

Registered number SC016288

# SCOTTISH & NEWCASTLE LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016



# **SCOTTISH & NEWCASTLE LIMITED**

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## **SCOTTISH & NEWCASTLE LIMITED**

### **COMPANY INFORMATION**

|                            |  |
|----------------------------|--|
| <b>Directors</b>           | G A Colquhoun<br>D M Forde<br>R C Hunter<br>L J Nicoll<br>R Sikorsky<br>K Taylor-Welsh           |
| <b>Company secretary</b>   | G A Colquhoun  |
| <b>Registered number</b>   | SC016288   |
| <b>Registered office</b>   | 3-4 Broadway Park<br>South Gyle Broadway<br>Edinburgh<br>EH12 9JZ                                |
| <b>Independent auditor</b> | Deloitte LLP<br>Statutory Auditor<br>20 Castle Terrace<br>Edinburgh<br>United Kingdom<br>EH1 2DB |

## **SCOTTISH & NEWCASTLE LIMITED**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors present their Strategic Report together with the audited financial statements for the year ended 31 December 2016. Scottish & Newcastle Limited ("The Company") is a wholly owned subsidiary of Sunrise Acquisitions Limited and the ultimate parent company at the year end was Heineken N.V. Heineken N.V. ("The Group") heads up the largest and smallest company into which the company is consolidated.

#### **BUSINESS REVIEW**

The operating profit in the current year was £28m (2015: £32m). In the previous year a number of subsidiaries and a joint venture company were dissolved as part of an ongoing restructuring project to simplify the group structure.

The profit after taxation for the year amounted to £43m (2015: £53m). Net interest receivable amounted to £39m (2015: £50m). On transition from UK GAAP to FRS 101 in 2015, the company recognised a defined benefit liability in respect of the Scottish and Newcastle Pension Scheme. The value at 31 December 2016 was net liability of £581m (2015: net liability £369m).

While a number of the company's dormant subsidiaries were dissolved in the previous year, there was no change in both years to the primary activity of holding the investment in Heineken UK Limited, the group's main trading company. The other main Statement of Financial Position items are intragroup debtors and creditors and external loans.

Management do not use any KPIs to monitor performance other than the figures included in the Statement of Comprehensive Income and Statement of Financial Position, as the company is a holding company which does not generate a significant operating profit.

#### **RISKS AND UNCERTAINTIES**

Effective management of risk forms an integral part of how the company operates as a business and is embedded in day-to-day operations. Responsibility for identifying potential strategic, operational, reporting and compliance risks, and for implementing fit-for-purpose responses, lies primarily with line management. Groupwide risk management priorities are defined by regional and functional management and endorsed by the Executive Board, who bears ultimate responsibility for managing the main risks faced by the Company and for reviewing the adequacy of S&N's internal control system.

## **SCOTTISH & NEWCASTLE LIMITED**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **FINANCIAL RISK MANAGEMENT POLICY**

The main risks associated with the company's financial assets and liabilities are set out below.

##### **Interest rate risk**

The company benefits from the management of interest rate risk being undertaken at group company level and therefore interest rate risk is viewed at a group level.

##### **Price risk**

There is no significant exposure to changes in the carrying value of financial liabilities and assets because all of these bear interest at floating rates.

##### **Liquidity risk**

The company benefits from the management of liquidity risk being undertaken at group company level. It therefore primarily obtains any new funding required from other group companies. Its bank accounts form part of the group offset arrangements.

##### **Foreign currency risk**

The company benefits from the management of foreign currency risk being undertaken at group company level. The company hedges its overseas investments by way of currency denominated liabilities.

This report was approved by the board on 22 September 2017 and signed on its behalf by:



**K Taylor-Welsh**  
Director

## **SCOTTISH & NEWCASTLE LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors present their annual report and the audited financial statements of Scottish & Newcastle Limited "the company") for the year ended 31 December 2016.

#### **PRINCIPAL ACTIVITY**

The principal activity of the company during the year was that of an investment holding company.

#### **DIRECTORS**

The directors who served during the year and up to the date of approval of the report were:

G A Colquhoun  
D M Forde  
R C Hunter  
L J Nicoll  
R Sikorsky (appointed 1 September 2016)  
K Taylor-Welsh  
J P A van der Burg (resigned 1 September 2016)

#### **RESULTS AND DIVIDENDS**

The profit for the year, after taxation, amounted to £43m (2015: £53m). A review is presented in the Strategic Report on page 2.

The directors do not recommend the payment of a dividend (2015: £nil).

#### **FUTURE DEVELOPMENTS**

The company expects to continue as the investment holding company of Heineken UK Limited.

#### **QUALIFYING THIRD PARTY INDEMNITY PROVISIONS**

The company has made qualifying third party indemnity provisions for the benefit of its directors (which extend to the performance of any duties as a director of any associated company) and these remain in force at the date of this report.

#### **FINANCIAL RISK MANAGEMENT**

The financial risk management of the company is discussed in the Strategic Report on page 3.

**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**GOING CONCERN**

The financial position of the company is set out in the Statement of Financial Position on page 10 of the financial statements. The company has net current liabilities of £3m at 31 December 2016 (2015: net current liabilities £54m). The net current liability position is due to amounts owed to fellow group undertakings within the next 12 months of £2,740m (2015: £2,698m), the demand for repayment of which is entirely within the control of the group.

The company's intermediate parent undertaking, Heineken International B.V., has confirmed to the directors its intention to provide sufficient financial assistance to enable the company to continue operations and fulfil its financial obligations for the foreseeable future and for a period of at least 12 months from the date of approval of the financial statements of the company. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

**EMPLOYEE INVOLVEMENT**

The company has a number of channels that are used to regularly provide employees with such information and consult with them. The company has an Employee Council, consisting of elected representatives from all business areas, and this forum meets every second month to discuss matters affecting employees, the performance of the company and to consult on a wide range of matters affecting employees. The company also has regular dialogue with local representatives of the Union on these topics. In addition, to keep employees informed of company performance and other matters affecting them as employees, the company uses various intranet sites, several regular magazines and publications, company-wide email correspondence, videos, local team-talk sessions, Management team road-shows, drop in forums with management team members and Facebook at Work, to name a few. There are also several bonus schemes in operation that have a link with the profitability of the company.

**DISABLED EMPLOYEES**

The company has appropriate equal opportunities policies in place to ensure equal treatment for disabled persons throughout the recruitment process and duration of employment. We also have policies and training in place to ensure that disabled colleagues are not subjected to discrimination and are treated fairly and equally at all times. In the event of employees becoming disabled, every effort is made to accommodate any reasonable adjustments necessary to allow the employee to continue in employment and to overcome and disadvantage suffered as a result of the disability.

**DISCLOSURE OF INFORMATION TO AUDITOR**

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

**INDEPENDENT AUDITOR**

A resolution to reappoint Deloitte LLP has been proposed and approved at the Annual General Meeting.

This report was approved by the board on 22 September 2017 and signed on its behalf by:



**K Taylor-Welsh**  
Director

**DIRECTORS' RESPONSIBILITIES STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. 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 these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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. They 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 AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH & NEWCASTLE LIMITED**

We have audited the financial statements of Scottish & Newcastle Limited for the year ended 31 December 2016, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

**Respective responsibilities of Directors and Auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

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. 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.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 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

**Opinion on other matter prescribed by the Companies Act 2006**

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

**SCOTTISH & NEWCASTLE LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH & NEWCASTLE LIMITED**

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

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

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**David Crawford, CA (Senior statutory auditor)**  
for and on behalf of **Deloitte LLP**  
Statutory Auditor  
Edinburgh, United Kingdom

27 September 2017

**SCOTTISH & NEWCASTLE LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016**

|  | <b>Note</b> | <b>2016<br/>£M</b> | <b>2015<br/>£M</b> |
|--|-------------|--------------------|--------------------|
| Administrative income                                    |             | <b>26</b>          | 479                |
| Exceptional administrative income / (expenses)           | 5           | <b>2</b>           | (447)              |
| <b>Operating profit</b>                                  | 4           | <b>28</b>          | 32                 |
| Investment income  | 8           | <b>63</b>          | 98                 |
| Finance costs  | 9           | <b>(21)</b>        | (42)               |
| Other finance costs                                      | 10          | <b>(14)</b>        | (14)               |
| <b>Profit before tax</b>                                 |             | <b>56</b>          | 74                 |
| Taxation   | 11          | <b>(13)</b>        | (21)               |
| <b>Profit for the year</b>                               |             | <b>43</b>          | 53                 |
| <b>Other comprehensive income/(expense):</b>             |             |                    |                    |
| Actuarial gain/(loss) on defined benefit schemes         |             | <b>(235)</b>       | 10                 |
| Movements of deferred tax relating to pension liability  |             | <b>39</b>          | (4)                |
| <b>Other comprehensive income/(expense)</b>              |             | <b>(196)</b>       | 6                  |
| <b>Total comprehensive income/(expense) for the year</b> |             | <b>(153)</b>       | 59                 |

The notes on pages 13 to 32 form part of these financial statements.

**SCOTTISH & NEWCASTLE LIMITED**  
**REGISTERED NUMBER: SC016288**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2016**

|   | Note | 2016<br>£M   | 2015<br>£M   |
|---|------|--------------|--------------|
| <b>Fixed assets</b>                                   |      |              |              |
| Intangible assets                                     | 12   | 1            | 1            |
| Investments   | 13   | 3,352        | 3,352        |
|   |      | <u>3,353</u> | <u>3,353</u> |
| <b>Current assets</b>                                 |      |              |              |
| Debtors: amounts falling due after more than one year | 14   | 109          | 78           |
| Debtors: amounts falling due within one year          | 14   | 2,667        | 2,625        |
| Cash at bank and in hand                              |      | -            | 10           |
|   |      | <u>2,776</u> | <u>2,713</u> |
| Creditors: amounts falling due within one year        | 15   | (2,773)      | (2,767)      |
| <b>Net current liabilities</b>                        |      | <u>3</u>     | <u>(54)</u>  |
| <b>Total assets less current liabilities</b>          |      | <u>3,356</u> | <u>3,299</u> |
| <b>Provisions for liabilities</b>                     |      |              |              |
| Other provisions                                      | 17   | (1)          | (3)          |
| Pension liability                                     | 20   | (581)        | (369)        |
| <b>Net assets</b>                                     |      | <u>2,774</u> | <u>2,927</u> |
| <b>Capital and reserves</b>                           |      |              |              |
| Called up share capital                               | 18   | 193          | 193          |
| Share premium account                                 | 19   | 1,392        | 1,392        |
| Capital redemption reserve                            | 19   | 72           | 72           |
| Other reserves  | 19   | 118          | 118          |
| Merger reserve  | 19   | 286          | 286          |
| Profit and loss account                               | 19   | 713          | 866          |
| <b>Total shareholders' funds</b>                      |      | <u>2,774</u> | <u>2,927</u> |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 22 September 2017.



**K Taylor-Welsh**  
Director

The notes on pages 13 to 32 form part of these financial statements.

**SCOTTISH & NEWCASTLE LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016**

|  | Called up<br>share<br>capital<br>£M | Share<br>premium<br>account<br>£M | Capital<br>redemption<br>reserve<br>£M | Other<br>reserves<br>£M | Merger<br>reserve<br>£M | Profit and<br>loss<br>account<br>£M | Total<br>shareholders'<br>funds<br>£M |
|--|-------------------------------------|-----------------------------------|--|-------------------------|-------------------------|-------------------------------------|---------------------------------------|
| At 1 January 2016  | 193                                 | 1,392                             | 72                                     | 118                     | 286                     | 866                                 | 2,927                                 |
| <b>Comprehensive income for the financial year</b>           |                                     |                                   |  |                         |                         |                                     |                                       |
| Profit for the financial year                                | -                                   | -                                 | -                                      | -                       | -                       | 43                                  | 43                                    |
| Actuarial gains on pension scheme, net of<br>deferred tax    | -                                   | -                                 | -                                      | -                       | -                       | (196)                               | (196)                                 |
| <b>Other comprehensive income for the year</b>               |                                     |                                   |  |                         |                         |                                     |                                       |
|  | -                                   | -                                 | -                                      | -                       | -                       | (196)                               | (196)                                 |
| <b>Total comprehensive income for the financial<br/>year</b> |                                     |                                   |  |                         |                         |                                     |                                       |
|  | -                                   | -                                 | -                                      | -                       | -                       | (153)                               | (153)                                 |
| <b>At 31 December 2016</b>                                   | <b>193</b>                          | <b>1,392</b>                      | <b>72</b>                              | <b>118</b>              | <b>286</b>              | <b>713</b>                          | <b>2,774</b>                          |

The notes on pages 13 to 32 form part of these financial statements.

**SCOTTISH & NEWCASTLE LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015**

|  | Called up<br>share<br>capital<br>£M | Share<br>premium<br>account<br>£M | Capital<br>redemption<br>reserve<br>£M | Other<br>reserves<br>£M | Merger<br>reserve<br>£M | Profit and<br>loss<br>account<br>£M | Total<br>shareholders'<br>funds<br>£M |
|--|-------------------------------------|-----------------------------------|--|-------------------------|-------------------------|-------------------------------------|---------------------------------------|
| At 1 January 2015  | 193                                 | 1,392                             | 72                                     | 118                     | 286                     | 807                                 | 2,868                                 |
| <b>Comprehensive income for the financial year</b>           |                                     |                                   |  |                         |                         |                                     |                                       |
| Profit for the financial year                                | -                                   | -                                 | -                                      | -                       | -                       | 53                                  | 53                                    |
| Actuarial gains on pension scheme, net of<br>deferred tax    | -                                   | -                                 | -                                      | -                       | -                       | 6                                   | 6                                     |
| <b>Other comprehensive income for the year</b>               |                                     |                                   |  |                         |                         |                                     |                                       |
|  | -                                   | -                                 | -                                      | -                       | -                       | 6                                   | 6                                     |
| <b>Total comprehensive income for the financial<br/>year</b> |                                     |                                   |  |                         |                         |                                     |                                       |
|  | -                                   | -                                 | -                                      | -                       | -                       | 59                                  | 59                                    |
| <b>At 31 December 2015</b>                                   | <b>193</b>                          | <b>1,392</b>                      | <b>72</b>                              | <b>118</b>              | <b>286</b>              | <b>866</b>                          | <b>2,927</b>                          |

The notes on pages 13 to 32 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. GENERAL INFORMATION**

Scottish & Newcastle Limited (the "company") is an investment holding company. The company is a private company limited by shares and is incorporated in the United Kingdom under the Companies Act 2006 and is registered in Scotland. The address of its registered office is 3-4 Broadway Park, South Gyle Broadway, Edinburgh, EH12 9JZ.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

The company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has applied the amendments to company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

The financial statements are separate financial statements. The company is exempt from the preparation and delivery of consolidated financial statements, because it is included in the group accounts of Heineken N.V. *The group accounts of Heineken N.V. are available to the public and can be obtained as set out in note 22.*

**Adoption of new and revised standards**

***Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year***

In the current year, the company has applied the amendments to IAS 1 *Disclosure Initiative* issued by the International Accounting Standards Board (IASB) that is mandatorily effective for an accounting period that begins on or after 1 January 2016. The adoption has not had any material impact on the financial performance or financial position of the company, or the disclosures in these financial statements. Other amendments effective for the current period are not applicable to these financial statements.

**2. ACCOUNTING POLICIES**

**2.1. Basis of preparation of financial statements**

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The company is a wholly-owned subsidiary of Sunrise Acquisitions Limited and of its ultimate parent, Heineken N.V. It is included in the consolidated financial statements of Heineken N.V. which are publicly available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

The financial statements have been prepared on a going concern basis, under the historical cost convention. Historical cost is generally based on fair value of the consideration given in exchange for the goods and services.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.1. Basis of preparation of financial statements (continued)**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below:

**2.2. Going concern**

The financial position of the company is set out in the Statement of Financial Position on page 10 of the financial statements. The company has net current liabilities of £3m at 31 December 2016 (2015: net current liabilities £54m). The net current liability position is due to amounts owed to fellow group undertakings within the next 12 months of £2,740m (2015: £2,698m), the demand for repayment of which is entirely within the control of the group.

The company's intermediate parent undertaking, Heineken International B.V., has confirmed to the directors its intention to provide sufficient financial assistance to enable the company to continue operations and fulfil its financial obligations for the foreseeable future and for a period of at least 12 months from the date of approval of the financial statements of the company. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

**2.3. Intangible assets**

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

*Brands*

Acquired brands, which are separately identifiable, are recorded at fair value on acquisition where this can be measured reliably. Brands are amortised on a straight line basis over their expected useful life of 25 years.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.4. Impairment of intangible assets**

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

**2.5. Investments**

Investments held in fixed assets are measured at cost less accumulated impairment.

These investments are subject to impairment as follows:

At each Statement of Financial Position date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pretax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the Statement of Comprehensive Income, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

**2.6. Debtors**

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

**2.7. Cash at bank and in hand**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

2. ACCOUNTING POLICIES (CONTINUED)

2.8. Financial instruments

The company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The company's accounting policies in respect of financial instruments transactions are explained below:

**Financial assets**

The company recognises its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

Other than the financial assets in a qualifying hedging relationship, the company's accounting policy for each category is as follows:

**Fair value through profit or loss**

This category comprises only in-the-money derivatives. These are carried in the Statement of Financial Position at fair value with changes in fair value recognised in the Statement of Comprehensive Income.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

**Other financial liabilities**

The company classifies its financial liabilities into one of the categories discussed below, depending on the purpose for which the liability was acquired.

**Fair value through profit or loss**

The company comprises only out-of-the-money derivatives. They are carried in the Statement of Financial Position at fair value recognised in the Statement of Comprehensive Income.

**Amortised cost**

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Statement of Financial Position.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.9. Creditors**

Creditors represent obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**2.10. Foreign currency translation**

**Functional and presentation currency**

The company's functional and presentational currency is GBP.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Nonmonetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Income Statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Income Statement within 'other operating income'.

**2.11. Finance costs**

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.12. Pensions**

**Defined benefit pension plans**

Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Certain past employees of Scottish & Newcastle Limited are members of the Scottish and Newcastle Limited group defined benefit pension scheme, which covers several employers in the group. As part of the transition to FRS 101, it has been determined that Scottish & Newcastle Limited is the principal employer of the scheme and therefore the defined benefit pension liability has been reflected on the Statement of Financial Position. However, Heineken UK Limited, another group company within the pension scheme, has been determined to have a constructive obligation to make the payments to the scheme and has historically made these payments on behalf of Scottish & Newcastle Limited. As such, the associated costs have been charged to the Statement of Comprehensive Income of Heineken UK Limited.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

**Defined contribution pension plans**

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**2.13. Interest income**

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.14. Provisions for liabilities**

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

**2.15. Current and deferred taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.16. Exceptional items**

Exceptional items are transactions that fall within the ordinary activities of the company but are presented separately due to their size or incidence.

**3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

**Sources of estimation uncertainty**

The preparation of the financial statements requires the company to make estimates, judgements and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The directors base their estimates on historical experience and various other assumptions that they believe are reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumption or conditions.

**Defined Benefit Pension Scheme Accounting estimates and judgments**

The directors engage an independent and qualified actuary to calculate the Company's liability in respect of the defined benefit plan. In order to arrive at this valuation certain assumptions in respect of discount rates' salary escalations' expected return on the plan's assets and future pension increases have been made. Assumptions regarding future mortality are based on published statistics and mortality tables. As the actual rates of increase and mortality may differ from those assumed the actual pension liability may differ from that recognised in these financial statements. Assumptions used and full details of the Company's liability are set out in full in note 20.

**Impairment of IFA**

At each reporting date, the Company reviews the carrying amounts of its intangible assets (other than goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

**Impairment/reversal of impairment in investments**

Company has significant investments in subsidiaries. Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired requiring the book value to be written down to its recoverable amount. Impairments are reversed if conditions for impairment are no longer present. Evaluating whether an asset is impaired or if an impairment should be reversed requires a high degree of judgement and may to a large extent depend upon the selection of key assumptions about the future.

**SCOTTISH & NEWCASTLE LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016****4. OPERATING PROFIT**

The operating profit is stated after charging/(crediting):

|                           | <b>2016</b> | 2015     |
|---------------------------|-------------|----------|
|                           | <b>£M</b>   | £M       |
| Exchange differences      | -           | (1)      |
| Impairment of receivables | -           | 447      |
| Staff costs (note 6)      | <u>10</u>   | <u>8</u> |

Fees in respect of audit services were £0.003m (2015: £0.003m) and were paid on behalf of the company by its subsidiary company Heineken UK Limited.

**5. EXCEPTIONAL ITEMS**

|   | <b>2016</b> | 2015       |
|---|-------------|------------|
|   | <b>£M</b>   | £M         |
| Release of onerous lease provision (note 17)              | 2           | -          |
| Exceptional operating expense on write off of investments | <u>-</u>    | <u>447</u> |
|   | <u>2</u>    | <u>447</u> |

**6. EMPLOYEES**

Staff costs were as follows:

|                       | <b>2016</b> | 2015     |
|-----------------------|-------------|----------|
|                       | <b>£M</b>   | £M       |
| Wages and salaries    | 7           | 5        |
| Social security costs | 1           | 1        |
| Other pension costs   | <u>2</u>    | <u>2</u> |
|                       | <u>10</u>   | <u>8</u> |

The average monthly number of employees, including the directors, during the year was as follows:

|                             | <b>2016</b> | 2015       |
|-----------------------------|-------------|------------|
|                             | <b>No.</b>  | No.        |
| Average number of employees | <u>152</u>  | <u>116</u> |

**SCOTTISH & NEWCASTLE LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016****7. DIRECTORS' REMUNERATION**

|                       | <b>2016</b> | <b>2015</b> |
|-----------------------|-------------|-------------|
|                       | <b>£M</b>   | <b>£M</b>   |
| Directors' emoluments | <u>-</u>    | <u>1</u>    |

Included within the above emoluments £0.02m related to pension contributions (2015: £0.04m).

During the year retirement benefits were accruing to 4 directors (2015: 4) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £0.1m (2015: £0.2m).

Directors' salaries were paid by the company's subsidiary, Heineken UK Limited.

**8. INVESTMENT INCOME**

|  | <b>2016</b>      | <b>2015</b>      |
|--|------------------|------------------|
|  | <b>£M</b>        | <b>£M</b>        |
| Income from fixed asset investments      | <b>3</b>         | 9                |
| Interest receivable from group companies | <b>60</b>        | 80               |
| Gain on interest rate swaps              | <u>-</u>         | <u>9</u>         |
|  | <b><u>63</u></b> | <b><u>98</u></b> |

**9. FINANCE COSTS**

|  | <b>2016</b>      | <b>2015</b>      |
|--|------------------|------------------|
|  | <b>£M</b>        | <b>£M</b>        |
| Forex loss on interest rate swaps      | -                | 12               |
| Interest payable to group undertakings | <b>21</b>        | 30               |
| Other interest payable                 | <u>-</u>         | <u>-</u>         |
|  | <b><u>21</u></b> | <b><u>42</u></b> |

**10. OTHER FINANCE COSTS**

|   | <b>2016</b>      | <b>2015</b> |
|---|------------------|-------------|
|   | <b>£M</b>        | <b>£M</b>   |
| Net interest on net defined benefit liability (note 20) | <u><b>14</b></u> | <u>14</u>   |



## 11. TAX ON PROFIT

|   | 2016<br>£M | 2015<br>£M |
|---|------------|------------|
| <b>Corporation tax</b>                      |            |            |
| Current tax on profits for the year         | 5          | 9          |
| Adjustment in respect of prior years        | -          | (1)        |
| <b>Total current tax</b>                    | <b>5</b>   | <b>8</b>   |
| <b>Deferred tax</b>                         |            |            |
| Current year                                | 5          | 4          |
| Prior year                                  | -          | 3          |
| Effect of changes in tax rates              | 3          | 6          |
| <b>Total deferred tax</b>                   | <b>8</b>   | <b>13</b>  |
| <b>Tax on profit on ordinary activities</b> | <b>13</b>  | <b>21</b>  |

## FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than (2015: higher than) the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

|   | 2016<br>£M | 2015<br>£M |
|---|------------|------------|
| Profit before tax   | 56         | 74         |
| Profit multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%) | 11         | 15         |
| <b>EFFECTS OF:</b>  |            |            |
| Expenses not deductible for tax purposes  | -          | -          |
| Prior year adjustment   | -          | 2          |
| Non-taxable income  | (10)       | (11)       |
| Tax rate changes  | 3          | 6          |
| Effects of group relief/other reliefs   | 9          | 9          |
| <b>TOTAL TAX CHARGE FOR THE YEAR</b>  | <b>13</b>  | <b>21</b>  |

## FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The Finance (No 2) Act 2015 enacted reductions in the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. The Finance Act 2016 enacted a further 1% reduction in the main rate of corporation tax to 17% from 1 April 2020. Consequently, the Company's deferred tax balances, which were previously provided at 18%, were re-measured at the rate at which the Company believe the timing differences will reverse.

# SCOTTISH & NEWCASTLE LIMITED

## 12. INTANGIBLE ASSETS

|                                 | Brands<br>£M |
|---------------------------------|--------------|
| <b>Cost</b>                     |              |
| At 1 January 2016               | 1            |
| Additions                       | -            |
| At 31 December 2016             | <u>1</u>     |
| <b>Accumulated amortisation</b> |              |
| At 1 January 2016               | -            |
| Charge for the year             | -            |
| At 31 December 2016             | <u>-</u>     |
| <b>Net book value</b>           |              |
| At 31 December 2016             | <u>1</u>     |
| At 31 December 2015             | <u>1</u>     |

## 13. INVESTMENTS

|                       | Investments<br>in<br>subsidiary<br>companies<br>£M |
|-----------------------|--|
| <b>Cost</b>           |  |
| At 1 January 2016     | 3,352  |
| Amounts written off   | -  |
| At 31 December 2016   | <u>3,352</u>                                       |
| <b>Net book value</b> |  |
| At 31 December 2016   | <u>3,352</u>                                       |
| At 31 December 2015   | <u>3,352</u>                                       |

**SCOTTISH & NEWCASTLE LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016****13. INVESTMENTS (CONTINUED)****DIRECT SUBSIDIARY UNDERTAKINGS**

The following were subsidiary undertakings of the company:

| <b>Name</b>   | <b>Country of incorporation</b> | <b>Class of shares</b> | <b>Holding</b> |
|---|---------------------------------|------------------------|----------------|
| Cunningham's and T. & W. Thwaites Limited <sup>(1)</sup>                  | England and Wales               | Ordinary               | 100%           |
| EX C.P. Limited <sup>(1)</sup>  | England and Wales               | Ordinary               | 100%           |
| Heineken Northern Ireland Limited <sup>(4)</sup>                          | Northern Ireland                | Ordinary               | 1%             |
| Heineken UK Limited <sup>(2)</sup>  | Scotland                        | Ordinary               | 100%           |
| HP Bulmer Limited <sup>(1)</sup>  | England and Wales               | Ordinary               | 100%           |
| Scottish & Newcastle (Curaçao) N.V. <sup>(13)</sup>                       | Curaçao                         | Ordinary               | 100%           |
| Scottish & Newcastle India Limited <sup>(1)</sup>                         | England and Wales               | Ordinary               | 100%           |
| Scottish & Newcastle Pension Plan Trustee Limited <sup>(2)</sup>          | Scotland                        | Ordinary               | 100%           |
| The Caledonian Brewing Company Limited <sup>(2)</sup>                     | Scotland                        | Ordinary               | 100%           |
| Uniter Breweries & Distillers Breweries (Pacific) Pte Ltd <sup>(15)</sup> | Singapore                       | Ordinary               | 50%            |

**INDIRECT SUBSIDIARY UNDERTAKINGS**

The following were subsidiary undertakings of the company:

| <b>Name</b>  | <b>Country of incorporation</b> | <b>Class of shares</b> | <b>Holding</b> |
|--|---------------------------------|------------------------|----------------|
| Project Fox Pty Limited <sup>(8)</sup>                             | Australia                       | Ordinary               | 100%           |
| Blue Star Pub Company Holdings (No.2) Limited <sup>(3)</sup>       | Jersey                          | Ordinary               | 100%           |
| Fountain Pub Company Limited <sup>(1)</sup>                        | England and Wales               | Ordinary               | 100%           |
| Red Star Pub Company (WR III) Limited <sup>(1)</sup>               | England and Wales               | Ordinary               | 100%           |
| Red Star Pub Company (WR) Limited <sup>(2)</sup>                   | Scotland                        | Ordinary               | 100%           |
| Red Star Pub Company (WRH) Limited <sup>(2)</sup>                  | Scotland                        | Ordinary               | 100%           |
| Red Star Pub Company (WR II) Limited <sup>(2)</sup>                | Scotland                        | Ordinary               | 100%           |
| Refresh Pub Company (Holdings) Limited <sup>(3)</sup>              | Jersey                          | Ordinary               | 100%           |
| Blue Star Pub Company Limited <sup>(2)</sup>                       | Scotland                        | Ordinary               | 100%           |
| The Globe Pub Company Limited <sup>(1)</sup>                       | England and Wales               | Ordinary               | 100%           |
| Broadway Inns Limited <sup>(1)</sup>                               | England and Wales               | Ordinary               | 100%           |
| Scottish & Newcastle Property 3 Limited <sup>(1)</sup>             | England and Wales               | Ordinary               | 100%           |
| Star Pubs & Bars (Property) Limited <sup>(1)</sup>                 | England and Wales               | Ordinary               | 100%           |
| Caledonian Brewery Limited <sup>(2)</sup>                          | Scotland                        | Ordinary               | 100%           |
| Ex SCOF Limited <sup>(1)</sup>                                     | England and Wales               | Ordinary               | 100%           |
| Ex SNOF Limited <sup>(1)</sup>                                     | England and Wales               | Ordinary               | 100%           |
| Heineken Northern Ireland Limited <sup>(4)</sup>                   | Northern Ireland                | Ordinary               | 99%            |
| Heineken UK (Canada) Inc. <sup>(6)</sup>                           | Canada                          | Ordinary               | 100%           |
| Heineken UK Group Life Scheme Trust Company Limited <sup>(2)</sup> | Scotland                        | Ordinary               | 100%           |
| Newcastle Federation Breweries Limited <sup>(1)</sup>              | England and Wales               | Ordinary               | 100%           |
| S&N Angel Investments Limited <sup>(1)</sup>                       | England and Wales               | Ordinary               | 100%           |

## SCOTTISH & NEWCASTLE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

#### 13. INVESTMENTS (CONTINUED)

##### INDIRECT SUBSIDIARY UNDERTAKINGS (CONTINUED)

| Name   | Country of incorporation | Class of shares | Holding |
|--|--------------------------|-----------------|---------|
| S&N Finland Limited <sup>(1)</sup>                                 | England and Wales        | Ordinary        | 100%    |
| S&N Portugal Limited <sup>(2)</sup>                                | Scotland                 | Ordinary        | 100%    |
| S&N UK Limited <sup>(1)</sup>                                      | England and Wales        | Ordinary        | 100%    |
| S&NF Limited <sup>(2)</sup>  | Scotland                 | Ordinary        | 100%    |
| Star Pubs & Bars Limited <sup>(2)</sup>                            | Scotland                 | Ordinary        | 100%    |
| Camerons Brewery Limited <sup>(5)</sup>                            | England and Wales        | Ordinary        | 24%     |
| Scottish & Newcastle Minors Trustee Limited <sup>(2)</sup>         | Scotland                 | Ordinary        | 100%    |
| Kuehne + Nagel Drinkflow Logistics Holdings Limited <sup>(7)</sup> | England and Wales        | Ordinary        | 50%     |
| Kuehne + Nagel Drinkflow Logistics Limited <sup>(7)</sup>          | England and Wales        | Ordinary        | 50%     |
| Serviced Dispense Equipment (Holdings) Limited <sup>(9)</sup>      | England and Wales        | Ordinary        | 50%     |
| Serviced Dispense Equipment Limited <sup>(9)</sup>                 | England and Wales        | Ordinary        | 50%     |
| Old Innserve Limited <sup>(10)</sup>                               | England and Wales        | Ordinary        | 50%     |
| T&R Theakston Limited <sup>(11)</sup>                              | England and Wales        | Ordinary        | 28.31%  |
| United Breweries Limited <sup>(12)</sup>                           | India                    | Ordinary        | 37.25%  |
| UseYourLocal Limited <sup>(2)</sup>                                | Scotland                 | Ordinary        | 10%     |
| Heliotrope Limited <sup>(14)</sup>                                 | Guernsey                 | Ordinary        | 100%    |

The Company had a 100% direct interest in Aniline Limited, a company registered in England & Wales, which was dissolved on 1 September 2017.

The Company had a 100% indirect interest in Scottish Courage Netherlands C.V., a partnership which operates in the Netherlands. On 26 May 2016 the partnership was dissolved.

The Company had a 100% indirect interest in Universal Beverages (Holdings) Limited and Universal Beverages Limited, companies registered in England & Wales, which were both dissolved on 13 December 2016; and a 100% indirect interest in Ex CBC Limited, a company registered in Scotland, which was dissolved on 20 December 2016.

##### Registered address:

- (1) Registered address of Elsey Court, 20-22 Great Titchfield Street, London, W1W 8BE
- (2) Registered address of 3-4 Broadway Park, South Gyle Broadway, Edinburgh, EH12 9JZ
- (3) Registered address of Ogier House, The Esplanade, St. Helier, Jersey, JE4 9WG
- (4) Registered address of 6th Floor, Leslie Tower, 42-46 Fountain Street, Belfast, BT1 5EF
- (5) Registered address of Main Gate House, Waldon Street, Hartlepool, Cleveland, TS24 7QS
- (6) Registered address of 33 Carlingview Drive, Etobicoke ON M9W 5E4, Canada
- (7) Registered address of Kuehne + Nagel House, Sunrise Parkway, Linford Wood, Milton Keynes, Buckinghamshire, MK14 6BW
- (8) Registered address of c/o RSM Australia, Level 21, 55 Collins Street, Melbourne VIC 3000, Australia
- (9) Registered address of Maltings Building, Leeds Road, Tadcaster, North Yorkshire, LS24 9HB
- (10) Registered address of The Old Maltings, Leeds Road, Tadcaster, North Yorkshire, LS24 9HB
- (11) Registered address of The Brewery, Masham, Ripon, North Yorkshire, HG4 4YD
- (12) Registered address of UB Tower, Level 4, UB City, 24 Vittal Mallya Road, Bangalore (Karnataka), 560 001, India
- (13) Registered address of Paraweg 45, Curacao, Netherlands Antilles
- (14) Registered address of Manor Place, St Peter Port, Guernsey, GY1 4EW
- (15) Registered address of ALEXANDRA PO BOX 23, Singapore, Singapore, 911501, Singapore

**SCOTTISH & NEWCASTLE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**14. DEBTORS**

|   | 2016<br>£M | 2015<br>£M |
|---|------------|------------|
| <b>Amounts due after more than one year</b> |            |            |
| Deferred taxation (note 16)                 | 109        | 78         |
|   | <u>109</u> | <u>78</u>  |

|                                    | 2016<br>£M   | 2015<br>£M   |
|------------------------------------|--------------|--------------|
| <b>Amounts due within one year</b> |              |              |
| Amounts owed by group undertakings | 2,667        | 2,624        |
| Other debtors                      | -            | 1            |
|                                    | <u>2,667</u> | <u>2,625</u> |

All amounts owed by group undertakings are unsecured and accrue interest at 1.8% plus LIBOR per annum. All amounts are repayable on demand.

**15. CREDITORS: Amounts falling due within one year**

|                                    | 2016<br>£M   | 2015<br>£M   |
|------------------------------------|--------------|--------------|
| Bank overdrafts                    | 1            | 41           |
| Amounts owed to group undertakings | 2,739        | 2,698        |
| Group relief payable               | 33           | 28           |
| Accruals and deferred income       | -            | -            |
|                                    | <u>2,773</u> | <u>2,767</u> |

The bank overdrafts are unsecured. The company is a participant in group cash pooling arrangements. Bank overdrafts have been netted against surplus cash balances as allowed under the pooling agreements.

All amounts owed to group undertakings are unsecured and accrue interest at 1.8% plus LIBOR per annum. All amounts are repayable on demand.

**16. DEFERRED TAXATION**

|   | Deferred tax<br>£M |
|---|--------------------|
| At 1 January 2016                         | 78                 |
| Charged to the Income Statement (note 11) | (8)                |
| Charged to other comprehensive income     | 39                 |
| <b>At 31 December 2016</b>                | <u><b>109</b></u>  |

**SCOTTISH & NEWCASTLE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**16. DEFERRED TAXATION (CONTINUED)**

| <b>In respect of prior year:</b>          | <b>Deferred tax<br/>£M</b> |
|---|----------------------------|
| At 1 January 2015                         | 95                         |
| Charged to the Income Statement (note 11) | (13)                       |
| Charged to other comprehensive income     | (4)                        |
| <b>At 31 December 2015</b>                | <b>78</b>                  |

The deferred tax asset is made up as follows:

|                                   | <b>2016<br/>£M</b> | <b>2015<br/>£M</b> |
|-----------------------------------|--------------------|--------------------|
| Accelerated capital allowances    | 2                  | 2                  |
| Other timing differences          | 1                  | 2                  |
| Trading losses                    | 7                  | 8                  |
| Deferred tax on pension liability | 99                 | 66                 |
|                                   | <b>109</b>         | <b>78</b>          |

**17. PROVISIONS**

|                                    | <b>Onerous<br/>leases<br/>£M</b> |
|------------------------------------|----------------------------------|
| At 1 January 2016                  | 3                                |
| Release of onerous lease provision | (2)                              |
| <b>At 31 December 2016</b>         | <b>1</b>                         |

**Onerous leases**

The provision for onerous leases relates to a number of leasehold properties which are surplus to requirements. It is expected that the majority of this provision will be utilised within the next five years.

**18. CALLED UP SHARE CAPITAL**

|  | <b>2016<br/>£M</b> | <b>2015<br/>£M</b> |
|--|--------------------|--------------------|
| <b>Allotted, called up and fully paid</b>                                      |                    |                    |
| 964,337,647 (2015: 964,337,647) Ordinary shares of £0.20<br>(2015: £0.20) each | <b>193</b>         | <b>193</b>         |

**NOTES TO THE FINANCIAL STATEMENTS  
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**19. RESERVES**

**Share premium account**

The share premium account represents the amount subscribed for share capital in excess of the nominal value.

**Capital redemption reserve**

A reserve relating to the purchase of the company's own shares.

**Other reserves**

Other reserves represents fair value adjustments on hedged derivatives and other reserves.

**Merger Reserve**

A reserve credited in place of a share premium account when merger relief is made use of.

**Profit and loss account**

The profit and loss account represents the accumulated profits, losses and distributions of the company.

**20. PENSION COMMITMENTS**

The company operates a number of pension schemes which are administered through independent trusts. The main group schemes are defined benefit schemes and a full actuarial valuation of the main schemes was carried out at 31 October 2012. The actuarial valuation has been updated to 31 December 2015 and 31 December 2016 by qualified independent actuaries.

The risks of the scheme are as follows:

**(a) Asset volatility**

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan holds a proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. However, the company also holds a significant proportion of bonds which provide far more stability in the short term. The company holds a diverse portfolio of assets so this risk is considered to be mitigated.

**(b) Changes in bond yields**

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

**(c) Life expectancy**

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

**(d) Inflation risk**

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

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**NOTES TO THE FINANCIAL STATEMENTS  
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**20. PENSION COMMITMENTS (CONTINUED)**

(d) Inflation risk (continued)

The weighted average asset allocation was as follows:

|                                     | <b>2016</b>    | <b>2015</b> |
|-------------------------------------|----------------|-------------|
|                                     | <b>£M</b>      | <b>£M</b>   |
| Equities                            | <b>736</b>     | 598         |
| Bonds                               | <b>2,544</b>   | 2,201       |
| Real estate                         | <b>184</b>     | 176         |
| Cash and cash equivalents           | <b>180</b>     | 148         |
| Derivatives                         | <b>(1,189)</b> | (906)       |
| Investment funds                    | <b>535</b>     | 431         |
| Assets held by an insurance company | <b>(4)</b>     | 8           |
| Other                               | <b>-</b>       | 13          |
|                                     | <hr/>          | <hr/>       |
| Fair value of plan assets           | <b>2,986</b>   | 2,669       |
| Present value of plan liabilities   | <b>(3,567)</b> | (3,038)     |
| <b>NET PENSION SCHEME LIABILITY</b> | <b>(581)</b>   | (369)       |

The amounts recognised in profit or loss are as follows:

|                                      | <b>2016</b> | <b>2015</b> |
|--------------------------------------|-------------|-------------|
|                                      | <b>£M</b>   | <b>£M</b>   |
| Administration expenses              | <b>2</b>    | 2           |
| Net interest on obligation (note 10) | <b>14</b>   | 14          |
| <b>TOTAL</b>                         | <b>16</b>   | 16          |
|                                      | <hr/>       | <hr/>       |
| Actual return on scheme assets       | <b>432</b>  | (11)        |

Reconciliation of fair value of plan liabilities were as follow:

|   | <b>2016</b>    |
|---|----------------|
|   | <b>£M</b>      |
| Opening defined benefit obligation        | (3,038)        |
| Interest cost                             | (114)          |
| Actuarial gains                           | (565)          |
| Benefits paid                             | 150            |
| <b>CLOSING DEFINED BENEFIT OBLIGATION</b> | <b>(3,567)</b> |



# SCOTTISH & NEWCASTLE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

### 20. PENSION COMMITMENTS (CONTINUED)

Reconciliation of fair value of plan assets were as follows:

|  | 2016<br>£M   |
|--|--------------|
| Opening fair value of scheme assets        | 2,669        |
| Interest income on plan assets             | 100          |
| Actuarial losses                           | 331          |
| Contributions by employer                  | 36           |
| Benefits paid                              | (150)        |
| <b>CLOSING FAIR VALUE OF SCHEME ASSETS</b> | <b>2,986</b> |

The principal assumptions used in valuing the schemes were as follows:

|   | 2016<br>%  | 2015<br>%  |
|---|------------|------------|
| Rate of increase in salaries              | n/a        | n/a        |
| Rate of increase in pensions (LPI max 5%) | 3.10%      | 2.95%      |
| Rate of increase in pensions (LPI max 3%) | 1.95%      | 1.90%      |
| Discount rate                             | 2.65%      | 3.85%      |
| Inflation rate - RPI                      | 3.20%      | 3.00%      |
| Inflation rate - CPI                      | 2.20%      | 2.00%      |
| <b>Mortality</b>                          |            |            |
| - for a male aged 65 now                  | 21.8 years | 21.5 years |
| - at 65 for a male aged 45 now            | 24.5 years | 23.9 years |
| - for a female aged 65 now                | 24.2 years | 23.8 years |
| - at 65 for a female member aged 45 now   | 26.7 years | 26.0 years |

#### Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant in the UK plan, where inflation-linked increases result in higher sensitivity to changes in life expectancy. In 2015, the Trustee of SNPP implemented a longevity hedge to remove the risk of a higher increase in life expectancy than anticipated for current pensioners.

### 21. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2016 the company had future minimum lease payments under non-cancellable operating leases as follows:

|  | 2016<br>£M | 2015<br>£M |
|--|------------|------------|
| Not later than 1 year                        | 1          | 2          |
| Later than 1 year and not later than 5 years | 5          | 5          |
| Later than 5 years                           | 1          | 1          |
| <b>TOTAL</b>                                 | <b>7</b>   | <b>8</b>   |

**SCOTTISH & NEWCASTLE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
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**22. ULTIMATE PARENT COMPANY**

The immediate parent undertaking at the Statement of Financial Position date is Sunrise Acquisitions Limited. The ultimate parent undertaking at the Statement of Financial Position date, which was also the parent for the largest and smallest group of undertakings for which group financial statements were drawn up and of which the company was a member, was Heineken N.V., a company registered in The Netherlands. Group financial statements for this company may be obtained from the Company Secretary, Heineken N.V., Tweede Weteringplantsoen 21, 1017 ZD, Amsterdam, The Netherlands, which is also the registered office.