The Edrington Group Limited

Annual Report and Financial Statements

for the year ended 31 March 2018

Company Registration No. SC036374

Contents

* 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.

Directors and Advisers

Directors

C S Gillies, Chairman
I B Curle, Chief Executive
G R Hutcheon
S J McCroskie
P A Hyde
K C O Barton
D H Richardson
A M C Avis MBE
N L Murray (resigned 26.07.2017)
S Fitzgerald (appointed 01.05.2018)

Secretary

M A Cooke

Registered Office

100 Queen Street
Glasgow
G1 3DN

Independent Auditor

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

Solicitors

Dentons
1 George Square
Glasgow
G2 1AL

Edrington Business Model and Principal Activities

Edrington owns some of the leading Scotch whisky and rum brands in the world, which the Company produces, markets and distributes.

Its premium brands include The Macallan, The Famous Grouse, Brugal, Highland Park, Cutty Sark, The Glenrothes and Snow Leopard vodka.

The Company's distilling, blending and bottling operations are located in Scotland and The Dominican Republic.

Edrington's brands are distributed by a network of wholly owned subsidiaries, joint venture companies and third party distributors.

The Company's business model revolves around great people, leading brands and an ethos of giving more, underpinned by Edrington's principal shareholder, The Robertson Trust.

Edrington's 2020 strategy centres on:

PERFECTING THE MACALLAN

ACCELERATING HIGHLAND PARK

ENERGISE REGIONAL POWER BRANDS

TRANSFORM SUPER PREMIUM

RECRUITING MORE CONSUMERS

Edrington's underlying objective is to drive shareholder value and the Company will achieve this by continuing to build brand equity across the portfolio, thus strengthening the underlying value of the business.

Edrington will continue to invest ahead of performance to recruit more consumers, implementing increased brand activation based on a keen sense of what is relevant to the consumer's life style.

EDRINGTON

Key Financial Highlights

CORE REVENUE

7%

Core revenue is defined as being total branded sales adjusted for the impact of foreign currency.

ANALYSIS
Core revenue growth of 7% was greater than our volume growth of 2% reflecting the improved mix of higher value products and premiumisation of the portfolio.

BRAND INVESTMENT SPEND

5%

Brand investment spend is defined as being the total spend on advertising, global marketing and promotional activities for all brands, excluding discounts and adjusted for the impact of currency.

ANALYSIS
The year on year increase is reflective of our strategy, to invest for long term growth and grow our brand equity. The Macallan, in particular, continued to benefit from this increased level of investment in the year with an increase of 8%.

CORE CONTRIBUTION

7%

Core contribution is profits from our branded sales and distribution adjusted for the impact of foreign 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 growth across all of our business units.

EARNINGS BEFORE INTEREST AND TAX* (EBIT)

2%

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 has grown at a slower rate than core contribution due primarily to the impact of a weaker US dollar compared to last year.

*before exceptional items

Key Financial Highlights

FREE CASH FLOW

2018 - £91.0m
2017 - £98.3m
2016 - £62.65m

7%

Free cash flow is defined as being the net cash flow before movements in borrowings, payments to shareholders and expansionary capital expenditure.

ANALYSIS
Free cash flow represents the cash the business generates after maintaining our asset base. The reduction in the year represents an increased investment in casks and maturing stocks for the future growth of our brands.

RETURN ON CAPITAL EMPLOYED (ROCE)

2018 - 21.4%
2017 - 23.2%
2016 - 21.3%

21.4%

ROCE is defined as EBIT before exceptional items divided by total equity, adjusted to remove intangible values attributed to our brands, post-retirement benefit obligations, derivative financial instruments and items defined as net debt.

ANALYSIS
The business continues to invest for the future evidenced by the opening of the Macallan distillery and brand home, an increased level of mature stock purchases and continued investment in our casks. As a result of this significant investment, for which the return will come from future sales, our ROCE has declined from 23.2% last year.

PROFIT FOR YEAR ATTRIBUTABLE TO PARENT*

2018 - £87.9m
2017 - £91.5m
2016 - £72.5m

4%

This is defined as the net profit for the year taken to distributable reserves before the impact of any exceptional items which can distort comparability.

ANALYSIS
Profit for the year has declined by 4% primarily as a result of a non-recurring deferred tax credit received in the prior year.

*before exceptional items

DIVIDENDS PAID TO SHAREHOLDERS (PENCE PER SHARE)

2018 - 40.9p
2017 - 40.0p
2016 - 38.1p

2%

Defined as being the total dividend proposed for the year, made up of the interim dividend paid in the year and the final dividend agreed but not paid at the balance sheet date.

ANALYSIS
The 2% growth in dividends paid to our shareholders allows the business to maintain the real value of the dividend after adjusting for inflation whilst continuing to invest in assets and inventories to support the long term growth of our brands.

Chairman's Statement

In my first year as Chairman of Edrington I would like to echo my predecessor, Norman Murray, with his observation that Edrington is truly characterised by Great People, Leading Brands, Giving More.

I would also like to pay tribute to Norman for his leadership and service to the company. Like him, I have now met many of the company's employees and have been struck by the consistency of Edrington's ethos and approach across its many global locations.

In my experience this is one of the essential attributes of a successful global company.

The roots of this consistency lie in a company that has strong values and a clear sense of purpose. Edrington's values can be traced back to the ethos of the founding Robertson family. In the modern era these values have become even more powerful and a true differentiator. Edrington's people are encouraged to inspire, collaborate, engage, deliver, and be open to change.

Those behaviours have a bearing both on the performance of Edrington's leading brands and its distinctive approach to Giving More.

The performance of the company's brands is covered in detail further in this report and it is a story of growth across the portfolio. While I am encouraged by the company's success, I am even more encouraged by the restlessness and ambition that I have found across the company, and the conviction that the best years lie ahead.

Nothing exemplifies this ambition more than the recently opened Macallan distillery and visitor centre. The first distillery on Speyside to be designed by an international architect, it has already claimed many accolades for its quality, style, and ambition. I would like to pay tribute to those who advocated, pioneered, and constructed this amazing asset.

The Board of Directors is also evolving. In May we welcomed Stefanie Fitzgerald as a non-executive director. Stefanie's experiences in luxury brands and digital marketing during her career in international cosmetics will be very valuable to Edrington.

After 11 years Callum Barton is stepping down from his role as non-executive director. I would like to thank Callum for his wise counsel and support for Edrington during a period in which it has become a truly international brands company.

I would also like to take this opportunity to thank all Edrington employees for their enormous contribution in the last year and I look forward to meeting many more of them in the year ahead.

Crawford Gillies
Chairman

15 June 2018

Chief Executive's Review

In 2018 the group successfully completed the third year of Edrington 2020, a five year strategy to increase consumer focus and accelerate growth.

The strategy created new business units with clear direction to *Perfect The Macallan*, *Accelerate Highland Park*, *Develop Super Premium*, *Optimise Regional Power Brands*, and *Focus for Success*.

During this period Edrington has significantly increased brand investment expenditure at the same time as investing in people, stocks, systems, and processes.

As a consequence of this approach all business units grew contribution in 2018, leading to Edrington delivering core contribution growth of 7% whilst strengthening brands' equities.

MARKETPLACE CONTEXT

The geopolitical context contributed to a disruptive and uncertain climate. Many of the major political relationships which in turn govern trading arrangements fluctuated during the year.

For the first time since the global financial crisis, the World Bank reported that all major regions of the world are experiencing an upturn in economic growth. This helped increase the number of consumers who have the lifestyle and aspiration to drink premium brands.

This dynamic flowed through into growth for Scotch whisky in 2018. Last year Scotch grew in both volume and value (by 1.6% and 8.9% respectively) to a total of £4.36bn - the equivalent of 1.23bn bottles exported globally.

There was further growth in exports of Single Malt Scotch Whisky, increasing by 14.2% in 2017 to £1.17bn, and now accounting for 27% of all Scotch whisky exports.

A similar acceleration is taking place in the Rum category leading to confidence about the momentum in premium spirits.

STRATEGIC FOCUS

Launched in 2015, Edrington's 2020 strategy continues to have traction.

Although the strategy has been successful over the last three years, it has benefitted from two recent amendments:

After a period of extreme competition, especially in blended Scotch whisky, the Regional Power Brands business unit revised their strategic priority from *Optimise* to *Energise Regional Power Brands*, which in turn delivered further momentum into the business.

Similarly, the Super Premium business unit has refined its intention from *Develop* to *Transform Super premium*. Following the return of The Glenrothes, 'Transform' better reflects the belief that the Super Premium unit will grow earnings rapidly in the future.

We believe that Edrington 2020 - *Perfect The Macallan, Accelerate Highland Park, Transform Super premium, and Energise Regional Power Brands* – will remain powerful and drive even more consumer recruitment in its final two years.

PERFORMANCE HIGHLIGHTS

Core contribution grew by 7% last year as a consequence of all business units growing their contribution versus 2017.

The Macallan

The group's business model allows it to invest for long term growth. The Macallan benefitted from this approach as brand investment has increased by 38% in the last 2 years resulting in contribution growth of 7% this year.

The brand enjoyed success in areas of regional strength, the USA and Taiwan. Those markets have been joined by double figure contribution increases in the emerging markets of China and Russia. Success in these markets has strengthened the brand's position as the world's leading Scotch malt whisky by value.

The brand recently revealed its new distillery and visitor centre. Edrington is investing £500 million in the brand of which the £140 million distillery is the centrepiece. This programme increases investment in whisky, warehousing, and particularly in The Macallan's signature sherry-seasoned oak casks.

It is the first distillery on Speyside to be designed by an internationally acclaimed architect, Rogers Stirk Harbour + Partners, and was constructed in collaboration with Elgin-based Robertson and Scottish coppersmiths Forsyths.

The unsurpassed quality of The Macallan is in high demand and we face the future confidently with this new distillery. It's an authentic, abiding, ambitious investment that will match consumer expectations for generations to come.

Following the public opening in June, we expect this new Macallan enterprise to deliver significant benefits for the tourism industry, Scotch whisky exports, and the economy.

Super Premium

The Super Premium unit also enjoyed growth this year. Highland Park is the leading brand in this unit and following a year of aligning all marketing material behind its Viking Soul proposition, it delivered an exceptional 17% contribution growth and outperformed the malt category.

During its first year of repatriation Glenrothes has been worked on intensively and a new range with improved packaging will reach consumers during the summer.

In the USA our partnership with Tequila Partida continues to blossom as the brand capitalises on the momentum behind the category and its proposition as 'the World's freshest expression of blue agave'.

Regional Power Brands

In the last year the Regional Power Brands (RPB) business unit delivered contribution growth of 4% in a highly competitive marketplace. Central to this delivery was the exceptional performance of Brugal which grew brand contribution by 20%.

Brugal strengthened its leading position in the key markets of The Dominican Republic and Spain at the same time as growing its premium expression Brugal Extra Viejo to over 1M cases.

Edrington also announced an investment programme at the Brugal distillery in San Pedro de Macoris, a sign of confidence in the future potential of the brand.

The marketplace for blended Scotch remained extremely tough. Investment in consumer promotion remains at high levels making contribution growth difficult to deliver. The Famous Grouse performance reflected this trend although it was encouraging to deliver the highest ever UK share (37%) in the UK market in combination with share growth in the key Swedish market.

Cutty Sark delivered a resilient performance with volume and contribution growth, with a market share gain in its key Spanish market and continued growth in Japan.

CULTURE

Great People, Leading Brands, Giving More characterises Edrington. In the last year we have set out the values that underpin the organisation and map well against our founders' intentions.

Great People are united by their ability to Inspire, Engage, Collaborate, Deliver, and encourage a climate open to Change.

The group's *Leading Brands* are defined by their capacity to Anticipate, be Trustworthy, pursue premium Quality, create consumer Affinity, and Deliver.

And *Giving More* distinguishes and harmonises Edrington around Progress, Partnership, and Sustainability.

As we set out later in this report it was also pleasing to see a 9% increase in funds raised for charity through the Giving More Together scheme in which employee funds raised are double-matched by Edrington and The Robertson Trust.

Outside Scotland, the Giving More International programme which allocates 1% of pre-tax profits to good causes designated by Edrington's overseas offices, exceeded £7M since its inception in 2012.

I would like to thank our employees for both their high levels of engagement in Giving More and their outstanding contribution to last year's company performance.

LOOKING FORWARD

Economic and market developments remain encouraging in the near term. All regions are experiencing an upturn in economic growth and Scotch Whisky exports are also in growth.

The premium segment of Scotch Whisky and other spirit categories is the fastest growing, reinforcing Edrington's emphasis on premium brand building.

Whilst the economic and market context are encouraging the geopolitical context remains volatile. With unilateral stances becoming more popular in some major economies, the risk to trade has become greater. Scotch whisky is a robust and successful industry but it does face increasing competition from other authentic spirit categories leading to the 400+ trade barriers faced currently. Against this backdrop we want our governments to create a climate where economic development and growth is actively encouraged and rewarded.

Despite the geopolitical uncertainty that characterises our times we are confident about the medium and long term prospects for the business and will continue to invest in our people, brands, and processes.

With its premium brand portfolio, proven strategy, and management capability, Edrington remains well-positioned to deliver further growth.

Ian Curle
Chief Executive

15 June 2018

Financial Review

MANAGEMENT KEY PERFORMANCE INDICATORS	2018	2017	% movement
Volume (case equivalents)	**8.4m**	8.2m	2%
Presented in constant currency rates:			
Core revenue	**£706.7m**	£663.1m	7%
Brand investment expenditure	**£125.7m**	£120.2m	5%
Core contribution	**£210.5m**	£197.5m	7%
Presented in actual currency rates:			
EBITDA	**£232.9m**	£227.9m	2%
Profit before tax (pre-exceptional)	**£196.5m**	£189.6m	4%
Profit for the year (pre-exceptional)	**£87.9m**	£91.5m	-4%
Free cash flow	**£91.0m**	£98.3m	-8%
Net debt/EBITDA	**2.3**	2.1	
Return on capital employed	**21.4%**	23.2%	

STATUTORY KEY PERFORMANCE INDICATORS	2018	2017	% movement
Earnings before interest and tax	**£210.5m**	£207.1m	2%
Profit before tax	**£194.7m**	£189.0m	3%
Profit for the financial year	**£86.6m**	£91.0m	-5%
Total equity including non-controlling interests	**£780.6m**	£685.0m	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 sales of our branded products adjusted for the impact of foreign currency.

Brand investment expenditure
Advertising and promotional expenditure on our core brands, excluding discounts and restated to constant currency.

Core contribution
Profits from our branded sales and distribution adjusted for the impact of foreign currency 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 taxation.

Profit for the year (pre-exceptional)
Profit 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 non-cash exceptional items.

Net debt/EBITDA
The ratio of Bank & Private Placement Debt at hedged rates where applicable after deduction of cash balances to reported Earnings before interest, taxation, depreciation and amortisation.

Return on capital employed
Earnings before interest and tax before exceptional items as a percentage of invested capital. Invested capital is defined as being total equity adjusted to remove balances relating to financial instruments, post-retirement benefit obligations, intangible brand values and net debt, along with any associated deferred tax asset or liability.

Constant Currency
For constant currency reporting the comparative information is stated at the average rates used in the current year income statement. This allows direct comparability of the underlying performance across financial years.

Group Financial Performance (stated on a constant currency basis)

This has been another strong year of growth and increased investment for the Group. Core contribution grew across all of our business units and all of our regions, we further increased the investment in our brands and the premiumisation of our business continued with 76% of core contribution for the year generated by our Premium products.

Core revenue

Core revenue grew by 7% to £706.7m as a result of growth in each of our three business units and the impact of a full year of trading of The Glenrothes, following the acquisition of the brand in April 2017. The growth in core revenue was faster than the 2% volume growth, reflecting an increase in the sales mix towards higher value products.

Brand investment

We increased our investment in brand-building marketing activities this year by a further 5% to £125.7m whilst also increasing the focus on Premium products, which increased by 18%. The investment behind The Macallan grew by 8% following the 28% increase last year, resulting in a 38% increase in the last two years.

Core contribution

Core contribution grew by 7% to £210.5m. The Macallan grew by 7%, Super Premium grew by 18% on a like-for-like basis, increasing to 36% with the inclusion of trading from The Glenrothes, and Regional Power Brands grew by 4% with another strong year of growth from Brugal. Performance of our Premium products was consistently strong across all our markets, while the Standard Blended Scotch category continued to be more challenging.

Statutory results (stated in actual currency rates)

Revenue

Statutory group revenue grew by 5% to £739.3m, at a lower rate than our core revenue as a result of an adverse impact of currency primarily driven by a weaker US dollar relative to the prior year.

Profit before tax

Group profit before tax has increased by 3% to £194.7m, this is lower than the 7% core contribution growth as a result of adverse currency movements, combined with higher interest costs on our debt which increased to fund the acquisition of Glenrothes and the continued investment in our asset base. Partially offsetting these adverse impacts is £4.6m of other finance income, this is an accounting adjustment required under IFRS for hedging instruments in our distribution network which do not qualify for hedge accounting.

Profit attributable to parent

The Group's effective tax rate for the year was 21% compared with a prior year rate of 17%. The primary driver for this was a £6.1m credit recorded in the prior year relating to future deferred tax rate changes, there was no equivalent in the current period. This, combined with higher levels of profit in higher tax jurisdictions accounts for the variance. Profits attributable to non-controlling interests are marginally up year on year due to the better trading result which results in net profits attributable to the parent of £86.6m, a 5% decline on last year.

Exceptional items

The Group acquired the remaining 50% shareholding in Edrington Webb Travel Retail during the year in order to take full control of Travel Retail distribution routes to market in the Americas. The acquisition generated goodwill of £1.8m. Consistent with the treatment of previous distribution company acquisitions, the company decided to write off the goodwill in the year and this is, therefore, shown as an exceptional item in the income statement.

Cash flow and financial position

Net debt at the 31st March 2018 was £573.3m, an increase of £39.3m from 2017. This increase is net of a £26.6m positive impact from the retranslation of our US private placement financing.

The increase in net debt reflects the significant investments made in the year. Greater cash inflows from the growth in trading were more than offset by increased investment in maturing whisky stocks, in cask assets and in the new distillery and brand home for The Macallan. Furthermore, we brought The Glenrothes back into our Premium portfolio by acquiring 100% of the share capital of BB&R Spirits.

The group is financed by US private placement notes and bank debt. The net debt to EBITDA ratio at 31st March 2018 was 2.3 times (2017: 2.1 times), comfortably within the limit of the bank debt covenant of 3.25 times.

The investment in the year is evident in the closing financial position of the Group.

Total assets increased by £233.9m to £1,904m. £70.5m of the increase was in property, plant & equipment, primarily reflecting the new Macallan distillery and additional cask purchases. £16.5m was an increase in intangible assets, principally related to the acquisition of The Glenrothes. Inventories, of which maturing whisky stocks account for the majority of the value, increased by £63.7m as we invested for future sales growth.

Total liabilities increased by £138.3m to £1,123.4m, £101.3m of which reflects the increase in borrowings to finance the investments undertaken.

Post-employment benefit obligations

The Group operates two defined benefit pension schemes for employees of its principal UK subsidiaries, which have been closed since 2014. The post-employment benefit obligations related to these schemes, as calculated in accordance with accounting standards, moved from a £6.3m liability at 31st March to 2017 to an asset of £19.4m at 31st March 2018. This reflected contributions of £14.0m made by the Group during the year as well as a positive return of £4.4m on the schemes' assets. Changes in the demographic and discount rate assumptions reduced the present value of the schemes' liabilities by £9.2m.

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 31st March 2018, the deficit was valued at £91.7m. As such, the Group is committed to making annual deficit reduction payments of £14.0m until 2026.

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 31st March 2018 is included in the Statement of Financial Position.

Assets of £26.8m (2017: £44.9m) 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 reduced relative to the prior year, in line with the reduction in the value of the debt included in our borrowings position.

Liabilities of £4.6m (2017: £26.9m) principally reflect the fair value of forward foreign exchange contracts held at the 31st March 2018. The liability reduced 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.

Share capital and dividends

Dividends for the year amounted to 40.2p compared with 38.1p in respect of last year.

A first interim dividend of 12.0p (2017: 11.8p) per share was paid on 10 November 2017. The directors proposed a further interim dividend of 28.9p (2017: 28.2p) per share which will be paid on 13 July 2018.

Summary

The Group has enjoyed another year of strong growth and has further strengthened its financial position in an increasingly competitive marketplace and in the face of on-going economic and geopolitical uncertainty.

We have confidence in our premium brand portfolio to deliver further growth over the long term and continue to increase investment in our brand building capability and infrastructure to support that ambition.

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 carried out a triennial strategic risk review in March 2018 to help update the principal risks facing the Company including those that would impact its business model, future performance and solvency. 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 constantly evolving, so the Company will remain vigilant to be sure that new risks are identified and assessed timeously, and that appropriate actions are taken to mitigate the impact of these risks on the business.

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. Moving forward greater emphasis will be placed on reviewing status of actions taken to mitigate these 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.

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
Adverse political and social attitudes to alcohol	Damage to the reputation of Edrington or its brands. Impact on market access or the ability to promote its brands.	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. Edrington's policies and campaigns are reviewed annually by theMarketing Code Committee. 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.
Geopolitical and Economic Conditions	Economic or political instability restrict market activity, affecting market access, demand or increased costs.	Brexit and geopolitical instability in a number of regions and markets continues to present a risk to trade and profitability. We are monitoring all developments closely but future trading relationships with the EU etc. are ultimately matters that are outwith our control. 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.
Consumer Preferences	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.	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. 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 across its luxury, Super Premium and Regional Power Brands, which have different needs and focuses.
Brand Protection	Ineffective or inadequate protection of intellectual property rights, resulting in reputational damage, an increase in counterfeit goods and a drop in sales volumes and/or market share.	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; commercial behaviours, alongside brand security education, surveillance and enforcement.

Identified Risk	Impact	Mitigating Actions
Regulatory Compliance	Failure to comply with local laws and regulations, resulting in regulatory sanction, reputational damage and/or financial loss.	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. 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 & safety). 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. 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.
Financial Risks	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.	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. 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 credit limits offered to customers, manages trade receivable balances vigilantly and takes prompt action on overdue accounts. Certain markets operate on a cash-on-delivery basis. 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 with suppliers. 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.

Identified Risk	Impact	Mitigating Actions
Cyber	Theft, failure or corruption of digital assets and/or key systems could have an adverse impact on the business and profits.	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. Edrington has also increased system patching, updates and monitoring, carried out penetration testing, performed a SAP System User Role Review to eliminate excessive access and segmented the network to protect mission-critical networks from general access networks.
Major Operational Failure	Major supply chain failure affecting supply of raw materials or equipment, loss of maturing inventory or the customer orders process.	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. Edrington's wood and cask supply is reviewed 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. Contingency bottling/blending options are refreshed and tested to ensure that Edrington's operations can be maintained in event of loss or impairment of its own facilities. 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.

Approved and signed on behalf of the board

Paul A Hyde
Chief Financial Officer

15 June 2018

Corporate Governance

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

1. Board composition

At 31 March 2018, the board comprises the non-executive chairman, four executive directors and three non-executive directors, and is supported by the Group Company Secretary. The board believes that its composition – its size, mix of expertise and balance of executive and non-executive directors - is appropriate. David Richardson is the Senior Director.

The board's process on nominations is undertaken by the Nomination Committee, and includes assessing the composition of the board and its governance structures as well as considering appointments and succession planning. The board are delighted to announce the appointment of Stefanie Fitzgerald as a new non-executive director effective from 1 May 2018.

2. The role of the board

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

The board, which meets at least five times a year, has responsibility for defining and executing the Company's strategy, for reviewing trading performance and funding levels, assessing acquisitions and disposals, changes to the structure of the business and overall corporate governance issues. The board also approves the Company's budget together with its annual report and financial statements.

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

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

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

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

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

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

3. Board effectiveness

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

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

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

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

4. Shareholders

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

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

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

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

5. Board committees

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

5.1 Nomination Committee

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

5.2 Remuneration Committee

The Remuneration Committee is chaired by Alice Avis MBE and meets at least 3 times each year.

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

5.3 Audit Committee

The Audit Committee, chaired by David Richardson, meets at least three times a year. Two of the meetings are with the external auditors and senior members of the management team and finance function to discuss audit planning, review statutory accounts and address issues arising from the audit. 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 third meeting focuses on risk management and internal controls, where they receive presentations from senior members of the management team and finance function and approve Risk management plans going forward.

Financial statements and audit

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

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

External auditor

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

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

The chief financial officer may approve specific engagements up to £100,000 cumulatively, with fees in excess of this limit being subject to approval of the full committee. During the year the Company made limited use of specialist teams within Grant Thornton UK LLP for non- audit work. The total fees paid to Grant Thornton UK LLP amounted to £0.3m (2017: £0.4m), of which £0.1m (2017: £0.2m) related to non-audit work.

Committee	Members	Remit
Nomination Committee	Crawford Gillies (chair) Alice Avis MBE Callum Barton Stefanie Fitzgerald David Richardson Ian Curle	> reviews structure, size and composition of board > recommends appointments and considers succession planning
Remuneration Committee	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
Audit Committee	David Richardson (chair) Callum Barton Crawford Gillies	> reviews and monitors financial results and reporting > approves audit planning > monitors internal financial controls > oversees external audit relationships > considers auditor appointment > reviews audit effectiveness > oversees risk management

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

Committee	Chairman	Remit
Capital Expenditure Committee	Graham Hutcheon	> develops five year capital expenditure plan > ensures evaluation of business cases and that resources allocated on an informal basis > ensures risks and interdependencies are clearly understood > manages liquidity requirements and post evaluation reviews
Corporate Sustainability & Responsibility Committee	Gerry O'Donnell (Corporate Affairs Director)	> ensures Edrington conducts business in a socially responsible and ethical way > setting and adhering to industry standards on responsible consumption of alcohol identification and monitoring of performance against targets on environmental sustainability > in conjunction with The Trust and Edrington's network of Trust Ambassadors, ensures the business supports local communities in which it operates

Committee	Chairman	Remit
Marketing Code Committee	Alice Avis MBE	> sets marketing policy in compliance with industry standards to ensure responsible marketing practice > reviews marketing practice on an annual basis and maintains processes for complying with marketing code prospectively
Group Risk Management Committee	Martin Cooke	> identifies and evaluates principal risks > reviews the adequacy of risk management processes > recommends improvements in risk management processes > reports material findings to the Audit Committee
Treasury Committee	Paul Hyde	> ensures compliance with terms of group borrowing facilities > minimises financial risk arising from exposure to fluctuations in foreign exchange rates, interest rates and cash flow > determines hedging policy on interest rates and currency > approves significant decisions on commercial credit limits > monitors and approves cash signing authority in the Company
IT Steering Committee	Euan Fraser (Director of Business Technology)	> ensures that technology strategic plan aligns with business priorities and return on investment > approves proposed technology projects, and scrutinises ongoing activity > audits completed projects to ascertain effectiveness

Corporate Sustainability and Responsibility

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.

Giving More

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

Alcohol in Society

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

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

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

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

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

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

In the Americas, Edrington is a board member and strong advocate for the Foundation for Advancing Alcohol Responsibility. Known as Responsibility.org, this independent, national, not-for-profit organisation leads the fight to eliminate drunk driving and underage drinking and promotes responsible decision-making regarding alcohol. FAAR engages with all members of the community – law enforcement, public officials, educators, parents, and students – via advisory boards and programming.

Environmental

In a world of seven billion people who depend on shared natural resources, today's consumers expect sustainability to be at the heart of a responsible business. Edrington believes that we can achieve more by working together and so Edrington structures its sustainability agenda around the Scotch Whisky Association's Environmental Strategy, which is considered to be the only one in Scotland embracing an entire business sector.

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

Energy

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

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

Responsible Water Use

Edrington's Scotch whisky distilleries are on track to meet the 2020 target of improving distilling water efficiency by 10%.

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

Sustainable Packaging

The growing popularity of premium spirits around the world is accompanied by consumer demand for bottles and packaging that convey the heritage and value of the spirit. This is driving up glass and packaging weights, particularly in the case of single malt Scotch whiskies. The strength of Edrington's super premium portfolio means that it is not currently on track to meet the SWA's target of reducing packaging weight by 10% by 2020.

Edrington is on track to meet the target of increasing the recycled content of packaging to more than 40% or above.

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

Directors' Report

The directors present the audited financial statements for the year ended 31 March 2018.

Results for the year

The Company's financial results, which are detailed in the income statement, cover the year to 31 March 2018.

An interim dividend of 12.0p (2017: 11.8p) per share was paid on 10 November 2017. The directors agreed a further interim dividend of 28.9p per share which will be paid on 13 July 2018, making a total of 40.9p per share (2017: 40.0p per share) for the year. The aggregate dividends recognised in the year amounted to £24.4m (2017: £23.1m) excluding proposed dividends that were not approved by the balance sheet date.

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

Revenue for the year amounted to £739.3m resulting in a profit before tax (pre-exceptional) of £196.5m and overall profit for the financial year (pre-exceptional) of £87.9m. Exceptional items totalling £1.3m (2017: £0.5m) (after taxation and minority interest) were incurred, leading to a profit for the year, attributable to Edrington shareholders, of £86.6m (2017: £91.0m).

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 IFRS 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;

> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that:

> so far as each director is aware, there is no relevant audit information of which the Group and Parent Company's auditor is unaware; and

> the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Employee share schemes

The Company operates two share schemes for eligible employees.

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

The ShareReward Scheme allows Edrington 'B' Ordinary Shares to be awarded annually to eligible employees of the 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 2018.

Executive incentive plans

The Company operates two incentive plans for senior executives.

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

The Annual Incentive Plan was partially triggered in respect of the year to 31 March 2018 and the associated costs of this plan have been charged to the income statement.

The Long Term Incentive Plan rewards senior executives based on the Company's performance over a three year period, by awarding Edrington 'B' Ordinary Shares. The Company charges any associated costs to the income statement over the period of the plan. The performance conditions, which are more demanding than that for the Annual Incentive Plan, were partially triggered in respect of the three year period ended 31 March 2018.

Disabled employees

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

Going Concern

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

Auditors

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

Approved and signed on behalf of the board

Mati A. Cooke

Martin Cooke
Group Company Secretary

15 June 2018

Independent Auditors' Report

For the year ended 31 March 2018

Opinion

We have audited the financial statements of The Edrington Group Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Group Consolidated Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group Cash Flow Statement and the Group and Parent Company Statements of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (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).

In our opinion:

> the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit and the parent company's profit for the year then ended;

> the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

> the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

Conclusions relating to going concern

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

> the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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.

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

> the parent company financial statements are not in agreement with the accounting records and returns; or

> certain disclosures of directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 25 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Andrew Howie
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP,
Statutory Auditor, Chartered Accountants
Glasgow

15 June 2018

Group Consolidated Income Statement

year ended 31 March 2018

	Note	Pre-Exceptional 2018 £m	Exceptional (Note 2) 2018 £m	Total 2018 £m	Pre-Exceptional 2017 £m	Exceptional (Note 2) 2017 £m	Total 2017 £m
Group revenue	1	**739.3**	**-**	**739.3**	701.3	-	701.3
Cost of sales		**(515.5)**	**-**	**(515.5)**	(487.1)	(9.8)	(496.9)
Gross profit		**223.8**	**-**	**223.8**	214.2	(9.8)	204.4
Other administration costs		**(26.8)**	**(1.8)**	**(28.6)**	(26.6)	9.2	(17.4)
Group operating profit		**197.0**	**(1.8)**	**195.2**	187.6	(0.6)	187.0
Share of operating profit in JV's		**14.4**	**-**	**14.4**	16.0	-	16.0
Income from other investments	3	**0.9**	**-**	**0.9**	4.1	-	4.1
Earnings before interest and tax		**212.3**	**(1.8)**	**210.5**	207.7	(0.6)	207.1
Interest income	4	**3.3**	**-**	**3.3**	2.0	-	2.0
Interest payable and similar charges	4	**(23.7)**	**-**	**(23.7)**	(20.1)	-	(20.1)
Other finance income	4	**4.6**	**-**	**4.6**	-	-	-
Profit on ordinary activities before taxation	5	**196.5**	**(1.8)**	**194.7**	189.6	(0.6)	189.0
Taxation on profit on ordinary activities	7	**(40.8)**	**-**	**(40.8)**	(31.0)	(0.4)	(31.4)
Profit on ordinary activities after taxation		**155.7**	**(1.8)**	**153.9**	158.6	(1.0)	157.6
Attributable to non-controlling interests		**(67.8)**	**0.5**	**(67.3)**	(67.1)	0.5	(66.6)
Profit for the financial year attributable to parent		**87.9**	**(1.3)**	**86.6**	91.5	(0.5)	91.0

All the activities of the Group are classed as continuing.

The notes and accounting policies on pages 49 to 88 form an integral part of these financial statements.

Group Statement of Comprehensive Income

year ended 31 March 2018

	2018 £m	2017 £m
Profit for the year attributable to owner	**86.6**	91.0
Profit for the year attributable to non-controlling interests	**67.3**	66.6
	153.9	157.6
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Actuarial gain/(loss) on pension schemes		
Group	**11.0**	(9.8)
Associates and joint ventures	**7.3**	(6.5)
Non-controlling interests	**3.6**	(5.1)
Movement in deferred tax on pension schemes		
Group	**(1.4)**	1.8
Associates and joint ventures	**(1.2)**	1.2
Non-controlling interests	**(1.1)**	0.5
Pension fees paid direct to Pension Fund	**(0.4)**	(0.8)
Revaluation reserve movement	**0.2**	0.2
Movement in foreign investment	**-**	2.0
Non-controlling interest share of movement in foreign investment	**-**	(2.0)
Items that will be or have been reclassified to profit or loss		
Exchange differences on foreign operations		
Group	**(11.3)**	13.4
Associates and joint ventures	**(1.4)**	2.5
Non-controlling interests	**(7.1)**	2.4
Exchange difference on foreign dividend	**0.3**	(12.9)
Movement on deferred tax taken straight to reserves		
Group	**(2.9)**	1.1
Non-controlling interests	**(0.7)**	0.5
Share based payment movements	**-**	(0.9)
Non-controlling interest share of Share based payment movements	**(0.2)**	0.6
Subsidiary prior year adjustment	**-**	(0.3)
Non-controlling interest share of Subsidiary prior year adjustment	**-**	0.3
Cash flow hedge reserve movement	**(8.2)**	(25.8)
Cash flow hedge amounts recycled	**29.9**	12.6
Movement on financial instruments taken straight to reserves	**(8.5)**	4.7
Non-controlling interests share of movement on financial instruments taken straight to reserves	**8.5**	(4.7)
Other comprehensive income/(loss) attributable to parent	**13.4**	(17.5)
Other comprehensive income/(loss) attributable to non-controlling interest	**3.0**	(7.5)
Total other comprehensive income/(loss) for the year	**16.4**	(25.0)
Total comprehensive income for the year, net of tax	**170.3**	132.6
Attributable to parent	**100.0**	73.5
Attributable to non-controlling interest	**70.3**	59.1
Total	**170.3**	132.6

The notes and accounting policies on pages 49 to 88 form an integral part of these financial statements.

Statement of Financial Position

as at 31 March 2018

	Note	Company 2018 £m	Company 2017 £m	Group 2018 £m	Group 2017 £m
Non-current assets					
Property, plant and equipment	10	**-**	-	**500.1**	429.6
Intangible assets	9	**-**	-	**408.4**	391.9
Investment in subsidiaries	11	**305.9**	306.7	**-**	-
Investment in joint ventures	11	**-**	-	**61.1**	51.6
Other investments	11	**-**	-	**8.9**	8.3
Derivative financial instruments	19	**-**	-	**14.1**	44.2
Deferred tax assets	20	**-**	-	**29.7**	30.0
Post-employment benefit surplus	28	**-**	-	**16.1**	-
Total non-current assets		**305.9**	306.7	**1,038.4**	955.6
Current assets					
Inventories	12	**-**	-	**520.6**	456.9
Trade and other receivables	14	**13.0**	1.4	**173.6**	160.5
Assets held for sale	13	**-**	-	**0.9**	1.1
Derivative financial instruments	19	**-**	-	**12.7**	0.7
Cash and cash equivalents		**1.4**	2.2	**152.2**	89.9
Current tax asset	14	**0.3**	0.2	**5.6**	5.4
Total current assets		**14.7**	3.8	**865.6**	714.5
Total assets		**320.6**	310.5	**1,904.0**	1,670.1

Statement of Financial Position (continued)

	Note	Company 2018 £m	Company 2017 £m	Group 2018 £m	Group 2017 £m
Equity and liabilities					
Share capital	21	**6.3**	6.4	**6.3**	6.4
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**	1.2	**1.3**	1.2
Revaluation reserve		**-**	-	**6.9**	7.1
Liability for share based payments		**3.7**	5.5	**3.7**	5.5
Retained earnings		**234.1**	182.3	**349.9**	299.4
Cash flow hedge reserve	23	**(0.1)**	(0.9)	**(4.4)**	(26.1)
Equity attributable to owners of the parent		**245.8**	195.0	**429.5**	359.3
Non-controlling interests		**-**	-	**351.1**	325.7
Total equity		**245.8**	195.0	**780.6**	685.0
Non-current liabilities					
Borrowings	16	**24.8**	74.7	**564.3**	494.6
Post-employment benefit obligation	28	**-**	-	**-**	10.4
Deferred tax liabilities	20	**3.5**	3.2	**118.1**	107.4
Derivative financial instruments	19	**-**	0.5	**1.7**	9.6
Deferred consideration	15	**-**	-	**24.6**	-
Non-current liabilities		**28.3**	78.4	**708.7**	622.0
Current liabilities					
Trade and other payables	15	**6.2**	6.4	**49.2**	56.0
Borrowings	16	**39.9**	29.8	**162.1**	130.5
Derivative financial instruments	19	**0.1**	0.4	**2.9**	17.3
Current tax liabilities	15	**-**	-	**23.8**	16.0
Other liabilities	15	**0.3**	0.5	**176.7**	143.3
Total current liabilities		**46.5**	37.1	**414.7**	363.1
Total liabilities		**74.8**	115.5	**1,123.4**	985.1
Total equity and liabilities		**320.6**	310.5	**1,904.0**	1,670.1

In the year to 31 March 2018, The Edrington Group Company made a profit of £78.9m (2017: £34.0m).

The notes and accounting policies on pages 49 to 88 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 authorised for issue on 15 June 2018. They were signed on behalf of the board by:

I B Curle
Director

P A Hyde
Director

Group Cash Flow Statement

year ended 31 March 2018

	2018 £m	2017 £m
Operating activities		
Operating profit	**195.2**	187.0
Adjustments for:		
Depreciation	**17.6**	16.1
Amortisation	**4.8**	4.7
Gain on sale of fixed assets	**(1.1)**	(0.3)
Non-cash impact of write off of goodwill	**1.8**	1.1
Non-cash impact of pension curtailment	**-**	(13.4)
Non-cash impact of exceptional tangible asset write down	**-**	5.4
Operating cash flows before movements in working capital	**218.3**	200.6
Increase in inventories	**(12.2)**	(9.3)
Increase in receivables	**(14.2)**	(17.9)
Increase in payables	**26.4**	26.0
Share based payment charge	**-**	3.3
Employer pension contributions paid	**(14.4)**	(14.3)
Other non-cash movements	**(4.9)**	(8.3)
Cash generated by operations	**199.0**	180.1
Tax on profit paid	**(29.7)**	(26.2)
Net cash from operating activities	**169.3**	153.9
Investing activities		
Interest received	**3.3**	2.0
Dividends received	**0.2**	0.3
Dividends received from joint ventures	**5.5**	5.1
Purchase of tangible fixed assets	**(110.1)**	(107.7)
Purchase of intangible fixed assets	**(2.4)**	(5.9)
Sale of tangible fixed assets	**3.8**	2.4
Acquisition of subsidiary	**(32.9)**	(2.2)
Net cash acquired on acquisition	**2.0**	1.1
Net cash used in investing activities	**(130.6)**	(104.9)
Financing activities		
Interest paid	**(23.9)**	(19.0)
Purchase of own shares	**(5.8)**	(6.5)
Dividends paid to non-controlling interests in subsidiaries	**(44.9)**	(25.3)
Equity dividends paid	**(24.4)**	(23.4)
Drawdown of bank loans	**261.6**	157.3
Repayment of bank loans	**(130.7)**	(114.6)
Net cash generated from/(used in) financing activities	**31.9**	(31.5)
Net increase in cash and cash equivalents	**70.6**	17.5
Cash and cash equivalents at beginning of year	**83.6**	59.7
Effect of foreign exchange rate changes	**(5.1)**	6.4
Cash and cash equivalents at end of year (note 25)	**149.1**	83.6

The notes and accounting policies on pages 49 to 88 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

year ended 31 March 2018

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	Total attributable to owners of parent £m	Non-controlling interests £m	Total equity £m
Balance at 1 April 2017	6.4	0.5	29.5	35.8	1.2	7.1	5.5	299.4	(26.1)	359.3	325.7	685.0
Dividends (note 8)	-	-	-	-	-	-	-	(24.4)	-	(24.4)	(44.9)	(69.3)
Issue of share capital under share-based payment	-	-	-	-	-	-	(1.8)	-	-	(1.8)	-	(1.8)
Buy back of shares	(0.1)	-	-	-	0.1	-	-	(3.4)	-	(3.4)	-	(3.4)
Transaction with owners	(0.1)	-	-	-	0.1	-	(1.8)	(27.8)	-	(29.6)	(44.9)	(74.5)
Profit for the year	-	-	-	-	-	-	-	86.6	-	86.6	67.3	153.9
Other comprehensive income	-	-	-	-	-	-	-	(8.3)	-	(8.3)	3.0	(5.3)
Cash flow hedge reserve (note 23)	-	-	-	-	-	-	-	-	21.7	21.7	-	21.7
Revaluation reserve	-	-	-	-	-	(0.2)	-	-	-	(0.2)	-	(0.2)
Total comprehensive income for the year	-	-	-	-	-	(0.2)	-	78.3	21.7	99.8	70.3	170.1
Balance at 31 March 2018	**6.3**	**0.5**	**29.5**	**35.8**	**1.3**	**6.9**	**3.7**	**349.9**	**(4.4)**	**429.5**	**351.1**	**780.6**

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	Total attributable to owners of parent £m	Non-controlling interests £m	Total equity £m
Balance at 1 April 2016	6.4	0.5	29.5	35.8	1.2	7.3	2.1	242.9	(12.9)	312.8	291.9	604.7
Dividends (note 8)	-	-	-	-	-	-	-	(23.1)	-	(23.1)	(25.3)	(48.4)
Issue of share capital under share-based payment	-	-	-	-	-	-	3.4	-	-	3.4	-	3.4
Buy back and cancellation of shares	-	-	-	-	-	-	-	(7.1)	-	(7.1)	-	(7.1)
Transaction with owners	-	-	-	-	-	-	3.4	(30.2)	-	(26.8)	(25.3)	(52.1)
Profit for the year	-	-	-	-	-	-	-	91.0	-	91.0	66.6	157.6
Other comprehensive income	-	-	-	-	-	-	-	(4.3)	-	(4.3)	(7.5)	(11.8)
Cash flow hedge reserve (note 23)	-	-	-	-	-	-	-	-	(13.2)	(13.2)	-	(13.2)
Revaluation reserve	-	-	-	-	-	(0.2)	-	-	-	(0.2)	-	(0.2)
Total comprehensive income for the year	-	-	-	-	-	(0.2)	-	86.7	(13.2)	73.3	59.1	132.4
Balance at 31 March 2017	6.4	0.5	29.5	35.8	1.2	7.1	5.5	299.4	(26.1)	359.3	325.7	685.0

The notes and accounting policies on pages 49 to 88 form an integral part of these financial statements.

Company Statement of Changes in Equity

year ended 31 March 2018

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
Balance at 1 April 2017		6.4	0.5	1.2	5.5	(0.9)	182.3	195.0
Profit for the period		-	-	-	-	-	78.9	78.9
Cash flow hedge reserve	23	-	-	-	-	0.8	-	0.8
Total comprehensive income for the period		-	-	-	-	0.8	78.9	79.7
Dividends		-	-	-	-	-	(25.5)	(25.5)
Own shares acquired in the period		-	-	-	(1.8)	-	-	(1.8)
Buy back and cancellation of shares		(0.1)	-	0.1	-	-	(1.6)	(1.6)
		(0.1)	-	0.1	(1.8)	-	(27.1)	(28.9)
Balance at 31 March 2018		**6.3**	**0.5**	**1.3**	**3.7**	**(0.1)**	**234.1**	**245.8**

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
Balance at 1 April 2016		6.4	0.5	1.2	2.1	(0.8)	178.7	188.1
Profit for the period		-	-	-	-	-	34.0	34.0
Cash flow hedge reserve	23	-	-	-	-	(0.1)	-	(0.1)
Total comprehensive income for the period		-	-	-	-	(0.1)	34.0	33.9
Dividends		-	-	-	-	-	(24.3)	(24.3)
Own shares acquired in the period		-	-	-	3.4	-	-	3.4
Buy back and cancellation of shares		-	-	-	-	-	(6.1)	(6.1)
		-	-	-	3.4	-	(30.4)	(27.0)
Balance at 31 March 2017		6.4	0.5	1.2	5.5	(0.9)	182.3	195.0

The notes and accounting policies on pages 49 to 88 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

These financial statements, which are presented in Sterling, have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006, with the Group reporting under IFRS and Company reporting under FRS101.

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 effective date of acquisition or to the effective date of disposal as appropriate.

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 2 Classification and measurement of Share-based Payment Transactions;

> IFRS 9 Financial Instruments;

> IFRS 10 Consolidated Financial Statements;

> IFRS 15 Revenue from Contracts with Customers;

> IFRS 16 Leases;

> IAS 19 (amendments) Plan Amendment, Curtailment or Settlement;

> IAS 28 (amendments) Investments in Associates and Joint Ventures.

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, except that IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures.

IFRS 15 Revenue from Contracts with Customers (effective periods beginning after 1 January 2018).

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

During the year the Group carried out a detailed review of the current revenue recognition criteria and the classification of discounts and advertisement and promotional spend, and their compliance with the new standard. The review focussed on the contracts in place with customers globally, the point at which control transferred to a third party, the recognition of promotional payments made after the initial sale and the classification of advertising and promotional spend in the income statement. This review did not identify any material impact of the new standard and how revenue is recognised across the Group. The review did identify items of advertising and promotional spend which should be classified as a revenue item under the new standard, the total impact of restating this will be in the range of £5m-£10m and will be adjusted in the financial statements for the year ending 31 March 2019, this has no impact on gross profit and will reduce revenue and cost of sales by an equal amount.

IFRS 9 Financial Instruments

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

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

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

The group has applied the hedge accounting principles of IFRS 9 on a prospective basis. The foreign currency basis spread on Cross Currency Swaps has been excluded from the cash flow hedge relationship. The impact on transition to Other Comprehensive Income (OCI) is immaterial as is the subsequent amount that will be amortised and recognised in the profit and loss account, on a straight line basis over the life of the derivative.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all 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;
- disclosures in respect of financial instruments; and
- the effect of future accounting standards not adopted.

Going Concern

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.

Foreign currencies

While the Group's functional and 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.

The results and cash flows of overseas subsidiaries are translated into sterling at average rates of exchange. The net assets of such subsidiaries are translated to sterling at the closing rates of exchange ruling at the balance sheet date.

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 profit and loss accounts translated at average rates and rates ruling at the year end.

Revenue Recognition

Sales comprise revenue from the sale of goods, royalties, interest and rents receivable. Revenue is measured at the fair value of consideration received or receivable, excluding sales tax, and reduced by any rebates and trade discounts allowed. Sale of goods are recognised depending upon individual customer terms at the time of despatch, delivery or when the risk of loss transfers. Royalties, interest and rents receivable are recognised on an accruals basis. Dividend income is recognised at the point at which 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 either in the notes to the accounts and on the face of the income statement.

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.

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.

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 are regarded as having a limited useful life are amortised on a straight-line basis over those lives and are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. The annual rates used for this purpose are:

Brands	10%

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

Software is stated at historical cost net of amortisation. Amortisation is charged on a straight line basis over a 10 year period although this is subject to an independent review.

Tangible assets and depreciation

Tangible assets are 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. Tangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. The principal annual rates used for this purpose are:

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

Assets in the course of construction

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

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 (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.

Investments in associates and joint ventures

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

Non-current assets held for sale

Non-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.

Non-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 IAS 39 unless the retained interest continues to be an associate, in which case the Group uses the equity method (see the accounting policy regarding investments in associates above).

Operating profit

Operating profit is stated after charging restructuring costs and before the share of results of associates, investment income and finance costs.

Cash and cash equivalents

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Cash equivalents are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Cash equivalents comprise term deposits of less than one year (other than cash).

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.

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 current service cost and 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.

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 statement of financial position. 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: loans and receivables, available for sale investments, financial assets and liabilities at fair value through income statement and other financial liabilities at amortised cost.

Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as “loans and receivables”. Loans and receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method less impairment. Allowances are made where there is evidence of a risk of non-payment taking into account ageing, previous experience and general economic conditions. Interest is recognised by applying the effective interest method except for short-term receivables when recognition of interest would be immaterial.

Financial asset and liabilities at fair value through the income statement (include derivative financial instruments which are not designated in a hedge relationship)

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured 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.

Financial liabilities at amortised cost

Financial liabilities are initially recognised at fair value net of transaction costs and are subsequently reported at amortised cost. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognised in the income statement over the contractual terms using the effective interest method.

Hedge Accounting

The Group designates and documents certain derivatives hedging instruments as a hedge against the cash flow risk from a change in exchange or interest rates.

Cash flow hedges

The portion of gain or loss of the hedging instrument that was determined to be an effective hedge is recognised directly in equity and forms part of the hedge reserve.

The ineffective portion of the change in fair value of the hedging instrument is recognised in the income statement within finance costs. If the cash flow hedge relates to an underlying transaction which results in the recognition of a non-financial asset, the associated gain or loss on the derivative that had been previously recognised in equity is recognised in the initial measurement of the asset arising from the hedged transaction. For hedges that relate to an underlying transaction which results in recognition of 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.

Hedge effectiveness

Hedge effectiveness is measured and respective entries recorded in the statement of financial position, reserves and income statement on a semi-annual basis. Hedge effectiveness is achieved where the correlation in changes in value of the hedging instrument and the hedged item is between 80% and 125%. Methods of effectiveness testing include dollar offset, critical terms and hypothetical derivative method.

Discontinuing hedge accounting

Hedge accounting is discontinued retrospectively when the hedge instrument expires or is terminated, when the hedge no longer qualifies for hedge accounting or when the designation is revoked. In the case of cash flow hedges, any gain or loss that has been recognised in equity until that time remains in equity until the forecast transaction occurs. If the transaction is no longer expected to occur, related cumulative gains or losses which have previously been deferred in equity are recognised in the income statement immediately.

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.

Share based payments

Edrington issues equity-settled share based payments to certain 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, Edrington 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/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.

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.

Significant judgements and estimates

In addition the following areas of judgement 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.

Pensions and other post-retirement benefits

The Group operates both defined benefit pension scheme providing benefits based on final pensionable earnings, and a defined contribution scheme. The determination of any pension scheme surplus/obligation 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 28.

Notes to the Financial Statements

1 Revenue

The analysis of revenue, net assets and profitability by class of business or geographical market has not been disclosed as the directors consider this to be seriously prejudicial to the Company's interests.

An analysis of the Group's revenue is as follows:

	2018 £m	2017 £m
Core revenue	**706.7**	668.1
Sale of non-cased goods	**27.2**	28.1
Income from services rendered	**5.4**	5.1
Total Group revenue	**739.3**	701.3
Investment income (note 3)	**0.2**	0.4
Interest income (note 4)	**3.3**	2.0
	742.8	703.7

2 Exceptional items

	2018 £m	2017 £m
Pension scheme gain on curtailment	-	13.4
Restructuring costs	-	(8.6)
Goodwill write off	**(1.8)**	(1.0)
Accelerated depreciation of distillation plant	-	(4.4)
Total of exceptional items before taxation and non-controlling interest	**(1.8)**	(0.6)
Taxation	-	(0.4)
Non-controlling interest	**0.5**	0.5
Net impact on retained earnings	**(1.3)**	(0.5)

The write off of goodwill related to goodwill generated on the purchase of Edrington Webb Travel Retail (see note 24).

3 Income from other investments

	2018 £m	2017 £m
Income from other fixed asset investments	**0.2**	0.4
Gain on sale of disposal of investment	**0.7**	3.7
	0.9	4.1

4 Finance income and finance costs

	2018 £m	2017 £m
Interest payable and similar charges		
Interest payable on bank loans & overdrafts	**(8.2)**	(6.2)
Interest payable on US private placement	**(15.5)**	(13.8)
Interest payable by joint ventures	**-**	(0.1)
	(23.7)	(20.1)

	2018 £m	2017 £m
Interest receivable and similar income		
Other interest receivable	**3.2**	2.0
Other interest receivable by joint venture undertakings	**0.1**	-
Ineffective cash flow hedge	**4.6**	-
	7.9	2.0

5 Profit on ordinary activities before taxation

	2018 £m	2017 £m
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets	**17.6**	16.1
Staff costs (note 6)	**127.4**	116.9
Trade receivable impairment (note 14)	**(0.4)**	(0.6)
Gain on sale of tangible fixed assets	**(1.1)**	(0.3)
Amortisation of intangible assets (note 9)	**4.9**	4.7
Operating lease rentals (note 30)	**0.7**	0.2
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor for other services:		
- audit of the accounts of subsidiaries	**0.1**	0.1
- audit-related assurance services	**0.1**	0.1
- other assurance services	**0.1**	0.1
Fees payable to the component auditor for the audit of subsidiaries	**0.6**	0.6

The depreciation charge noted above is different from that shown in Note 10 to these financial statements, as cask depreciation is added to the cost of Scotch whisky inventory and is not released to the income statement until the relevant inventory is sold.

6 Employees

	2018 Number	2017 Number
The average number of employees during the year was as follows:		
Engaged in distilling, coopering, blending, bottling and marketing of Scotch whisky & rum	**2,255**	2,282

	2018 £m	2017 £m
Employment costs during the year amounted to:		
Wages and salaries	**80.9**	75.4
Social security costs	**9.7**	7.6
Other pension costs	**8.6**	7.6
Employee share schemes	**3.3**	3.8
Other employee incentive schemes	**24.9**	16.4
Exceptional employee redundancy costs	**-**	6.1
	127.4	116.9

6 Employees (continued)

	2018 £m	2017 £m
Remuneration in respect of the board of directors was as follows:		
Emoluments (excluding pension contributions)	**2.2**	2.3
Benefits	**0.4**	0.6
Employee share schemes	**0.1**	0.2
Performance related Annual Incentive Plan	**1.8**	1.4
Performance related Long Term Incentive Plan	**1.3**	0.7
Compensation for loss of office	**0.2**	0.5
	6.0	5.7

	2018 £m	2017 £m
The amounts set out above include remuneration in respect of the highest paid director each year as follows:		
Emoluments (excluding pension contributions)	**0.6**	0.6
Benefits	**0.1**	0.1
Employee share schemes	**0.1**	0.1
Performance related Annual Incentive Plan	**0.7**	0.5
Performance related Long Term Incentive Plan	**0.5**	0.3
	2.0	1.6

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

Amounts disclosed under other benefits for both the directors and the highest paid director, includes a non-pensionable salary supplement made to certain directors in lieu of the Company's contribution to the pension scheme.

Employee share schemes reflects the costs for both the annual ShareSave scheme and the ShareReward scheme (when it is awarded), which rewards employees including directors for achievement of performance targets.

Performance related payments include the Annual Incentive Plan and Long Term Incentive Plan costs for Edrington and its subsidiaries' employees.

The Annual Incentive Plan rewards directors and senior executives on both personal targets and on annual performance results. Payments were triggered in both the current and prior year.

The award made under the Long Term Incentive Plan is in the form of shares and is based on a rolling three year performance target. This was partially triggered both this year and last year. The amount awarded reflects the increase in share price over the three year period of each scheme. The annual cost of the board's Long Term Incentive Plan based on the share price at the time of inception was £1.3m (2017: £0.6m) and for the highest paid director was £0.5m (2017: £0.2m).

6 Employees (continued)

For further details on these incentive schemes and share schemes please refer to the Directors' Report.

During the year, 5 directors (2017: 6 directors) exercised share rights under the ShareSave Scheme. The aggregate of gains by directors exercising share rights during the year was £19,000 (2017: £17,000). During the year, 0 directors (2017: 0 directors) participated in defined benefit pension schemes and 2 directors participated in the defined contribution scheme (2017: 2). No other directors participated in any other Company pension schemes during the year.

The highest paid director exercised share rights under the ShareSave Scheme this year and last year. The highest paid director's accrued pension at the year-end was £29,000 (2017: £29,000).

The Group defines key management personnel to be the Board of directors, as noted on page 2.

7 Taxation

Corporation tax is calculated at 19% (2017: 20%) of the estimated taxable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	2018 £m	2017 £m
The tax charge represents:		
Current tax:		
UK Corporation tax at 19% (2017: 20%)	**15.6**	12.1
Adjustment in respect of prior periods	**4.9**	(0.6)
Foreign tax	**17.4**	14.0
Tax on share of profits of joint ventures (note 11)	**3.0**	3.2
Tax on exceptional items (note 2)	**-**	(1.3)
Total current tax	**40.9**	27.4
Deferred tax:		
Deferred tax charge for the year	**0.5**	2.6
Tax on exceptional items (note 2)	**-**	1.7
Adjustment in respect of prior periods	**(0.6)**	(0.3)
Total deferred tax	**(0.1)**	4.0
Tax on profit on ordinary activities	**40.8**	31.4

7 Taxation (continued)

Factors affecting the tax charge for the year

The tax assessed for the year differs to the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

	2018 £m	2017 £m
Profit before tax from continuing operations	**194.7**	189.0
Profit on ordinary activities before tax at 19% (2017: 20%)	**37.0**	37.8
Expenses not deductible for tax purposes	**1.5**	2.5
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1.0)**	(3.7)
Non-taxable income	**(0.9)**	(0.4)
Other differences	**0.1**	0.6
Adjustment relating to prior period corporation tax	**4.3**	(0.9)
Effect on deferred tax balances due to changes in tax rates	**(0.3)**	(6.2)
Deferred tax assets previously unrecognised	**(0.2)**	-
Tax on exceptional costs	**-**	0.4
Deferred tax on distributable reserves	**0.3**	1.3
	40.8	31.4

8 Dividends

	2018 £m	2017 £m
Dividends payable from profit and loss reserves:		
- Second interim of 28.2p (2017: 26.3p)	**17.9**	16.8
- First interim of 12.0p (2017: 11.8p)	**7.6**	7.5
Less: dividends paid to the Employee Benefit Trust	**(1.1)**	(1.2)
	24.4	23.1
Proposed after the year end (not recognised as a liability):		
Second interim of 28.9p (2017 second interim: 28.2p)	**18.4**	17.9

9 Intangible assets

Group	Brands £m	Software £m	Total £m
Cost			
At 1 April 2017	916.4	19.7	936.1
Additions	19.0	2.4	21.4
Disposals	-	(0.1)	(0.1)
Transfer from tangible assets	-	0.6	0.6
Exchange adjustment	-	(1.0)	(1.0)
Cost at 31 March 2018	935.4	21.6	957.0
Amortisation			
At 1 April 2017	536.6	7.6	544.2
Charge for year	3.3	1.6	4.9
Disposals	-	(0.1)	(0.1)
Transfer from tangible assets	-	0.1	0.1
Exchange adjustment	-	(0.5)	(0.5)
Amortisation at 31 March 2018	539.9	8.7	548.6
Net book value at 31 March 2018	**395.5**	**12.9**	**408.4**
Net book value at 31 March 2017	379.8	12.1	391.9

At 31 March 2018, the carrying amounts of the principal brands acquired by the Group are as follows:

	2018 £m
Cash generating unit	
Famous Grouse Family	**32.0**
The Macallan	**324.1**
Highland Park	**13.9**
The Glenrothes	**19.0**
Cutty Sark	**6.5**
	395.5

The brands are protected by trademarks, which are renewable indefinitely, in all of the major markets they are sold. There are not believed to be any legal, regulatory or contractual provisions that limit the useful lives of these brands. The nature of the premium drinks industry is that obsolescence is not a common issue, with indefinite brand lives being commonplace. Accordingly, with the exception of Cutty Sark, management believe that it is appropriate that the brands are treated as having indefinite lives for accounting purposes and are therefore not amortised.

The Cutty Sark brand is deemed to have a finite life and is amortised in line with the Group accounting policy on page 42.

9 Intangible assets (continued)

Impairment testing and sensitivity analysis

Impairment tests are carried out annually or more frequently if events or circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of a cash generating unit (CGU) is determined based on the value in use calculations. These calculations use pre-tax discounted cash flow projections based on financial budgets approved by the board which cover a three year period. These cash flows reflect expectations of sales growth, operating costs and margin, based on past experience and industry growth forecasts. Cash flows beyond the three years are extrapolated using the growth rates stated below.

The pre-tax discount rates and terminal growth rates used for impairment testing are as follows:

	Terminal growth rate %
Americas	2.5%
Asia	2.5%
Global Travel Retail	2.4%
Europe	2.1%
Russia, Emerging Europe, Middle East, Africa and Turkey	2.1%

The pre-tax weighted average cost of capital (WACC) is the basis for the discount rate of 9% (2017: 9%). The WACC reflects the pre-tax cost of debt-financing and the pre-tax cost of equity finance. Further risk premiums are also applied according to management's assessment of any specific risks impacting on each operating unit.

The terminal growth rates applied at the end of the three-year forecast period are based on the long-term annual inflation rate of each operating unit obtained from external sources.

As at 31 March 2018, based on internal valuations, management concluded that the values in use of the CGUs exceed their net asset value.

Sensitivity analysis was also carried out on the above calculations to review possible levels of impairment after adjusting discount rates. At a pre-tax discount rate of 9%, none of the CGUs were impaired. Therefore, whilst cash flow projections used within the impairment reviews are subject to inherent uncertainty, management has concluded that changes within reason to the key assumptions applied in assessing the value in use calculation would not result in a change to the impairment conclusions reached.

10 Property, plant and equipment

Group	Freehold land & buildings £m	Plant, vehicles & equipment £m	Casks £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2017	116.0	166.4	262.0	124.8	669.2
Additions	10.9	13.1	35.4	42.1	101.5
Disposals	(1.9)	(8.3)	(5.9)	-	(16.1)
Transfers	101.0	58.0	-	(159.6)	(0.6)
Exchange adjustment	(2.5)	(5.7)	(1.3)	-	(9.5)
At 31 March 2018	**223.5**	**223.5**	**290.2**	**7.3**	**744.5**
Depreciation					
At 1 April 2017	45.4	115.6	78.6	-	239.6
Charge for year	3.7	8.9	12.0	-	24.6
Disposals	(0.9)	(9.3)	(3.2)	-	(13.4)
Transfers	-	(0.1)	-	-	(0.1)
Exchange adjustment	(1.2)	(4.4)	(0.7)	-	(6.3)
At 31 March 2018	**47.0**	**110.7**	**86.7**	**-**	**244.4**
Net book value at 31 March 2018	**176.5**	**112.8**	**203.5**	**7.3**	**500.1**
Net book value at 31 March 2017	70.6	50.8	183.4	124.8	429.6

Included in freehold land and buildings is £2.2m (2017: £2.2m) in respect of freehold land which is not depreciated.

11 Fixed asset investments

Group	Joint ventures £m	Associates and other investments £m	Total investments £m
At 1 April 2017	51.6	8.3	59.9
Share of retained profits of joint ventures less dividends received	6.0	-	6.0
Actuarial gain on pension scheme	9.5	-	9.5
Movement on deferred tax relating to pension scheme	(1.7)	-	(1.7)
Exchange adjustments	(1.4)	(1.2)	(2.6)
Movement on profit in inventory	(2.9)	-	(2.9)
Addition of investment*	-	1.8	1.8
Other movements	-	-	-
At 31 March 2018	**61.1**	**8.9**	**70.0**

* This represents the acquisition of a minority stake in Tequila Partida LLC. The equity was earned in return for distribution services provided by the Group.

Company	Investments in subsidiaries £m
Cost at 1 April 2017	306.7
Other movements	(0.8)
Cost or valuation at 31 March 2018	**305.9**

Other movements of investments represent the fair value of shares issued to subsidiary undertakings in the year to enable them to meet their obligations under share based payment incentive schemes. The Group's accounting policy is to treat these issues as an additional investment in the parent undertaking.

11 Fixed asset investments (continued)

Investments

At 31 March 2018 the Group held more than 20% of the equity, and no other share or loan capital, of the following companies:

Name of Company/(registered address)	Holding	Proportion held at 31 March 2018	Nature of business
Subsidiary undertakings:			
Edrington Distillers Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%*	Blending, bottling, sales and marketing of Scotch whisky
The 1887 Company Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	75%**	Management of Scotch whisky companies
Brugal & Co., S.A. (Av. J. F. Kennedy No 57, Edificio Brugal, Santo Domingo, Dominican Republic, 1183)	Ordinary shares	61%	Distilling, bottling, sales and marketing of Dominican rum
Snow Leopard Vodka Limited (One, Fleet Place, London, England, EC4M 7WS)	Ordinary shares	80%	Sale and distribution of vodka
Clyde Bonding Company Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Dormant
Marshall McGregor Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
The Clyde Cooperage Company Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Dormant
Edrington Distillers Finance Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Dormant
Edrington Africa Pty Ltd (Block A, Ground Floor, 3021 William Nicol Drive, Bryanston, Johannesburg)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
Hepburn & Ross Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Dormant
R & B (West Nile Street) Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Dormant
Robertson & Baxter Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Dormant
Edrington Brands Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Dormant
Edrington International Brands Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Activities of holding companies

11 Fixed asset investments (continued)

Name of Company/(registered address)	Holding	Proportion held at 31 March 2018	Nature of business
Joint venture and associated undertakings:			
Lothian Distillers Limited (9 Wheatfield Rd, Edinburgh, EH11 2PX)	Ordinary shares	50%	Distillation and maturation of Scotch grain whisky
Row & Company Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	50%	Sale and marketing of Scotch whisky
Edrington Kyndal India Private Ltd (304 Navkriti Arcade, Sector 55, Gurgaon, 122003, Haryana, India)	Ordinary shares	50%	Sale and distribution of alcoholic beverages
Casa Brugal RD., S.A. (Av. J. F. Kennedy No 57, Edificio Brugal, Santo Domingo, Dominican Republic, 1183)	Ordinary shares	33.33%	Sales and marketing of Dominican rum

Key:
* Investment is held directly by the Company.
** The Company has 70% of the voting and economic rights in respect of The 1887 Company Limited.

The 1887 Company Limited owns the following investments:

Name of Company/(registered address)	Holding	Proportion held at 31 March 2018	Nature of business
Subsidiary undertakings:			
Highland Distillers Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Distilling, sales and marketing of Scotch whisky
The Macallan Distillers Limited (The Macallan Distillery, Easter Elchies, Craigellachie, Banffshire, AB38 9RX)	Ordinary shares Preference shares	75% 100%	Distilling, sales and marketing of Scotch whisky
Edrington Korea Limited (5F, 570 Samsung-ro, Gangman-gu, Seoul 06163)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
Edrington Sweden AB (Luntmakargatan 46, Box 5314, 102 47 Stockholm, Sweden)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
BB&R Spirits Limited (One, Fleet Place, London, England, EC4M 7WS)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
Edrington Danmark A/S (Dronningens Tvaergade 9, 1302 Copenhagen, Denmark)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
Edrington Finland OY (Vuorikatu 14 B, 4 krs, 00100 Helsinki, Finland)	Ordinary shares	100%	Sale and distribution of alcoholic beverages

11 Fixed asset investments (continued)

Name of Company/(registered address)	Holding	Proportion held at 31 March 2018	Nature of business
Edrington Norge AS (Hedgehaugsveien 21b, 0352, Oslo, Norway)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
Edrington Taiwan Limited (9F, No. 9 Songgao Road, Xinyi Dist., Taipei, Taiwan 110)	Ordinary shares	87.5%	Sale and distribution of alcoholic beverages
Edrington Shanghai Limited (Unit 1, 19/F, Tower 1, Grand Gateway, No.1 Hong Qiao Road, Shanghai 200030, China)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
Edrington Hong Kong Limited (Suite 1207-07, Exchange Tower, 33 Wang Chiu Road, Kowloon Bay, Hong Kong)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
Edrington Singapore Pte Limited (12 Marina View Asia Square, Tower 2 Level 24-01, Singapore 018961)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
The Edrington Group USA, LLC (18 West 24th Street, 4th Floor, New York, NY10010, USA)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
Edrington European Travel Retail (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
Edrington Middle East and Africa (Magalou Alexandrou 4 Street, Aglantzia, 2121 Nicosia, Cyprus)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
Highland Distribution Company Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Activities of distribution holding companies
Highland Distribution Holdings Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Activities of distribution holding companies
Highland Distribution Ventures Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Activities of distribution holding companies
HS (Distillers) Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares Preference shares	75% 100%	Activities of holding companies
Highland Distribution Netherlands Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Activities of distribution holding companies
Highland Distillers Group Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Activities of holding companies

11 Fixed asset investments (continued)

Name of Company/(registered address)	Holding	Proportion held at 31 March 2018	Nature of business
Macallan Property Development Company Limited (The Macallan Distillery Easter Elchies House, Craigellachie, Aberlour, Banffshire, AB38 9RX)	Ordinary shares	75%	Development of building projects
Highland Distillers Finance Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Dormant
Edrington WEBB Travel Retail Americas, LLC (1399 SW 1st Avenue, Suite 200 Miami, FL 33131)	Ordinary shares	100%	Sale and distribution of alcoholic beverages
James Grant & Company (Highland Park Distillery) Limited (100 Queen Street, Glasgow, Scotland, G1 3DN)	Ordinary shares	100%	Dormant
Macallan Property Company Limited (The Macallan Distillery Easter Elchies House, Craigellachie, Aberlour, Banffshire, AB38 9RX)	Ordinary shares	75%	Letting and operating of real estate
Matthew Gloag & Son Limited (The Hosh, Crieff, Perth, Scotland, PH7 4HA)	Ordinary shares	100%	Dormant
Joint venture undertakings:			
Edrington-Beam Suntory UK Distribution Limited (Edrington-Beam Suntory House, Castle Business Park, Stirling, Stirlingshire, FK9 4RT)	Ordinary shares	50%	Sale and distribution of alcoholic beverages
Maxxium España SL (C/ Arturo Soria 107, 28043 Madrid, Spain)	Ordinary shares	50%	Sale and distribution of alcoholic beverages
Denview Limited (t/a Maxxium Russia) (30/1, Obrucheva Street, Building 2, 4th Floor, 117861 Moscow, Russia)	Ordinary shares	50%	Sale and distribution of alcoholic beverages
Maxxium Nederland BV (Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands)	Ordinary shares	50%	Sale and distribution of alcoholic beverages
Maxxium Rus (30/1, Obrucheva Street, Building 2, 4th Floor, 117861 Moscow, Russia)	Ordinary shares	50%	Sale and distribution of alcoholic beverages
Maxxium BV Worldwide (JJ Viottastraat 46- 48, Amsterdam 1071 Jt, Netherlands)	Ordinary shares	50%	Sale and distribution of alcoholic beverages

11 Fixed asset investments (continued)

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests	Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2018, 2017	**2018 £m**	2017 £m	**2018 £m**	2017 £m
The Macallan Distillers Limited	UK	25%	**27.7**	25.3	**158.1**	136.9
1887 Company Limited	UK	25%	**31.9**	34.9	**155.8**	152.1
Brugal & Co., S.A.	Dominican Republic	39%	**7.5**	6.0	**36.6**	36.9
Edrington Taiwan	Taiwan	12.5%	**0.2**	0.1	**0.8**	0.7

The following information is given in respect of the Group's share of its joint ventures on an aggregate basis:

	2018 £m	2017 £m
Income Statement		
Turnover (before elimination of Group transactions with joint ventures)	**289.9**	274.5
Profit on ordinary activities before interest and taxation	**14.4**	17.2
Interest and other finance costs	**0.1**	(0.3)
Taxation (note 7)	**(3.0)**	(3.2)
Profit after taxation	**11.5**	13.7
Less dividends paid	**(5.5)**	(5.1)
	6.0	8.6
Statement of Financial Position		
Non-current assets	**15.6**	16.6
Current assets	**203.5**	210.0
	219.1	226.6
Current liabilities	**(150.0)**	(158.0)
Non-current liabilities	**(8.0)**	(17.0)
	(158.0)	(175.0)
Total assets and liabilities	**61.1**	51.6

12 Inventories

Group	2018 £m	2017 £m
Raw materials	**0.5**	6.6
Scotch whisky	**481.7**	411.3
Rum	**24.1**	23.8
Packaging materials	**9.3**	6.0
Other inventory	**5.0**	9.2
	520.6	456.9

13 Assets held for sale

Group	2018 £m	2017 £m
Maxxium Worldwide BV	**0.9**	1.1

14 Trade and other receivables

	Company		Group	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts falling due within one year:				
Trade debtors	**-**	-	**113.3**	93.0
Amounts owed by Group undertakings	**13.0**	1.4	**-**	-
Amounts owed by joint ventures	**-**	-	**29.4**	30.2
Other debtors and prepayments	**-**	-	**30.9**	37.3
	13.0	1.4	**173.6**	160.5
Current tax asset	**0.3**	0.2	**5.6**	5.4
	13.3	1.6	**179.2**	165.9

14 Trade and other receivables (continued)

Information on financial assets past due and associated impairment is as follows:

Group	Gross 2018 £m	Impairment 2018 £m	Gross 2017 £m	Impairment 2017 £m
Not past due	**94.8**	**(0.8)**	80.2	(0.9)
Past due 1 to 30 days	**9.2**	**(0.1)**	11.1	-
Past due 31 to 60 days	**4.0**	**(0.1)**	1.9	-
Past due 61+ days	**7.7**	**(1.4)**	2.6	(1.9)
Total	**115.7**	**(2.4)**	95.8	(2.8)

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

Movement in the Group provisions for impairment of trade receivables were as follows:

Group	2018 £m	2017 £m
At start of year	**2.8**	3.4
Net provision released during the year	**(0.4)**	(0.6)
At end of year	**2.4**	2.8

The provision allowance in respect of trade receivables is used to record impairment losses unless the Group and Company are satisfied that no recovery of the amount owing is possible. At that point, the amounts are considered irrecoverable and are written off against the trade receivable directly, with a corresponding charge being recorded in administration costs. Where trade receivables are past due, an assessment is made of individual customers and the outstanding balance. No provision is required in respect of amounts owed by subsidiary companies.

The creation and release of the trade receivables provision has been included within administration costs in the income statement.

The other classes within trade and other receivables do not contain impaired assets.

15 Trade and other payables

	Company		Group	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Amounts falling due within one year:				
Trade payables	**-**	-	**30.5**	31.4
Amounts owed to Group undertakings	**6.2**	6.4	**-**	-
Amounts owed to joint ventures	**-**	-	**18.7**	24.6
Accruals and other payables	**0.3**	0.5	**142.0**	129.2
Other taxes and social security costs	**-**	-	**20.6**	14.1
Corporation tax	**-**	-	**23.8**	16.0
Deferred consideration	**-**	-	**14.1**	-
	6.5	6.9	**249.7**	215.3
Amounts falling due more than one year:				
Deferred consideration	**-**	-	**24.6**	-
	-	-	**24.6**	-

The tables in Note 16 analyse the Group and Company's financial liabilities into the relevant maturity.

16 Borrowings

	Company		Group	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Current				
Bank overdraft	**-**	-	**3.1**	6.3
Bank borrowings	**40.0**	30.0	**105.9**	124.7
Private placements	**-**	-	**53.5**	-
Loan notes	**-**	-	**0.1**	0.1
Deferred arrangement fees	**(0.1)**	(0.2)	**(0.5)**	(0.6)
Total Current Borrowings	**39.9**	29.8	**162.1**	130.5
Non-current				
Bank borrowings	**25.0**	75.0	**284.7**	135.0
Private placements	**-**	-	**280.4**	360.5
Deferred arrangement fees	**(0.2)**	(0.3)	**(0.8)**	(0.9)
Total Non-current Borrowings	**24.8**	74.7	**564.3**	494.6
Total Borrowings	**64.7**	104.5	**726.4**	625.1

Bank overdrafts are provided as on demand facilities. Interest on bank overdrafts is linked to LIBOR or the currency equivalent of LIBOR.

16 Borrowings (continued)

UK Bank Borrowings are denominated in GBP and borrowings in overseas entities are generally drawn down in the local currency.

At 31 March 2018 the 1887 Company Limited had US private placements with debt denominated in USD of $75m repayable April 2018 and $225m repayable in April 2021 at fixed interest rates of 5.01% and 4.25% respectively and £100m repayable in April 2025 and £20m repayable in April 2027 at fixed interest rates of 2.84% and 2.91% respectively. The 1887 Company uses cross currency swaps to hedge the foreign currency risk on the dollar denominated debt, these are designated as cash flow hedges.

Amortisation on deferred arrangement fees is recorded within the finance costs line in the income statement.

With the exception of the long term fixed private placement debt the book value of borrowings equates to the fair value as the outstanding bank debt is short term in nature and at floating market rates. The fair value of the private placement debt, calculated on a discounted cash flow basis, as at 31 March 2018 was £363.6m (2017: £407.1m).

Borrowings of the Group are secured by guarantees from and floating charges over some of the assets of the Group.

The Group has guaranteed bank borrowings for distribution companies totalling £2.0m (2017: £8.0m) and £11.2m in relation to future rental payments for office space.

The Group had available undrawn committed bank facilities as follows:

	2018 £m	2017 £m
Expiring within one year	**-**	-
Expiring between one and two years	**15.0**	-
Expiring after two years	**91.0**	185.0
	106.0	185.0

The facilities can be used for general corporate purposes. Certain of the borrowings include cross default provisions and negative pledges.

The committed bank facilities are subject to financial covenants, being EBITDA/Net Debt must not exceed 3.25 and Net Interest/EBITDA must exceed 3.0. Any non-compliance with covenants could, if not waived, constitute an event of default with respect to any such arrangement, and any non-compliance with covenants may, in particular circumstances lead to an acceleration of maturity on certain borrowings. Edrington was in full compliance with its financial covenants throughout each of the years presented.

16 Borrowings (continued)

	Company		Group	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Borrowings will mature as follows:				
Within one year	**39.9**	30.0	**162.1**	130.5
Between one and two years	**24.8**	30.0	**124.7**	129.7
Between two and five years	**-**	44.5	**319.7**	244.9
Beyond five years	**-**	-	**119.9**	120.0
	64.7	104.5	**726.4**	625.1

17 Risk Management

Market Risk

The Group's funding, liquidity and exposure to foreign currency and interest rate risks are managed by the Group's treasury department. The treasury department use a range of financial instruments to manage the underlying risks. Treasury operations are conducted within a framework of board approved policies and guidelines, which are recommended and monitored by the Treasury Committee, chaired by the Chief Financial Officer. All transactions in derivative financial instruments are initially undertaken to manage risks arising from underlying business activities. The Group does not use derivatives for speculative purposes.

Currency risk

Foreign Exchange Risk Management

The Group undertake transactions denominated in foreign currencies and is therefore exposed to foreign exchange risk.

Foreign Exchange contracts

It is the Group policy to enter into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to 24 months.

The group implements a rolling policy which ensures that by the end of the current year, as a minimum 60% of anticipated currency contribution (excluding GBP) will be hedged within the next 12 months and 25% in the following 12 months.

Refer to Note 19 for further detail on derivatives outstanding as at the reporting date.

17 Risk Management (continued)

Interest rate risk

The 1887 Company has an element of fixed rate debt issued through GBP and USD Private Placements with maturities ranging from 2018 to 2027. The remainder of the Group debt is bank debt at floating rates. The 1887 Group policy is to hedge the average net debt as forecast in the 5 year plan up to 90% in the first year, 75% in year 2 and on a 5% reducing scale thereafter. Interest rate derivatives are used to swap debt from fixed to floating and designated as cash flow hedges.

The following table shows the split of debt between fixed and floating at each reporting date including the impact of interest rate derivatives and cross currency swaps.

	2018 £m	2017 £m
Fixed rate debt	**432.2**	514.8
Floating rate debt	**294.2**	110.3
	726.4	625.1

The average interest rate across the portfolio of debt including the impact of derivatives is 2.6% (2017: 2.9%).

The following table details the Group's sensitivity to a 10% increase and decrease in currency rates and a 10 basis point (bps) increase and decrease in interest rates and the impact on profit and loss and equity. 10% sensitivity rate applied to foreign currency and 10bps movement applied to interest represents management's assessment of the reasonably possible change on foreign exchange rates and interest rates within a 12 month period. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. Similarly the interest rate sensitivity is based only on outstanding debt. The analysis includes the impact of financial derivatives. The results of the sensitivity analysis should not be considered as projections of likely future events, gains or losses as actual results may differ materially in the future as a result of developments in global financial markets impacting exchange rates and interest rates.

	Impact on income statement gain/(loss)		Impact on comprehensive income gain/(loss)	
	2018 £m	2017 £m	**2018 £m**	2017 £m
10% weakening of sterling	**25.7**	18.5	**12.1**	17.8
10% strengthening of sterling	**(20.9)**	(15.1)	**(9.9)**	(14.5)
10bps increase in interest rates	**(0.3)**	(0.1)	**-**	-
10bps decrease in interest rates	**0.3**	0.1	**-**	-

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises on cash balances, derivative financial instrument and credit exposures to customers.

The carrying amount of financial assets represents the Group's exposure to credit risk at the balance sheet date.

Credit risk is managed through application of risk management policies approved and monitored by the board. Financial credit risk is managed by limiting counterparties to major banks and financial institutions who are relationship banks providing revolving credit facilities. The Group's policy is to spread the risk by using a number of banks to avoid significant concentrations of credit risk.

Trade and other receivable exposures are managed locally in the operating units where they arise and credit limits are set as deemed appropriate for the customer.

17 Risk Management (continued)

The Group has a large number of customers which are internationally dispersed. The Group uses credit insurance to limit its risk to 3rd party customers.

Reconciliation of Financial Instruments

31 March 2018	Fair Value £m	Loans and Receivables £m	Liabilities at amortised cost £m	Total £m	Current £m	Non-Current £m
Financial Assets						
Trade and other receivables	-	173.6	-	173.6	173.6	-
Cash and Cash equivalents	-	152.2	-	152.2	152.2	-
Derivatives in a hedge relationship	24.0	-	-	24.0	10.7	13.3
Derivatives not classified as hedges	2.8	-	-	2.8	2.0	0.8
	26.8	325.8	-	352.6	338.5	14.1
Financial Liabilities						
Trade and other payables	-	(211.8)	-	(211.8)	(211.8)	-
Deferred consideration	-	(38.7)	-	(38.7)	(14.1)	(24.6)
Borrowings	-	(3.1)	(723.3)	(726.4)	(162.1)	(564.3)
Derivatives in a hedge relationship	(4.2)	-	-	(4.2)	(2.6)	(1.6)
Derivatives not classified as hedges	(0.4)	-	-	(0.4)	(0.3)	(0.1)
	(4.6)	(253.6)	(723.3)	(981.5)	(390.9)	(590.6)
	22.2	**72.2**	**(723.3)**	**(628.9)**	**(52.4)**	**(576.5)**

31 March 2017	Fair Value £m	Loans and Receivables £m	Liabilities at amortised cost £m	Total £m	Current £m	Non-Current £m
Financial Assets						
Trade and other receivables	-	160.5	-	160.5	160.5	-
Cash and Cash equivalents	-	89.9	-	89.9	89.9	-
Derivatives in a hedge relationship	44.9	-	-	44.9	0.7	44.2
Derivatives not classified as hedges	-	-	-	-	-	-
	44.9	250.4	-	295.3	251.1	44.2
Financial Liabilities						
Trade and other payables	-	(185.2)	-	(185.2)	(185.2)	-
Borrowings	-	(6.3)	(618.8)	(625.1)	(130.5)	(494.6)
Derivatives in a hedge relationship	(19.6)	-	-	(19.6)	(10.1)	(9.5)
Derivatives not classified as hedges	(7.3)	-	-	(7.3)	(7.2)	(0.1)
	(26.9)	(191.5)	(618.8)	(837.2)	(333.0)	(504.2)
	18.0	**58.9**	**(618.8)**	**(541.9)**	**(81.9)**	**(460.0)**

17 Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. The Group manages liquidity risk through use of committed revolving credit facilities provided by a syndicate of banks with various maturity profiles. As at 31 March 2018 the Edrington Group Limited had £480.0m (2017: £430.0m) of committed facilities. Liquidity risk is reviewed further at Note 18.

18 Liquidity risk

The following table provides an analysis of the anticipated contractual cash flows for the Group's financial liabilities including derivative instruments on an undiscounted basis. Where interest rate payments are on a floating rate basis, rates of each cash flow until maturity of the instruments are calculated based on the forward yield curve prevailing at 31 March 2018 and 31 March 2017.

The gross cash flows of derivative contracts are presented for the purposes of this table, although in practice, the Group uses netting arrangements to reduce its liquidity requirements on these instruments.

Contractual cash flows

31 March 2018	Notes	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and thereafter £m	Total £m
Loans and other borrowings	(i)	(162.7)	(125.0)	(110.7)	(160.3)	(49.0)	(120.0)	(727.7)
Interest on borrowings	(ii)	(12.8)	(11.4)	(11.4)	(7.4)	(3.4)	(14.9)	(61.3)
Payables		(226.1)	(12.4)	(13.2)	-	-	-	(251.7)
Non-derivative financial liabilities		(401.6)	(148.8)	(135.3)	(167.7)	(52.4)	(134.9)	(1,040.7)
Gross amounts receivable from foreign exchange contracts		179.5	96.3	9.9	4.3	-	-	290.0
Gross amounts payable on foreign exchange contracts		(184.3)	(98.2)	(9.1)	(3.9)	-	-	(295.5)
Notional amount receivable under cross currency swaps		6.5	-	-	18.4	-	-	24.9
Net interest receivable under cross currency swaps		0.3	0.3	0.2	0.1	-	-	0.9
Derivative instruments		2.0	(1.6)	1.0	18.9	-	-	20.3

18 Liquidity risk (continued)

31 March 2017	Notes	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 and thereafter £m	Total £m
Loans and other borrowings	(i)	(131.1)	(130.1)	(50.0)	(15.0)	(180.4)	(120.0)	(626.6)
Interest on borrowings	(ii)	(16.4)	(14.8)	(13.5)	(12.9)	(7.9)	(14.9)	(80.4)
Payables		(215.3)	-	-	-	-	-	(215.3)
Non-derivative financial liabilities		(362.8)	(144.9)	(63.5)	(27.9)	(188.3)	(134.9)	(922.3)
Gross amounts receivable from foreign exchange contracts		211.9	107.2	11.4	9.6	4.8	-	344.9
Gross amounts payable on foreign exchange contracts		(197.3)	(102.4)	(9.6)	(7.8)	(3.9)	-	(321.0)
Notional amount payable under cross currency swaps		13.1	-	-	38.4	-	-	51.5
Net interest payable under cross currency swaps		(1.5)	(1.4)	(1.2)	(0.6)	-	-	(4.7)
Derivative instruments		26.2	3.4	0.6	39.6	0.9	-	70.7

(i) For the purpose of these tables above, borrowings are defined as gross borrowings excluding fair value derivative instruments.

(ii) Carrying amount of interest on borrowings is included within interest payable in note 16.

Interest on other borrowings represents the gross interest payable on private placement denominated in GBP and in USD at prevailing forward rate and net interest including the impact of interest rate swaps on bank borrowings.

The facilities can be used for general corporate purposes. Certain of the borrowings include cross default provisions and negative pledges.

The committed bank facilities are subject to financial covenants, being EBITDA/Net Debt must not exceed 3.25 and Net Interest/EBITDA must exceed 3.0.

Any non-compliance with covenants could, if not waived, constitute an event of default with respect to any such arrangement, and any non-compliance with covenants may, in particular circumstances lead to an acceleration of maturity on certain borrowings. Edrington was in full compliance with its financial covenants throughout each of the years presented.

19 Derivative financial instruments

Fair Value Hierarchy

Fair value measurements of financial instruments are presented through use of a three level fair value hierarchy that prioritises the valuation techniques used in fair value calculations.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: inputs for the asset of liability are not based on observable market data

	Company		Group			
	2018 Liabilities	2017 Liabilities	2018 Assets	2018 Liabilities	2017 Assets	2017 Liabilities
Current:						
Hedging derivatives - Cash flow hedges						
- Foreign exchange rates	**-**	-	**4.5**	**(2.3)**	0.7	(9.2)
- Cross currency swaps	**-**	-	**6.2**	**-**	-	-
- Interest rate swaps	**(0.1)**	(0.4)	**-**	**(0.3)**	-	(0.9)
Non-hedging derivatives						
- Foreign exchange rate	**-**	-	**2.0**	**(0.3)**	-	(7.2)
Total current	**(0.1)**	(0.4)	**12.7**	**(2.9)**	0.7	(17.3)
Non-current:						
Hedging derivatives - Cash flow hedges						
- Foreign exchange rates	**-**	-	**1.9**	**(1.6)**	0.1	(8.3)
- Cross currency swaps	**-**	-	**11.3**	**-**	44.1	-
- Interest rate swaps	**-**	(0.5)	**0.1**	**(0.1)**	-	(1.2)
Non-hedging derivatives	**-**	-				
- Foreign exchange rate	**-**	-	**0.8**	**-**	-	(0.1)
Total non-current	**-**	(0.5)	**14.1**	**(1.7)**	44.2	(9.6)
	(0.1)	(0.9)	**26.8**	**(4.6)**	44.9	(26.9)

All fair values are level 2, based on discounted cash flows using quoted market prices for interest rates and exchange rates.

Foreign Exchange contracts

It is the Group policy to enter into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to 24 months.

At the end of the reporting period the total notional amount of outstanding forward foreign exchange contracts to which the Company is committed is £296.1m (2017: £318.9m). Changes in the fair value of derivatives that are designated as and are effective cash flow hedges amounting to £4.9m (2017: £16.6m) have been recognised in other comprehensive income. A loss of £16.8m has been transferred out of other comprehensive income to finance costs (2017: £3.1m profit).

Change in fair value of derivatives not designated as hedges at 31 March 2018 amount to a gain of £4.6m that has been recognised in finance costs.

20 Deferred Tax

	Cash flow hedges £m	Accelerated tax depreciation £m	Intangible assets £m	Retirement benefit obligations £m	Withholding tax on distributable reserves £m	Other temporary differences £m	Property revaluation £m	Tax losses £m	Total £m
At 1 April 2016	2.6	(28.6)	(66.8)	3.6	(2.6)	14.4	(1.5)	0.2	(78.7)
Charge to income statement	-	(0.5)	3.8	(4.5)	(1.3)	(1.7)	-	0.2	(4.0)
Credit to other comprehensive income	1.8	-	-	2.3	-	1.2	-	-	5.3
At 31 March 2017	**4.4**	**(29.1)**	**(63.0)**	**1.4**	**(3.9)**	**13.9**	**(1.5)**	**0.4**	**(77.4)**
Charge to income statement	-	(2.8)	-	(2.3)	(0.4)	3.3	-	1.7	(0.5)
Charge to other comprehensive income	(3.6)	-	-	(2.1)	-	(1.3)	-	-	(7.0)
Acquisition (note 24)	-	-	(2.1)	-	-	(1.4)	-	-	(3.5)
At 31 March 2018	**0.8**	**(31.9)**	**(65.1)**	**(3.0)**	**(4.3)**	**14.5**	**(1.5)**	**2.1**	**(88.4)**

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018 £m	2017 £m
Deferred tax asset	**29.7**	30.0
Deferred tax liability	**(118.1)**	(107.4)
	(88.4)	(77.4)

20 Deferred Tax (continued)

Company:	Derivatives £m	Withholding tax on distributable reserves £m	Total £m
At 1 April 2016	0.1	(2.1)	(2.0)
Charge to income statement	-	(1.3)	(1.3)
Credit to other comprehensive income	0.1	-	0.1
At 31 March 2017	0.2	(3.4)	(3.2)
Charge to income statement	-	(0.1)	(0.1)
Charge to other comprehensive income	(0.1)	(0.1)	(0.2)
At 31 March 2018	0.1	(3.6)	(3.5)

UK corporation tax rate changes

Finance Act 2016, which was enacted in September 2016 provides that the main UK rate of corporation tax for the financial year commencing 1st April 2020 will be 17%. Consequently, UK deferred tax has been provided at a rate of 17%, being the rate at which the majority of temporary differences are expected to unwind.

Unrecognised deferred tax assets:

	2018 £m	2017 £m
Tax losses (capital in nature)	**1.5**	1.5

21 Called up share capital

Group and Company

	2018 No.	2017 No.
Called up, allotted and fully paid:		
'A' ordinary equity shares of 10p each	**550,000**	550,000
'B' ordinary equity shares of 10p each	**62,869,942**	62,936,906

	2018 £m	2017 £m
'A' ordinary equity shares of 10p each	**0.1**	0.1
'B' ordinary equity shares of 10p each	**6.2**	6.3
	6.3	6.4

The 'A' ordinary shares carry 500 votes per share on a poll. The 'B' ordinary shares carry 1 vote per share on a poll on a resolution affecting their rights, or to sanction a reduction of capital, or winding up of the Company or a sale of part of its undertaking, but no vote otherwise. Foreign controlled shares carry no voting rights. Dividends are paid according to the amount paid up per share. On a winding up, subject to the Articles, a liquidator may value any assets and determine how such assets shall be divided between the members or different classes of members.

In the year, the Company repurchased and cancelled £0.03m (2017: £0.03m) of shares.

22 Reserves

The retained earnings reserve includes the reserves of The Edrington Group Limited Employee Benefit Trust amounting to £42.8m (2017: £41.6m). There are restrictions on the parent Company's ability to distribute the reserves of the Employee Benefit Trust, while the realised profit of the Company is unaffected by the deduction from reserves for the own shares held by the Employee Benefit Trust.

Own shares

The Edrington Employee Benefit Trust was established by Trust Deed in June 1992 to act as a market for shares in The Edrington Group Limited, and it will, so far as possible, look to satisfy the demand for Edrington shares on maturity of the Group's approved ShareSave Schemes.

The Employee Benefit Trust will also sell shares to the trustees of The Edrington Group ShareReward Scheme for those trustees to allocate in accordance with the rules of that Scheme.

The Employee Benefit Trust holds 2,774,428 'B' ordinary shares (2017: 2,644,670 shares) with a cost of £37.8m (2017: £34.4m).

The charge to the Group consolidated income statement this year in respect of share awards by the ShareReward Scheme was £2.9m (2017: £3.4m).

Previously the Employee Benefit Trust offered certain individuals in the employment of The Edrington Group, the facility of a loan to assist in the purchase of shares in The Edrington Group Limited. The Employee Benefit Trust holds the shares in its own name on behalf of the employees, as security for the loans. At 31 March 2018 the Employee Benefit Trust held a further 134,750 (2017: 134,750) 'B' ordinary shares in its own name as security against employee loans of £0.1m (2017: £0.1m).

22 Reserves (continued)

Share premium

Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

Merger reserve

This reserve arose as a result of a Group reconstruction. This represents the issued share capital and share premium amount in the Company's subsidiary undertaking.

Capital reserve

This reserve represents the Group's long-term capital investment projects or any other large and anticipated expense(s) that will be incurred in the future.

Capital redemption reserve

This reserve represents the extent of the nominal value of shares that are repurchased and cancelled, in order to maintain capital.

Revaluation reserve

Subsequent to initial recognition, an item of property, plant and equipment and, in certain circumstances, an intangible asset, may be revalued to fair value. The revaluation surplus is recognised in equity, unless it reverses a decrease in the fair value of the same asset which was previously recognised as an expense, in which case it is recognised in the income statement.

Liability for share based payments

Share based payments include share awards and options granted to directors and employees. This reserve represents shares to be issued on potential exercise of those share options that have been accounted for under IFRS 2 Share based payments.

Retained earnings

Retained earnings reflect the Company's accumulated earnings less dividends paid and payable.

Cash flow hedge reserve

This reserve represents the effective portion of gains and losses, net of tax, arising from the revaluation of a financial instrument designated as a cash flow hedge. The effect of this is to protect the income statement from short term volatility when all hedges are effective and qualify for hedge accounting treatment.

23 Cash flow hedge reserve

	Company £m	Group £m
Balance at 31 March 2017	(0.9)	(26.1)
Gain/(loss) arising on changes in fair value of hedging instruments (cash flow hedges)		
- Forward foreign exchange contracts	-	14.6
- Cross currency swaps	-	(25.8)
- Interest rates swaps	1.2	3.0
Cumulative gain/(loss) arising on changes in fair value of hedging instruments reclassified to income statement		
- Forward foreign exchange contracts	-	5.1
- Cross currency swaps	-	25.7
- Interest rates swaps	(0.4)	(0.9)
Total movement in cash flow hedge reserve	0.8	21.7
Balance at 31 March 2018	**(0.1)**	**(4.4)**

Changes in the fair value of derivatives that are designated as and are effective cash flow hedges amounting to £8.2m have been recognised in the cash flow hedge reserve. A net loss of £30.0m has been has been transferred out of the cash flow hedge reserve to the income statement.

24 Acquisitions

In the financial year the Group completed two acquisitions.

On 28 April 2017 the Group acquired 100% of the share capital of BB&R Spirits Limited. BB&R Spirits Limited is a trading entity which own the rights to the Glenrothes brand name and maturing bulk whisky stocks. The purchase was completed to bring The Glenrothes brand back into Group ownership.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	£m
Financial assets	2.8
Inventory	18.7
Property, plant and equipment	0.7
Identifiable intangible assets (note 9)	6.4
Financial liabilities	(1.2)
Total identifiable assets	27.4
Brand intangible (note 9)	12.6
Fair value uplift to stock	8.5
Associated deferred tax liabilities	(3.5)
Total consideration	45.0

Satisfied by:	
Cash	31.5
Deferred consideration	15.0
Less cash acquired	(1.5)
Total consideration	45.0

Acquisition-related costs (included within administrative expenses) amounted to £0.1 million.

For the 11 month period in which the brand traded in Group ownership the associated revenue was £8.8m and group profits were £0.3m. This is inclusive of the unwind of the stock fair value uplift and additional costs associated with the repurchase of stocks from previous distributors in key markets.

24 Acquisitions (continued)

On 1 June 2017 the Group acquired the remaining 50% of Edrington Webb Travel Retail for a consideration of £1.4m. The business will trade under Edrington Americas and consolidates our route to market in Global Travel Retail in the Americas.

The amounts recognised in respect of the identifiable assets and liabilities assumed are set out in the table below.

	£m
Financial assets	5.0
Inventory	1.2
Financial liabilities	(6.6)
Total identifiable liabilities	(0.4)
Goodwill (see note 2)*	1.8
Total consideration	1.4
Satisfied by:	
Cash	1.4
Less cash acquired	(0.5)
Total consideration	0.9

* Goodwill acquired relates to customer relationships and route to market capabilities. Management continue their policy of writing off goodwill in the year of acquisition of distribution companies.

25 Analysis of net debt

	At 1 April 2017 £m	Exchange adjustment £m	Cashflow £m	**At 31 March 2018 £m**
Cash in hand	89.9	(5.1)	67.4	**152.2**
Bank overdrafts	(6.3)	-	3.2	**(3.1)**
Cash and cash equivalents	83.6	(5.1)	70.6	**149.1**
Bank loans	(259.7)	-	(130.9)	**(390.6)**
US private placement financing	(360.5)	26.6	-	**(333.9)**
Deferred arrangement fees	1.6	(0.3)	-	**1.3**
Loan notes	(0.1)	-	-	**(0.1)**
Total loans	(618.7)	26.3	(130.9)	**(723.3)**
Net debt before current asset investments	(535.1)	21.2	(60.3)	**(574.2)**
Current asset investments	1.1	(0.2)	-	**0.9**
Total net debt	(534.0)	21.0	(60.3)	**(573.3)**

25 Analysis of net debt (continued)

Reconciliation of net cash flow to movement in net debt

	2018 £m	2017 £m
Increase in cash in hand in the year	**70.6**	18.5
Net cash (inflow) on loans	**(130.9)**	(42.6)
Change in net debt resulting from cash flows	**(60.3)**	(24.1)
Non cash movement in current asset investments	**(0.2)**	0.2
Exchange adjustment	**21.2**	(25.8)
Movement in net debt in year	**(39.3)**	(49.7)
Net debt at 1 April	**(534.0)**	(484.3)
Net debt at 31 March	**(573.3)**	(534.0)

26 Transactions with related parties

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its joint ventures and associates are disclosed below.

The Group made purchases of £13.7m (2017: £9.0m) and received services to the value of £5.3m (2017: £7.0m) from Lothian Distillers Limited a joint venture of the Group. The Group also made purchases of £2.8m (2017: £2.9m) from its joint venture Row & Company Limited and made sales to that Company of £4.8m (2017: £4.4m). The Group made sales to other joint ventures amounting to £120.2m (2017: £93.3m) and received services to the value of £72.9m (2017: £63.9m). The balances due to/from joint ventures in respect of these transactions are as disclosed in the table below. The Group made sales amounting to £10.6m (2017: £5.2m) to and made purchases amounting to £0m (2017: £0m) from Suntory Liquors Limited, a related party.

The Group has an interest-free loan from Lothian Distillers Limited for £6.0m (2017: £6.0m) included in note 16.

The Edrington Group Limited received dividends of £77.0m (2017: £35.0m) from its subsidiary, The 1887 Company Limited. The directors of The Edrington Group Limited received dividends from the Group totalling £0.2m in the year (2017: £0.2m).

Financial position with associates and joint ventures are set out in the table below:

	2018 £m	2017 £m
Balance Sheet Items		
Group Payables	**(18.7)**	(24.6)
Group Receivables	**29.4**	30.2
	10.7	5.6

27 Share based payments

Equity-settled share option scheme

The Company operates 2 share schemes for employees – a ShareSave scheme and a ShareReward scheme. The Group recognised total expenses of £3.3m relating to equity-settled share based payment transactions in the year to 31 March 2018 (2017: £3.8m).

The ShareSave scheme is a share option scheme for all employees of the Group. Options are exercisable at the market price of the Company's shares on the date of grant. The vesting period is 3 years. If the options remain unexercised after a period of 3½ years from the date of grant, the options expire. Substantially all options are exercised upon vesting. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding in respect of the ShareSave scheme during the year are as follows:

	2018		2017	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at 1 April	**518,831**	**£14.73**	531,522	£14.30
Granted during the year	**188,913**	**£15.31**	157,526	£15.06
Exercised during the year	**(219,430)**	**£13.76**	(125,245)	£13.31
Forfeited during the year	**(22,881)**	**£15.46**	(44,972)	£14.80
Outstanding at 31 March	**465,433**	**£15.39**	518,831	£14.73

The weighted average share price at the date of exercise for share options exercised during the period was £13.76 (2017: £13.31). The options outstanding at 31 March 2018 had a weighted average exercise price of £15.39 (2017: £14.73), and a weighted average remaining contractual life of 2 years (2017: 2 years). The fair value of the options granted on 1 April 2017 was £0.4m (on 1 April 2016: £0.4m).

The fair value of shares and options granted is calculated at grant date using the Black-Scholes model. The inputs into the Black-Scholes model are as follows:

Grant date	1 April 2017	1 April 2016
Share price at grant date	£19.14	£18.82
Exercise price at grant date	£15.31	£15.06
Expected volatility	5%	6%
Expected life	3 years	3 years
Risk free rate	0.1%	0.5%
Expected dividend yield	2.1%	2.1%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years.

Share Reward disclosure requirements

The ShareReward scheme allows eligible employees to be awarded shares to the value of a common percentage of their earnings, dependent on the performance of the Group up to a maximum of 10% of annual salary. The shares awarded are held in trust for five years. ShareReward targets were partially met this year and were met in full in the prior year.

28 Retirement benefit liabilities

	2018 £m	2017 £m
Retirement benefit liabilities comprise:		
Defined benefit surplus/liabilities in principal subsidiaries	**19.4**	(6.3)
Other defined benefit liabilities	**(2.4)**	(2.6)
Other post-retirement benefits	**(0.9)**	(1.5)
	16.1	(10.4)

Defined benefit schemes

The Group operates two defined benefit pension schemes in the UK providing benefits based on final salary, which have been closed to new employees since 2008. On 31 October 2014 the Group ceased future accrual on the two defined benefit pension schemes. The benefit commitments are funded in advance and the assets of the schemes are held in separate trustee administered funds. The contributions are determined by a qualified actuary on the basis of regular valuations using the projected unit method.

The most recent actuarial valuations of the defined benefit pension schemes and other post-retirement benefits were undertaken in April 2016. Both valuations were performed by independent, professionally qualified actuaries. The actuarial deficit at March 2018 was £91.7m and the Group is committed to making annual deficit repair contributions of £14.0m until 2026.

The notes below relate only to the principal defined benefit schemes in the Group on the basis of their materiality.

The major assumptions used by the actuary were as follows:

	2018	2017
Rate of increase in salaries	**n/a**	n/a
Rate of increase of pensions in payment	**1.9%-3.6%**	2.0%-3.7%
Discount rate	**2.6%**	2.5%
Inflation assumption (RPI/CPI)	**3.2%/2.2%**	3.3%/2.3%

The post retirement mortality assumptions used to value the benefit obligation at 31 March 2018 were those of the S1PXA actuarial index, adjusted by 94% (2017: 94%) for both males and females, plus an allowance for 'CMI 2015 with a long term improvement rate of 1.5%'. Assumed life expectancy for scheme members currently aged 65 is 22 years for males, and 25 years for females, and for members currently aged 45 is expected to be 24 years (male) and 26 years (female) upon reaching 65.

28 Retirement benefit liabilities (continued)

The assets in the schemes and the expected rates of return were:

	2018 Value £m	2017 Value £m
Equities	**39.8**	40.6
Corporate bonds	**73.6**	124.1
Bonds	**165.0**	162.9
Cash	**8.4**	2.9
Insured pensions	**5.5**	5.6
Growth Fund	**33.6**	31.9
Illiquid debt	**47.8**	-
Total fair value of assets	**373.7**	368.0
Present value of scheme liabilities	**(354.3)**	(374.3)
Suprlus/(Deficit) in pension schemes	**19.4**	(6.3)

Analysis of amount charged to operating profit in respect of defined benefit schemes

	2018 £m	2017 £m
Gain on curtailment of pension liabilities (note 2)	**-**	13.4
	-	13.4

Analysis of net charge to finance costs

	2018 £m	2017 £m
Expected return on pension schemes assets	**9.1**	11.5
Interest on pension liabilities	**(9.1)**	(11.5)
Net charge to finance costs	**-**	-

Analysis of amount recognised in other comprehensive income (OCI)

	2018 £m	2017 £m
Actual return less expected return on assets	**4.4**	62.8
Experience losses on liabilities	**(0.7)**	(9.5)
Changes in assumptions	**9.2**	(68.1)
Actuarial gain/(loss) recognised in the OCI	**12.9**	(14.8)

28 Retirement benefit liabilities (continued)

	2018 £m	2017 £m
Reconciliation of fair value of scheme assets		
Opening fair value of scheme assets	**368.0**	318.6
Expected return on assets	**9.1**	11.5
Employers' contributions	**14.0**	13.5
Actuarial gains	**4.6**	62.8
Assets distributed on settlements	**-**	(27.6)
Benefits paid	**(22.0)**	(10.8)
Closing fair value of scheme assets	**373.7**	368.0

	2018 £m	2017 £m
Reconciliation of defined benefit obligation		
Opening defined benefit obligation	**(374.3)**	(336.9)
Interest cost	**(9.1)**	(11.5)
Actuarial gains/(losses)	**7.1**	(77.6)
Liabilities extinguished on settlements	**-**	41.0
Benefits paid	**22.0**	10.7
Closing defined benefit obligation	**(354.3)**	(374.3)

	2018 £m	2017 £m
Movement in deficit during the year		
Deficit in schemes at beginning of year	**(6.3)**	(18.3)
Gain on curtailment of scheme liabilities	**-**	13.4
Contributions	**14.0**	13.5
Net interest cost	**-**	(0.1)
Actuarial gains/(losses)	**11.7**	(14.8)
Surplus/(Deficit) in schemes at end of year	**19.4**	(6.3)

The actual return on plan assets was £9.1m (2017: £11.4m).

28 Retirement benefit liabilities (continued)

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Five year history:					
Total fair value of assets	**373.7**	368.0	318.6	307.9	255.8
Present value of scheme liabilities	**(354.3)**	(374.3)	(336.9)	(364.3)	(324.8)
Deficit in pension scheme	**19.4**	(6.3)	(18.3)	(56.4)	(69.0)

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
History of experience gains and losses					
Difference between expected and actual return on schemes' assets (£m)	**4.4**	62.8	(1.1)	37.2	(4.3)
Percentage of schemes' assets	**1.2%**	17.1%	0.3%	12.1%	1.7%
Experience adjustments on schemes' liabilities (£m)	**(0.7)**	(9.5)	(1.8)	(1.5)	1.6
Percentage of schemes' liabilities	**0.2%**	2.5%	0.5%	0.4%	0.5%
Total amount recognised in statement of other comprehensive income (£m)	**12.9**	(14.8)	26.2	(24.7)	(3.3)
Percentage of schemes' liabilities	**3.6%**	4.0%	7.8%	6.8%	1.0%

Sensitivity analysis

The sensitivity of the present value of scheme liabilities to changes in the principle assumptions used at 31 March 2018 is set out below:

Assumption	Sensitivity	Financial impact on overall liability Year to 31 March 2018	Financial impact on overall liability Year to 31 March 2017
Discount rate	+/- 0.5%	Decrease/increase by £34.6m	Decrease/increase by £33.3m
Mortality – increase in life expectancy	+/- 1 year	Increase/decrease by £14.0m	Increase/decrease by £15.3m
Increase in inflation	+/- 0.5%	Decrease/increase by £13.7m	Decrease/increase by £20.2m

Methods and assumptions used in preparing the sensitivity analysis

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

28 Retirement benefit liabilities (continued)

Mortality Assumptions

	31 March 2018		31 March 2017	
	Males	**Females**	Males	Females
Average future life expectancy (in years) for a member aged 65 at 31 March	**22.4**	**24.6**	22.5	24.6
Average future life expectancy (in years) at age 65 for a member aged 50 at 31 March	**24.1**	**26.4**	23.7	26.0

Defined benefit schemes

The Group paid deficit reduction payments of £14.0m (2017: £13.5m) to the pension schemes during 2018. At 31st March 2018, the actuarial valuation of the deficit was £91.7m and the Group is committed to making deficit repair contributions of £14m per annum until 2026.

In addition to the Group defined benefit schemes, Edrington-Beam Suntory UK Distribution Limited, Maxxium Nederland BV and Lothian Distillers Limited operate defined benefit schemes. The Group's aggregate share of the net pension deficit of these joint ventures is £6.5m (2017: £16.1m).

Defined contribution schemes

The Group operates a number of defined contribution schemes for employees in the UK and overseas. The pension cost for the year in respect of the Group's defined contribution schemes amounted to £4.6m (2017: £4.5m).

Other post-retirement benefits

	2018 £m	2017 £m
Potential liability for discretionary post-retirement benefits	**(0.9)**	(1.5)

29 Other contractual obligations

	2018 £m	2017 £m
Contracted but not provided for		
- material purchase commitments	**26.0**	22.7
- capital commitments	**127.5**	127.5
	153.5	150.2

Other contractual obligations comprise commitments for expenditure that has not been provided for in the financial statements.

Material purchase obligations include various long term purchase contracts entered into for the supply of certain materials, principally malt barley. The contracts are used to guarantee supply of these materials over the long term and to enable more accurate management of future costs.

Capital commitments represent contracts entered into for the provision of buildings, plant and machinery and casks inclusive of a £4.1m (2017: £31.9m) commitment in respect of the expansion of the Macallan Distillery. Other key capital commitments includes construction of new warehouses and other infrastructure to support the developing Macallan site.

30 Operating lease arrangements

Certain land and buildings are leased under an operating lease arrangement. Original non-cancellable lease terms are 15 years and may contain options that permit early withdrawal. The total amount of minimum rent is expensed on a straight-line basis over the term of the lease.

At 31 March 2018, the Group had outstanding commitments for future minimum-lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £m	2017 £m
Operating lease payments which fall due:		
Within one year	**1.5**	0.7
Within two to five years	**7.5**	2.7
In more than five years	**8.3**	3.3
	17.3	6.7

During the year, operating lease rentals of £0.7m (2017: £0.2m) were charged to the consolidated income statement.

31 Control

The Company's principal shareholder is The Robertson Trust, a charitable organisation.