

**CHIVAS BROTHERS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

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# CHIVAS BROTHERS LIMITED

## COMPANY INFORMATION

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<b>Directors</b>	G Buist H Fetter A Hamilton-Stanley L Lacassagne S Livingstone A McIntosh A Schofield S Gallois	(Appointed 1 September 2015)
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<b>Secretary</b>	S Macnab
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<b>Company number</b>	SC268758
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<b>Registered office</b>	111/113 Renfrew Road Paisley PA3 4DY
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<b>Auditor</b>	Mazars LLP 90 St. Vincent Street Glasgow G2 5UB
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# CHIVAS BROTHERS LIMITED

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# CHIVAS BROTHERS LIMITED

## STRATEGIC REPORT

### FOR THE YEAR ENDED 30 JUNE 2016

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The directors present their strategic report for Chivas Brothers Limited ("the Company"), for the year ended 30 June 2016.

#### Principal Activities

The Company's principal activities are the distillation, warehousing, maturation, marketing and PR of Premium Scotch whisky and gin products which are then sold worldwide by other Pernod Ricard S.A. ("the Group") entities to third parties. The Company is one of the main subsidiaries of the Group, the accounts of which are publicly available.

The Group has built a unique portfolio of Premium international brands, one of the broadest of the wine and spirits industry. This portfolio is supported by the "House of Brands" which comprises three floors: strategic international brands at the top, then strategic wine brands and then strategic local brands.

The Company, produces five of the Group's 'strategic international brands' namely Chivas Regal, Ballantine's, Beefeater, The Glenlivet and Royal Salute. In addition to The Glenlivet, the Company's highly acclaimed single malt whiskies, including Aberlour, Longmorn, Scapa, Strathisla and Tormore as well as the Company's other blended Scotch whiskies, including Passport Scotch, 100 Pipers and Clan Campbell form part of the Group's 'strategic local brands' which operate in many of the world's key whisky markets.

#### Review of the business

The Company's accounts have been prepared in accordance with FRS 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), for the first time for the year ended 30 June 2016. Comparative figures for the previous year have also been restated on this basis. Full details, including reconciliations of equity and profit and loss from previous UK GAAP to FRS 102 are contained in note 35 of the accounts.

The priority of the Company continues to be to promote the growth of its products. In this respect Ballantine's lead the way in the year as a key milestone was achieved when, for the first time, Ballantine's Finest reached sales of 6 million 9 litre cases on a 12 month rolling basis.

Following last year's successful introduction of Chivas Regal Extra into the Chivas Regal brand family, the Company has seen the sales of Chivas Regal Extra double and its footprint expand to 47 markets. Innovation continued within the brand family of Chivas Regal as the Company unveiled the pinnacle of the Chivas Regal range - Chivas Regal The Icon, a new ultra-prestige Scotch whisky, created with a blend of some of the rarest and oldest whiskies available to Chivas Regal. "The Venture" competition continued in the year - Chivas Regal's annual, global search to find and support the most promising and aspiring social entrepreneurs who are creating profitable businesses that also make a positive impact on the lives of others. Chivas Regal consumers around the world are inspired to "Win The Right Way" through the advertising campaign which is now running in 19 key markets. Special recognition was given to Max Warner, the Global Brand Ambassador for Chivas Regal, who in the year, was crowned Best International Brand Ambassador at the 10th annual Spirited Awards, held at Tales of the Cocktail. This was a fitting accolade for his continued dedication to creating innovative new ways for Chivas Regal to be experienced and enjoyed globally. The award is an industry badge of honour, recognised as one of the most prestigious prizes in the spirits world, judged by some of the cocktail industry's most respected figureheads.

As mentioned above, success also continues for Ballantine's, the world's No 2 Scotch whisky, which has seen 5% growth in the year. The year saw the successful launch of Ballantine's Hard Fired around the globe and has already received numerous accolades from industry bodies including a Gold medal at the Scotch Whisky Masters in June 2016 and a Silver medal at the ISC in May 2016. 'Hard Fired' comes from the result of a bespoke charring process which involves a selective second charring, hard firing, of casks. According to Sandy Hyslop, the Ballantine's Master Blender, "when charred, casks form a natural layer of caramelised wood sugars that react with the whisky and a double char understandably intensifies the effect." Ballantine's continued its successful marketing campaign partnership with Boiler Room using music platforms to reach the Brand's core consumer groups. In 2016 the brand also followed up on the inaugural Artist Series of 2015, by partnering with renowned music video director and photographer, Dave Ma, to launch three new Limited Edition gift packs. The Artist Series, which champions inspiring and innovative individuals who are committed to expressing their creativity in unique ways, showcases Dave Ma's unique perspective of Scotland, the home of the whisky.

# CHIVAS BROTHERS LIMITED

## STRATEGIC REPORT (CONTINUED)

**FOR THE YEAR ENDED 30 JUNE 2016**

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Ballantine's Finest, Ballantine's Brasil and now Ballantine's Hard Fired are key offerings to millennial consumers and the Brand's presence on a plethora of digital media platforms supports and propels the Brand's credentials and key messages to our very connected consumers. In this area, the Ballantine's team were instrumental in making the whisky emoji available for use on various mobile applications. Ballantine's Golf Club, with Paul McGinley as Club Captain, remains a central element of communication with its loyal customer base of the Brand's offerings in the Super Premium and above categories.

The Glenlivet Founder's Reserve, the most successful new Scotch whisky launch of 2015, according to the IWSR, is a vital element in helping The Glenlivet continue its leadership of the single malt category. The expansion work at The Glenlivet distillery continued to ensure that the current and future demand for "the single malt that set the standard" continues to be met. In 2016 The Glenlivet, a Scotch whisky with its flawlessly smooth and fruity house style, was again rewarded by the industry's leading authorities, including the IWSC and the Scotch Whisky Masters. Recognition by consumers is also increasing as measured by the growing numbers within the online community of brand advocates known as 'The Guardians of The Glenlivet', which spans more than 120 countries. These 'Guardians' were the first to receive the official tasting notes of The Glenlivet Cipher, the latest member of the brand family launched in the year. Food and drink connoisseurs around the world are challenged to embark on a flavour journey to decode the secret tasting notes of The Glenlivet Cipher which was made from a unique cask combination that has never before been used by The Glenlivet. As a result Cipher offers a new flavour experience to explore whilst staying true to the flawlessly smooth and fruity flavour that has made the distillery and brand famous.

Beefeater continues to capitalise on the global gin renaissance with annual growth at 3%. The Beefeater London Dry bottle was redesigned in the year in dedication to the city the brand calls home – London, featuring a hand drawn map of the British capital capturing the modern "Riverscape" of the city. The evolution of the bottle's packaging reinforces Beefeater as an authentic product of London. The Brand has continued to engage with the on-trade community through the Beefeater MIXLDN Bartender Competition and has inspired consumers through varied activations which include its two core campaigns Beefeater London Sounds and Beefeater My London. Building on its authentic London roots, Beefeater 24 has continued to leverage its global partnership with Hackett London one Britain's most iconic quintessentially British revered men's style brands.

Royal Salute is steeped in tradition but is also firmly engaged in the modern world by constantly pushing the art of blending into new, creative and ambitious forms. This is exemplified in the year by the launch of Royal Salute The Eternal Reserve which uses an innovative blending technique to create an exceptional whisky that will literally live forever. Royal Salute selected rare and precious whiskies with an exceptionally long finish to blend and marry together in 88 casks to form the inaugural batch. Using a unique process called Circular Blending™, Royal Salute has committed to including this original blend in each subsequent The Eternal Reserve release for decades to come. Each time a new batch is unveiled, half of the blend will be re-casked in the Royal Salute Vault. Thus, the original blend is forever preserved by this perpetual re-circulation – creating a smooth, voluptuous whisky that justifies its original name: uisge beatha (the water of life).

The Company continues to lead in the standard blends segment with brands such as Passport Scotch, Something Special Scotch, and 100 Pipers all growing in the year. Passport has strong appeal among millennial consumers in emerging markets which has helped to earn its position of 5th in the Top15 fastest growing of all spirits brands according to independent analysis performed by Impact Magazine.

# CHIVAS BROTHERS LIMITED

## STRATEGIC REPORT (CONTINUED)

**FOR THE YEAR ENDED 30 JUNE 2016**

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### **Key Performance Indicators**

The key performance indicators used by the Company to measure the development and performance of the Company's business are detailed below.

Turnover for the financial year totalled £928m (2015: £916m) representing an increase of 1.2% in reported turnover. The spread of turnover between geographies shows that the business continues to be well represented and balanced around the world. Gross profit also grew by 1.5% reaching £527m for the year (2015: £519m). Included in turnover and gross profit are positive effects of foreign exchange differences of £6m. The location of the Company's customers results in a high proportion of the Company's sales being in EUR and USD.

Operating profit for the financial year totalled £333m (2015: £375m). The overall decrease of 11% is largely due to two main factors: (i) an increase in advertising and promotional activities in the year, providing marketing support to the Company's brands across a wide range of markets; and (ii) a reduction in foreign exchange gains from current operations which are included within administration costs (within operating profit).

The Company has £1,303m (2015: £1,254m) of inventory and £407m (2015: £388m) of tangible fixed assets at the year end. The increase in level of maturing spirit and production assets in the year demonstrates the Company's continued confidence and investment in the long-term growth of the Scotch whisky industry. Another evidence of this confidence is seen in the Company's recent announcement of its intention to merge its main manufacturing facilities. Over the next three years the Company intends to invest £40m to create a world-class, integrated manufacturing facility at its Kilmalid site in Dumbarton.

### **Principal risks and uncertainties of the business**

#### **Treasury risks**

The Pernod Ricard Group (the "Group") operates a centralised treasury function. The directors make use of this facility to assist in managing liquidity, interest and foreign currency risks which the Company is exposed to through its activities.

#### **Liquidity and cashflow risk**

The Group manages its cash and borrowing requirements centrally to maximise interest income and minimise interest expense, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of the businesses.

#### **Interest rate risk**

The Group is exposed to fair value interest rate risk on its fixed rate borrowings and cash flow interest rate risk on its floating rate deposits, bank overdrafts and loans. The Group uses interest rate derivatives to manage the mix of fixed and variable rate debt so as to reduce its exposure to changes in interest rates where appropriate. The Company has no interest rate swaps in place as all loan balances are within the Pernod Ricard S.A. group.

#### **Foreign currency risk**

The Group's principal foreign currency exposures arise from trading operations carried out by affiliates in a currency other than their functional currency (transaction accounting risk). Group policy permits but does not demand that these exposures be hedged. This hedging activity involves the use of foreign exchange forward contracts. The contracts that the Company has in place at the balance sheet date are detailed in note 20 to the accounts.

#### **Credit risk**

Investments of cash surpluses, borrowings and derivative instruments are made through banks which must fulfil credit rating criteria approved by the Board of Pernod Ricard S.A. All customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and provision is made for doubtful debts where necessary.

# **CHIVAS BROTHERS LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

**FOR THE YEAR ENDED 30 JUNE 2016**

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### **Risk of decline in social acceptability**

If the social acceptability of our products declines or governments adopt policies against alcoholic beverages, our revenues could decrease and our business could be materially adversely affected.

### **Litigation risk**

Litigation and complaints from consumers or government authorities resulting from beverage quality, illness, injury, alcohol abuse, illegal sales or targeted advertising and promotion of alcoholic beverages to underage consumers, and health concerns or other issues stemming from excessive alcohol consumption may affect our industry. If such litigation resulted in fines, damages or reputational damage to our Group or our brands, our business could be materially adversely affected.

### **Risks relating to consumer tastes and preferences**

Our portfolio of brands includes some of the world's leading alcoholic beverage brands as well as brands of local prominence. Maintaining our competitive position depends on our continued ability to offer products that have a strong appeal to consumers. Consumer preferences may shift due to a variety of factors, including changes in demographic and social trends, changes in travel, vacation or leisure activity patterns and a downturn in economic conditions, which may reduce consumers' willingness to purchase premium branded products. In addition, concerns about health effects due to negative publicity regarding alcohol consumption, negative dietary effects, regulatory action or any litigation or customer complaints against companies in the industry may have an adverse effect on our business.

Any significant changes in consumer preferences coupled with our failure to anticipate and react to such changes could result in reduced demand for our products and erosion of our competitive and financial position.

### **Risks relating to competition**

We operate in a highly competitive market sector in which large, well-established companies, such as Diageo, Brown-Forman, Beam Suntory, Bacardi-Martini, William Grant & Sons and Campari operate. The entry of new competitors into our markets, a change in the level of marketing undertaken by competitors or in their pricing policies, irrational behaviour by our competitors, the consolidation of our competitors, or the introduction of new competing products or brands could have a significant adverse effect on our business.

### **Demand and price risks relating to the global economic environment**

During times of economic uncertainty or hardship, consumers may choose to purchase lower value consumer goods as opposed to higher value consumer goods, which include our premium branded spirits. A reduction in sales of our premium branded spirits in affected markets could have an adverse effect on our results of operations and business prospects as a whole.

### **Risks relating to supply**

Raw materials price fluctuations: a number of the raw materials that we use for the production of our beverage products are commodities that are subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural uncertainty or governmental controls. If commodity price changes result in unexpected increases in raw materials cost or packaging materials cost, the global attractiveness of the brands will decrease and therefore volumes shipped may also decrease.

Inventory forecasting accuracy: The judgemental nature of determining how much of our aged products to lay down in any given year for future consumption means that there is an inherent risk of forecasting error. This could lead to either an inability to supply future demand or future surplus inventory.

# CHIVAS BROTHERS LIMITED

## STRATEGIC REPORT (CONTINUED)

**FOR THE YEAR ENDED 30 JUNE 2016**

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### **Non-financial performance**

The directors also monitor the awards that the Company's products are ascribed during the year as a nonfinancial key performance indicator. The Company won several top accolades in leading competitions including the International Spirits Challenge ("ISC") and the International Wine and Spirit Competition ("IWSC"). Over these two competitions alone, the Company's products were awarded more than 60 medals.

Particular highlights include Sandy Hyslop, the Ballantine's Master Blender, receiving the Master Blender/Distiller of the Year award at the ISC and Desmond Payne, the Beefeater Master Distiller, who was accorded the ISC's Lifetime Achievement Award. The Company recognises that the ability to produce its high quality, premium products starts and finishes with the contribution, collaboration and expertise of its employees. It is the Company's belief that it is its employees that are the key to its continued success in providing consumers with Scotch whisky and Gin products of the highest possible quality.

On a product level several Gold Medals were received including Aberlour A'bunadh which as well as receiving the IWSC's Cask Strength Scotch Whisky Trophy 2016, was also awarded Gold medals at both the ISC and IWSC competitions. Ballantine's 30YO and Chivas Regal 25YO also received Gold medals at both competitions, whilst Ballantine's 21YO received Gold Outstanding at the IWSC all of which emphasises the quality of the Company's premium range of products. Overall the directors are very satisfied with the recognition, within the industry, which has been attributed to the Company's products.

On behalf of the board

H Fetter  
Director

13 March 2017





# CHIVAS BROTHERS LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 30 JUNE 2016

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The directors present their report and financial statements for the year ended 30 June 2016.

#### Results and dividends

The results for the year are set out on page 10.

On 20 April 2016, the Company undertook a capital reduction exercise and cancelled its share premium account resulting in a transfer of £2,517,527,000 to reserves.

During the year, the Company subscribed for an indirect controlling interest in a partnership from which it leases warehouses. The Company paid a special contribution of £16.6m to Chivas Brothers Pension Scheme (CBPS) with CBPS investing the funds to the new partnership to enable it to acquire the warehouses. This transaction replicated a similar transaction undertaken in 2013.

Dividends of £512,188,000 were declared and paid in the year to the Company's immediate parent Allied Domecq Spirits & Wine Holdings Limited (2015: £514,073,000).

#### Going concern

After making enquiries, the directors, at the time of approving the financial statements, have determined that there is reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. For this reason, the directors have adopted the going concern basis in preparing the financial statements.

#### Post reporting date events

On 25 July 2016, the Company paid an interim dividend of €38,044,000 (£31,674,000) to its parent Allied Domecq Spirits & Wine Holdings Limited.

On 2 November 2016 the Company announced its intention to invest £40m over the next three years in a new state-of-the-art facility at its Kilmalid site in Dumbarton, Scotland that will enhance and improve operations and support the development of the Company's global and iconic brands. The proposal is a response to an extensive review of the Company's current operations and would see the closure of the Company's site in Paisley, Scotland in three years' time.

This is a project of significant size and scale for the Company and was announced three years in advance to provide ample opportunity to manage the transition of the business effectively and for employees to adjust and adapt to working from a new site. The Company does not anticipate any redundancies as a result of this decision.

#### Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

E Benoist	(Resigned 31 July 2015)
G Buist	
H Fetter	
A Hamilton-Stanley	
L Lacassagne	
S Livingstone	
S Macnab	(Resigned 22 March 2016)
A McIntosh	
A Schofield	
S Gallois	(Appointed 1 September 2015)

# **CHIVAS BROTHERS LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

**FOR THE YEAR ENDED 30 JUNE 2016**

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### **Directors' insurance**

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company.

Appropriate directors' and officers' liability insurance cover is in place in respect of all of the Company's directors.

### **Disabled persons**

The Company's policy is that disabled persons will receive full and fair consideration when applying for a job within the Company and in the selection for training, career development and promotion. An employee who becomes disabled will be offered continuity of employment whenever the circumstances permit.

### **Employee involvement**

Employee involvement is promoted through consultation with employees on many and various issues affecting their work, working conditions and future prospects. Employees are involved in a wide range of in-house and external training programmes dealing with safety, quality control, work skills, language skills and self-development.

We recognise and value the knowledge and talent provided by a diverse workforce - men and women of all races, ethnicities, ages, physical and mental abilities, religions and sexual orientation.

### **Auditor**

In order to ensure good corporate governance, the Audit Committee of the Company's ultimate holding company, Pernod Ricard S.A. (PRSA), recommended that the provision of external audit services currently performed by Mazars, one of PRSA's two principal statutory auditors, be put out to tender in 2016. Following a transparent and competitive tender, KPMG S.A. was appointed to replace Mazars as a principal statutory auditor of the Group at Pernod Ricard S.A.'s 2016 Annual General Meeting. For consistency, the Company will appoint KPMG Audit Plc. as auditor to replace Mazars LLP in accordance with section 485 of the Companies Act 2006, commencing with the 2017 financial year.

# CHIVAS BROTHERS LIMITED

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2016

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### Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 judgements 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;
- 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.

### Statement of disclosure to auditor

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

### Strategic report

As permitted in paragraph 1A of Schedule 7 to Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report on pages 1 to 5. These matters relate to the principal activities, business review, principal risks and uncertainties and key performance indicators.

On behalf of the board

H Fetter  
Director  
13 March 2017



# CHIVAS BROTHERS LIMITED

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF CHIVAS BROTHERS LIMITED

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We have audited the financial statements of Chivas Brothers Limited for the year ended 30 June 2016 comprising the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes. 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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 8, 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. 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.

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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **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 30 June 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion 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.

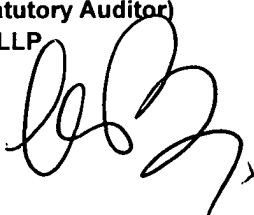
#### **Matters on which we are required to report by exception**

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.

Jacqueline Berry (Senior Statutory Auditor)  
for and on behalf of Mazars LLP

Chartered Accountants and  
Statutory Auditor



13 March 2017

90 St. Vincent Street  
Glasgow  
G2 5UB

# CHIVAS BROTHERS LIMITED

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 £'000	2015 £'000
Turnover	2	927,540	916,447
Cost of sales		(400,457)	(397,101)
<b>Gross profit</b>		<b>527,083</b>	<b>519,346</b>
Distribution costs		(53,611)	(59,535)
Administrative expenses		(139,979)	(85,048)
<b>Operating profit</b>	3	<b>333,493</b>	<b>374,763</b>
Interest receivable and similar income	7	23,730	34,115
Interest payable and similar charges	8	(73,098)	(79,065)
Amounts written back to investments	9	3,500	34,350
(Loss)/gain on financial instruments measured at fair value through profit and loss		(3,424)	936
<b>Profit before taxation</b>		<b>284,201</b>	<b>365,099</b>
Taxation	10	(45,291)	(46,863)
<b>Profit for the financial year</b>		<b>238,910</b>	<b>318,236</b>

The Profit and Loss account has been prepared on the basis that all operations are continuing operations.

The notes on pages 14 - 46 are an integral part of these financial statements.

# CHIVAS BROTHERS LIMITED

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 £'000	2015 £'000
<b>Profit for the year</b>		<u>238,910</u>	<u>318,236</u>
<b>Other comprehensive income</b>			
Actuarial (loss)/gain on defined benefit pension schemes	24	(21,239)	10,506
Tax relating to other comprehensive income	10	<u>8,451</u>	<u>(1,784)</u>
Profit and loss reserves movement		(12,788)	8,722
Amount recognised in equity in the year		(27,148)	34,534
Amount removed from equity and credited to profit or loss		<u>(1,848)</u>	<u>(34,107)</u>
Hedging reserve movement		(28,996)	427
<b>Other comprehensive income for the year</b>		<u>(41,784)</u>	<u>9,149</u>
<b>Total comprehensive income for the year</b>		<u>197,126</u>	<u>327,385</u>

The notes on pages 14 - 46 are an integral part of these financial statements.

# CHIVAS BROTHERS LIMITED

## BALANCE SHEET

AS AT 30 JUNE 2016

	Notes	2016 £'000	2015 £'000
<b>Fixed assets</b>			
Intangible assets	12	310,383	335,272
Tangible assets	13	406,557	388,486
Investments in subsidiary undertakings	14	3,623,821	3,285,901
		<u>4,340,761</u>	<u>4,009,659</u>
<b>Current assets</b>			
Stocks	16	1,303,228	1,253,813
Debtors falling due within one year	17	318,269	1,100,897
Debtors falling due after one year	17	724,037	403,914
Cash at bank and in hand		547	371
		<u>2,346,081</u>	<u>2,758,995</u>
<b>Creditors: amounts falling due within one year</b>	18	<u>(347,177)</u>	<u>(428,036)</u>
<b>Net current assets</b>		<u>1,998,904</u>	<u>2,330,959</u>
<b>Total assets less current liabilities</b>		<u>6,339,665</u>	<u>6,340,618</u>
<b>Creditors: amounts falling due after more than one year</b>	19	(2,880,178)	(2,583,966)
<b>Provisions for liabilities</b>			
Deferred taxation	23	(8,652)	(14,200)
Defined benefit pension liability	24	(79,458)	(57,597)
		<u>(88,110)</u>	<u>(71,797)</u>
<b>Net assets</b>		<u>3,371,377</u>	<u>3,684,855</u>
<b>Capital and reserves</b>			
Called up share capital	26	10,580	10,580
Share premium account	27	-	2,517,527
Capital contribution	28	12,761	11,177
Other reserves	29	32,274	32,274
Hedging reserve	30	(16,524)	12,472
Profit and loss reserves		3,332,286	1,100,825
<b>Total equity</b>		<u>3,371,377</u>	<u>3,684,855</u>

The financial statements were approved by the board of directors and authorised for issue on 13 March 2017 and are signed on its behalf by:

The notes on pages 14 - 46 are an integral part of these financial statements.

H Fetter

Director

Company Registration No. SC268758

# CHIVAS BROTHERS LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	Called up share capital £'000	Share premium account £'000	Capital contribution £'000	Hedging reserve £'000	Other reserves £'000	Profit and loss reserves £'000	Total equity £'000
<b>Balance at 1 July 2014</b>	10,580	2,374,490	9,848	12,045	32,274	1,287,940	3,727,177
<b>Year ended 30 June 2015:</b>							
Profit for the year	-	-	-	-	-	318,236	318,236
Other comprehensive income	-	-	-	427	-	8,722	9,149
<b>Total comprehensive income for the year</b>	-	-	-	427	-	326,958	327,385
Issue of share capital	-	143,037	-	-	-	-	143,037
Dividends	-	-	-	-	-	(514,073)	(514,073)
Share based payment	-	-	1,329	-	-	-	1,329
<b>Balance at 30 June 2015</b>	10,580	2,517,527	11,177	12,472	32,274	1,100,825	3,684,855
<b>Year ended 30 June 2016:</b>							
Profit for the year	-	-	-	-	-	238,910	238,910
Other comprehensive income	-	-	-	(28,996)	-	(12,788)	(41,784)
<b>Total comprehensive income for the year</b>	-	-	-	(28,996)	-	226,122	197,126
Dividends	-	-	-	-	-	(512,188)	(512,188)
Capital reduction	-	(2,517,527)	-	-	-	2,517,527	-
Share based payment	-	-	1,584	-	-	-	1,584
<b>Balance at 30 June 2016</b>	10,580	-	12,761	(16,524)	32,274	3,332,286	3,371,377

The notes on pages 14 - 46 are an integral part of these financial statements.



# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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### 1 Accounting policies

#### Company information

Chivas Brothers Limited is a limited company domiciled and incorporated in Scotland. The registered office and principal place of business is 111/113 Renfrew Road, Paisley, PA3 4DY.

The Company is a wholly owned subsidiary of Pernod Ricard S.A. and its results are included in the consolidated financial statements of Pernod Ricard S.A.

#### 1.1 Accounting convention

These financial statements for the year ended 30 June 2016 are the first financial statements of the Company prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the Companies Act 2006. The date of transition to FRS 102 was 1 July 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 35. The last financial statements prepared under previous UK GAAP were as at 30 June 2015. In carrying out the transition to FRS 102, the Company has not applied any of the optional exemptions as permitted by Section 35 "Transition to this FRS".

The financial statements are prepared in sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention, modified to include certain financial instruments at fair value. The principal accounting policies adopted are set out below.

The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated accounts. The financial statements present information about the Company as an individual entity and not about its group.

#### 1.2 Reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by Section 1 of FRS 102:

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Basic Financial Instruments paragraphs 11.41 to 11.48A, financial instruments disclosures;
- the requirements of Section 12 Other Financial Instrument Issues paragraphs 12.27 to 12.29 (a), (b) hedge accounting disclosures;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7, key management personnel compensation;
- The requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23, which apply to a qualifying entity that is a subsidiary with share-based payment arrangements that concern equity instruments of another group entity.

This information is included in the consolidated financial statements of Pernod Ricard S.A. as at 30 June 2016.

#### 1.3 Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and amounts reported in the Profit and Loss Account and Statement of Comprehensive Income during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements:

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

---

### 1 Accounting policies

(Continued)

#### **Assessing for indicators of impairment**

The Company assesses for any indication that its assets may be impaired by considering whether any significant changes have taken place, or are expected to take place, which could have an adverse effect on the entity.

#### **Determining residual values and economic useful lives**

##### **Tangible Fixed assets**

The Company categorises its assets within the core asset classes and attributes a useful economic life to each asset category determined as "the period over which an asset is expected to be available for use by the Company".

Generally residual values are assumed to be nil, however for assets where there is an active second hand market, the residual value is determined as the amount that an entity would currently obtain from disposal if the asset were already of the age, and in the condition expected, at the end of its useful life.

##### **Intangible Fixed assets**

The Company's intangible fixed assets consist of intellectual property licences. The economic life is the duration of the licence (25 years) with a nil realisable value on expiration.

#### **Assessing functional currency**

The directors are required to identify the functional currency of the Company. In making this decision the directors have used judgement to determine which currency represents the economic effects of the underlying transactions, events and conditions.

#### **Pension costs**

The cost of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country. Future pension increases are based on expected future inflation rates. Further details are given in note 24.

#### **Derivative instruments**

The market value of forward foreign currency contracts recognised in the financial statements at the reporting date was calculated on the basis of available market data, using current valuation models.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

---

### 1 Accounting policies

(Continued)

#### 1.4 Impairment of non financial assets

The Company assesses at each reporting date whether an asset may be impaired as follows:

##### **Intangible assets**

On an annual basis, the Company calculates the future income for its intellectual property licences based on the net present value of the future income stream for the brand concerned over the remaining term of the licence. The net present value is then compared to the carrying value of the licence to assess whether an impairment charge is required.

##### **Tangible assets**

If any indication of impairment exists, the Company estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment charge in profit and loss.

##### **Investments**

The Company assesses for any indication that its investments may be impaired by considering whether any significant changes have taken place, or are expected to take place that would have an adverse impact on the investment. If a significant change has arisen, the Company will value its investment based on the value of its underlying assets, and this is then compared to the carrying value of the investment to assess whether an impairment charge is required.

In all cases, if an impairment loss is recognised, it will only be reversed in a subsequent period, if and only if the reasons for the impairment loss have ceased to apply.

#### 1.5 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In making their assessment of the going concern basis, the directors have considered detailed budgets for a period of 12 months from the balance sheet date and projections thereafter. Having taken these factors into account and after making enquiries, the directors have a reasonable expectation that the Company will continue in business for the foreseeable future.

Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

#### 1.6 Revenue recognition

Revenue arises from sale of goods. Revenue is measured at the fair value of the consideration received or receivable and represents amounts for the sale of goods in the normal course of business, net of discounts and other sales-related taxes.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### 1.7 Intangible assets

Intellectual property licences are recognised at cost and amortised in equal annual instalments over 25 years, which is the duration of each of the licences and their estimated useful economic life. Provision is made for any impairment.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

---

### 1 Accounting policies

(Continued)

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software	between 4 and 5 years
Intellectual Property Rights	25 years

#### 1.8 Tangible fixed assets

Tangible fixed assets other than freehold land are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Freehold land and buildings	between 25 and 50 years
Plant and machinery	between 5 and 15 years
Fixtures, fittings, tools and equipment	10 years
Casks	up to 25 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit and loss.

Construction in progress of buildings, plant, the installation of machinery and other costs are capitalised by the Company and recorded as part of fixed assets. These costs are transferred to their appropriate fixed asset category when the work is completed and are depreciated from the date the assets are ready for use.

Land is not depreciated. Tangible fixed assets are tested for impairment where an indication of impairment exists at the reporting date.

#### 1.9 Investments in subsidiary undertakings

Investments in subsidiary undertakings are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. Any impairment losses or reversals of impairment losses are recognised immediately in the profit and loss account.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

#### 1.10 Stocks

Stocks are stated at the lower of cost and net realisable value after making due allowance for obsolete and slow moving stocks. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition. At each reporting date, stocks are assessed for impairment. If an item is impaired, the item is reduced to its net realisable value, being its estimated selling price less costs to complete and sell, and an impairment charge is recognised in profit or loss.

#### 1.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

---

### 1 Accounting policies

(Continued)

#### 1.12 Financial assets and liabilities

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the Company's Balance Sheet when the Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

##### **Basic financial instruments**

Basic financial instruments which include trade payables and receivables; inter-company lending arrangements; and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method. Instruments that are payable or receivable within one year are measured at the undiscounted amount of the cash or other consideration expected unless the arrangement constitutes a financing transaction, where the Company measures the debt instrument at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

##### **Derivatives**

All derivatives are recognised in the balance sheet at fair value.

The Company uses forward foreign currency contracts to reduce exposure to foreign exchange rates. These derivative financial instruments are initially measured at fair value on the date the contract is entered into and are subsequently measured at fair value through profit and loss unless they are designated as a cashflow hedge. In that instance, the change in value of the effective portion of the hedge is recognised in shareholders equity. The effective portion of the hedge is recognised in profit and loss only when the hedged item itself is recognised in profit and loss. A change in value of an "ineffective" component of the derivative would be recognised directly in profit and loss.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

#### 1.13 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Company.

#### 1.14 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

##### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2016

---

### 1 Accounting policies

(Continued)

#### **Deferred tax**

Deferred taxation is provided at appropriate rates on all timing differences which result in an obligation at the reporting date to pay more tax, or a right to pay less tax, at future dates, at rates expected to apply when they crystallise based on current tax rates and law that have been enacted and substantively enacted by the reporting date.

Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

#### **1.15 Employee benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

#### **1.16 Retirement benefits**

The Company provides retirement benefits via three different schemes :- the Chivas Brothers Pension Scheme (CBPS); the Unfunded, Unapproved Retirements Benefit Scheme (UURBS), and a Defined Contribution Scheme. In addition, the Company operates a Long Service Award scheme (LSA).

The CBPS is a UK group wide pension scheme providing benefits based on final pensionable pay. The cost of providing benefits under this plan is determined using the projected unit credit method, and is based on actuarial advice. The cost of plan introductions, benefit changes, settlements and curtailments are recognised as an expense in measuring profit or loss in the period in which they arise.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in the profit or loss as other finance income or expense.

Remeasurement changes comprise actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability excluding amounts included in net interest. These are recognised immediately in other comprehensive income in the period in which they occur.

The defined net benefit liability for CBPS in the balance sheet comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information, and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

The CBPS was closed to new members in April 2009 from which time membership of a defined contribution plan was made available to employees. Contributions payable to the Defined Contribution Scheme are charged to profit or loss in the year they are payable.

The UURBS provide additional post retirement benefits to specific employees which are unfunded. The LSA scheme provides for future service and retirement awards and is also unfunded.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

---

### 1 Accounting policies

(Continued)

#### 1.17 Share-based payments

For cash-settled share-based payments, a liability is recognised for the goods and services acquired, measured initially at the fair value of the liability. At the reporting date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss.

The parent company has issued share options to certain directors and employees. As equity-settled these are measured at fair value and recognised as an expense in profit or loss with a corresponding increase in equity. The fair value of the options was estimated at the date of grant using the Monte Carlo and Binomial option-pricing models. The fair value will be charged as an expense in profit or loss over the vesting period. The charge is adjusted each year for the effect of non-market based vesting conditions.

The expense in relation to options over the Company's shares granted to employees of a subsidiary is recognised by the Company as a capital contribution, and presented as an increase in the Company's investment in that subsidiary. Cancellations or settlements (including those resulting from employee redundancies) are treated as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

#### 1.18 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to profit or loss so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease.

#### 1.19 Foreign exchange

Transactions in currencies other than Sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Gains and losses arising on translation are included in profit or loss for the period.

#### 1.20 Hedging

During the year, the Company used forward foreign currency contracts to reduce exposure to Euro and Ruble foreign exchange rates on the cashflows. Ruble hedging ceased at 30 June 2016, but the Company continues to hedge Euro cashflows. The forward contracts are designated as cashflow hedges, measured at fair value on the date they are entered into. The change in value of the effective portion of the hedge is recognised in the hedging reserve within shareholders equity. The effective portion of the hedge is recognised in the profit and loss account only when the hedged item itself is recognised in profit and loss, or the Company ceases to hedge that currency. A change in value of an "ineffective" component of the derivative would be recognised directly in the profit and loss account.

#### 1.21 Reciprocal transactions

The directors do not consider it appropriate to recognise profits on reciprocal transactions, being the trading of maturing spirit with other Scotch whisky producers, until the acquired spirit is used in the production of the Company's brands.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 2 Turnover and other revenue

An analysis of the Company's turnover is as follows:

	2016 £'000	2015 £'000
<b>Turnover</b>	927,540	916,447

#### Turnover analysed by geographical market

	2016 £'000	2015 £'000
Europe	380,600	384,990
America	232,805	224,855
Asia	253,654	259,648
Rest of World	60,481	46,954
	927,540	916,447

### 3 Operating profit

	2016 £'000	2015 £'000
Operating profit for the year is stated after charging/(crediting):		
Foreign exchange gains	(19,323)	(33,452)
Depreciation of tangible fixed assets	31,767	31,860
Profit on disposal of tangible fixed assets	(1,646)	(453)
Amortisation of intangible assets	24,889	23,770
Charge relating to employee share options (note 25)		
- equity settled	1,584	1,329
- cash settled	1,549	1,145
Operating lease charges	1,837	2,147

Of the current year's depreciation on fixed assets, £20,556,000 (2015: £19,577,000) has been allocated to maturing spirit held in the Balance Sheet. This is released to profit or loss in subsequent years resulting in a timing difference between the fixed assets note and profit or loss charge for the year.



# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 4 Auditor's remuneration

	2016 £'000	2015 £'000
Fees payable to the company's auditor and associates:		
<b>For audit services</b>		
Audit of the company's financial statements	327	310
<b>For other services</b>		
Audit-related assurance services	10	-
All other non-audit services	12	18
	22	18
<b>For services in respect of associated pension schemes</b>		
Audit	9	7
Audit-related assurance services	2	-
	11	7

The audit fee for the year (and prior year) includes the fees payable on behalf of other group companies.

### 5 Employees

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

	2016 Number	2015 Number
Production	1,204	1,180
Distribution	56	57
Trading	400	372
	1,660	1,609

Their aggregate remuneration comprised:

	2016 £'000	2015 £'000 restated
Wages and salaries	69,513	65,738
Social security costs	6,747	6,314
Pension costs	15,401	15,752
	91,661	87,804

Included in Wages and Salaries is an expense for equity-settled share-based payment transactions which was £1,584,000 (2015: £1,329,000). A restatement of the prior year has been made increasing wages and salaries by £1,329,000.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 6 Directors' remuneration

	2016 £'000	2015 £'000
Remuneration for qualifying services	2,918	3,048

The number of directors for whom retirement benefits are accruing under defined benefit schemes amounted to 7 (2015 - 7).

The number of directors who exercised share options during the year was 10 (2015 - 9).

The number of directors who are entitled to receive shares under long term incentive schemes during the year was 10 (2015 - 9).

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2016 £'000	2015 £'000
Remuneration	818	728
Benefits in Kind	223	204

The highest paid director has exercised share options during the year but did not exercise any share options in the prior year and was entitled to receive shares under a long term incentive scheme during the year and also during the prior year.

### 7 Interest receivable and similar income

	2016 £'000	2015 £'000
<b>Interest income</b>		
Interest on bank deposits	104	-
Unwind of discount on pension prepayment	3,356	3,395
Interest receivable from group companies	20,270	30,720
	23,730	34,115

### 8 Interest payable and similar charges

	2016 £'000	2015 £'000
Interest on bank overdrafts and loans	-	73
Interest on finance leases and hire purchase contracts	4,596	4,229
Interest payable to group undertakings	66,628	59,779
Interest on the net defined benefit liability	1,874	2,632
Other interest	-	12,352
	73,098	79,065

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 9 Amounts written back to investments

	2016 £'000	2015 £'000
Amounts written back to investments	3,500	34,350

The amounts written back to investments represent an increase in the net asset value of Chivas Investments Limited at 30 June 2016. The amounts written back in both the current and prior year have been calculated on a consistent basis.

### 10 Taxation

	2016 £'000	2015 £'000
<b>Current tax</b>		
UK corporation tax on profits for the current period	45,947	48,825
Adjustments in respect of prior periods	(3,559)	(16,399)
Total current tax	42,388	32,426
<b>Deferred tax</b>		
Origination and reversal of timing differences	5,455	14,437
Changes in tax rates	(2,552)	-
Total deferred tax	2,903	14,437
Total tax charge	45,291	46,863

The charge for the year can be reconciled to the profit per the profit and loss account as follows:

	2016 £'000	2015 £'000
Profit before taxation	284,201	365,099
Expected tax charge based on the standard rate of corporation tax in the UK of 20.00% (2015: 20.75%)	56,840	75,758
Tax effect of expenses that are not deductible in determining taxable profit	12,197	13,290
Tax effect of income not taxable in determining taxable profit	(1,371)	(7,160)
Adjustments in respect of prior years	(3,559)	(16,399)
Group relief	(16,527)	(27,794)
Other permanent differences	(383)	(31)
Deferred tax adjustments in respect of prior years	(39)	8,114
Adjust closing deferred tax to average rate of 20%/20.75%	(2,992)	(43)
Fixed asset differences	1,125	1,128
Tax expense for the year	45,291	46,863

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 10 Taxation

(Continued)

The tax charge for the year to 30 June 2016 has been reduced by £16,527,000 (2015: £27,794,000) in respect of group relief claimed from group undertakings for nil consideration.

#### Factors that may affect future tax charges

The Company's tax charge in future periods will be affected by the availability of group relief for any losses that are incurred by other group undertakings.

Summer Finance Bill 2015 was substantively enacted on 26 October 2015, which had the effect of reducing the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. As these rate changes were enacted before the balance sheet date, the deferred tax assets and liabilities have been calculated at 19% or 18% in line with when the company anticipates the temporary differences to unwind.

Budget 2016 set out a further reduction in the main rate of corporation tax from 18% to 17% from 1 April 2020, and included measures relating to the OECD Base Erosion and Profit Shifting Actions. These measures include limiting the utilisation of brought forward losses and interest deductions, to be effective from 1 April 2017. These changes are not expected to have a material cash impact on the Company.

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2016 £'000	2015 £'000
Deferred tax arising on:		
Origination and reversal of timing differences	(9,622)	1,784
Effect of tax rate change on opening balance	1,171	-
Total tax (income)/expense recognised in other comprehensive income	(8,451)	1,784

#### 11 Dividends

	2016 £'000	2015 £'000
Interim paid	512,188	514,073

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 12 Intangible fixed assets

	Software £'000	Intellectual Property Rights £'000	Total £'000
<b>Cost</b>			
At 1 July 2015 and 30 June 2016	14,774	605,482	620,256
<b>Amortisation</b>			
At 1 July 2015	12,160	272,824	284,984
Charge for the year	1,119	23,770	24,889
At 30 June 2016	13,279	296,594	309,873
<b>Carrying amount</b>			
At 30 June 2016	1,495	308,888	310,383
At 30 June 2015	2,614	332,658	335,272

### 13 Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, tools and equipment £'000	Casks £'000	Construction in progress £'000	Total £'000
<b>Cost</b>						
At 1 July 2015	259,638	280,390	17,841	188,120	25,679	771,668
Additions	-	-	854	16,794	32,468	50,116
Disposals	(129)	(5,292)	(638)	(1,848)	-	(7,907)
Transfers	17,149	16,393	2,812	-	(36,354)	-
At 30 June 2016	276,658	291,491	20,869	203,066	21,793	813,877
<b>Depreciation</b>						
At 1 July 2015	95,433	189,437	12,991	85,321	-	383,182
Charge in the year	6,110	17,896	1,390	6,371	-	31,767
Eliminated in respect of disposals	(50)	(5,111)	(620)	(1,848)	-	(7,629)
At 30 June 2016	101,493	202,222	13,761	89,844	-	407,320
<b>Carrying amount</b>						
At 30 June 2016	175,165	89,269	7,108	113,222	21,793	406,557
At 30 June 2015	164,205	90,953	4,850	102,799	25,679	388,486

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 13 Tangible fixed assets

(Continued)

The net book value of land and buildings comprises heritable and freehold property.

The cost within land and buildings which is not depreciated amounts to £4,234,000 (2015: £4,234,000).

Included within the above are assets held under finance leases with a net book value of £76,296,000 (2015: £63,012,000) in respect of Freehold land and buildings and £1,361,000 (2015: £971,000) in respect of Fixtures, fittings, tools and equipment. The depreciation charge for the year, on assets held under finance leases, amounts to £3,425,000 (2015: £3,194,000) in respect of Freehold land and buildings and £464,000 (2015: £813,000) in respect of Fixtures, fittings, tools and equipment. Additional information is contained in note 21.

### 14 Investment in subsidiary undertakings

	Notes	2016 £'000	2015 £'000
Investments in subsidiary undertakings	15	3,623,821	3,285,901

#### Movements in fixed asset investments

##### *Current financial year*

	Investments in subsidiary undertakings £'000
<b>Cost</b>	
At 1 July 2015	3,348,839
Additions	334,420
At 30 June 2016	3,683,259
<b>Impairment</b>	
At 1 July 2015	62,938
Reversal of impairment charge	(3,500)
At 30 June 2016	59,438
<b>Carrying amount</b>	
At 30 June 2016	3,623,821
At 30 June 2015	3,285,901

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 14 Investment in subsidiary undertakings

(Continued)

#### *Prior financial year*

#### Investments in subsidiary undertakings £'000

#### Cost

At 1 July 2014

3,178,838

Additions

170,001

At 30 June 2015

3,348,839

#### Impairment

At 1 July 2014

97,288

Reversal of impairment charge

(34,350)

At 30 June 2015

62,938

#### Carrying amount

At 30 June 2015

3,285,901

At 30 June 2014

3,081,550

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 15 Subsidiaries

Details of the company's subsidiaries at 30 June 2016 are as follows:

Name of undertaking and country of incorporation or residency		Class of shareholding	% Held
<b>Direct Investments</b>			
Allied Domecq Spirits and Wine Limited	England	Ordinary	100.00
Caperdonich Distillery Company Limited	Scotland	Ordinary	100.00
Chefco Limited	Scotland	Ordinary	100.00
Chivas Brothers Pension Scheme (Trustee) Limited	Scotland	Ordinary	100.00
Chivas Investments Limited	Scotland	Ordinary	100.00
George & J G Smith Limited	Scotland	Ordinary	100.00
Hill, Thomson & Co. Limited	Scotland	Ordinary	100.00
Seagram Research Limited	England	Ordinary	100.00
The Glenlivet Agencies Limited	Scotland	Ordinary	100.00
The Glenlivet Distilleries Limited	Scotland	Ordinary	100.00
The Glenlivet Mineral Water Company Limited	Scotland	Ordinary	100.00
Warehouse Asset Management Limited	Scotland	Ordinary	100.00
<b>Indirect Investments</b>			
Allied Distillers Limited	Scotland	Ordinary	100.00
Allied Domecq Former Rum Brands Limited	England	Ordinary	100.00
Allied Domecq Former Rum Brands Limited	England	B ordinary	100.00
Allied Domecq Former Rum Brands Limited	England	Deferred	100.00
Allied Domecq Spirits & Wine (Overseas) Limited	England	Ordinary	100.00
Beefeater Distillery Limited	England	Ordinary	100.00
Duncan Macleod and Company Limited	England	Ordinary	100.00
European Cellars Limited	England	Ordinary	100.00
George Ballantine & Son Limited	Scotland	Ordinary	100.00
Glenlivet Spring Water Limited	England	Ordinary	100.00
Glentauchers Distillery Limited	England	Ordinary	100.00
Glentauchers Distillery Limited	England	Deferred	100.00
Harvey Macnair & Company Limited	Scotland	Ordinary	100.00
Hiram Walker (UK) Limited	England	Ordinary	100.00
Hiram Walker-Allied Vintners Limited	England	Ordinary	100.00
James Burrough Distillers Limited	England	Ordinary	100.00
James Burrough Limited	England	Ordinary	100.00
James Hawker & Company Limited	England	Ordinary	100.00
James Hawker & Company Limited	England	A 6% PR	100.00
James Hawker & Company Limited	England	B 5% PR	100.00
Lawson & Smith Limited	Scotland	Ordinary	100.00
Long John Distilleries Limited	Scotland	Ordinary	100.00
Long John International Limited	England	Ordinary	100.00
Macnab Distilleries Limited	England	Ordinary	100.00
Milntonduff Distillery Limited	Scotland	Ordinary	100.00
Pernod Ricard UK Limited	England	Ordinary	100.00
Robert Macnish & Company Limited	Scotland	Ordinary	100.00
Something Special (Whisky) Limited	Scotland	Ordinary	100.00
Stewart & Son of Dundee Limited	England	Ordinary	100.00



# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 15 Subsidiaries

(Continued)

The Curtis Distillery Company Limited	England	Ordinary	100.00
The Hiram Walker Group Limited	England	Ordinary	100.00
The Scapa Distillery Limited	England	Ordinary	100.00
Tormore Distillery Limited	England	Ordinary	100.00
Twelve Islands Shipping Company Limited	England	Ordinary	100.00
Warehouse Investment Holding Limited	Scotland	Ordinary	100.00

#### Other interests

Chivas Operating Properties LP\*

Chivas Operating Properties 2 LP\*

\*Warehouse Asset Management Limited is the General Partner of Chivas Operating Properties LP & Chivas Operating Properties 2 LP.

The address of Chivas Operating Properties LP & Chivas Operating Properties 2 LP is 111-113 Renfrew Road, Paisley, PA3 4DY

### 16 Stocks

	2016 £'000	2015 £'000
Raw materials and consumables	18,455	17,863
Work in progress	1,267,407	1,220,067
Finished goods and goods for resale	17,366	15,883
	<u>1,303,228</u>	<u>1,253,813</u>

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 17 Debtors

		2016 £'000	2015 £'000
<b>Amounts falling due within one year:</b>			
Trade debtors		5,756	5,940
Amounts due from fellow group undertakings		286,568	1,049,788
Derivative financial instruments	20	-	19,807
Other debtors		12,364	14,041
Prepayments and accrued income		13,581	11,321
		<u>318,269</u>	<u>1,100,897</u>
<b>Amounts falling due after one year:</b>			
Amounts due from fellow group undertakings		650,442	345,139
Derivative financial instruments	20	-	135
Prepayments and accrued income		73,595	58,640
		<u>724,037</u>	<u>403,914</u>
<b>Total debtors</b>		<u>1,042,306</u>	<u>1,504,811</u>
 Loan maturity analysis:			
In more than two years but not more than five years		<u>650,442</u>	<u>345,139</u>

There are three significant loan receivables, all bearing interest based on 3 month LIBOR plus a margin of 175 basis points, falling due in more than 1 year. A loan to Chivas Brothers (Holdings) Limited of £552,991,000 is repayable on 28 February 2021, a loan to Chivas Brothers Pernod Ricard of £95,359,000 is repayable on 19 June 2018 and a loan to Macnab Distillers Limited of £2,092,000 is repayable on 28 February 2021.

Prepayments and accrued income greater than one year includes £73,595,000 (2015 : £58,640,000), in respect of a special pension contribution of £60,500,000 paid to the Chivas Brothers Pension Scheme (CBPS) in March 2013, and an additional special contribution of £16,600,000 paid in March 2016. These contributions are not included in the FRS 102 CBPS deficit and instead accrete to it over the next 17 years (ceasing in 2033).

The prepayment included within amounts less than one year in respect of the special pension contributions is £1,369,000 (2015: £848,000). During the year to 30 June 2016, the Company released £4,480,000 from the prepayment and applied it against the pension deficit and unwound one year of the discount on the prepaid contribution, recognising a credit of £3,356,000 (2015: £3,395,000) in interest and other income.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 18 Creditors: amounts falling due within one year

	Notes	2016 £'000	2015 £'000
Obligations under finance leases	21	6,549	5,627
Trade creditors		106,223	102,010
Amounts due to group undertakings		151,815	265,053
Corporation tax		25,048	16,666
Other taxation and social security		3,790	5,907
Derivative financial instruments	20	23,743	-
Accruals and deferred income		30,009	32,773
		<u>347,177</u>	<u>428,036</u>

### 19 Creditors: amounts falling due after more than one year

	Notes	2016 £'000	2015 £'000
Obligations under finance leases	21	80,553	65,485
Amounts due to group undertakings		2,799,625	2,518,481
		<u>2,880,178</u>	<u>2,583,966</u>
Loan maturity analysis:			
Later than one year and not later than five years		1,887,175	751,209
Later than five years		912,450	1,767,272
		<u>2,799,625</u>	<u>2,518,481</u>

There are two significant loans that are repayable in more than 5 years. A loan from Coates & Co (Plymouth) Limited of £910,193,000 is repayable on 30 June 2049 and bears interest based on 3 month LIBOR plus a margin of 175 basis points and a loan from Chivas Investments Limited of £2,075,000 is repayable on 4 March 2033 and bears interest based on 3 month LIBOR plus a margin of 175 basis points.

### 20 Derivative financial instruments

	2016 £'000	2015 £'000
<b>Carrying amount of financial assets</b>		
Measured at fair value through profit or loss:		
- Non hedging derivatives	-	1,269
- Hedging derivatives: cashflow hedges	-	18,673
	<u>-</u>	<u>19,942</u>
<b>Carrying amount of financial liabilities</b>		
Measured at fair value through profit or loss:		
- Non hedging derivatives	2,155	-
- Hedging derivatives: cashflow hedges	21,588	-
	<u>23,743</u>	<u>-</u>

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 21 Finance lease obligations

	2016 £'000	2015 £'000
Future minimum lease payments due under finance leases:		
Not later than one year	6,549	5,627
Later than one year and not later than five years	28,443	22,301
Later than five years	111,736	99,321
	<u>146,728</u>	<u>127,249</u>
Less: future finance charges	(59,626)	(56,137)
	<u>87,102</u>	<u>71,112</u>

Finance lease payments represent rentals payable by the company for buildings, warehouses and certain items of plant and machinery. Leases include purchase options at the end of the lease period, and no restrictions are placed on the use of the assets. The average lease term is 6 years for forklift trucks and 18.5 years for warehouses. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

### 22 Financial commitments

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land & Buildings		Other	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Not later than one year	1,001	935	1,131	983
Later than one year and not later than five years	2,081	2,914	1,228	1,191
	<u>3,082</u>	<u>3,849</u>	<u>2,359</u>	<u>2,174</u>

As at 30 June 2016, the Company has purchase contracts in place to buy £102.6m of wheat and malted barley (2015: £91.5m). The fair value of these contracts at 30 June 2016 is (£0.13m) (2015: (0.29m)).

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 23 Deferred taxation

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

	(Assets)/ Liabilities	(Assets)/ Liabilities
	2016	2015
	£'000	£'000
<b>Balances:</b>		
Accelerated capital allowances	15,811	16,106
Short term timing differences	(3,393)	(4,382)
Capital Gains	2,300	2,554
Retirement benefit obligations	(2,761)	(2,573)
Cash flow hedging	(3,305)	2,495
	<u>8,652</u>	<u>14,200</u>
		<b>2016</b>
<b>Movements in the year:</b>		<b>£'000</b>
Liability at 1 July 2015		14,200
Transfer from profit or loss		2,903
Transfer to other comprehensive income		(8,451)
		<u>8,652</u>
Liability at 30 June 2016		<u>8,652</u>

The net deferred tax liability is not expected to reverse in 2017.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

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### 24 Retirement benefit schemes

The Company provides retirement benefits via three different schemes :- the Chivas Brothers Pension Scheme; the Unfunded, Unapproved Retirement Benefits Scheme and the Defined Contribution Scheme. In addition, the Company operates a Long Service Awards Scheme. Details of each scheme are provided below.

#### **Defined Benefit Scheme - Chivas Brothers Pension Scheme (CBPS)**

The Company is a member of the Chivas Brothers Pension Scheme (CBPS), providing benefits based on final pensionable pay. The scheme is closed to new members and has just under 1,200 active members, 700 deferred members and 500 retired members. The Scheme is funded by payment of contributions in line with the Schedule of Contributions. Following the 2015 triennial valuation the latest Schedule of Contributions requires employer contribution equal to 17.5% of Pensionable Salaries for periods between 1 March 2016 and 5 April 2019 and 33.9% thereafter.

The Company operates a salary sacrifice arrangement in that certain of its employees, who are also members of the Defined Benefit Pension Scheme, have agreed to reduce their entitlement to a portion of their salary in exchange for an increase in employer contributions to the pension scheme. The amounts contributed during the year by the Company in respect of this arrangement were £3,018,000 (2015: £2,809,000).

On 1 March 2016, the Company paid a special contribution of £16,600,000 to CBPS referred to as an Asset Backed Contribution. This special contribution, together with a special contribution of £60,500,000 made in 2013, are recognised as plan assets on a funding basis and their value will be reflected as part of the CBPS's triennial valuation as at 5 April 2018. However for the purposes of FRS 102, the special contributions are excluded from the fair value of plan assets, and have been recognised as a prepayment within debtors (note 17) that will continue to accrete to CBPS over the next 17 years.

The valuation used has been based on the most recent actuarial valuation at 5 April 2015, and was projected forward by the Company's actuary to assess the liabilities of the scheme as at 30 June 2016. Scheme assets are stated at the market value at the reporting date and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets.

The Company is the sponsoring employer of CBPS and has legal responsibility for the plan. There is no contractual arrangement or stated policy for crediting the net defined benefit obligation of the plan as a whole to the individual participating employers and therefore the Company has recognised the defined benefit pension scheme in its individual financial statements.

#### **Unfunded, Unapproved Retirement Benefits Scheme (UURBS)**

The Unfunded, Unapproved, Retirement Benefits Scheme provides top up benefits to those employees who are affected by the earnings cap (which limits the benefit that is permitted under certain regulations) and a small number of other employees of the Company. The Scheme is unfunded, therefore the retirement benefit obligations are liabilities of the Company (not of a separate pension scheme).

#### **Defined contribution schemes**

The Company participates in a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in independently administered funds. Contributions payable by the Company during the year amounted to £2,859,000 (2015: £2,334,000) and have been recognised in the profit or loss. At the reporting date, contributions amounting to £261,075 (2015: £208,546) had not been paid over to the fund and are included within creditors.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 24 Retirement benefit schemes

(Continued)

#### Long Service Awards Scheme

The Long Service Awards scheme (LSA) provides for future service and retirement awards to employees. The awards are paid by the Company when incurred and no assets are held to fund the Company's obligations under the LSA.

	CBPS 2016 %	UURBS 2016 %	LSA 2016 %
<b>Key assumptions</b>			
Discount rate	3.00	3.60	3.60
Expected rate of increase of pensions in payment	2.70	2.85	n/a
Expected rate of salary increases	1.70	1.90	n/a
Inflation assumption	2.70	2.90	n/a
Expected return on assets	3.00	n/a	n/a

	CBPS 2015 %	UURBS 2015 %	LSA 2015 %
<b>Key assumptions</b>			
Discount rate	3.90	3.40	3.40
Expected rate of increase of pensions in payment	3.10	2.95	n/a
Expected rate of salary increases	2.20	2.00	n/a
Inflation assumption	3.20	3.00	n/a
Expected return on assets	3.90	n/a	n/a

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 24 Retirement benefit schemes

(Continued)

	<b>CBPS</b>	<b>UURBS</b>	<b>LSA</b>
<b>Mortality assumptions</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>
Assumed life expectations on retirement at age 65:	<b>Years</b>	<b>Years</b>	<b>Years</b>
Retiring today			
- Males	22.80	22.80	n/a
- Females	24.40	24.40	n/a
	<u>          </u>	<u>          </u>	<u>          </u>
Retiring in 20 years			
- Males	24.50	24.50	n/a
- Females	26.30	26.30	n/a
	<u>          </u>	<u>          </u>	<u>          </u>

	<b>CBPS</b>	<b>UURBS</b>	<b>LSA</b>
<b>Mortality assumptions</b>	<b>2015</b>	<b>2015</b>	<b>2015</b>
Assumed life expectations on retirement at age 65:	<b>Years</b>	<b>Years</b>	<b>Years</b>
Retiring today			
- Males	22.80	22.80	n/a
- Females	24.50	24.50	n/a
	<u>          </u>	<u>          </u>	<u>          </u>
Retiring in 20 years			
- Males	24.60	24.60	n/a
- Females	26.40	26.40	n/a
	<u>          </u>	<u>          </u>	<u>          </u>

#### Amounts recognised in profit or loss

	<b>CBPS</b>	<b>UURBS</b>	<b>LSA</b>	<b>Total</b>
	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Current service cost	(13,202)	(330)	(61)	(13,593)
Actuarial gains/(losses)	-	-	42	42
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Recognised in arriving at operating profit	(13,202)	(330)	(19)	(13,551)
Net interest on defined benefit liability	(1,338)	(501)	(35)	(1,874)
Expenses	(1,376)	-	-	(1,376)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total recognised in profit or loss</b>	<b>(15,916)</b>	<b>(831)</b>	<b>(54)</b>	<b>(16,801)</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 24 Retirement benefit schemes

(Continued)

#### Amounts recognised in profit or loss

	CBPS 2015 £'000	UURBS 2015 £'000	LSA 2015 £'000	Total 2015 £'000
Current service cost	(13,781)	(327)	(57)	(14,165)
Actuarial gains/(losses)	-	-	(127)	(127)
Recognised in arriving at operating profit	(13,781)	(327)	(184)	(14,292)
Net interest on defined benefit liability	(2,015)	(575)	(42)	(2,632)
Expenses	(1,350)	-	-	(1,350)
<b>Total recognised in profit or loss</b>	<b>(17,146)</b>	<b>(902)</b>	<b>(226)</b>	<b>(18,274)</b>

#### Amounts taken to other comprehensive income

	CBPS 2016 £'000	UURBS 2016 £'000	LSA 2016 £'000	Total 2016 £'000
Actuarial gains/(losses)	(21,875)	636	-	(21,239)
Remeasurement gains and losses recognised in other comprehensive income	(21,875)	636	-	(21,239)

#### Amounts taken to other comprehensive income

	CBPS 2015 £'000	UURBS 2015 £'000	LSA 2015 £'000	Total 2015 £'000
Actuarial gains/(losses)	11,851	(1,345)	-	10,506
Remeasurement gains and losses recognised in other comprehensive income	11,851	(1,345)	-	10,506

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 24 Retirement benefit schemes

(Continued)

The amounts included in the balance sheet arising from the company's obligations in respect of defined benefit plans are as follows:

	<b>CBPS</b>	<b>UURBS</b>	<b>LSA</b>	<b>Total</b>
	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Present value of defined benefit obligations	(518,882)	(14,839)	(1,039)	(534,760)
Fair value of plan assets	455,302	-	-	455,302
Deficit in scheme	<u>(63,580)</u>	<u>(14,839)</u>	<u>(1,039)</u>	<u>(79,458)</u>
	<b>CBPS</b>	<b>UURBS</b>	<b>LSA</b>	<b>Total</b>
	<b>2015</b>	<b>2015</b>	<b>2015</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Present value of defined benefit obligations	(435,947)	(14,885)	(1,074)	(451,906)
Fair value of plan assets	394,309	-	-	394,309
Deficit in scheme	<u>(41,638)</u>	<u>(14,885)</u>	<u>(1,074)</u>	<u>(57,597)</u>

#### Movements in the present value of defined benefit obligations

	<b>CBPS</b>	<b>UURBS</b>	<b>LSA</b>	<b>Total</b>
	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Liabilities at 1 July 2015	(435,947)	(14,885)	(1,074)	(451,906)
Current Service Cost	(13,202)	(330)	(61)	(13,593)
Benefits paid	10,017	241	89	10,347
Actuarial gains/(losses)	(62,671)	636	42	(61,993)
Interest cost	(16,807)	(501)	(35)	(17,343)
Employee Contributions	(272)	-	-	(272)
At 30 June 2016	<u>(518,882)</u>	<u>(14,839)</u>	<u>(1,039)</u>	<u>(534,760)</u>

The defined benefit obligations arise from plans which are wholly or partly funded.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 24 Retirement benefit schemes

(Continued)

#### Movements in the fair value of plan assets

	CBPS 2016 £'000	UURBS 2016 £'000	LSA 2016 £'000	Total 2016 £'000
At 1 July 2015	394,309	-	-	394,309
Benefits paid	(10,016)	-	-	(10,016)
Expenses paid	(1,376)	-	-	(1,376)
Actuarial gains/( losses)	40,796	-	-	40,796
Interest income	15,469	-	-	15,469
Employer Contributions	15,849	-	-	15,849
Employee Contributions	271	-	-	271
At 30 June 2016	455,302	-	-	455,302

The return on plan assets as at 30 June 2016 was 14.9% (2015:17.2%)

#### Fair value of plan assets

	CBPS 2016 £'000	UURBS 2016 £'000	LSA 2016 £'000	Total 2016 £'000
Equities	135,589	-	-	135,589
Alternatives	177,112	-	-	177,112
Bonds	91,243	-	-	91,243
Long Lease Property Fund	49,309	-	-	49,309
Cash	2,049	-	-	2,049
Fair value of scheme assets	455,302	-	-	455,302
Present value of scheme liabilities	(518,882)	(14,839)	(1,039)	(534,760)
	(63,580)	(14,839)	(1,039)	(79,458)

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 25 Share-based payment transactions

During the year ended 30 June 2016, there were five share based payment arrangements in place. The share based payments relate to Pernod Ricard S.A. shares.

Type of arrangement	Share incentive plan	Employee share ownership plan	Unconditional stock options scheme	Free shares scheme	Conditional stock options scheme
Contractual life	n/a	n/a	8/10 years	n/a	8 years
Conditions	Employee remains employed by the group	Employee remains employed by the group			Employee remains employed by the group and certain group performance conditions are met
Vesting period	3 years	3 years	4 years	4 years	4 years
Type	Cash settled	Cash settled	Equity settled	Equity settled	Equity settled

The total expense for the period in respect of the cash settled plans (Share Incentive Plan and Employee Share Ownership Plan) was £1,549,000 (2015: £1,145,000). The expense in respect of all other plans (equity settled) was £1,584,000 (2015: £1,329,000).

### 26 Called up share capital

	2016 £'000	2015 £'000
<b>Allotted, called up and fully paid</b>		
10,580,106 Ordinary Shares of £1 each	10,580	10,580

The Company has one class of ordinary share that carries no right to fixed income. There were no ordinary shares issued in the current financial year.

### 27 Share premium account

This reserve records the amount above the nominal value received for shares issued, less transaction costs.

On 20 April 2016, the Company undertook a capital reduction exercise and cancelled its share premium account resulting in a transfer of £2,517,527,000 to reserves.

### 28 Capital contribution

This reserve represents movements associated with equity settled share based payments.

### 29 Other reserves

Other reserves comprise foreign translation differences on foreign currency assets (IP licenses) and related borrowings that had arisen over a number of years. This accounting approach ceased by 30 June 2014 once all borrowings were repaid.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

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### 30 Hedging reserve

Forward foreign currency contracts used for cashflow hedging are recorded on the balance sheet at fair value and charged or credited to hedging reserve as appropriate. The effective portion of the hedge is recognised in profit and loss when the hedged item itself is recognised in profit and loss, or the Company ceases to hedge that currency. A change in value of an "ineffective" component of the derivative would be recognised directly in profit and loss.

### 31 Financial guarantees and contingent liabilities

The Company is party to a cross guarantee arrangement under the Pernod Ricard UK Group's banking facilities agreement with Barclays Bank Plc. Under this agreement all participating companies are jointly and severally liable for any overdraft and borrowings by other participants. At the year end, there was a positive cash position across the group (2015: positive cash position across group).

### 32 Controlling party

The Company's immediate parent is Allied Domecq Spirits & Wine Holdings Limited. The ultimate parent undertaking and controlling party is Pernod Ricard S.A., a company incorporated in France. Copies of its annual report may be obtained from 12 Place des Etats-Unis, 75783 Paris, Cedex 16, France. This is the largest and smallest group into whose consolidated accounts the Company's financial information is consolidated.

### 33 Related party transactions

The Company has taken advantage of the exemption under the terms of paragraph 33.1A of FRS 102 from disclosing transactions with entities that are wholly owned by the Pernod Ricard S.A. group.

### 34 Events after the reporting date

On 25 July 2016, the Company paid an interim dividend of €38,044,000 (£31,674,000) to its parent Allied Domecq Spirits & Wine Holdings Limited.

On 2 November 2016 the Company announced its intention to invest £40m over the next three years in a new state-of-the-art facility at its Kilmalid site in Dumbarton, Scotland that will enhance and improve operations and support the development of the Company's global and iconic brands. The proposal is a response to an extensive review of the Company's current operations and would see the closure of the Company's site in Paisley, Scotland in three years' time.

This is a project of significant size and scale for the Company and was announced three years in advance to provide ample opportunity to manage the transition of the business effectively and for employees to adjust and adapt to working from a new site. The Company does not anticipate any redundancies as a result of this decision.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 35 Reconciliations on adoption of FRS 102

#### Reconciliation of equity

	Notes	1 July 2014 £'000	30 June 2015 £'000
Equity as reported under previous UK GAAP		3,717,942	3,665,953
<b>Effect of transition to FRS 102:</b>			
Lease reclassification	(i)	(133)	(72)
Component accounting for fixed assets	(ii)	(4,246)	(4,410)
Recognition of pension scheme deficit	(iii)	(52,151)	(41,638)
Recognition of pension contribution prepayment	(iv)	60,161	59,488
Fair value of derivatives used for cashflow hedging	(v)	12,045	12,472
Other derivatives measured at fair value through profit or loss	(vi)	333	1,269
Holiday pay accrual	(vii)	(1,318)	(1,348)
Inventory adjustment	(viii)	1,178	2,015
sub total - effect of transition to FRS 102		15,869	27,776
<b>Deferred tax impact of adjustments:</b>			
	(ix)		
Recognition of pension scheme deficit		10,430	8,328
Recognition of pension contribution prepayment		(12,032)	(11,897)
Fair value of derivatives used for cashflow hedging		(2,409)	(2,495)
Other derivatives measured at fair value through profit or loss		(67)	(254)
Rolled over gain - Mullben warehouse		(2,556)	(2,556)
sub total - deferred tax impact of adjustments		(6,634)	(8,874)
<b>Equity as restated under FRS 102</b>		<b>3,727,177</b>	<b>3,684,855</b>

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 35 Reconciliations on adoption of FRS 102

(Continued)

#### Reconciliation of profit or loss

	Notes	2015 £'000
Profit as reported under previous UK GAAP		318,794
<b>Effect of transition to FRS 102:</b>		
Lease reclassification	(i)	61
Component accounting for fixed assets	(ii)	(164)
Pension scheme incremental service cost	(iii)	(3,391)
Pension scheme net interest cost	(iv)	(2,015)
Unwind of discount on employer contribution	(iv)	3,395
Derivatives measured at fair value through profit or loss	(vi)	936
Holiday pay accrual	(vii)	(30)
Inventory adjustment	(viii)	837
Deferred tax and derivatives measured at fair value through profit or loss	(ix)	(187)
As restated under FRS 102		318,236

#### Notes to reconciliations on adoption of FRS 102

##### (i) Reclassification of operating leases

Certain lease agreements deemed operating leases under previous UK GAAP are required under FRS 102 to be accounted for as finance leases. This resulted in the Company recognising assets with a net book value of £1,469,000 on transition, and a lease creditor of £1,602,000. Profit and loss reserves were reduced by £133,000 on transition. During the year to 30 June 2015, a credit of £61,000 was recognised in the profit and loss account due to depreciation and interest in respect of these lease agreements being less than the operating lease charge recognised under previous UK GAAP.

##### (ii) Component accounting for fixed assets

FRS 102 requires that if the major components of an item of tangible fixed assets have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. On transition, the Company identified certain assets as components that were required to be depreciated over a shorter period than they had been previously. Accumulated depreciation of £4,246,000 in respect of these assets was recognised on transition and profit and loss reserves reduced by the same amount. During the year to 30 June 2015, a depreciation charge of £164,000 was recognised in the Company's profit or loss.

##### (iii) Defined benefit scheme - recognition of deficit

FRS 102 requires that any defined benefit pension scheme surplus or deficit be recognised on the balance sheet. Accordingly, on transition, the company recognised a defined benefit scheme liability of £52,151,000.

In the year ended 30 June 2015, under previous extant UK GAAP, the Company recognised an employers contribution of £10,390,000. Under FRS 102, an incremental amount of £3,391,000 has been charged to profit or loss resulting in an FRS 102 service cost of £13,781,000 for the year. A net interest cost of £2,015,000 has also been recognised in profit or loss. Actuarial gains of £11,851,000 have been recognised in Other Comprehensive Income for the year.

# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

### 35 Reconciliations on adoption of FRS 102

(Continued)

#### (iv) Defined benefit scheme - employer contributions

On transition, the Company recognised a special contribution of £60,500,000 paid to the pension scheme in 2013 as a prepayment measured at amortised cost representing 20 years of contributions discounted to give a value at 30 June 2014 of £60,161,000. The special contribution is not included in the FRS 102 deficit, instead it will accrete over 20 years (ceasing in 2033).

During the year to 30 June 2015, the Company released £4,067,000 from the prepayment and recognised it as an employer contribution paid to the pension scheme. The Company also unwound one year of the discount on the prepayment and recognised a credit of £3,395,000 in interest and other income.

#### (v) Fair value of derivatives used for cashflow hedging

Forward purchase foreign currency contracts (EUR and Ruble) used for cashflow hedging are recorded on the balance sheet at fair value and accounted for as fair value through equity within the hedging reserve. Under previous UK GAAP, the foreign currency contracts impacting future financial years were held off balance sheet, with their details disclosed in the accounts.

The fair value of the derivative asset on the June 2015 balance sheet of £18,673,000 (2014: asset of £15,246,000) includes derivatives that will mature within 2 months of the reporting date. These derivatives are used to hedge the cashflow from sales that took place in the final two months of the accounting year. The derivatives concerned have been removed from equity and included in profit or loss. At 30 June 2014, the fair value of derivatives maturing within 2 months was an asset of £3,201,000 and at 30 June 2015, an asset of £6,201,000. Under previous UK GAAP, the derivatives that hedged cashflow for sales in the last two months of the financial year were also recognised as an asset, with the foreign exchange impact being charged to profit or loss, hence there is no transition adjustment for these derivatives.

#### (vi) Other derivatives measured at fair value through profit or loss

The Company has forward purchase foreign currency contracts in a number of currencies to lock in the month end rate for sales and avoid volatility until its settlement through the internal treasury system. These forward contracts are recorded on the balance sheet at fair value and any movements accounted for through profit or loss.

#### (vii) Holiday pay accrual

FRS 102 requires short term employee benefits to be charged to profit or loss as the employee service is received. This has resulted in the Company recognising a liability for holiday pay of £1,318,000 on transition to FRS 102. Previously holiday pay accruals were not recognised and were charged to profit or loss as they were paid. In the year to 30 June 2015, an additional charge of £30,000 was recognised and the liability at 30 June 2015 was £1,348,000.

#### (viii) Inventory adjustment

Under FRS 102, an incremental pension scheme service cost of £3,391,000 was posted to the profit and loss account (see item (iii) above). In a manufacturing environment, certain costs initially charged to the profit and loss account fall within the remit of absorption costing. The £837,000 allocated to inventory represents the element of the incremental service cost under FRS 102 that is attributable to stock under absorption costing principles.

As at 30 June 2015, the stock balance of £1,251,798,000 previously reported under old UK GAAP, increased by £2,015,000 (2014: £1,178,000) to £1,253,813,000 as a result of the cumulative value of the inventory adjustment in respect of incremental pension scheme service cost under FRS 102.



# CHIVAS BROTHERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2016

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### 35 Reconciliations on adoption of FRS 102

(Continued)

#### (ix) Deferred taxation

The Company has accounted for deferred taxation on transition as follows:

- Defined benefit pension scheme - recognition of deficit - a deferred tax asset of £10,430,000 has been recognised at 1 July 2014 based on 20% of the liability recognised on transition. In the year ended 30 June 2015, the Company recognised a deferred tax debit in other comprehensive income of £2,102,000.
- Defined benefit pension scheme - employer contributions - a deferred tax liability of £12,032,000 was recognised at 1 July 2014 based on 20% of the prepaid contributions recognised on transition. In the year ended 30 June 2015, the Company recognised a net credit of £135,000 through its other comprehensive income in respect of deferred tax on the prepayment release recognised as an employer contribution offset by the unwind of one year's discount.
- Hedging adjustments - for tax purposes, regulation 7 of the Disregard regulations (SI 2004/3256) applies meaning that the fair value adjustments on the hedging arrangements are not taxable - only the actual realised FX will be taxable - this has resulted in a deferred tax liability of £2,409,000 being recognised at 1 July 2014 based on 20% of the fair value of derivatives charged to equity. In the year ended 30 June 2015, the Company recognised a net debit of £85,000 through its other comprehensive income in respect of deferred tax due to the increase in value of derivatives charged to the hedging reserve.
- Other derivatives measured at fair value through profit or loss - a deferred tax liability of £66,000 was recognised at 1 July 2014 based on 20% of the fair value of hedged foreign currency sales. In the year ended 30 June 2015, the Company recognised a debit through its profit or loss of £187,000 in respect of deferred tax due to the increase in the value of the hedged foreign currency sales.
- Gain rolled over – Mulben warehouse - for UK GAAP purposes, no deferred tax was required to be recognised on the roll-over of a capital gain into replacement assets but deferred tax needs to be recognised under FRS 102 - this has resulted in a deferred tax liability of £2,556,000 being recognised at 1 July 2014 based on 20% of the potential taxable gain recognised on transition.