

The Royal Edinburgh Military Tattoo (Charities) Limited

Annual report and financial statements

Registered company number SC108857

Registered charity number SC018377

31 December 2018

THE ROYAL EDINBURGH MILITARY TATTOO (CHARITIES) LIMITED
(A CHARITABLE COMPANY LIMITED BY GUARANTEE)

TRUSTEES' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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THE ROYAL EDINBURGH MILITARY TATTOO (CHARITIES) LIMITED

TRUSTEES' REPORT

FOR THE YEAR ENDED 31 December 2018

The Trustees, who are the Directors for the purposes of company law, have pleasure in submitting the twenty sixth annual report and group consolidated financial statements for the year ended 31 December 2018 which are also prepared to meet the requirements for a directors report and accounts for Companies Act purposes.

The financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended), the Companies Act 2006, the Memorandum and Articles of Association and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

The Royal Edinburgh Military Tattoo (Charities) Limited has been entered into the Scottish Charity Register and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a charity registered in Scotland.

REFERENCE AND ADMINISTRATION INFORMATION

Trustees

Peter Lederer CBE (CHAIRMAN)
The Rt Hon Lord Robertson of Port Ellen KT GCMG HONFRSE PC (VICE-CHAIRMAN)
Brigadier Henry David Allfrey MBE FRGS (CHIEF EXECUTIVE)
Lieutenant General Robin Brims CB CBE DSO
Hugh Dunn CPFA
Geraldine Gammell
Glen Gribbon
Major General Buster Howes CB OBE RM
Colin Ingram (retired 1 May 2018)
Bill Morris
Gillian Watson

Company Secretary/Chief Operating Officer

Rucelle Soutar

Other Key Management Personnel

Head of Operations	Doug Cook OBE
Head of Sales	Susan Lawton
Head of Marketing and Communications	Lynsey Fusco
Head of Finance & IT	Crawford Hunt

Banker

Royal Bank of Scotland plc, St Andrew's Square, Edinburgh, EH2 2YB

Auditor

BDO LLP

Solicitors

Morton Fraser LLP
Shepherd and Wedderburn LLP
Wiggin LLP

Registered Office

1-3 Cockburn Street, Edinburgh, EH1 1QB

Scottish Charity number

SC018377

TRUSTEES' REPORT (continued)

2. STRUCTURE, GOVERNANCE AND MANAGEMENT

The Royal Edinburgh Military Tattoo (Charities) Limited is a company (limited by guarantee) and is governed by its Memorandum and Articles of Association.

The Trustees who held office up to the date of approval of the financial statements are detailed under reference information earlier in this report.

The composition and method of appointment of Trustees is detailed in the articles of the company.

The Board of Trustees comprises persons who have extensive business experience, representatives from The City of Edinburgh Council, retired Armed Forces Officers representing the military, and the Chief Executive of the company's subsidiary. On 8th October 2018 the Board approved new Memorandum and Articles of Association for the company and this was ratified by Special Resolution on 30 December 2018. The changes incorporated the removal of the requirement to have a Trustee Appointments Advisory Group, although reference is still made to the Trustee Appointment Policy and that group still exists in practice. It also removed the requirement for Members' consent to appoint a patron or vice-patron. It also changed the minimum number of Trustees from ten to not less than five. The changes made were to enable more flexibility to the company in making appointments as well as enable business efficiency.

The Board is assisted by Military Advisers comprising the Governor of Edinburgh Castle, the Brigade Commander 51 Infantry Brigade and HQ Scotland, and Head of Finance (Deputy Director), Army Headquarters, and other military advisers as required.

The Directors consider that the Board of Trustees and the Senior Management Team comprise the key management personnel of the charity and are in charge of directing and controlling, running and operating the charity on a day to day basis. Strategic plans are made by the Chief Executive and decisions considered and presented to the Board of Trustees for approval. Day to day operational decisions are made by the Chief Operating Office (as appointed from October 2018). The Chief Executive is the only trustee to receive remuneration and the remainder of the trustees give their time freely. Details of Trustee expenses are disclosed at note 8. A committee structure consisting of a Finance, Risk and Audit Committee, a Military Committee, a Rewards and Remuneration Committee and various task committees report to the Board and examine relevant matters of the group in more detail.

The terms and conditions of the senior staff is reviewed and approved annually by the Rewards and Remuneration Committee and is normally increased in accordance with overall pay increases for all staff.

Trustees are given a briefing and an induction day on appointment. Trustee training requirements are reviewed on an annual basis and training delivered accordingly. The Trustees continue to review the governance arrangements to ensure they are adequate.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and BDO LLP will therefore continue in office.

DISCLOSURE OF INFORMATION TO AUDITOR

The Trustees who held office at the date of approval of this Trustees' report confirm that, so far as they each are aware, there is no relevant audit information of which the charitable company's auditor is unaware; and each trustee has taken all the steps that they ought to have taken as a trustee to make themselves aware of any relevant audit information and to establish that the charitable company's auditor is aware of that information.

TRUSTEES' REPORT (continued)

3. OBJECTIVES AND ACTIVITIES

The charitable company's policy is to make awards of grant in accordance with its charitable objectives. The company's memorandum and articles of association specify its principal objects as follows:

- (i) To promote military and other music through performance of tattoos and other opportunities in Edinburgh or elsewhere; and/or
- (ii) To relieve, in cases of need, hardship, poverty, infirmity or distress, or to provide personal development opportunities to persons who are serving or have served in HM Armed Forces, the dependants of such persons qualifying for such relief and such charitable organisations recognised to have an association with HM Armed Forces and/or any other equivalent national defence organisation in any jurisdiction; and/or
- (iii) To promote and encourage the arts, culture and heritage, and/or the study of the arts, culture and heritage in Edinburgh or elsewhere.

The charitable company meets these objectives by grant making and the operation of tattoos via its subsidiary companies.

The Trustees review the charitable donations policy and mechanism for making charitable donations annually. The current mechanism is summarised below:

- The majority of funds will be donated to three main Service charities and at least one main arts charity or project for further distribution to smaller charities.
- At its March meeting, the Finance, Risk and Audit Committee confirms the amount available for disbursement based on the projected financial outturn. This will be ratified by the Board in April.
- In April/May, the Military Committee will agree a suitable ratio for distribution to the Service charities
- At the Board meeting in June, donation sums will be considered and approved for immediate disbursement. Any conditions applying to the donation will be issued with the payment. Correspondence received from the charitable organisations is circulated to the Board and subsequent reports are to be submitted from those who have received a donation as to how the funds have been applied.

Achievements and Performance

In 2018 the charitable company approved donations at the June Board totalling £1,000,000 and accounted for £1,173,313, as detailed in note 4 of the accounts. This is now the third year running that the charitable company has pledged £1,000,000. The additional £173,313 related to donations in 2017 but accounted for in 2018. Of the £1,173,313, £992,485 was paid in the year and £775,000 was distributed through the strategic Armed Services charities and some to smaller Armed Services charities under advice from the Military Committee. £217,485 was given as grants to promote and encourage the arts, including £50,000 to the City of Edinburgh Project Fund.

As at the year end, the balance approved, but unpaid of £180,828 (2018 £150,000 and 2017 £30,828) was designated to the REMT Youth Talent Development Fund, in partnership with Creative Scotland, to nurture the talent of exceptional young artists engaged in traditional music and dance. These funds will be distributed post year end.

TRUSTEES' REPORT (continued)

4. STRATEGIC REPORT

Our donations to the larger strategic Armed Services charities help support servicemen and women, veterans and their families through the physical and mental effects of their service to the country including veterans' transition to civilian life.

Donations directly to the Scottish Amenities Fund and Army enable welfare funds to improve life in the barracks, provide activities in sport and adventure training, and support the Scottish National War Memorial. The Army Piping Committee has also been enabled to increase specialist tuition and attendance at competitive events.

Donations to the arts charities support programmes such as Creative Pathways Programme which works with schools and young people to build confidence and communication skills, small projects in Edinburgh helping to overcome financial and social barriers to accessing activity in the arts and culture, and projects across Scotland designed to nurture youth engagement and participation in traditional Scottish art forms.

Financial Review

The result for the year is set out in the consolidated statement of financial activities on page 10. Income for the Group increased during the year due to increased ticket sales, hospitality sales and additional income generated from other events. This year saw The Royal Edinburgh Military Tattoo in Edinburgh sold out again in 2018. Group income before taxation was £563,126 (2017: £1,788,343). Tax and other recognised gains and losses brought a net movement of funds to £1,739,147 (2017: £2,750,569).

The subsidiary company, The Royal Edinburgh Military Tattoo Limited, had a very successful year with turnover up 11% and generating a profit before tax of £1,417,558 (2017: £2,172,880). This level of profit allowed gift aid donations of £1,500,000 (2017: £100,000) to be made to this charitable company.

Edinburgh Tattoo Productions Limited, the subsidiary company of The Royal Edinburgh Military Tattoo Limited, operates and produces the Tattoo in Edinburgh. During the year the company generated turnover of £6,837,355 (2017: £6,117,703) and a profit after tax of £820,605 (2017: £714,612).

During the year, the subsidiary company The Royal Edinburgh Military Tattoo (International) Limited did not produce or promote any overseas performance of The Royal Edinburgh Military Tattoo. The next overseas tattoo is due to take place in Sydney, Australia with performances between 16th-20th October 2019. In advance of the 2019 show the company has begun to receive instalment payments and recognise expenditure relating to the early stages of preparation for the show. The company generated turnover of £61,700 (2017: £0) and generated profit after tax of £70,052 (2017: £0). The company donated gift aid of £70,052 to this charitable company (2017: £0).

A detailed review of the results of all subsidiaries are given in the Directors' Report of those companies.

Investment policy

During the year the Finance, Risk and Audit Committee reviewed the reserves being held in funds towards the replacement of the grandstands in the future. It was agreed that the more moderate risk approach to investment of those funds could continue to be taken. These funds continue to be managed by Brewin Dolphin on behalf of the Group.

In 2016 the Committee also reviewed the financial advantage in settling the operating lease of the grandstands in the near future. To that end, during 2016 £2M was transferred for management by Brewin Dolphin on behalf of the charitable company. At the end of 2018 this fund was valued at £2.05M (2017: £2.13M) of which £2.03M (2017: £2.08M) was fully invested and £0.02M (2017: £0.05M) was held in cash.

The remaining reserves of the charitable company and the trading subsidiary are invested in cash term deposits to maximise the rate of return while minimising risk. These deposits are managed through the Treasury and Banking

TRUSTEES' REPORT (continued)

Section of the Corporate Governance Department of the City of Edinburgh Council in accordance with the policies approved by the Trustees.

The Finance, Risk and Audit Committee review the investment policies on an annual basis and monitors the position.

Reserves policy

All of the charitable company's reserves are unrestricted. The Trustees have designated £11.3M (2017: £10.1M) of the Group's reserves as detailed in note 20. This includes £4.1M (2017: £3.8M) towards replacement of the stands in future, £2.5M (2017: £2M) for capital development in 2019, £2.2M (2017: £2.1M) towards settling the operating lease and £2.5M for charitable grants in 2019-2020.

The free reserves (defined by the SORP as the total reserves less designated funds, fixed assets and provisions for defined benefit pension liability) of the Group amount to £5.3M (2017: £4.3M). The Trustees believe this to be reasonable on the basis that they have allocated £3.4M (2017: £3.4M) of the Group's free reserves principally with the aim of continuing to develop and safeguard the Tattoo. This includes provisions for wind down reserve, maintaining charitable grants over the longer term, capital reserve, unexpected events and capital within the trading subsidiaries. Free reserves currently meet the expected minimum target of £3.4M. The reserves in excess of this target will continue to be invested in the Tattoo operations going forward.

Plans for Future Periods

The Trustees, taking account of the financial challenges facing the trading subsidiary, intend to maintain a realistic level of disbursements in accordance with the charitable aims of the company for the foreseeable future.

The Directors intend to maintain The Royal Edinburgh Military Tattoo's position as the premier event of its kind in the world. The long term vision of the Group of companies is to sustain and develop our international reputation and diversify income streams as encapsulated in our 'Strategy for Growth'. We intend to achieve that aim through the staging of regular tattoo performances overseas – the productions in Wellington and Melbourne took place in February 2016 and the next overseas tattoo is planned for 2019 - as well as managing and producing other commemorative and state ceremonial events.

TRUSTEES' REPORT (continued)

Principal Risks and Uncertainties

The Strategic Risk Register encapsulates the principal risks and uncertainties for the charitable company and its subsidiaries. The Finance Risk and Audit Committee will ensure that appropriate arrangements are established to mitigate those risks.

The key risk of the charitable company is ensuring that the trading subsidiaries maintain successful Tattoos in Edinburgh and abroad such that sufficient profits are generated and gifted to the charitable company to supplement investment and other income. The principal risks and uncertainties in running the business and achieving our Strategy for Growth include the following top 3 risks:

- Failure to invest in the right strategic partnerships: A key part to the success of the business is working in partnership with a variety of organisations. Ensuring that we identify the right partners to engage with, in particular those that are able to deliver Overseas Tattoos, as well as identifying opportunities to work with new partners will ensure our business development opportunities are maximised. We ensure we undertake due diligence of key strategic partners and are currently reviewing our business development planning to ensure we identify new opportunities to mitigate this risk.
- Failure to innovate or keep up with speed of technology leads to audience decline: We regularly review our audience expectations through research and we continue to challenge our technological development via our annual 'Innovation Plan'.
- Not securing an abatement due to lack of cross Government support for overseas projects: Continued participation from MOD bands is a key component of our overseas strategy. We continue to invest in our stakeholder communications strategy across Government departments in order to demonstrate our value to Government and secure the abatement.

ON BEHALF OF THE BOARD



GERALDINE GAMMELL
Trustee

1-3 Cockburn Street
EDINBURGH
EH1 1QB

30 May 2019

STATEMENT OF RESPONSIBILITIES OF THE TRUSTEES OF THE ROYAL EDINBURGH MILITARY TATTOO (CHARITIES)
LIMITED IN RESPECT OF THE TRUSTEES' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the Trustees to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Trustees 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 group and charity and of the incoming resources and application of resources, including the income and expenditure, of the group for that period.

In preparing these financial statements, the Trustees 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 charity will continue in business.

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charity's transactions and disclose with reasonable accuracy at any time the financial position of the charity 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 charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The director's responsibility also extends to the ongoing integrity of the financial statements contained therein.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND TRUSTEES OF
THE ROYAL EDINBURGH MILITARY TATTOO (CHARITIES) LIMITED**

Opinion

We have audited the financial statements of The Royal Edinburgh Military Tattoo (Charities) Limited ("the Parent Charitable Company") and its subsidiaries ("the Group") for the year ended 31 December 2018 which comprise the consolidated statement of financial activities, the consolidated balance sheet, the charitable company balance sheet, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Charitable Company's affairs as at 31 December 2018 and of the Group's incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Charitable Company in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions related to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you when:

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

Other information

The other information comprises the information included in the Trustees' Report. The Trustees are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND TRUSTEES OF
THE ROYAL EDINBURGH MILITARY TATTOO (CHARITIES) LIMITED (CONTINUED)**

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Trustees' Report, which includes the Directors' Report and the Strategic report prepared for the purposes of Company Law, for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' Report included within the Trustees report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Charitable Company and its environment obtained in the course of the audit, we have not identified material misstatement in the Strategic report or the Trustee's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 requires us to report to you if, in our opinion;

- proper and adequate accounting records have not been kept by the Parent Charitable Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Charitable Company 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.

Responsibilities of Trustees

As explained more fully in the Statement of Responsibilities of the Trustees, the Trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND TRUSTEES OF
THE ROYAL EDINBURGH MILITARY TATTOO (CHARITIES) LIMITED (CONTINUED)**

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

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with the Acts and relevant regulations made or having effect thereunder.

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

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's ("FRC's") website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Charitable Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, and to the Charitable Company's trustees, as a body, in accordance with the Charities and Trustee Investment (Scotland) Act 2005. Our audit work has been undertaken so that we might state to the Charitable Company's members and trustees 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 Charitable Company, the Charitable Company's members as a body and the Charitable Company's trustees as a body, for our audit work, for this report, or for the opinions we have formed.



Martin Gill (Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor

Edinburgh, United Kingdom

Date 3 JUNE 2019

BDO LLP is eligible for appointment as auditor of the charity by virtue of its eligibility for appointment as auditor of a company under section 1212 of the Companies Act 2006.

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

THE ROYAL EDINBURGH MILITARY TATTOO (CHARITIES) LIMITED
A CHARITABLE COMPANY LIMITED BY GUARANTEE

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
(INCORPORATING A GROUP INCOME AND EXPENDITURE ACCOUNT)

FOR THE YEAR ENDED 31 DECEMBER 2018

	<u>Notes</u>	<u>Total</u> <u>2018</u> £	<u>Total</u> <u>2017</u> £
Income			
Other trading activities	2(a)	14,312,340	12,821,376
Investments	2(b)	216,855	145,152
		-----	-----
Total income		14,529,195	12,966,528
		-----	-----
Expenditure			
Raising funds	3	(12,452,408)	(10,524,814)
Charitable activities	4	(1,173,313)	(827,950)
		-----	-----
Total expenditure		(13,625,721)	(11,352,764)
		-----	-----
Net (losses)/gains on investments	2(c)	(340,348)	174,579
		-----	-----
Net income before taxation		563,126	1,788,343
		-----	-----
Taxation	9	717,901	320,196
		-----	-----
Net income	6	1,281,027	2,108,539
		-----	-----
Other recognised gains/(losses)			
Actuarial gains/(losses) on defined benefit pension schemes	19	503,000	734,000
Other gains/(losses)	9	(44,880)	(91,970)
		-----	-----
Net movement in funds		1,739,147	2,750,569
		-----	-----
Reconciliation of funds			
Fund balances brought forward		23,936,223	21,185,654
		-----	-----
Fund balances carried forward		25,675,370	23,936,223
		-----	-----

All of the activities are continuing. All income is unrestricted.

There is no difference between the historical cost result and the net income for the year as shown above. As permitted by Section 408 of the Companies Act 2006 a statement of financial activities for the charitable company is not presented. The net incoming resources in the financial statements of the charitable company for the financial year was £643,610 (2017: outgoing resources of £284,956).

The notes on pages 15-35 form an integral part of these financial statements.

THE ROYAL EDINBURGH MILITARY TATTOO (CHARITIES) LIMITED
A CHARITABLE COMPANY LIMITED BY GUARANTEE

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2018

	<u>Note</u>	<u>2018</u> £	<u>2017</u> £
Fixed assets			
Intangible assets	10(a)	93,487	157,350
Tangible assets	10 (b)	9,864,379	10,064,802
Investments	11	4,610,291	4,318,193
		<hr/> 14,568,157	<hr/> 14,540,345
Current assets			
Stock		112,035	85,210
Debtors	12	2,572,435	1,108,680
Short term cash investments	22	18,551,014	17,970,934
Cash at bank and in hand	22	527,087	500,742
		<hr/> 21,762,571	<hr/> 19,665,566
Liabilities			
Creditors: amounts falling due within one year	13	<hr/> (9,237,206)	<hr/> (8,640,043)
Net current assets		<hr/> 12,525,365	<hr/> 11,025,523
Total assets less current liabilities		27,093,522	25,565,868
Provision for liabilities	14	<hr/> (834,152)	<hr/> (781,645)
Net assets excluding pension scheme liability		26,259,370	24,784,223
Defined benefit pension scheme liability	19	<hr/> (584,000)	<hr/> (848,000)
Net assets		<hr/> 25,675,370	<hr/> 23,936,223
Unrestricted funds			
General funds		14,335,274	13,818,926
Designated funds		<hr/> 11,340,096	<hr/> 10,117,297
Total funds	20	<hr/> 25,675,370	<hr/> 23,936,223

The notes on pages 15-35 form an integral part of these financial statements.

These financial statements were approved by the Board of Trustees on 30 May 2019 and were signed on its behalf by:



Geraldine Gammell
 Trustee

Registered number: SC108857

THE ROYAL EDINBURGH MILITARY TATTOO (CHARITIES) LIMITED
A CHARITABLE COMPANY LIMITED BY GUARANTEE

CHARITABLE COMPANY BALANCE SHEET

AT 31 DECEMBER 2018

	Note	2018 £	2017 £
Fixed assets			
Tangible assets	10(b)	2,199,291	2,230,062
Investments	11	<u>2,226,378</u>	<u>2,283,810</u>
		<u>4,425,669</u>	<u>4,513,872</u>
Current assets			
Debtors	12	1,600,910	118,671
Short term cash investments		4,087,292	4,684,457
Cash at bank and in hand		<u>8,314</u>	<u>1,246</u>
		<u>5,696,516</u>	<u>4,804,374</u>
Liabilities			
Creditors: amounts falling due within one year	13	<u>(201,588)</u>	<u>(41,259)</u>
Net current assets		<u>5,494,928</u>	<u>4,763,115</u>
Total net assets		<u>9,920,597</u>	<u>9,276,987</u>
Unrestricted funds			
General funds	21	5,194,217	4,944,738
Designated funds	21	<u>4,726,380</u>	<u>4,332,249</u>
Total charity funds		<u>9,920,597</u>	<u>9,276,987</u>

The notes on pages 15-35 form an integral part of these financial statements.

These financial statements were approved by the Board of Trustees on 30 May 2019 and were signed on its behalf by:



Geraldine Gammell
Trustee

Registered number: SC108857

THE ROYAL EDINBURGH MILITARY TATTOO (CHARITIES) LIMITED
A CHARITABLE COMPANY LIMITED BY GUARANTEE

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	<u>Note</u>	<u>2018</u> £	<u>2017</u> £
Reconciliation of net income/(expenditure) to net cash flow from operating activities			
<i>Net income/(expenditure) for the reporting period (as per the statement of financial activities)</i>		1,281,027	2,108,539
Adjustments for			
Depreciation and amortisation charges		555,307	510,462
Loss/(Gain) on forward contract		(23,584)	-
(Gains)/losses on investments		340,348	(174,579)
Interest receivable		(216,855)	(145,152)
Pensions current service cost		450,000	335,000
Pension contributions paid		(235,000)	(181,000)
Net interest payable on pensions		24,000	39,000
Taxation		(717,901)	(320,196)
(Increase)/decrease in stock		(26,826)	27,393
(Increase)/decrease in debtors		(168,164)	(80,616)
Increase/(decrease) in creditors		630,340	452,030
Tax received/(paid)		(546,478)	246,446
Net cash provided by operating activities		<u>1,346,214</u>	<u>2,817,327</u>
<u>CASH FLOW STATEMENT</u>			
Cash flows from operating activities			
<i>Net cash provided by operating activities</i>		1,346,214	2,817,327
Cash flows from investing activities			
Interest income		216,855	145,152
Purchase of tangible fixed assets		(291,021)	(223,164)
Purchase of intangible assets		-	(191,589)
Proceeds from sale of investments		476,734	65,344
Purchase of investments		(1,109,180)	(780,849)
<i>Net cash used in investing activities</i>		<u>(706,612)</u>	<u>(985,106)</u>
Cash flows from financing activities			
<i>Net cash provided by financing activities</i>			
<i>Change in cash and cash equivalents in the reporting period</i>		639,602	1,832,221
Cash and cash equivalents at the beginning of the reporting period		<u>18,438,499</u>	<u>16,606,278</u>
Cash and cash equivalents at the end of the reporting period	22	<u>19,078,101</u>	<u>18,438,499</u>

The notes on pages 15-35 form an integral part of these financial statements.

THE ROYAL EDINBURGH MILITARY TATTOO (CHARITIES) LIMITED
A CHARITABLE COMPANY LIMITED BY GUARANTEE

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2017)

1. Accounting policies

The Royal Edinburgh Military Tattoo (Charities) Limited (the "Charitable Company") is a Charitable Company limited by guarantee and not having share capital and domiciled in the UK. The company is registered in Scotland with its registered office and principle place of business at 1-3 Cockburn Street, Edinburgh, EH1 1QB and company number SC108857 and Charity number SC018377. The liability of the members is limited by the Memorandum of Association to £1 each.

These Group and parent Charitable Company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014 and Accounting and Reporting by Charities: Statement of Recommended Practice. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. The Royal Edinburgh Military Tattoo (Charities) Limited meets the definition of a public benefit entity under FRS 102.

The parent Charitable Company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent Charitable Company financial statements have been applied:

- No separate parent Charitable Company Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included a second time; and,
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.17 below.

The functional currency of the Company is pounds sterling, and all amounts have been rounded to the nearest pound.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified at fair value through the statement of financial activities.

1.2 Going concern

The Group and Charitable Company's business activities and its financial performance, together with the factors likely to affect its future development, performance and position are set out in the Trustees' Report on pages 1 to 5. The Trustees have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Charitable Company and its subsidiary undertakings made up to 31 December 2018. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated statement of financial activities (incorporating a group income and expenditure account) from the date that control commences until the date that

NOTES (continued)

1.3 *Basis of consolidation (continued)*

control ceases. Control is established when the Charitable Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Under Section 408 of the Companies Act 2006 the Charitable Company is exempt from the requirement to present its own statement of financial activities.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

1.4 *Foreign currency*

Transactions in foreign currencies are translated to the Group charitable companies' functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of financial activities.

1.5 *Basic financial instruments*

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognition in statement of financial activities. Other investments are measured at cost less impairment in the statement of financial activities.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Charitable Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.6 *Other financial instruments*

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in the statement of financial activities.

1.7 *Intangible fixed assets*

Intangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Costs associated with maintaining computer software applications are recognised as an expense as incurred. Costs that are directly attributable to the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits, are recognised as intangible assets. Software assets are amortised over their estimated useful lives:

- software applications 3 years

NOTES (continued)

1.8 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

The Charitable Company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- production equipment 10 - 20 years
- freehold property 10 - 50 years
- fixtures, fittings and equipment 3-10 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Charitable Company expects to consume an asset's future economic benefits.

Assets under construction are transferred to the relevant asset category when they become operational and are depreciated from that date.

Investments also includes holdings in subsidiary companies and listed investments, these are held at cost and market value respectively.

1.9 Investment properties

Investment property is carried at fair value determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the statement of financial activities.

1.10 Leased assets: Lessor

The company enters into leases for investment property and these are treated as operating leases. Their annual rentals are credited to the statement of financial activities on a straight-line basis over the term of the lease.

1.11 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

1.12 Employee benefits

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed triennially by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

NOTES (continued)

1.12 Employee benefits (continued)

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

1.13 Income

Other trading activities

Turnover represents the value of ticket sales and income from other related ancillary activities net of related value added tax and includes the value of complimentary tickets issued and sponsorship received. Income received in advance for future shows is shown as deferred income within creditors. Turnover also represents service and administration fees, profit share and the sale of recording rights from productions of The Royal Edinburgh Military Tattoo abroad, exclusive of value added tax. Turnover is recognised when the amount can be measured reliably and it is probable economic benefits will flow to the entity.

Other operating income represents income from activities not directly related to the promotion and production of the Military Tattoo on the Esplanade of Edinburgh Castle. Expenditure in connection with running the Tattoo that is contracted through Royal Edinburgh Military Tattoo Limited (REMT) is net against the recharge to REMT's subsidiary, Edinburgh Tattoo Productions Limited. This is to ensure no costs are double counted following the final recharge from Edinburgh Tattoo Productions limited to the company for total cost for running the Tattoo.

1.14 Funds

Unrestricted funds held by the group are either:

General funds – funds which can be used in accordance with the objectives of the charitable company at the discretion of the Trustees.

Designated funds – funds set aside by the Trustees out of unrestricted general funds for specific future purposes.

Transfers are made to designated funds at the discretion of the Trustees.

1.15 Expenditure

Resources expended are included in the statement of financial activities on an accruals basis. All VAT is recoverable, with the exception of VAT on expenses incurred within the charitable company.

Costs of raising funds

Costs of services provided represents the direct operational costs within the subsidiary undertakings of the staging of a military tattoo, together with the cost of goods sold of the merchandise. Depreciation of the charitable company's rented properties is also charged to this category as these are used by the subsidiary for administrative purposes. Interest payable and similar charges is charged to this category and includes interest payable, net interest expense on net defined benefit pension liabilities (see employee benefits accounting policy), and net foreign exchange losses that are recognised in the statement of financial activities (see foreign currency accounting policy).

Other interest receivable and similar income is charged to this category and includes interest receivable on funds invested, and net gains on financial assets measured at fair value in the statement of financial activities. Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Expenditure on charitable activities

Grants payable in furtherance of the charity's objects represents all grants approved by the Trustees in the financial year – these are split between the charity's two objectives. A liability is recognised in the financial statements when recipients are determined and the grants are approved.

Governance and support costs

Governance costs are incurred in compliance with constitutional and statutory requirements including professional fees. Support costs are borne by the subsidiary companies.

NOTES (continued)

1.15 Expenditure (continued)

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the statement of financial activities on a straight-line basis over the term of the lease.

1.16 Taxation

Group

Tax on the surplus or deficit for the year comprises current and deferred tax. Tax is recognised in the statement of financial activities account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Charitable Company

The Charitable Company is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

1.17 Accounting estimates and judgements

Pension and other post-employment benefits

The cost of defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, 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. More detail of the assumptions made and the carrying amount involved is provided in note 19.

Tangible fixed assets (see note 10b)

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

NOTES (continued)

2.	<u>Income</u>		<u>Group</u>
		<u>2018</u>	<u>2017</u>
		£	£
	(a) Income from other trading activities		
	Income generated by subsidiaries	14,272,219	12,792,042
	Other Operating Income	40,121	29,334
		14,312,340	12,821,376
		<u>2018</u>	<u>2017</u>
		£	£
	(b) Investment income		
	Interest receivable on cash deposits	90,127	38,363
	Realised income on investment funds	126,728	106,788
		216,855	145,152
		<u>2018</u>	<u>2017</u>
		£	£
	(c) Net gain on investments		
	Realised and Unrealised (loss)/gain on investment funds	(340,348)	174,579
		<u>2018</u>	<u>2017</u>
		£	£
3.	<u>Expenditure</u>		<u>Group</u>
		<u>2018</u>	<u>2017</u>
		£	£
	Expenditure on raising funds		
	Staging of Edinburgh and Overseas Tattoos	12,452,408	10,524,814
		12,452,408	10,524,814
4.	<u>Charitable activities</u>		<u>Group</u>
	Grants were paid in accordance with the charity's objectives as follows:	<u>2018</u>	<u>2017</u>
		£	£
	<i>Providing relief to persons who serve or have served in the Armed Forces</i>		
	The Soldiers' Charity	323,500	286,000
	The Royal Navy and Royal Marines Charity	186,250	167,500
	The Royal Air Force Benevolent Fund	193,250	174,500
	The Army in Scotland Trust	20,000	65,000
	The Army Piping Committee	20,000	-
	51 Infantry Brigade Welfare Fund	20,000	-
	Scottish Amenities Fund	7,000	7,000
	Edinburgh Garrison Welfare Fund	3,000	-
	Scottish National War Memorial	2,000	-
	Australia and New Zealand Piping and Dancing Organisations	-	27,000
	Seafarers UK	-	10,000
	Combat Stress	-	10,000
	Royal Commonwealth Ex-Services League	-	5,000
		775,000	752,000

NOTES (continued)4. Charitable activities (continued)

Grants were paid in accordance with the charity's objectives as follows: (continued)

	<u>Group</u>	
	<u>2018</u>	<u>2017</u>
	£	£
<i>Promoting and encouraging the arts</i>		
Edinburgh International Festival	20,000	20,000
The Royal Lyceum Theatre Company	5,000	5,000
City of Edinburgh Project Fund	50,000	50,000
REMT Youth Talent Development Fund 2017	123,313	-
REMT Youth Talent Development Fund Fund 2018	150,000	-
Ross Band Stand Donation	50,000	-
	<u>398,313</u>	<u>75,000</u>
Governance costs	-	950
Total Charitable Activities	<u>1,173,313</u>	<u>827,950</u>

5. **Auditor's remuneration**

	<u>Group</u>	
	<u>2018</u>	<u>2017</u>
	£	£
<i>Auditor's remuneration</i>		
Amounts receivable by the auditor and associates in respect of:		
Statutory audit of these financial statements	2,250	2,150
Statutory audit of financial statements of subsidiaries	16,650	13,500
Taxation compliance services	6,150	6,000
Taxation advisory services	4,150	4,000
Other non-audit services	-	-
	<u>29,200</u>	<u>25,650</u>

6. **Net income for the year**

This is stated after charging:

	<u>Group</u>	
	<u>2018</u>	<u>2017</u>
	£	£
Depreciation	491,444	476,225
Amortisation	63,863	34,239
Interest payable	5,000	44,000
Operating Lease Expense	400,666	400,666
Operating lease rental income	(140,160)	(89,010)
Defined Benefit Pension Cost	452,994	333,357
<i>Auditors remuneration:</i>		
Audit fees	18,900	15,650

NOTES (continued)

7. Staff costs

There are no staff employed by The Royal Edinburgh Military Tattoo (Charities) Limited.

	<u>Group</u>	
	<u>2018</u>	<u>2017</u>
	£	£
Wages and salaries	1,618,830	1,383,187
Social Security costs	142,537	114,989
Defined benefit pension costs	452,994	333,357
Additional Voluntary Contributions	38,234	35,335
	<u>2,252,595</u>	<u>1,866,868</u>

The average headcount (number of staff employed) during the reporting period was 51 (2017: 49). The number of persons (full time equivalent) employed by the group during the year was as follows:

	<u>Group</u>	
	<u>2017</u>	<u>2017</u>
	£	£
Tattoo production & support	30	26
Temporary staff	21	23
	<u>51</u>	<u>49</u>

The number of staff whose emoluments (excluding employer pension contributions) exceeded £60,000 fell within the following bands:

	<u>2018</u>	<u>2017</u>
£110,000 - £119,999	1	1
£100,000 - £109,999	-	-
£90,000 - £99,999	-	-
£80,000 - £89,999	1	-
£70,000 - £79,999	1	2
£60,000 - £69,999	2	1

Retirement benefits are accruing to these members of staff under the defined benefit pension scheme.

8. **Trustees' Remuneration**

One Trustee (2017: *One Trustee*), in his capacity as Chief Executive and Director of the subsidiary company, The Royal Edinburgh Military Tattoo Limited, received remuneration totalling £116,607 (2017: £111,242) and employer contributions to the defined benefit pension and additional voluntary contributions schemes of £45,701 (2017: £43,054) were paid on his behalf. Indemnity insurance for the Trustees of £1,375 (2017: £1,375) was purchased by the group. Expenses of £36,041 were reimbursed to eight Trustees (2017: £16,786 to eight Trustees). These related to travel and expenses incurred in attending meetings, management planning and logistics for overseas acts for the Tattoo and development of the subsidiaries' strategy in performing overseas. Key management personnel for the group includes the Trustees, the Chief Executive and the Senior Management Team. Total employee benefits (including pension contributions) received by Trustees and key management personnel for their services to the charity totalled £502,908 (2017: £432,565).

NOTES (continued)

9. Taxation

Total tax expense recognised in the statement of financial activities, other comprehensive income and equity

	2018		2017	
	£	£	£	£
<i>Current tax</i>				
Current tax on income for the year	(719,338)		(349,360)	
Adjustments in respect of prior periods	(6,190)		(15,673)	
	<hr/>		<hr/>	
Total current tax		(725,528)		(365,033)
<i>Deferred tax</i>				
Origination and reversal of timing differences	3,811		94,712	
Adjustments in respect of prior periods	3,816		(28,044)	
Change in tax rate	-		(21,831)	
	<hr/>		<hr/>	
Total deferred tax		7,627		44,837
		<hr/>		<hr/>
Total tax		(717,901)		(320,196)
		<hr/> <hr/>		<hr/> <hr/>

Group

	2018	2018	2018	2017	2017	2017
	£	£	£	£	£	£
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in consolidated statement of financial activities – taxation	(725,528)	7,627	(717,901)	(365,033)	44,837	(320,196)
Recognised in consolidated statement of financial activities – other recognised gains/losses	-	44,880	44,880	-	91,970	91,970
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total tax	(725,528)	52,507	(673,021)	(365,033)	136,807	(228,226)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES (continued)

9. Reconciliation of effective tax rate

	2018	2017
	£	£
Net income for the year	1,281,027	2,108,539
Total tax (credit)/expense	(717,901)	(320,196)
	<hr/>	<hr/>
Net income before taxation	563,126	1,788,343
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	106,994	344,256
Depreciation in excess of capital allowances	33,526	35,212
Reduction in tax rate on deferred tax balances	(5,728)	(21,831)
Non-deductible expenses	123,763	81,999
Tax exempt revenues	174,956	74,105
Income not taxable	-	(28,664)
Adjustments in respect of prior periods	(7,233)	(43,717)
Other timing differences	(76,127)	(77,114)
Movement in deferred tax in relation to pension scheme	(41,064)	49,299
Chargeable Gain	1,778	-
Qualifying gift aid donations	(202,740)	(19,247)
Orchestral Tax Relief (credit)	(826,026)	(714,494)
	<hr/>	<hr/>
Total tax credit included in consolidated statement of financial activities	(717,901)	(320,196)
	<hr/> <hr/>	<hr/> <hr/>

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at the balance sheet date has been calculated based on these rates.

10 (a). Intangible Fixed Assets

	<u>Software</u>
	£
Cost	
At 1 January 2018	191,589
Additions	-
Disposals	-
At 31 December 2018	<hr/> 191,589
Depreciation	
At 1 January 2018	34,239
Charge for the year	63,863
At 31 December 2018	<hr/> 98,102
Net Book Value	
At 1 January 2018	<hr/> 157,350
At 31 December 2018	<hr/> <hr/> 93,487

NOTES (continued)

10 (b). Tangible Fixed Assets

<u>Group</u>	<u>Investment Property</u>	<u>Property</u>	<u>Production Equipment</u>	<u>Fixtures, Fittings & Equipment</u>	<u>Total</u>
Cost	£	£	£	£	£
At 1 January 2018	1,568,248	7,355,299	2,608,061	656,562	12,188,170
Additions	-	178,510	95,697	16,814	291,021
Transfers	(733,010)	733,010	-	-	-
At 31 December 2018	835,238	8,266,819	2,703,758	673,376	12,479,191
Depreciation					
At 1 January 2018	-	1,035,107	710,903	377,358	2,123,368
Charge for the year	-	184,070	143,533	163,841	491,444
At 31 December 2018	-	1,219,177	854,436	541,199	2,614,812
Net Book Value					
At 1 January 2018	1,568,248	6,320,192	1,897,158	279,204	10,064,806
At 31 December 2018	835,238	7,047,642	1,849,322	132,177	9,864,379

Included within Property is land stated at cost of £610,000 (2017: £610,000) which is not depreciated.

The investment property represented floors 3/4 of Cockburn Street. As set out at note 18 the Group has contracted with tenants for minimal lease rentals. Property rental income earned during the year was £140,160 (2017: £89,010). No contingent rents have been recognised. The transfer shown represents a proportion of the main office building no longer being leased out and now being occupied by the company.

Charitable company

	<u>Property</u>	<u>Property Improvements</u>	<u>Fixtures & Fittings</u>	<u>Total</u>
Cost	£	£	£	£
At 1 January 2018	2,780,794	110,687	41,425	2,932,906
At 31 December 2018	2,780,794	110,687	41,425	2,932,906
Depreciation				
At 1 January 2018	550,732	110,687	41,425	702,844
Charge for the year	30,770	-	-	30,770
At 31 December 2018	581,502	110,687	41,425	733,614
Net Book Value				
At 1 January 2018	2,230,062	-	-	2,230,062
At 31 December 2018	2,199,291	-	-	2,199,291

All land and buildings are held on a freehold basis. Included within Property is land stated at cost of £460,000 (2017: £460,000) which is not depreciated.

NOTES (continued)

11. Fixed asset investments

The Royal Edinburgh Military Tattoo (Charities) Limited and The Royal Edinburgh Military Tattoo Limited hold investment portfolios managed by the Company's investment managers.

	Group		Charitable Company	
	2018	2017	2018	2017
	£	£	£	£
At beginning of year	4,318,193	3,428,109	2,083,807	1,834,641
Additions at cost	1,109,180	780,849	186,105	213,254
Disposals at opening market value	(474,276)	(65,344)	(111,328)	(31,794)
(Loss)/Gain on revaluation	(342,806)	174,579	(132,209)	67,706
Investment portfolios at end of year	4,610,291	4,318,193	2,026,375	2,083,807
Cost of investments	4,713,882	4,010,619	2,083,235	1,999,986

Analysis of investments

	Group		Charitable Company	
	Market value	% of	Market value	% of
	£	portfolio	£	portfolio
UK Bonds	892,187	19%	468,340	23%
UK equities	1,371,272	39%	438,370	21%
International equities	1,604,166	35%	613,931	30%
Absolute return	503,594	11%	380,885	19%
Property	166,372	3%	78,958	4%
Other	72,700	2%	45,891	2%
Total fixed asset investments	4,610,291	99%	2,026,375	99%
Cash	44,980	1%	15,180	1%
Total portfolio	4,655,271	100%	2,041,557	100%

Charitable company

	Investment in The Royal Edinburgh Military Tattoo (International) Limited SC495673	Investment in The Royal Edinburgh Military Tattoo Limited SC128255	Loan notes	Total
	£	£	£	£
Cost and net book value: At 31 December 2018 and 2017	1	2	200,000	200,003

Investments of £200,000 represent variable rate unsecured loan notes issued by the charitable company's undertaking, The Royal Edinburgh Military Tattoo Limited, and are repayable in the year 2020.

NOTES (continued)**11. Fixed asset investments (continued)**

The following subsidiary undertakings are wholly owned by The Royal Edinburgh Military Tattoo (Charities) Limited and have been included in the consolidated financial statements.

Subsidiary names Company Number	Shares held by The Royal Edinburgh Military Tattoo (Charities) Limited	Principal activity
The Royal Edinburgh Military Tattoo Limited SC128255	100% issued ordinary shares	The promotion and production of a military tattoo on the Esplanade of Edinburgh Castle.
The Royal Edinburgh Military Tattoo (International) Limited SC495673	100% issued ordinary shares	The promotion and production of military tattoos abroad
Edinburgh Tattoo Productions Limited SC521456	100% issued ordinary shares held by The Royal Edinburgh Military Tattoo Limited	The production of a military tattoo on the Esplanade of Edinburgh Castle

	<u>Turnover</u>	<u>Net expenditure</u>	<u>Net profit</u>	<u>Net assets</u>
	£	£	£	£
The Royal Edinburgh Military Tattoo Limited SC128255	13,827,063	12,510,254	1,316,809	14,219,550
The Royal Edinburgh Military Tattoo (International) Limited SC495673	61,700	(8,352)	70,052	6
Edinburgh Tattoo Productions Limited SC521456	6,837,355	6,016,750	820,605	1,535,218

12. Debtors amounts falling due within one year

	<u>Group</u>		<u>Charitable company</u>	
	2018	2017	2018	2017
	£	£	£	£
Trade debtors	892,616	632,363	6,750	13,350
Amounts owed by group undertakings	-	-	1,594,160	105,321
Other debtors	34,017	126,106	-	-
Foreign Exchange Contract	23,584	-	-	-
Tax and Social Security	-	-	-	-
Corporation tax	1,622,218	350,211	-	-
	2,572,435	1,108,680	1,600,910	118,671

NOTES (continued)

13. Creditors: amounts falling due within one year

	Group		Charitable company	
	2018	2017	2018	2017
	£	£	£	£
Bank overdraft	-	33,177	-	33,177
Accruals	884,929	392,280	196,078	3,721
Trade creditors	414,694	507,158	-	-
Tax and social security costs	1,051,310	1,164,528	643	-
Deferred income (see below)	6,886,273	6,542,900	4,867	4,361
	9,237,206	8,640,043	201,588	41,259

Group

Deferred income

	£
Balance at 1 January	
Released in the year	6,542,900
Deferred in the year	(6,542,900)
Balance at 31 December	<u>6,881,406</u>

Balance at 31 December 2018 and 2017 is all due in less than one year.

14. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets	Assets	Liabilities	Liabilities	Net	Net
	2018	2017	2018	2017	2018	2017
	£	£	£	£	£	£
Accelerated capital allowances	-	-	933,432	925,805	933,432	925,805
Employee benefits	(99,280)	(144,160)	-	-	(99,280)	(144,160)
Tax (assets) / liabilities	<u>(99,280)</u>	<u>(144,160)</u>	<u>933,432</u>	<u>925,805</u>	<u>834,152</u>	<u>781,645</u>
Net tax (assets) / liabilities	<u>(99,280)</u>	<u>(144,160)</u>	<u>933,432</u>	<u>925,805</u>	<u>834,152</u>	<u>781,645</u>

NOTES (continued)

15. Provision for liabilities and charges

Group	<u>Deferred taxation</u>
	£
Balance at 1 January	781,645
Movement in the year (see note 9)	52,507
	<hr/>
Balance at 31 December	834,152
	<hr/>

The deferred tax liability arises due to timing differences between accumulated depreciation and capital allowances on fixed assets, and movement on the defined benefit pension liability.

16. Financial instruments

Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	Group 2018	Company 2018	Group 2017	Company 2017
	£	£	£	
Assets measured at fair value through statement of financial activities	4,610,291	2,026,375	4,318,193	2,083,807
Assets at amortised cost	20,004,734	4,102,356	19,230,145	4,699,053
Liabilities at amortised cost	1,299,623	196,078	932,615	36,897

Financial assets measured at fair value comprise of listed investments.

Financial assets measured at amortised cost comprise debtors, short term cash investments, and cash at bank.

Financial liabilities measured at amortised cost comprise bank overdraft, accruals, and trade creditors.

Financial instruments measured at fair value

Investments in debt and equity securities

The fair value of financial assets at fair value through the statement of financial activities, is determined by reference to their quoted bid price at the balance sheet date.

Financial instruments at fair value consist of an investment portfolio of Equities and Bonds. As a result the group is exposed to market risk, foreign exchange risk and interest rate risk. Given the value of these financial instruments, the risks are not significant to the group.

Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	Fair value	Fair value
	2018	2017
	£	£
Assets measured at fair value through profit or loss	4,610,291	4,318,193

NOTES (continued)

17. Related Party Transactions

The related parties of the Company include its subsidiaries The Royal Edinburgh Military Tattoo Limited, Edinburgh Tattoo Productions, and The Royal Edinburgh Military Tattoo (International) Limited. Exemption is taken from disclosure of transactions entered into between two or more members of a group, where subsidiaries are wholly owned. The Trustees of the Charity are considered Related Parties, and their remuneration and expenses details have been disclosed in Note 8.

18. Operating leases

Non-cancellable operating lease rentals are receivable as follows:

	2018	2017
	Investment	Investment
	property	property
	£	£
Less than one year	50,500	98,900
Between one and five years	74,375	222,525
	<hr/>	<hr/>
	124,875	321,425
	<hr/> <hr/>	<hr/> <hr/>

Operating lease rentals receivable related to property. During the year £140,160 was recognised as income in the statement of financial activities in respect of operating leases (2017: £89,010).

Non-cancellable operating lease rentals are payable as follows:

	2018	2017
	Production	Production
	Equipment	Equipment
	£	£
Less than one year	400,666	400,666
Between one and five years	1,602,664	1,602,664
More than five years	3,205,328	3,605,994
	<hr/>	<hr/>
	5,208,658	5,609,324
	<hr/> <hr/>	<hr/> <hr/>

Operating lease rental payable related to lease of stands. During the year £400,666 was recognised as an expense in the profit and loss account in respect of operating leases (2017: £400,666).

NOTES (continued)

19. Pensions

Employees of the Company are members of the Lothian Pension Fund administered by The City of Edinburgh Council.

The latest triennial actuarial valuation was carried out at 31 March 2017. There have been no material changes in membership since the triennial valuation and so in preparing the FRS102 actuarial valuation as at 31 December 2018 no allowance has been made for the effect of any changes in membership profile since that date.

The Fund aims to achieve a funding level of 100% over a period of time. Where funds are lower than expected then higher employer contribution rates may be determined and vice versa. Lothian Pension Fund's Funding Strategy Statement can be found on its website www.lpf.org.uk.

Net pension liability

	2018 £
Defined benefit obligation	(6,807,000)
Plan assets	6,223,000
	<hr/>
Net pension liability	(584,000)
	<hr/>

Movements in present value of defined benefit obligation

	2018 £
At 1 January	6,814,000
Current service cost	450,000
Interest expense	176,000
Remeasurement: actuarial (gain)	(612,000)
Contributions by members	83,000
Benefits paid	(104,000)
	<hr/>
At 31 December	6,807,000
	<hr/>

Movements in fair value of plan assets

	2018 £
At 1 January	5,966,000
Interest income	152,000
Remeasurement: return on plan assets less interest income	(109,000)
Contributions by employer	235,000
Contributions by members	83,000
Benefits paid	(104,000)
	<hr/>
At 31 December	6,223,000
	<hr/>

NOTES (continued)

19. Pensions (continued)

Expense recognised in the profit and loss account

	2018 £	2017 £
Current service cost	450,000	335,000
Net interest on net defined benefit liability	24,000	39,000
	<hr/>	<hr/>
Total expense recognised in profit or loss	474,000	374,000
	<hr/>	<hr/>

The total amount recognised in other comprehensive income in respect of actuarial gains and losses is a gain of £503,000 (2017: £734,000).

The Company's share of the fair value of the scheme's assets, which are not intended to be realised in the short term and which may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	2018 Fair value %	2017 Fair value %
Equities	62	77
Bonds	24	10
Property	7	7
Other	7	6
	<hr/>	<hr/>
Fair value of Company's share of scheme assets	6,223,000	5,966,000
	<hr/>	<hr/>
Actual return on plan assets	43,000	417,000
	<hr/>	<hr/>

The expected rates of return on plan assets are determined by reference to the historical returns, without adjustment, of the portfolio as a whole and not on the sum of the returns on individual asset categories.

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2018 %	2017 %
Discount rate	2.4	2.4
Future salary increases	4.1	4.1
Pension increase rate	2.9	2.4
	<hr/>	<hr/>

In valuing the liabilities of the pension fund at 31 March 2017 and as applied at 31 December 2018, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 21.7 years (male), 24.3 years (female).
- Future retiree upon reaching 65: 24.7 years (male), 27.5 years (female).

NOTES (continued)

20. Analysis of group charitable funds

Analysis of movements in unrestricted funds

	<u>Balance at 1</u> <u>January 2018</u>	<u>Incoming</u> <u>resources</u>	<u>Resources</u> <u>expended</u>	<u>Other</u> <u>Recognised</u> <u>gains and</u> <u>losses</u>	<u>Funds</u> <u>transferred</u>	<u>Funds 31</u> <u>December 2018</u>
	£	£	£	£	£	£
General fund	13,818,926	14,402,466	(12,452,408)	835,674	(2,269,384)	14,335,274
Designated funds	10,117,297	126,728	(1,173,313)	-	2,269,384	11,340,096
	<u>23,936,223</u>	<u>14,529,194</u>	<u>(13,625,721)</u>	<u>835,674</u>	<u>-</u>	<u>25,675,370</u>

<u>Name of unrestricted fund</u>	<u>Description nature and purpose of fund</u>
General fund	Fund which can be used in accordance with the objectives of the charitable company at the discretion of the Trustees.
Designated funds	Fund set aside by the Trustees out of unrestricted general funds for specific future purposes.

The Trustees have designated £11.3M (2017: £10.1M) of the Group's reserves as follows:

<u>Name of Designated Fund</u>	<u>Description and purpose</u>
Future Stands Reserve (£4.1M)	Fund being set aside and built upon annually to provide for the replacement of the grandstands required for the Edinburgh Tattoo
Stands Operating Lease Settlement Reserve (£2.2M)	Funds set aside to make an early repayment of the operating lease
2019-2020 Grant Distribution Reserves (£2.5M)	Funds set aside for distribution in 2019-2020
Capital development 2019 (£2.5 M)	Funds set aside for technological and production enhancement in 2019

Included in general reserves of £14.3m, the Trustees have made the following additional general provisions totalling £13.6M (2017: £10.8M):

<u>Name of General Fund</u>	<u>Description and purpose</u>
Grant Making Reserve (£3.0M)	Fund to ensure continuity of income for charitable disbursement for the foreseeable future
Wind down reserve (£5.9M)	Fund to provide for a wind up of the subsidiary The Royal Edinburgh Military Tattoo
Capital Reserve (£1.7M)	Fund set aside for capital investment that may be required in the short to medium term
Unexpected Events Reserve (£1.5M)	Fund set aside for unexpected or uninsured events
Working Capital Reserve (£1.5M)	Fund set aside for unexpected cashflow requirements in Edinburgh Tattoo Productions.

In order to meet reserve expectations, £2.27M (2017: £3.06M) has been transferred from the general fund into the designated fund.

NOTES (continued)

21. Funds

Analysis of net funds between funds 2018

<u>Group</u>	<u>Designated funds</u> £	<u>General funds</u> £	<u>Total</u> £
Intangible fixed assets	-	93,487	93,487
Tangible fixed assets	-	9,864,380	9,864,380
Fixed Asset Investments	4,610,291	-	4,610,291
Stock	-	112,036	112,036
Debtors	-	2,572,435	2,572,435
Investments	6,729,805	11,821,209	18,551,014
Cash at bank and in hand	-	527,087	527,087
Creditors due within one year	-	(9,237,206)	(9,237,206)
Deferred tax liability	-	(834,152)	(834,152)
Net pension liability	-	(584,000)	(584,000)
At 31 December 2018	11,340,096	14,335,274	25,675,370
<u>Charitable company</u>	<u>Designated funds</u> £	<u>General funds</u> £	<u>Total</u> £
Tangible fixed assets	-	2,199,291	2,199,291
Fixed asset investments	2,026,377	200,001	2,226,378
Debtors	-	1,600,910	1,600,910
Current asset investments	2,700,003	1,387,289	4,087,292
Cash at bank and in hand	-	8,314	8,314
Creditors due within one year	-	(201,588)	(201,588)
At 31 December 2018	4,726,380	5,194,217	9,920,597

NOTES (continued)

21. Funds (continued)

Analysis of net funds in 2017:

<u>Group</u>	<u>Designated funds</u> £	<u>General funds</u> £	<u>Total</u> £
Intangible fixed assets	-	157,350	157,350
Tangible fixed assets	-	10,064,802	10,064,802
Fixed Asset Investments	4,318,193	-	4,318,193
Stock	-	85,210	85,210
Debtors	-	1,108,680	1,108,680
Investments	5,799,104	12,171,830	17,970,937
Cash at bank and in hand	-	500,742	500,742
Creditors due within one year	-	(8,640,043)	(8,640,043)
Deferred tax liability	-	(781,645)	(781,645)
Net pension liability	-	(848,000)	(848,000)
At 31 December 2017	10,117,297	13,818,926	23,936,223

<u>Charitable company</u>	<u>Designated funds</u> £	<u>General funds</u> £	<u>Total</u> £
Tangible fixed assets	-	2,230,062	2,230,062
Fixed asset investments	2,083,807	200,003	2,283,810
Debtors	-	118,671	118,671
Current asset investments	2,248,442	2,436,015	4,684,457
Cash at bank and in hand	-	1,246	1,246
Creditors due within one year	-	(41,259)	(41,259)
At 31 December 2017	4,332,249	4,944,738	9,276,987

22. Reconciliation of cash and cash equivalents

	<u>At beginning of year</u> £	<u>Cash flow</u> £	<u>At end of year</u> £
Cash at bank and in hand	500,742	(242,858)	527,087
Notice deposits (less than 3 months)	17,970,934	849,283	18,551,014
Bank overdraft facility repayable on demand	(33,177)	33,177	-
Total	18,438,499	639,602	19,078,101