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SCOTTISH & NEWCASTLE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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SCOTTISH & NEWCASTLE LIMITED

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SCOTTISH & NEWCASTLE LIMITED

COMPANY INFORMATION

Directors

D M Forde
R C Hunter
L J Nicoll
R Sikorsky
K Taylor-Welsh
C G Van Tooren

Registered number

SC016288

Registered office

3-4 Broadway Park
South Gyle Broadway
Edinburgh
EH12 9JZ

Independent auditor

Deloitte LLP
Statutory Auditor
20 Castle Terrace
Edinburgh
United Kingdom
EH1 2DB

SCOTTISH & NEWCASTLE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their Strategic Report together with the audited financial statements for the year ended 31 December 2017. 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. ("The Group") which heads up the largest and smallest company into which the company is consolidated.

BUSINESS REVIEW

The operating profit in the current year was £34m (2016: £28m). The primary source of income for the company was interest on intercompany loans and royalties from subsidiary for brands held by the company. Administrative expenses remained the same while Other income saw a positive increase of £7m due to royalties charged. In the current year the interest rate charged on these loans was lowered to 0.6% plus LIBOR (2016: 1.8% plus LIBOR) leading to significant change in interest income of £36m (2016: £63m) and interest expense of £15m (2016: £21m).

The profit before taxation for the year amounted to £40m (2016: £56m). Primarily attributable to a decrease in net interest receivable on intercompany loans due to a decrease in interest rates on intercompany loans, amounting to £21m (2016: £42m).

The company continues to be an investment holding company, it holds the investment in Heineken UK Limited, the group's main trading company. The other main Statement of Financial Position items are intercompany loans and the group's defined benefit pension scheme, details of which are disclosed in note 20.

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.

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. Group-wide 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 the Company's internal control system.

SCOTTISH & NEWCASTLE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL RISK MANAGEMENT POLICY

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

Interest rate risk

Interest rate risk refers to the risk that changes in market rates will impact on the performance of the company. 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

Price risk refers to the risk that the Company will not be able to mitigate against changes in the market. 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

Liquidity risk refers to the risk that the Company will not be able to meet its liabilities as they fall due. 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

Foreign currency risk is the risk that changes in foreign exchange rates will impact on the performance of the company. 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 25 September 2018 and signed on its behalf by:



R Sikorsky
Director

SCOTTISH & NEWCASTLE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their annual report and the audited financial statements of Scottish & Newcastle Limited "the company") for the year ended 31 December 2017.

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 (resigned 14 June 2018)
D M Forde
R C Hunter
L J Nicoll
R Sikorsky
K Taylor-Welsh
C G Van Tooren (appointed 14 June 2018)

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £33m (2016: £43m). A review is presented in the Strategic Report on page 2.

The directors do not recommend the payment of a dividend (2016: £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.

SCOTTISH & NEWCASTLE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

GOING CONCERN

The financial position of the company is set out in the Statement of Financial Position on page 11 of the financial statements. The company has net current assets of £5m at 31 December 2017 (2016: net current liabilities £5m).

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 25 September 2018 and signed on its behalf by:

R Sikorsky
Director

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

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.

SCOTTISH & NEWCASTLE LIMITED

Independent auditor's report to the members of Scottish & Newcastle Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Scottish & Newcastle Limited (the 'company') 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, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Scottish & Newcastle Limited (Continued)

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Report on other legal and regulatory requirements

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 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 or the directors' report.

SCOTTISH & NEWCASTLE LIMITED

Independent auditor's report to the members of Scottish & Newcastle Limited (Continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.



David Crawford, CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
27 September 2018

SCOTTISH & NEWCASTLE LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

		2017	2016
	Note	£M	£M
Other income		42	35
Administrative expenses		(8)	(8)
Exceptional administrative income	5		2
Operating profit	4	34	28
Investment income	8	36	63
Finance costs	9	(15)	(21)
Other finance costs	10	(15)	(14)
Profit before tax		40	56
Taxation	11	(7)	(13)
Profit for the year		33	43
Other comprehensive income/(expense):			
Actuarial gain/(loss) on defined benefit schemes		69	(235)
Movements of deferred tax relating to pension liability		(12)	39
Other comprehensive income/(expense)		57	(196)
Total comprehensive income/(expense) for the year		90	(153)

The notes on pages 14 to 33 form part of these financial statements.

SCOTTISH & NEWCASTLE LIMITED
REGISTERED NUMBER: SC016288

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 £M	2016 £M
Fixed assets			
Intangible assets	12	1	1
Investments	13	<u>3,350</u>	<u>3,350</u>
		3,351	3,351
Current assets			
Debtors: amounts falling due after more than one year	14	93	109
Debtors: amounts falling due within one year	14	2,707	2,667
Cash at bank and in hand		<u>-</u>	<u>-</u>
		2,800	2,776
Creditors: amounts falling due within one year	15	<u>(2,795)</u>	<u>(2,771)</u>
Net current assets		<u>5</u>	<u>5</u>
Total assets less current liabilities		3,356	3,356
Provisions for liabilities			
Other provisions	17	(1)	(1)
Pension liability	20	<u>(491)</u>	<u>(581)</u>
Net assets		<u>2,864</u>	<u>2,774</u>
Capital and reserves			
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	<u>803</u>	<u>713</u>
Total shareholders' funds		<u>2,864</u>	<u>2,774</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 September 2018.


R Sikorsky
 Director

The notes on pages 14 to 33 form part of these financial statements.

SCOTTISH & NEWCASTLE LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital	Share premium account	Capital redemption reserve	Other reserves	Merger reserve	Profit and loss account	Total shareholders' funds
	£M	£M	£M	£M	£M	£M	£M
At 1 January 2017	193	1,392	72	118	286	713	2,774
Comprehensive income for the financial year							
Profit for the financial year	-	-	-	-	-	34	34
Actuarial gains on pension scheme, net of deferred tax	-	-	-	-	-	57	57
Other comprehensive income for the year	-	-	-	-	-	57	57
Total comprehensive income for the financial year	-	-	-	-	-	90	90
At 31 December 2017	193	1,392	72	118	286	803	2,864

The notes on pages 14 to 33 form part of these financial statements.

SCOTTISH & NEWCASTLE LIMITED

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

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

The notes on pages 14 to 33 form part of these financial statements.

SCOTTISH & NEWCASTLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 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, there were no amendments to IFRSs issued by the International Accounting Standards Board (IASB) that were mandatorily effective for an accounting period that begins on or after 1 January 2017 and which were 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.

SCOTTISH & NEWCASTLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 11 of the financial statements. The company has net current assets of £5m at 31 December 2017 (2016: net current liabilities £5m).

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.

SCOTTISH & NEWCASTLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 pre-tax 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.

SCOTTISH & NEWCASTLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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.

SCOTTISH & NEWCASTLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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.

SCOTTISH & NEWCASTLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 & 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.

SCOTTISH & NEWCASTLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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.

SCOTTISH & NEWCASTLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of turnover and expenses during the reporting period.

Estimates and judgments are continually made and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The directors do not believe there are any critical accounting estimates or judgements applied in the preparation of these financial statements.

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. Details of areas of estimation uncertainty are noted below:

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.

SCOTTISH & NEWCASTLE LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION
UNCERTAINTY (CONTINUED)****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.

4. OPERATING PROFIT

The operating profit is stated after charging:

	2017	2016
	£M	£M
Staff costs (note 6)	<u>11</u>	<u>10</u>

Fees in respect of audit services were £0.02m (2016: £0.003m) and were paid on behalf of the company by its subsidiary company Heineken UK Limited.

5. EXCEPTIONAL ITEMS

	2017	2016
	£M	£M
Release of onerous lease provision (note 17)	<u>-</u>	<u>2</u>
	<u>-</u>	<u>2</u>

6. EMPLOYEES

Staff costs were as follows:

	2017	2016
	£M	£M
Wages and salaries	7	7
Social security costs	1	1
Other pension costs	<u>3</u>	<u>2</u>
	<u>11</u>	<u>10</u>

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

	2017	2016
	No.	No.
Average number of employees	<u>96</u>	<u>152</u>

SCOTTISH & NEWCASTLE LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****7. DIRECTORS' REMUNERATION**

	2017	2016
	£M	£M
Directors' emoluments	<u>-</u>	<u>-</u>

Included within the above emoluments £nil related to pension contributions (2016: £0.02m).

During the year retirement benefits were accruing to 4 directors (2016: 4) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £0.1m (2016: £0.1m).

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

8. INVESTMENT INCOME

	2017	2016
	£M	£M
Income from fixed asset investments	-	3
Interest receivable from group companies	<u>36</u>	<u>60</u>
	<u>36</u>	<u>63</u>

9. FINANCE COSTS

	2017	2016
	£M	£M
Interest payable to group undertakings	<u>15</u>	<u>21</u>
	<u>15</u>	<u>21</u>

10. OTHER FINANCE COSTS

	2017	2016
	£M	£M
Net interest on net defined benefit liability (note 20)	<u>15</u>	<u>14</u>

SCOTTISH & NEWCASTLE LIMITED

11. TAX ON PROFIT

	2017 £M	2016 £M
Corporation tax		
Current tax on profits for the year	3	5
Adjustment in respect of prior years	-	-
Total current tax	<u>-</u>	<u>5</u>
Deferred tax		
Current year	5	5
Prior year	-	-
Effect of changes in tax rates	(1)	3
Total deferred tax	<u>4</u>	<u>8</u>
Tax on profit on ordinary activities	<u>7</u>	<u>13</u>

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than (2016: higher than) the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 £M	2016 £M
Profit before tax	<u>40</u>	<u>56</u>
Profit multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	8	11

EFFECTS OF:

Expenses not deductible for tax purposes	-	-
Prior year adjustment	-	-
Non-taxable income	(8)	(10)
Tax rate changes	(1)	3
Effects of group relief/other reliefs	8	9
TOTAL TAX CHARGE FOR THE YEAR	<u>7</u>	<u>13</u>

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

Finance (No. 2) Act 2015 and Finance Act 2016 enacted reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020, respectively. These rate reductions have been reflected in the calculation of corporation tax and deferred tax at the balance sheet date.

SCOTTISH & NEWCASTLE LIMITED

12. INTANGIBLE ASSETS

	Brands £M
Cost	
At 1 January 2017	1
Additions	
At 31 December 2017	<u>1</u>
Accumulated amortisation	
At 1 January 2017	-
Charge for the year	
At 31 December 2017	<u>-</u>
Net book value	
At 31 December 2017	<u>1</u>
At 31 December 2016	<u>1</u>

13. INVESTMENTS

	Investments in subsidiary companies £M
Cost	
At 1 January 2017	3,350
Net book value	3,350
At 31 December 2017	<u>3,350</u>
At 31 December 2016	<u>3,350</u>

SCOTTISH & NEWCASTLE LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****13. INVESTMENTS (CONTINUED)****DIRECT SUBSIDIARY UNDERTAKINGS**

The following were subsidiary undertakings of the company:

Name	Country of incorporation	Class of shares	Holding
Cunningham's and T. & W. Thwaites Limited ⁽¹⁾	England and Wales	Ordinary	100%
EX C.P. Limited ⁽¹⁾	England and Wales	Ordinary	100%
Heineken Northern Ireland Limited ⁽⁴⁾	Northern Ireland	Ordinary	1%
Heineken UK Limited ⁽²⁾	Scotland	Ordinary	100%
HP Bulmer Limited ⁽¹⁾	England and Wales	Ordinary	100%
Scottish & Newcastle (Curaçao) N.V. ⁽¹²⁾	Curaçao	Ordinary	100%
Scottish & Newcastle India Limited ⁽¹⁾	England and Wales	Ordinary	100%
Scottish & Newcastle Pension Plan Trustee Limited ⁽²⁾	Scotland	Ordinary	100%
The Caledonian Brewing Company Limited ⁽²⁾	Scotland	Ordinary	100%

INDIRECT SUBSIDIARY UNDERTAKINGS

The following were subsidiary undertakings of the company:

Name	Country of incorporation	Class of shares	Holding
Project Fox Pty Limited ⁽⁸⁾	Australia	Ordinary	100%
Brixton Brewery Limited ⁽¹⁴⁾	England & Wales	Ordinary	49%
Blue Star Pub Company Holdings (No.2) Limited ⁽³⁾	Jersey	Ordinary	100%
Fountain Pub Company Limited ⁽¹⁾	England and Wales	Ordinary	100%
Red Star Pub Company (WR III) Limited ⁽¹⁾	England and Wales	Ordinary	100%
Red Star Pub Company (WR) Limited ⁽²⁾	Scotland	Ordinary	100%
Red Star Pub Company (WRH) Limited ⁽²⁾	Scotland	Ordinary	100%
Red Star Pub Company (WR II) Limited ⁽²⁾	Scotland	Ordinary	100%
Refresh Pub Company (Holdings) Limited ⁽³⁾	Jersey	Ordinary	100%
Blue Star Pub Company Limited ⁽²⁾	Scotland	Ordinary	100%
The Globe Pub Company Limited ⁽¹⁾	England and Wales	Ordinary	100%
Broadway Inns Limited ⁽¹⁾	England and Wales	Ordinary	100%
Scottish & Newcastle Property 3 Limited ⁽¹⁾	England and Wales	Ordinary	100%
Star Pubs & Bars (Property) Limited ⁽¹⁾	England and Wales	Ordinary	100%
Caledonian Brewery Limited ⁽²⁾	Scotland	Ordinary	100%
Ex SCOF Limited ^{(1) **}	England and Wales	Ordinary	100%
Ex SNOF Limited ^{(1) **}	England and Wales	Ordinary	100%
Heineken Northern Ireland Limited ⁽⁴⁾	Northern Ireland	Ordinary	99%
Heineken UK (Canada) Inc. ⁽⁶⁾	Canada	Ordinary	100%
Heineken UK Group Life Scheme Trust Company Limited ⁽²⁾	Scotland	Ordinary	100%
Newcastle Federation Breweries Limited ⁽¹⁾	England and Wales	Ordinary	100%
S&N Angel Investments Limited ⁽¹⁾	England and Wales	Ordinary	100%

SCOTTISH & NEWCASTLE LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****13. INVESTMENTS (CONTINUED)****INDIRECT SUBSIDIARY UNDERTAKINGS (CONTINUED)**

Name	Country of incorporation	Class of shares	Holding
S&N Finland Limited ⁽¹⁾	England and Wales	Ordinary	100%
S&N Portugal Limited ⁽²⁾	Scotland	Ordinary	100%
S&N UK Limited ⁽¹⁾	England and Wales	Ordinary	100%
S&NF Limited ⁽²⁾	Scotland	Ordinary	100%
Star Pubs & Bars Limited ⁽²⁾	Scotland	Ordinary	100%
Camerons Brewery Limited ⁽⁵⁾	England and Wales	Ordinary	24%
Scottish & Newcastle Minors Trustee Limited ⁽²⁾	Scotland	Ordinary	100%
Kuehne + Nagel Drinkflow Logistics Holdings Limited ^{(7)***}	England and Wales	Ordinary	50%
Kuehne + Nagel Drinkflow Logistics Limited ⁽⁷⁾	England and Wales	Ordinary	50%
Serviced Dispense Equipment (Holdings) Limited ⁽⁹⁾	England and Wales	Ordinary	49.95%
Serviced Dispense Equipment Limited ⁽⁹⁾	England and Wales	Ordinary	49.95%
Old Innserve Limited ⁽⁹⁾	England and Wales	Ordinary	50%
T&R Theakston Limited ⁽¹⁰⁾	England and Wales	Ordinary	28.30%
United Breweries Limited ⁽¹¹⁾	India	Ordinary	37.25%
UseYourLocal Limited ⁽²⁾	Scotland	Ordinary	10%
Heliotrope Limited ⁽¹³⁾	Guernsey	Ordinary	100%
Maltex Malsters Limited ⁽¹⁵⁾	India	Ordinary	19%

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 Ex SCOF Limited and Ex SNOF Limited, companies registered in England & Wales, which were dissolved post year-end, on 16th January 2018 and 9th January 2018 respectively.

*** The Company had a 50% indirect interest in Kuehne + Nagel Drinkflow Logistics Holdings Limited, a company registered in England and Wales, this interest was sold on 26 February 2018.

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 Brewery, Masham, Ripon, North Yorkshire, HG4 4YD
- (11) Registered address of UB Tower, Level 4, UB City, 24 Vittal Mallya Road, Bangalore (Karnataka), 560 001, India
- (12) Registered address of Paraweg 45, Curacao, Netherlands Antilles
- (13) Registered address of Manor Place, St Peter Port, Guernsey, GY1 4EW
- (14) Registered address of Arch 547 Brixton Station Road, London, SW9 8PF
- (15) Registered address of PO BOX 45, RAUNI PATIALA PUNJAB PB 147001 INDIA

SCOTTISH & NEWCASTLE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. DEBTORS

	2017 £M	2016 £M
Amounts due after more than one year		
Deferred taxation (note 16)	93	109
	<u>93</u>	<u>109</u>

	2017 £M	2016 £M
Amounts due within one year		
Amounts owed by group undertakings	2,704	2,667
Corporation tax receivable	3	
	<u>2,707</u>	<u>2,667</u>

All amounts owed by group undertakings are unsecured and accrue interest at 0.6% (2016: 1.8%) plus LIBOR per annum. All amounts are repayable on demand.

15. CREDITORS: Amounts falling due within one year

	2017 £M	2016 £M
Bank overdrafts	5	1
Amounts owed to group undertakings	2,754	2,737
Group relief payable	36	33
	<u>2,795</u>	<u>2,771</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 0.6% (2016: 1.8%) plus LIBOR per annum. All amounts are repayable on demand.

16. DEFERRED TAXATION

	Deferred tax £M
At 1 January 2017	109
Charged to the Income Statement (note 11)	(4)
Charged to other comprehensive income	(12)
At 31 December 2017	<u>93</u>

SCOTTISH & NEWCASTLE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

16. DEFERRED TAXATION (CONTINUED)

In respect of prior year:

Deferred tax

At 1 January 2016

£M

78

Charged to the Income Statement (note 11)

(8)

Charged to other comprehensive income

39

At 31 December 2016

109

The deferred tax asset is made up as follows:

	2017	2016
	£M	£M
Accelerated capital allowances	1	2
Other timing differences	1	1
Trading losses	7	7
Deferred tax on pension liability	84	99
	93	109

17. PROVISIONS

Onerous
leases
£M

At 1 January 2017

1

Release of onerous lease provision

-

At 31 December 2017

1

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

	2017	2016
	£M	£M
Allotted, called up and fully paid		
964,337,647 (2016: 964,337,647) Ordinary shares of £0.20		
(2016: £0.20) each	193	193

SCOTTISH & NEWCASTLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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.

SCOTTISH & NEWCASTLE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

20. PENSION COMMITMENTS (CONTINUED)

(d) Inflation risk (continued)

The weighted average asset allocation was as follows:

	2017	2016
	£M	£M
Equities	578	736
Bonds	2,390	2,544
Real estate	205	184
Cash and cash equivalents	542	180
Derivatives	(1,184)	(1,189)
Investment funds	536	535
Assets held by an insurance company	(6)	(4)
Fair value of plan assets	3,061	2,986
Present value of plan liabilities	(3,551)	(3,567)
NET PENSION SCHEME LIABILITY	(490)	(581)

The amounts recognised in profit or loss are as follows:

	2017	2016
	£M	£M
Administration expenses	3	2
Net interest on obligation (note 10)	15	14
TOTAL	18	16
Actual return on scheme assets	216	432

Reconciliation of fair value of plan liabilities were as follow:

	2017
	£M
Opening defined benefit obligation	(3,567)
Interest cost	(94)
Actuarial gains	(69)
Benefits paid	179
CLOSING DEFINED BENEFIT OBLIGATION	(3,551)

SCOTTISH & NEWCASTLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

20. PENSION COMMITMENTS (CONTINUED)

Reconciliation of fair value of plan assets were as follows:

	2017 £M
Opening fair value of scheme assets	2,986
Interest income on plan assets	77
Actuarial losses	139
Contributions by employer	37
Benefits paid	(179)
CLOSING FAIR VALUE OF SCHEME ASSETS	3,060

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

	2017 %	2016 %
Rate of increase in salaries	n/a	n/a
Rate of increase in pensions (LPI max 5%)	2.90%	3.10%
Rate of increase in pensions (LPI max 3%)	n/a	1.95%
Discount rate	2.50%	2.65%
Inflation rate - RPI	3.10%	3.20%
Inflation rate - CPI	2.10%	2.20%
Mortality		
- for a male aged 65 now	21.9 years	21.8 years
- at 65 for a male aged 45 now	24.6 years	24.5 years
- for a female aged 65 now	24.3 years	24.2 years
- at 65 for a female member aged 45 now	26.8 years	26.7 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 2017 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £M	2016 £M
Not later than 1 year	1	1
Later than 1 year and not later than 5 years	2	5
Later than 5 years		1
TOTAL	3	7

SCOTTISH & NEWCASTLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

22. ULTIMATE PARENT COMPANY

The immediate parent undertaking at the Statement of Financial Position date is Sunrise Acquisitions Limited. The ultimate parent undertaking and controlling party 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.