividends across the year.

Total liabilities increased by £157.1m to £1,224.5m, primarily reflecting increase in the deferred tax liabilities due to the increase in the deferred tax rate together with the liabilities acquired through our acquisition of Edrington UK.

Post-employment benefit obligations

The Group has obligations for three main defined benefit pension schemes for employees, two for its existing UK subsidiaries and a third for Edrington UK following its acquisition this year. Two of these have been closed since 2014 and the Edrington UK scheme has been closed since 2015. At the 31 March 2022, the Group had a surplus of £47.9m in relation to the post-employment benefit obligations of these schemes, as calculated in accordance with accounting standards. This is an increase of £34.5m from the £13.4m asset recognised on 31 March 2021, of which £1.0m relates to the acquisition of Edrington UK.

Changes in the mortality and discount rate assumptions decreased the present value of the schemes' liabilities by £38.3m. Deficit repair contributions of £24.5m were made in the year which included the remainder of the postponed 2021 contributions. These postposed contributions were fully paid by November 2021.

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 31 March 2022, the deficit was valued at £24.4m, £24.5m lower than last year. The Group is committed to make payments to close this deficit by 2026.

Derivatives and financial instruments

The Group uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange. The fair value of these instruments at 31 March 2022 is included in the Statement of Financial Position.

Assets of £5.0m (2021: £26.1m) principally reflect the fair value of forward and option foreign exchange contracts outstanding as at the 31 March 2022. The year-on-year reduction in the value of these assets is due to cross currency swap hedges which matured during the year. These swaps were used to hedge the value of USD denominated private placement notes which were repaid in April 2021.

Liabilities of £0.7m (2021: £1.9m) principally reflect the fair value of forward foreign exchange contracts outstanding as at the 31 March 2022.

Summary

The particularly strong rebound in our results this year have returned the Group to our pre-Covid planned profitability for the year to March 2022. The strong demand for our brands, together with the significant investment we have made in our marketing and our assets whilst maintaining a prudent debt position, give us a strong group that is well placed to exploit favourable consumer demand for ultra-premium spirits.

We have started our 2023 financial year with a significant impact on sales from the war in Ukraine and Covid restrictions in China, but we remain confident that we will successfully navigate these new challenges given the track record of our people and our brands over recent years.

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 impact of the Russia/Ukraine conflict and the continuing impact that Covid-19 will have on performance over the next two years. The underlying assumption is that our operations, both in Scotland and Dominican Republic will remain open, and that our global supply chain continues to support the shipment of product to our markets.

The experience of the Covid-19 driven uncertainty last year has given us the confidence that we have the ability to adapt quickly and decisively. With the support of our multiple stakeholders, we have the potential to flex the level of dividends and investment levels to manage our liquidity.

Our three-year plan shows core contribution continuing to grow with 2022/23 expected to exceed the levels planned for pre the pandemic.

The Group has reviewed a number of different scenarios of revenue decline, together with cost and cash savings, to assess the impact on the Group liquidity and our debt covenant conditions.

Based on a scenario showing a contribution decline of 10% from our plan, the business has the ability to remain within our lenders' covenant conditions through a reduction in the cost base and investment levels.

Debt facilities and covenant tests

The scenario planning shows that there is adequate headroom within the debt facilities and that the covenant tests are met in each test period to 31 March 2025. 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 results of these assessments were reviewed considering the financial position of the Group at 31 March 2022, 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 Risks and Uncertainties

Our Approach to Managing Risk

The Board is responsible for risk management and the controls and compliance environment with a framework to support the process for identifying, evaluating and managing financial and non-financial risks. They are supported by the Executive Committee, and the Audit Committee which has direct oversight of the Group Risk Management Committee and the internal control and assurance function.

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

The Board regularly reviews the principal risks facing the Group including those that would impact its business model, future performance and solvency. A full review and assessment of principal risks was carried out in September 2021 and reviewed in February 2022. These reviews allow the Board to assess the Group's risk appetite and ensure that the nature and extent of the significant risks facing the business are identified and adequately managed. In line with best practice. The assessment includes a review of the impact and likelihood of each risk, together with the controls in place to mitigate the risk. Given the fast-evolving nature of Edrington's operating environment and external factors, the review of principal risks is performed by both the Executive Committee and the Board on an annual basis, and specific risk reviews are carried out on a quarterly basis at both the Audit Committee and the Group Risk Management Committee.

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 Group 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 constantly evolving, so the Group remains vigilant to be sure that new and emerging risks are identified and assessed on a timely basis, and that appropriate actions are taken where possible to mitigate the impact of these risks on the business.

The ongoing impact of the COVID-19 outbreak and the impact of the situation in the Ukraine have resulted in several of the previously identified risks materialising simultaneously. These included increased financial risks, raw material scarcity and disruption to supply chain operations. The Group was able to react promptly and apply the necessary mitigating actions to protect our people and our operations and maintain the supply of our products.

During the year, the Audit Committee reviewed reports received from the internal audit teams. These have allowed the committee to assess the general control environment, identify control weaknesses and quantify associated risks.

The system of internal 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. It is continuously reviewed to ensure it remains robust and is embedded in business processes to enable Edrington to continuously manage the relevant business risks.

Our Principal Risks

The overall level of risk in our operating environment continues to be extensive given the ongoing impact of the Covid-19 pandemic across different geographies, the volatile geopolitical environment, ongoing digital developments and an increased focus on sustainability and climate change.

The table below provides details of our assessment of the principal risks for the business, including key risk drivers, risk outlooks, current mitigating actions. The developments section provides details of actions taken in the last year to manage key risks effectively as they evolve.

Risk & Risk Impact	Risk Mitigating Actions	Developments in 2021-2022
Inter-state conflict & Protectionism **Risk Outlook: ↑** Economic or political instability restricts market activity, affecting market access, demand or increased costs.	> Continuous local and global monitoring of changes in economic, political and operational environments that could impact business performance. > Group level strategic analysis and scenario planning to support strategy delivery and risk management and avoid over-reliance on a single country or region. > Regular pricing, tax and customs reviews to enable a timely reaction to rapid changes.	> We have developed further scenario and contingency planning based on global events, including the war in Ukraine and potential different international responses. This includes ongoing monitoring of changes in sanctioned parties to ensure compliance with international regulations. > Stress test analysis of key market impacted by ongoing lockdowns, specifically China. > Review of operations and funding arrangements of our joint venture in Russia in light of the war in Ukraine and the evolving sanction situation.
Cyber Attack **Risk Outlook: ↑** Continued development of cyber threats increases the risk of theft, failure or corruption of digital assets and/or key systems which could lead to business disruption, reputational damage and financial loss.	> Group-wide cyber risk management processes and policies. > Regular review of effectiveness measures including vulnerability management monitoring, penetration testing and testing measures. > Annual cyber security review in line with National Cyber Security Principles.	> Enhanced digital security monitoring implemented through the introduction of a Security Information & Event Management tool to enable continuous monitoring. > Obtained the Cyber Essentials certification following an extensive external review of our processes and tools. > Updated mandatory cyber awareness training and phishing simulations were launched.

Risk & Risk Impact	Risk Mitigating Actions	Developments in 2021-2022
Product Contamination **Risk Outlook: ↔** Product contamination due to human error or malicious intent could harm consumers and result in reputational damage and financial loss.	> All manufacturing processes are performed in compliance with Hazardous Analysis and Critical Control Point (HACCP), ISO and Food Safety standards. > External audits are performed annually by Lloyds Register Quality Assurance (LRQA). > Appropriate training is given to employees with an internal programme in place to continuously review and ensure compliance with relevant manufacturing standards.	> Our product recall procedures are reviewed continuously to monitor effectiveness.
Misuse of Consumer Personal Data **Risk Outlook: ↔** Inadequate management of consumer data could lead to reputational damage, penalties and financial loss.	> Reviews of consumer data, with safeguards developed to ensure ongoing compliance. > Enhanced data privacy measures were introduced, including brand and market specific data privacy policies, and revised data processing agreements. > IT security measures are regularly reviewed, including data encryption and contractual protections with key third party data processors.	> A data-mapping for record processing and an in-depth review of data retention procedures are being performed to ensure ongoing compliance. > The Group's biennial mandatory data privacy training is being refreshed and issued to all employees. > Our Data Breach Management process is under review alongside initiatives to test effectiveness of the measures in place.
Changing Consumer Behaviours **Risk Outlook: ↔** Ongoing changes in consumer behaviours including a shift to low or no-alcohol drinks could impact long-term growth.	> Our strategy development process ensures an ongoing review of consumer trends at global and market level. > Our premiumisation strategy allows us to maximise opportunities of our product portfolio that are less impacted by the reduction of alcohol consumption. > Regular monitoring of key performance indicators is in place including brand performance and brand health across key market segments and geographies.	> We are reviewing our route-to-market options and expanding our exposure to markets with new opportunities, investment choices and resource allocation. > We are investing in insight generating tools to ensure we are vigilant and aware of evolving consumer behaviours.

Risk & Risk Impact	Risk Mitigating Actions	Developments in 2021-2022
Adverse Political and Social Attitudes to Alcohol **Risk Outlook: ↑** Tighter restrictions on alcohol promotion, sales and/or consumption may limit market access resulting in loss of revenue.	> Edrington supports a responsible approach to alcohol and considers this a core element of its strategy to grow a sustainable, long-term business. > 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. > Our Company Code of Conduct and Global Marketing Code proactively promote responsible drinking and are reinforced through the Group-wide training programme. > Edrington's policies and campaigns are reviewed annually by the Marketing Code Committee.	> Covid-19 evidenced the evolving attitudes towards alcohol and the impact of restrictions imposed by different governments. > We continue to partner with relevant organisations (including the Scotch Whisky Association and other trade organisations) to monitor potential restrictions.
Counterfeit Products & Brand Protection **Risk Outlook: ↑** 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.	> Ongoing monitoring of principal exposures of our brands. > Brand security education, surveillance and enforcement activities are continuously performed to identify and address any potential counterfeit and/or refilling operations. > A review of our globally registered trademarks and introduction of custom notices is ongoing along with a programme of market inspections and raids in key countries.	> The level of sophistication of counterfeit products is ever evolving and increasing in a post-pandemic operating environment. > Product security measures are being reviewed and new technological counterfeit prevention measures are being developed. > A dedicated resource is now in place at Group level coordinating brand protection across all brands.
Scarcity of Sustainable Raw Materials **Risk Outlook: ↑** Our ability to secure the appropriate quality and quantity of core raw materials due to environmental concerns, climate change and industry demands.	> We have established long term contracts with key raw material suppliers in line with projected manufacturing requirements. > Ongoing audits of the quality of our raw material are performed prior to manufacturing. > We continue to promote a circular economy through our sustainability objectives.	> Resource scarcity is accelerating due to constraints in supply chain networks around the world. > Alterative raw material options are being researched to assess alternative materials for the longer term.

Risk & Risk Impact	Risk Mitigating Actions	Developments in 2021-2022
Supply Chain Disruption **Risk Outlook: ↑** Our ability to maintain the continuity of our supply chain is hindered due to constraints in logistic operations and shipment of raw materials or finished goods leading to revenue loss.	> Proactive collaborative business forecasting provides insight into demand requirements that allow for real-time management of potential shortages. > Ongoing relationship management of key vendors and continuous review of raw material quality and availability.	> Lead times of both raw material and finished goods have increased due to driver and container shortages. > Increased stockholding levels have been introduced to limit the impact of increased delivery lead-times.
Pandemics **Risk Outlook: ↔** Ongoing impact of the Covid-19 pandemic or a new global outbreak of a health threat that results in government-imposed restrictions to travel, trading, and human interaction, which could have a negative effect on business operations, trading or logistic activities.	> We continuously review and update our business continuity plans and test various scenarios to ensure they remain relevant and supportive of our operations. > Established links with government bodies to enable ongoing visibility around regulatory changes. > A continuous focus on protecting our people, our business and supporting our suppliers, customers and communities.	> Although world economies are starting to resume operations and adopt a 'new normal', ongoing health concerns remain in some of the geographies in which we operate. > The Executive working group and local leadership teams continue to monitor and enhance mitigation actions required to adapt to the different operating challenges as they arise.

Risk Outlook Legend from prior year:

↑ Increased
↔ Stayed the Same
↓ Reduced

Approved and signed on behalf of the Board

Paul A Hyde
Chief Financial Officer

28 June 2022