# John Dewar and Sons Limited

# Annual report and financial statements for the year ended 31 March 2017

**Registered Number 00613551**

# JOHN DEWAR AND SONS LIMITED

## Annual report and financial statements for the year ended 31 March 2017

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# JOHN DEWAR AND SONS LIMITED

## Directors and advisers for the year ended 31 March 2017

**Directors**
I M Lochhead
P Tucci
J M Lambert
I S Lowthian
J A Henderson

**Registered office**
C/O Bacardi-Martini Limited
Bacardi Brown-Forman House
Kings Worthy
Winchester
Hampshire
SO23 7TW

**Independent auditors**
PricewaterhouseCoopers LLP
Chartered accountants and statutory auditors
141 Bothwell Street
Glasgow
G2 7EQ

**Bankers**
Lloyds TSB Bank plc
PO BOX 17328
11-15 Monument Street
London
EC3V 9JA

**Solicitors**
MacLay Murray & Spens
151 St Vincent Street
Glasgow
G2 5NJ

# Strategic report for the year ended 31 March 2017

The directors present their strategic report for the year ended 31 March 2017.

**Business Review**

The company continued to sustain sales volume, aided through the development of its brand portfolio. The directors are satisfied with the current trading performance of the company, and remain confident that this will continue in future years.

**Key performance indicators**

The principal key performance indicator that the directors rely upon is the analysis of revenue and operating profit, which is measured against previous years.

Revenue showed an increase of 4% (2016: increase of 7%). The results for the current year benefited from a one-off gain of £18,010,000 from transfer of trademarks and associated rights to another group company. Excluding this, Operating profit showed a decrease of 3.7% (2016: increase 0.4%) which the directors consider satisfactory.

**Future outlook**

Continued volume growth in emerging markets has had a positive impact on results in recent years and the directors expect this to continue in future years, with further capital investments planned to support this growth. In particular, the company embarked upon on a major investment during the year to expand its bottling capability and capacity to enable it to bottle the group's main gin products. The transfer of this production is now underway and the directors expect this to increase revenue in future years.

Since year-end, as part of a group reorganisation the company has purchased the trade and net assets of another group company, The Bombay Spirits Company Limited, at book value on 30 September 2017, which will enable it to expand into gin distillation.

**Principal risks and uncertainties**

The management of the business and the execution of the company's strategy are subject to a number of risks.

*Market forecasts*
In common with all companies in the drinks industry, the company is susceptible to changes in consumer trends and resulting demand for its products. The company relies on short, medium and long-term forecasts to determine appropriate levels of inventory and infrastructure to support future sales. These plans are regularly reviewed, and modified if necessary to align with prospective changes in future demand.

*Business continuity*
To respond to the possibility of a significant incident impacting the company's ability to produce, the company has a fully developed business continuity plan. In the event of crisis or disaster, performance of critical business activities and supply of core products would be maintained.

# JOHN DEWAR AND SONS LIMITED

## Strategic report for the year ended 31 March 2017 (continued)

*Financial risk management*
The Bacardi group operates a centralised treasury function and the directors make use of this facility to manage and mitigate risks to changes in liquidity, interest rates and foreign currency exchange rates. The company therefore has limited exposure to such factors.

This report was approved by the board on 19 December 2017 and signed on its behalf.

**J A Henderson**
**Director**

# Directors' report for the year ended 31 March 2017

The directors present their report and the audited financial statements for the year ended 31 March 2017.

## Principal activities

The company's principal activities continue to be the distillation, warehousing, blending, bottling and sale of Scotch whisky and gin.

## Results and dividends

The results for the company show a profit before taxation of £36,967,000 (2016: £19,538,000) for the year, and revenue of £114,470,000 (2016: £109,911,000). The company has net assets of £170,074,000 (2016: £142,910,000).

The directors proposed and paid a dividend in the year of £nil (2016: £9,000,000).

## Employees

Employee involvement is promoted through regular consultation on issues concerning business performance, working conditions, industry trends and future developments. The company continues to keep staff informed and involved through communication channels such as regular team briefs and roadshow presentations.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

## Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were as listed on page 1.

## Insurance of directors

The company maintains insurance for directors in respect of their duties as directors of the company.

## Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

# JOHN DEWAR AND SONS LIMITED

## Directors' report for the year ended 31 March 2017 (continued)

**Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Independent auditors and disclosure of information to auditors**

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed.

This report was approved by the board on 19 December 2017 and signed on its behalf.

**J A Henderson**
**Director**

# *Independent auditors' report to the members of John Dewar and Sons Limited*

## Report on the financial statements

### Our opinion

In our opinion, John Dewar and Sons Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the Statement of financial position as at 31 March 2017;
- the Income statement and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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

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

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect.

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

# *Independent auditors' report to the members of John Dewar and Sons Limited (continued)*

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Paul Cheshire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
21 December 2017

# Income statement for the year ended 31 March 2017

| | Notes | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|---|
| **Revenue** | 5 | **114,470** | 109,911 |
| Cost of sales | | **(84,366)** | (79,977) |
| **Gross profit** | | **30,104** | 29,934 |
| Other income | 7 | **19,171** | 1,600 |
| Administrative expenses | | **(5,233)** | (4,512) |
| **Operating profit** | 6 | **44,042** | 27,022 |
| Finance expenses | 10 | **(7,075)** | (7,484) |
| **Profit before taxation** | | **36,967** | 19,538 |
| Tax on profit | 11 | **(7,676)** | (3,216) |
| **Profit for the financial year** | | **29,291** | 16,322 |

All activities relate to continuing operations. There is no material difference between the profit before taxation and the profit for the year stated above and their historical cost equivalents.

Further comments to income statement line items are presented in the notes to the financial statements.

# Statement of comprehensive income for the year ended 31 March 2017

| | Notes | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|---|
| **Profit for the financial year** | | **29,291** | 16,322 |
| **Other comprehensive income:** | | | |
| Pension actuarial (loss)/ gain | 22 | **(2,659)** | 2,730 |
| Movement in deferred tax relating to pension deficit | 19 | **532** | (521) |
| **Other comprehensive (expense) / income for the year net of tax** | | **(2,127)** | 2,209 |
| **Total comprehensive income for the year** | | **27,164** | 18,531 |

Further comments to statement of comprehensive income line items are presented in the notes to the financial statements.

# Statement of financial position as at 31 March 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Property, plant and equipment | 12 | **148,496** | 141,405 |
| Investments | 13 | **39** | 39 |
| | | **148,535** | 141,444 |
| **Current assets** | | | |
| Inventories | 14 | **315,528** | 298,557 |
| Trade and other receivables | 15 | **25,877** | 18,503 |
| Cash | | **173** | - |
| | | **341,578** | 317,060 |
| **Creditors:** amounts falling due within one year | 16 | **(308,560)** | (302,889) |
| **Net current assets** | | **33,018** | 14,171 |
| **Total assets less current liabilities** | | **181,553** | 155,615 |
| Post-employment benefits | 22 | **(3,109)** | (6,347) |
| Deferred taxation | 19 | **(8,370)** | (6,358) |
| **Net assets** | | **170,074** | 142,910 |
| **Equity** | | | |
| Called up share capital | 20 | **2,500** | 2,500 |
| Retained earnings | | **167,574** | 140,410 |
| **Total equity** | | **170,074** | 142,910 |

Further comments to the statement of financial position are presented in the notes to the financial statements.

The financial statements on pages 8 to 29 were approved by the board of directors on 19 December 2017 and were signed on its behalf by:

**I M Lochhead**
**Director**

**J A Henderson**
**Director**

# Statement of changes in equity for the year ended 31 March 2017

| | Called-up share capital £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|
| **Balance as at 1 April 2015** | 2,500 | 130,879 | **133,379** |
| Profit for the financial year | - | 16,322 | **16,322** |
| Other comprehensive income for the financial year | - | 2,209 | **2,209** |
| **Total comprehensive income for the financial year** | - | **18,531** | **18,531** |
| Dividends paid | - | (9,000) | **(9,000)** |
| **Total transactions with owners recognised directly in equity** | - | **(9,000)** | **(9,000)** |
| **Balance as at 31 March 2016 and 1 April 2016** | **2,500** | **140,410** | **142,910** |
| Profit for the financial year | | 29,291 | 29,291 |
| Other comprehensive income for the financial year | - | (2,127) | (2,124) |
| **Total comprehensive income for the financial year** | - | **27,164** | **27,167** |
| **Balance as at 31 March 2017** | **2,500** | **167,574** | **170,074** |

# Notes to the financial statements for the year ended 31 March 2017

## 1 General information

The company's principal activities continue to be the distillation, warehousing, blending, bottling and sale of Scotch whisky and gin.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Bacardi Brown-Forman House, Kings Worthy, Winchester Hampshire, SO23 7TW.

## 2 Statement of compliance

The financial statements of John Dewar and Sons Limited have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, as amended in July 2015.

## 3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements.

**Basis of Preparation**

These financial statements are prepared on a going concern basis, under the historical cost convention.

The company is a wholly owned subsidiary of Bacardi Limited and is included in the consolidated financial statements of Bacardi-Martini B.V. which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of Section 400 of the Companies Act 2006.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

**Going concern**

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue to be able to meet its liabilities as they fall due within 12 months from the date of approval of these financial statements.

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 3 Summary of significant accounting policies (continued)

**Disclosure exemptions**

The Company has taken advantage of the following disclosure exemptions available under FRS 102:

(a) The requirement to prepare a reconciliation of the number of shares at the beginning and end of the financial year.

(b) The requirement to prepare a statement of cash flows, under FRS 102 paragraph 1.12(b), on the basis that it is a qualifying entity and an intermediate parent Company, Bacardi-Martini B.V., a company registered in The Netherlands, includes the Company's cash flows in its own, publicly available, consolidated financial statements.

(c) The requirement to disclose transactions with wholly owned subsidiaries within the group.

**Revenue**

Revenue represents the invoiced amount of goods and services provided during the year, stated net of excise duty and value added tax.

**Employee benefits**

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans.

*(i) Short term benefits*

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

*(ii) Defined benefit pension plan*

The company operates a defined benefit plan for benefit of employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 3 Summary of significant accounting policies (continued)

**Employee benefits (continued)**

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

(a) the increase in pension benefit liability arising from employee service during the period; and

(b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as 'Finance expense'.

*(iii) Defined contribution pension plan*

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

**Current taxation**

Corporation tax payable is provided on taxable profits at the prevailing UK tax rate.

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 3 Summary of significant accounting policies (continued)

**Deferred taxation**

Deferred tax is recognised in full on timing differences which result in an obligation at the statement of financial position date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise, based on tax rates enacted or substantively enacted and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in different periods from those in which they are included in the financial statements.

Deferred tax assets are recognised only to the extent that it is regarded as more likely than not that there will be sufficient taxable profits available to allow these to be recovered. Deferred tax assets and liabilities are not discounted.

**Property, plant and equipment**

Property, plant and equipment are valued at cost less accumulated depreciation. Costs include the original purchase price of the asset and the cost attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated so as to write off the cost of tangible fixed assets and intangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The expected useful economic lives used for this purpose are:

| | |
|---|---|
| Buildings | 40 years |
| Casks | 15 years |
| Plant and machinery | 10 years |
| Motor vehicles | 4 years |

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises all expenditure incurred in purchasing or producing the stock and bringing it to its current state, including an appropriate allocation of production overheads and maturation costs.

**Government grants**

Grants that relate to specific capital expenditure are treated as deferred income which is then credited to the income statement over the related assets' useful life by equal annual amounts.

**Foreign currencies**

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the statement of financial position or at the agreed contractual rate. Transactions in foreign currency are converted to sterling at the average monthly rate.

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 3 Summary of significant accounting policies (continued)

**Financial instruments**

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument, and are offset only when the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

*Financial assets*

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are recognised in administration costs in the Statement of Comprehensive Income for the excess of the carrying value of the asset over the present value of the estimated future cash flows.

*Financial liabilities*

Basic financial liabilities, including trade and other payables, bank loans and loans between group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in Statement of Comprehensive Income in finance expense or finance income as appropriate. No derivatives are held in the Company in the current or prior year.

*Derecognition of financial assets and liabilities*

A financial asset is derecognised only when the contractual right to the cash flows expire or are settled, or substantially all the risks and rewards off ownership are transferred to another party, or if some of the significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

## 3 Summary of significant accounting policies (continued)

**Finance and operating leases**

Leasing agreements, which transfer to the company substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in equal instalments over the period of the lease. Assets held under finance leases are depreciated over the same period as equivalent owned assets. Costs in respect of operating leases are charged to the income statement on a straight line basis over the lease term.

## 4 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

*(i) Useful economic lives of property, plant and equipment*

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

*(ii) Inventory provisioning*

The company's activities are the distillation, warehousing, blending, bottling and sale of Scotch whisky and gin and is subject to changing consumer demands and trends. As a result, it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods.

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 4 Critical accounting judgements and estimation uncertainty (continued)

*(iii) Defined benefit pension scheme*

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends. See note 22 for the disclosures relating to the defined benefit pension scheme.

## 5 Revenue

An analysis of the revenue, profit and net assets by class of business and geographical destination has not been disclosed, as the directors are of the opinion that to disclose such information would be seriously prejudicial to the interests of the company.

## 6 Operating Profit

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Operating profit is stated after charging /(crediting): | | |
| Depreciation charge for the year: | | |
| - tangible owned fixed assets | **9,126** | 9,051 |
| Operating lease rentals – motor vehicles | **51** | 23 |
| Hire of plant and machinery | **286** | 229 |
| Auditors' remuneration | | |
| - audit services | **73** | 77 |
| - non audit services | **-** | 10 |
| Loss / (Gain) on disposal of fixed assets | **57** | (421) |
| Income from Government grant | **(25)** | (25) |

Cost of sales predominately is represented by inventory recognised as expense.

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 7 Other income

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Gain on transfer of trademarks and associated rights | **18,010** | - |
| Rental income | **1,161** | 1,179 |
| Gain on disposal of fixed assets | **-** | 421 |
| | **19,171** | 1,600 |

On 1 February 2017, the company transferred trademarks and associated rights to another group company for the net consideration of £18,010,000.

## 8 Directors' emoluments

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Aggregate emoluments | **388** | 415 |
| Pensions contributions | **61** | 78 |
| | **449** | 493 |

Retirement benefits are accruing to three (2016: three) directors under a defined benefit scheme.

| **Highest paid director** | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Fees and other emoluments | **236** | 260 |

The highest paid director is a member of the John Dewar and Sons Limited defined benefit pension scheme and £46,000 (2016: £42,000) of company pension contributions were paid on his behalf.

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 9 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

| By activity | 2017<br>Number | 2016<br>Number |
|---|---|---|
| Administration and sales | **26** | 27 |
| Production and distribution | **292** | 264 |
| | **318** | 291 |

| Staff costs | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| Wages and salaries | **13,980** | 11,852 |
| Social security costs | **1,392** | 1,114 |
| Other pension costs | **2,449** | 2,560 |
| | **17,821** | 15,526 |

## 10 Finance expenses

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| On loans from group undertakings | **6,530** | 7,041 |
| Loss on foreign exchange | **344** | 96 |
| Net interest on net defined benefit pension plan liability | **192** | 346 |
| Other finance costs | **9** | 1 |
| | **7,075** | 7,484 |

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 11 Tax on profit

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| **Current tax** | | |
| UK corporation tax on profits of the year | **6,207** | 3,417 |
| Adjustment in respect of prior periods | **(74)** | (1,353) |
| **Total current tax** | **6,133** | 2,064 |
| | | |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **1,896** | 839 |
| Impact of change in tax rate | **(353)** | (540) |
| Adjustment in respect of prior periods | **-** | 853 |
| **Total deferred tax** | **1,543** | 1,152 |
| **Tax charge on profit** | **7,676** | 3,216 |

The tax assessed for the year is higher (2016: lower) than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Profit before taxation | **36,967** | 19,538 |
| | | |
| Profit at standard rate of corporation tax in the UK of 20% (2016: 20%) | **7,393** | 3,908 |
| Effects of: | | |
| Expenses not deductible for tax purposes | **195** | 428 |
| Other timing differences | **515** | - |
| Gain on sale not taxable | **-** | (80) |
| Impact of change in deferred tax rate | **(353)** | (540) |
| Adjustment in respect of prior year | **(74)** | (500) |
| **Total tax charge for year** | **7,676** | 3,216 |

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 11 Tax on profit (continued)

Changes to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

## 12 Property, plant and equipment

| | Freehold land and buildings | Plant and machinery and casks | Motor vehicles | Assets under construction | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | | |
| At 1 April 2016 | 112,993 | 119,311 | 18 | 243 | 232,565 |
| Additions | 86 | 6,087 | - | 10,173 | 16,346 |
| Transfers | - | 164 | - | (164) | - |
| Disposals | - | (3,329) | - | - | (3,329) |
| **At 31 March 2017** | **113,079** | **122,233** | **18** | **10,252** | **245,582** |
| **Accumulated Depreciation** | | | | | |
| At 1 April 2016 | 18,248 | 72,894 | 18 | - | 91,160 |
| Charge for year | 2,474 | 6,652 | - | - | 9,126 |
| Disposals | - | (3,200) | - | - | (3,200) |
| **At 31 March 2017** | **20,722** | **76,346** | **18** | **-** | **97,086** |
| **Net book value** | | | | | |
| **At 31 March 2017** | **92,357** | **45,887** | **-** | **10,252** | **148,496** |
| At 1 April 2016 | 94,745 | 46,417 | - | 243 | 141,405 |

Assets under construction includes improvements to bottling lines and warehousing facilities.

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 13 Investments

| | 2017 | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Unlisted investments | **39** | 39 |
| | **39** | 39 |

**Investment in subsidiary undertakings**

The company owns all of the allotted share capital (£100) of the following company which has not traded during the year:

| | | |
|---|---|---|
| William Lawson Distillers Limited | Registered at 1700 London Road, Glasgow, G32 8XR in Scotland | Dormant |

## 14 Inventories

| | 2017 | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| The book value of the main categories of stocks are: | | |
| Maturing Spirit | **304,655** | 290,431 |
| Bottling materials and other stocks | **10,873** | 8,126 |
| | **315,528** | 298,557 |

There is no significant difference between the replacement cost of finished goods and their carrying amounts. Inventories are stated after provisions for impairment of £1,057,000 (2016: £991,000).

## 15 Trade and other receivables

| **Amounts falling due within one year:** | 2017 | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Trade receivables | **3,752** | 6,058 |
| Amounts owed by group undertakings | **18,067** | 8,280 |
| Corporation tax | **127** | 109 |
| Other receivables | **3,313** | 3,895 |
| Prepayments and accrued income | **618** | 161 |
| | **25,877** | 18,503 |

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 16 Creditors: amounts falling due within one year

| | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Trade creditors | 11,487 | 6,157 |
| Amounts owed to group undertakings | 1 | 1,323 |
| Loans from group undertakings | 289,300 | 284,888 |
| Other taxation and social security costs | 465 | 2,170 |
| Deferred income (note 18) | - | 25 |
| Other creditors and accruals | 7,307 | 8,326 |
| | 308,560 | 302,889 |

The loans from group undertakings are unsecured, repayable on demand and earn interest at 1% above Bacardi Group rates. During the year Bacardi Group rates varied, with an average rate of 1.5% (2016: 1.5%) being applied. Other Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

## 17 Obligations under operating leases

At 31 March, the company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

| | Motor vehicles | |
|---|---|---|
| | 2017 | 2016 |
| | £'000 | £'000 |
| Within one year | 25 | 30 |
| In the second to fifth years inclusive | 21 | 11 |

## 18 Deferred income

In previous years the company received Government grants amounting to £250,000 which relate to specific capital expenditure. This amount has been credited to the income statement over the related assets' useful life by equal annual amounts as follows:

| | 2017 | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Within one year | - | 25 |
| | - | 25 |

In accordance with the policy on the treatment of Government grants, an amount of £25,000 was credited to the income statement in the year to 31 March 2017 (2016: £25,000).

## 19 Deferred taxation

Deferred taxation provided in the financial statements, representing the full potential liability, is as follows:

| | 2017 | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| At 1 April | **6,358** | 5,400 |
| Transferred from the income statement | **2,012** | 958 |
| **At 31 March** | **8,370** | 6,358 |

| | 2017 | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Deferred taxation provided in the financial statements comprises: | | |
| Accelerated capital allowances | **4,662** | 3,260 |
| Other short-term timing differences | **4,240** | 4,240 |
| Net deferred tax asset on pensions | **(532)** | (1,142) |
| **Deferred tax provision** | **8,370** | 6,358 |

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 20 Called up share capital

| | £'000 |
|---|---|
| **Authorised, allotted, called up and fully paid** | |
| 2,500,000 ordinary shares of £1.00 each at 1 April 2016 and 31 March 2017 | **2,500** |

## 21 Capital commitments

Amounts contracted for but not provided in the financial statements totalled £3,812,000 (2016: £10,635,981).

## 22 Pension commitments

**Defined benefit scheme**

The company operates a defined benefit pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company and are invested by professional investment managers.

The most recently completed Actuarial Valuation was carried out by Aon Hewitt at 6 April 2014 and the main assumptions used for assessing the technical provisions are summarised below:

| | |
|---|---|
| CPI inflation | RPI assumption minus 0.6% pa |
| General pay increases | RPI inflation plus 0.7% pa |

Based on the technical provisions, there was a shortfall of £6.7 million which corresponds to a funding ratio of 85%.

The Scheme accounts at 6 April 2014 show invested assets of £26.1 million. These assets include £0.2 million in respect of AVCs but exclude insured annuities held by the Scheme amounting to £11.2 million.

The results of the latest formal valuation at 6 April 2014 have been updated to 31 March 2017, taking account of the assumptions required by FRS 102, by Hymans Robertson, consulting actuaries.

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 22 Pension commitments (continued)

The major assumptions used at 31 March 2017 by the actuary were:

| | **At 31 March 2017** | At 31 March 2016 |
|---|---|---|
| Rate of increase in salaries | **4.00%** | 3,80% |
| Rate of increase in deferred pensions | **2.50%** | 2.30% |
| Rate of increase in pensions in payment | **3.40%** | 3.20% |
| Discount rate | **2.80%** | 3.70% |
| Inflation assumption | **2.50%** | 2.30% |

The mortality assumptions used by the actuary for the current and previous year are as follows:

| **Effective Date of Assessment** | **31 March 2017** | 31 March 2016 |
|---|---|---|
| Life expectancy (years) for members aged 65 at the effective date: | | |
| Males | 22.0 | 22.0 |
| Females | 22.9 | 22.9 |
| Life expectancy (years) for members aged 65 at date 20 years after effective date: | | |
| Males | 23.5 | 23.5 |
| Females | 27.1 | 27.1 |

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 22 Pension commitments (continued)

The assets in the scheme were:

| | **Value at 31 March 2017 £'000** | Value at 31 March 2016 £'000 |
|---|---|---|
| Equities | **19,944** | 16,383 |
| Corporate Bonds | **10,899** | 7,277 |
| Bonds | **8,018** | 5,410 |
| Property | **1,645** | 1,694 |
| Cash | **6,055** | 2,152 |
| Other | **11,837** | 10,875 |
| Total fair value of assets | **58,398** | 43,791 |
| Present value of scheme liabilities | **(61,507)** | (50,138) |
| **Net pension deficit** | **(3,109)** | (6,347) |

Analysis of amount charged to operating profit under FRS 102 in respect of defined benefit schemes:

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Current service cost | **1,039** | 1,238 |
| Administration cost | **408** | 293 |
| **Net cost** | **1,447** | 1,531 |

Analysis of the amount charged to other finance costs:

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Interest income | **1,633** | 1,424 |
| Interest on pension scheme liabilities | **(1,825)** | (1,770) |
| **Net cost** | **192** | 346 |

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 22 Pension commitments (continued)

Reconciliation of scheme assets and liabilities:

| | Assets | Liabilities | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| At 1 April 2016 | 43,791 | (50,138) | (6,347) |
| Interest income/(expenses) | 1,633 | (1,825) | (192) |
| Current service cost and administrative expenses | - | (1,447) | (1,447) |
| Actuarial (losses) | - | (10,976) | (10,976) |
| Contributions by the employer and participants | 7,606 | (70) | 7,536 |
| Actual return on assets excluding amounts included in net interest | 8,317 | - | 8,317 |
| Benefits paid | (2,949) | 2,949 | - |
| **Closing fair value of scheme assets** | **58,398** | **(61,507)** | **(3,109)** |

The expected return on assets is based on the long-term expectation for each asset class at the beginning of the year. The actual return on scheme assets, including interest, in the year was a gain of £9,950,000 (2016: loss £446,000).

**Defined contribution scheme**

The company also operates a defined contribution scheme, the assets of which are also held separately from those of the company in an independently administered fund. The pension cost represents contributions payable by the company to the funds and amounted to £810,000 (2016: £683,000).

# Notes to the financial statements for the year ended 31 March 2017 (continued)

## 23 Financial instruments

The company has the following financial instruments:

| | Note | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **Financial assets measured at fair value through the income statement** | | - | - |
| **Financial assets that are debt instruments measured at amortised cost:** | | | |
| Trade receivables | 15 | 3,752 | 6,058 |
| Amounts owed by Group undertakings | 15 | 18,067 | 8,280 |
| Other receivables (excluding deferred tax) | 15 | 3,440 | 4,004 |
| | | 25,259 | 18,342 |
| **Financial liabilities measured at fair value through the income statement** | | - | - |
| **Financial liabilities measured at amortised cost:** | | | |
| Trade creditors | 16 | 11,487 | 6,157 |
| Amounts owed to Group undertakings | 16 | 289,301 | 286,211 |
| Other payables (excluding accruals) due within one year | 16 | 4,729 | 2,170 |
| | | 305,517 | 294,538 |

The company has taken advantage of the exemption for the requirements to disclose additional information with regards to financial instruments already disclosed in consolidated financial statements. [Section 11 and 12 financial instruments 11.39-11.48 and 12.26-12.29]

## 24 Controlling parties

The directors regard Bacardi Limited, a company incorporated in Bermuda, as the ultimate parent and controlling company, and is the largest group to consolidate these results. The company that heads the smallest group of undertakings is Bacardi U.K. Limited, its immediate parent company, which is incorporated in the United Kingdom. The financial statements of John Dewar and Sons Limited are included in the consolidated financial statements of Bacardi-Martini B.V., a company registered in The Netherlands, whose financial statements are available from the Registrar at Companies House.

## 25 Related party transactions

Advantage has been taken of the exemptions available for subsidiaries not to disclose inter-group transactions.