Chairman's Statement

Dear Shareholder

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

2019/20

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

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

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

Looking Ahead

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

Edrington will not be immune from those difficulties and challenges.

Higher taxation to pay for government debt, higher unemployment, and greater consumer debt will all hit discretionary expenditure. Not only will the ability to spend be impacted, it is possible that after the psychological shock of COVID-19, individuals' willingness to spend could cut consumer spending even further. As for spirit sales, we are likely to face further downward pressure from fewer visits to restaurants, hotels, clubs and bars, while reduced air travel will impact travel retail sales.

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

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

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

Our purpose

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

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

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

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

Suntory

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

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

Dividend

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

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

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

Board Changes

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

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

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

The Bigger Picture

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

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

Crawford Gillies
Chairman

18 June 2020

Chief Executive's Review

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

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

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

COVID-19

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

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

Our immediate response has been to minimise cash outflows and reduce costs and investment levels. We are actively seeking to capitalise on growth opportunities in e-commerce and retail and are adapting the shape of the organisation accordingly. The long-term health of our brands is critical, so we will restore investment as performance shows signs of sustained recovery.

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

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

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

Shareholder Transactions

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

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

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

Market Context

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

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

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

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

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

Performance Highlights

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

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

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

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

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

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

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

Strategy and Culture

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

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

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

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

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

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

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

Looking Forward

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

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

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

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

Scott McCroskie
Chief Executive

18 June 2020

Financial Review

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

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

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

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

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

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

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

Profit before tax (pre-exceptional)
Profit before exceptional items and the deduction of tax.

Profit for the year (pre-exceptional)
Earnings after tax and minority interests excluding exceptional items.

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

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

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

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

Group Financial Performance Overview

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

Prior year restatement

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

Group Financial Performance (reported on a constant currency basis)

Core revenue

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

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

Brand investment

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

Core contribution

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

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

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

Statutory results (reported at actual currency rates)

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

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

Exceptional items

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

> We have released £14.9m of accruals for selling costs and brand investment in Edrington Taiwan which were incorrectly accrued in prior periods and not in line with our accounting policies.

> We incurred restructuring costs of £3.1m following our decision to close our South Korean distribution subsidiary.

> In relation to the purchase of the 10% shareholding in The Edrington Group by Suntory Holdings we incurred costs of £3.7m.

> The disposal of our investment in the shortbread and biscuit company, Paterson Arran, resulted in a gain of £5.9m.

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

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

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

Interest

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

The constituent elements of the interest charge comprised:

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

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

Cash flow and financial position

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

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

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

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

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

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

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

Post-employment benefit obligations

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

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

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

Derivatives and financial instruments

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

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

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

Share capital and dividends

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

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

Summary

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

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

Going Concern

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

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

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

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

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

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

> A reduction in discretionary spend of £32m including a hiring freeze, reduction in travel, a reduction in pay of our senior leaders of between 15% and 20% in the first half of the year and the elimination of all annual group bonus schemes for all employees during the financial year to March 2021. We have also included the benefit of accessing a number of different Government schemes, particularly with respect to pay support.

> Brand investment will be reduced reflecting our inability to carry out spend effectively in the current circumstances. This could be reduced by up to 60%, depending on the performance of the business as we progress through the year.

> Planned capital expenditure will be reduced by up to 80%, and our investment in maturing stock will be scaled back which will deliver savings on spirit production, casks and warehouses.

> Agreement has been reached with the pension trustees of both pension schemes to postpone the annual deficit repair contributions for the financial year to March 2021 until the following financial year.

> We are also stopping payments to all shareholders within the group including in our subsidiaries until we have a clearer picture of the outlook for our profits and cash flows.

Debt facilities and covenant tests

The Group has taken steps to secure liquidity and additional borrowing headroom. The stress test scenario shows that with the current facilities the group has in place we will have debt headroom of £140m including the maturity of £142m of private placement debt in April 2021 and not accessing the Coronavirus Corporate Funding Facility. The key focus is the close management of our covenant conditions under our bank and private placement facilities. The Group has two underlying financial covenants, one that measures net debt/ EBITDA and the second EBITDA/net interest (banking covenant), EBIT/net interest (private placement covenant). The most sensitive covenant through the next 18 months is the net debt/EBITDA covenant within the 1887 Group. The steps we have taken to secure liquidity and additional borrowing include:

> An additional £50m committed facility from the bank syndicate which mirrors the existing £275m facility with maturity at December 2024.

> A relaxation of a covenant condition on our banking facilities to bring it in line with the private placement facilities for September 2020 and March 2021 tests.

> Approval to access the UK Government Coronavirus Corporate Financing Facility and the Group has been issued an issuer limit of £300m although we have not drawn down any funds under this facility.

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

Debt Facilities 1887 Group

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

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

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

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

Principal Risk and Uncertainties

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

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

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

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

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

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

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

Principal Risks

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

Identified Risk	Impact	Mitigating Actions
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 the Marketing 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 restricts market activity, affecting market access, demand or increased costs.	Brexit and geopolitical instability in a number of regions and markets continue to present a risk to trade and profitability. The Brexit Committee, which reports into the Group Risk Management Committee, meets regularly to monitor Brexit developments and oversee contingency planning. 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 in a way which recognises the different needs and focusses of each brand.
Brand Protection	Ineffective or inadequate protection of intellectual property rights, resulting in reputational damage, an increase in counterfeit goods and a decline in sales volumes and/or market share.	The Company invests considerable effort in proactively protecting its intellectual property rights. Edrington has a clear brand protection strategy and processes aimed at addressing the principal exposures and risks likely to affect alcoholic beverage brands. A specialist Brand Protection Committee reviews the principal components of brand protection: intellectual property management; authentication and security technologies for products and packaging; digital media, channel and communications monitoring; products and packaging compliance; and commercial behaviours. This is complemented by activities on brand security education, surveillance and enforcement.

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 the credit limits offered to customers, it monitors trade receivable balances and takes prompt action on overdue accounts. Certain markets operate on a cash-on-delivery basis. Commodity price risk is managed through a combination of medium to long term contracts, covering periods from 2-3 years, and regular tender and review processes are held with suppliers. The spirits industry is sensitive to changes in tax and excise regulations. The effect of any future tax increases on the

Identified Risk	Impact	Mitigating Actions
Financial Risks (continued)		Company's sales in a given jurisdiction cannot be precisely measured and is ultimately outwith the Company's control. 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.
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, and carried out penetration testing. It has performed a SAP System User Role Review to eliminate excessive access and segmented the network to protect mission-critical networks from general access networks.
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 regularly and long-term agreements and processes established to provide reasonable assurances of a sufficient and sustainable supply of casks that meet Edrington's high quality requirements. Contingency bottling/blending options are refreshed and tested to ensure that Edrington's operations can be maintained in the event of loss or impairment of its own facilities. 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

18 June 2020