

UISGE BEATHA NAN EILEAN LIMITED

Business Plan



Please read this notice before reviewing the Business Plan

This Business Plan has been prepared from information provided by the Directors of Uisge Beatha nan Eilean Limited ("the Society") to assist potential community investors considering buying community shares in the Society. This document is not a prospectus nor an investment advertisement, financial promotion or offer under the Financial Services and Markets Act 2000, nor is it intended for use by members of the public.

While the content of this Business Plan is believed to be accurate in all material respects, it has been verified to external evidence only to the extent stated in the body of this report. Projections are subject to market forces and to force majeure outside the control of the Directors. Consequently, neither the Directors nor the Society's advisors can accept responsibility for any losses arising to persons acting or refraining from action on the material contained in this Business Plan.

Persons considering a financial commitment of any kind should conduct such investigations as they consider necessary to satisfy themselves as to the appropriateness of the financial commitment and the risk of loss of some or all of any financial commitment.

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Executive Summary

Background

The Isle of Barra Distillery ("Barra Distillery") is the concept of Peter Brown, the founder of Uisge Beatha nan Eilean Limited ("the Society"), an Edinburgh-born resident of the Isle of Barra for 20 years. With vast experience in the tourism industry, and a number of successful business ventures completed both on the mainland and on Barra, Peter looks to capitalise on his extensive knowledge of running businesses when proceeding towards his distillery vision. He has identified a unique opportunity to develop a craft, small scale whisky distillery on the island to establish production of a quality boutique Scottish brand and create an attractive destination for tourists and locals.

The Outer Hebrides is an island chain off the West Coast of mainland Scotland. The vast region currently features only 2 distilleries, despite the array of local ingredients available to the whisky process and a history of artisan whisky production. The Isle of Barra is fortunate in that it has earned its place in history through the filming of 'Whisky Galore', based on the book by Compton Mackenzie.

The traditional bere barley will be used in distillation, as flavour is enhanced and modern malting barley does not thrive in the Islands. All ingredients used at the Barra Distillery will eventually be sourced from the Islands and mashing, distilling, maturing and bottling will all be conducted on the Isle of Barra, giving a unique Barra whisky.

Progress to Date

A suitable site has been identified and acquired at Upper Borge, a village on the West Coast of Barra. The Society has ownership of the land and the water supply (in the form of a loch, dam and water pipes), and full planning permission has been granted and is current for the project. Additionally, phase one of the Society's renewable energy initiative has been completed, consisting of four wind turbines, and plans for a second hydro phase in the future. The overall project enjoys strong support from the local authorities and residents alike. There was a community meeting in Borge before any development of the site, regular contact with Barra and Vatersay Community Company and, on a small island, numerous informal contacts.

Peter Brown has developed the project over a number of years whilst working in his various positions. His current non-executive roles at Barra and Vatersay Wind Energy Limited, alongside his tourism roots, complement the distillery vision. The Society aims to capitalise on the growing trend for niche, artisan, small scale distilling and become a tourist destination with a visitor centre, retail outlet and café alongside the distillery, thereby providing additional sources of income to support development in the early years whilst the whisky stock matures. An experienced team has been recruited to work alongside Peter to lend further strengths to the project as it moves forward.

The Barra Distillery will be a new build, high quality craft distillery, selling its modest volume of production, with annual whisky capacity of 26,220 bulk litres, direct to customers at full retail price, rather than high volume, lower margin exports.

Community Benefit Society

Uisge Beatha Nan Eilean Limited has been established as a Community Benefit Society for the specific purpose of owning and operating a community-owned whisky distillery and associated visitor centre to benefit the community of Barra and Vatersay. The Community Benefit Society has been set up to ensure community investment, community ownership and benefits are locked in to the constitution, and profits are distributed to the benefit of the wider community.

Trading Forecast

The Society's forecast Profit & Loss account is shown below:

Year	1	2	3	4	5	6	7	8	9	10
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	24	130	185	242	429	657	913	1,219	1,486	1,790
Cost of Sales	50	104	156	209	278	330	372	416	451	488
Gross Profit	-26	26	29	33	151	327	540	803	1,035	1,302
Overheads	142	176	164	167	171	190	219	224	228	233
EBITDA	-168	-150	-135	-134	-19	137	321	579	806	1,070
Depreciation	10	68	69	69	70	70	70	71	71	71
EBIT	-178	-217	-204	-204	-89	67	251	508	736	999
Interest	8	50	50	50	50	50	45	95	85	75
Profit before tax	-186	-267	-254	-254	-139	17	205	413	650	923

As can be seen from the table above, the Society is forecast to become EBITDA positive during year 5, with profitability growing in subsequent years due to the increasing availability of mature whisky for sale.

Funding Requirement

The Society is seeking to raise £3.5m to fund the initial requirements of establishing the Isle of Barra Distillery and the subsequent production of Single Malt Scotch Whisky for sale. It is assumed that this funding will come from a combination of £1.5m equity via a community share offer, £1m public sector funding and £1m bank debt.

Quotations and costings show a funding need of £2.7m required to build the distillery (£1.3m) and install the plant and equipment (£1.4m), and a further c.£0.8m for start-up costs, initial stock, and working capital. Quotes have been obtained from an independent architect and the equipment provider to support these assumptions.

Public sector funding is currently being discussed.

The Directors are currently in discussion with a number of banks to ensure that the Society has access to the most appropriate and affordable funding streams. Updates will be provided once funding is accessed.

The purpose of this Business Plan is to illustrate the opportunity to interested potential equity investors, demonstrating the affordability of the funding required and the potential cash generation for future returns on investment.

The Society's forecast cash flows are summarised as follows:

Year	Opening £'000	Funding £'000	Capex £'000	Sales £'000	Costs £'000	Interest £'000	Loan		Closing £'000
							Repayments £'000	Taxes £'000	
1	0	3,250	-3,198	28	-205	-8	0	439	306
2	306	250	-140	157	-391	-50	0	125	257
3	257	0	-9	227	-444	-50	0	-5	-23
4	-23	0	-9	295	-500	-50	0	-15	-302
5	-302	0	-8	582	-559	-50	0	-116	-451
6	-451	0	-6	939	-617	-50	0	-244	-429
7	-429	0	-5	1,327	-671	-45	-200	-382	-406
8	-406	0	-4	1,775	-708	-95	-200	-523	-160
9	-160	0	-3	2,165	-739	-85	-200	-642	335
10	335	0	-2	2,589	-772	-75	-200	-760	1,115

As shown in the above table, in addition to the initial funding requirement, the forecast demonstrates that by year 6 there will be a need for an additional £0.5m, primarily to fund inventory growth. The Directors have assumed that this second funding round will be in the form of debt, rather than equity, given the security available to lenders at that time.

Enterprise Investment Scheme

The Society's Directors believe that the shares in Barra Distillery will be eligible for tax relief under Enterprise Investment Scheme ("EIS"), a government-backed scheme designed to encourage investment in smaller companies. We expect to receive this tax relief as distilling whisky is a qualifying trade and other new distilleries such as the Barra Distillery have qualified for EIS.

The rules for EIS tax relief require the investment to be held for at least 3 years from the start of trading (not the date of the investment). Once Barra Distillery has been accepted by HMRC, you can apply for tax relief.

Anticipated Strengths

The project has a number of key strengths, including:

- A future-proof state-of-the-art distillery facility, which will be only the second completely new build distillery in the Outer Hebrides since the Stornoway distillery built by Stewart Mackenzie of Seaforth in the 1820s.
- High use of renewable energy sources and a building designed to re-use heat from the stills to heat the visitor centre, with expectations of becoming 100% renewable over time. This means that the Society's energy requirement is very low, which is a major strength in a time of rising energy costs from fossil fuels.
- A small niche distiller, not competing with other distillers in the market.
- Scotland's most westerly distillery and a new island on the Scotch whisky map.
- All of the ingredients derived from the Islands (many distilleries source barley from abroad).

- The barley itself is an ancient strain of barley called ‘bere’ which, being short stemmed and having six row ears, is low yielding, has a distinctive flavour and is fast growing and perfectly adapted to the Hebridean environment.
- The water is from ‘Loch Uisge’ which is the Society’s own loch.
- The whisky will not be vatted, but bottled directly from each individual cask at cask strength.
- Each bottle label will show which cask the bottle came from and the particular characteristics and strength of that particular cask (as each will be different).
- The bottle design and packaging will be such as to express the hand crafted nature of the product, while retaining a quality feel.
- Strong island identity: Hebridean grown barley, distilled on the island by islanders with island water.
- Unique product from identifiable single casks of precise vintage and strength—not vatted.
- Small scale, ease of selling at full margin which reduces the overhead and borrowing requirements while maintaining rarity value of the brand.
- A significant addition to the Barra economy both as a direct employer and an added attraction bringing visitors to the island.
- Distribution of the Society’s profits back into the community.

Key Risks

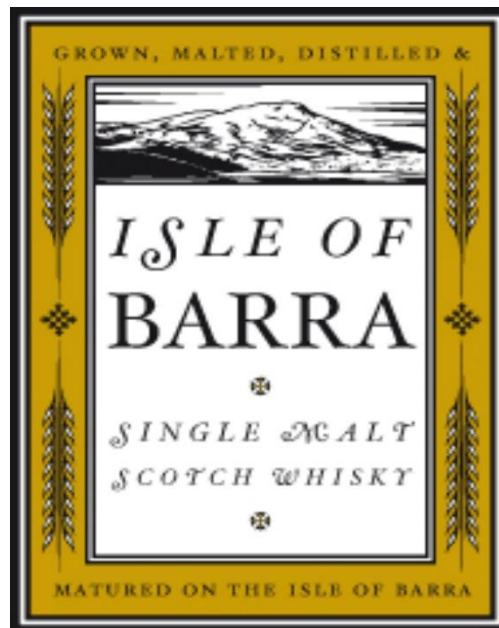
The project has a number of specific risks, which are seen to be mitigated as follows (the list should not be regarded as exhaustive):

Risk	Mitigation
Insufficient funds for start-up or funds not available at an affordable price.	Significant marketing and planning resources to ensure plan is robust and attractive to investors and lenders. If insufficient capital is raised, community share funding will be returned.
Construction overspends resulting in insufficient funds.	Reliable third-party quotes for building works and distillery equipment.
Sales volumes are not achieved at levels or are as quickly as forecast.	Developing the web-based marketing and sales platform to increase on-line sales.
Overspend on production costs.	Highly experienced team in place to ensure production is managed efficiently.

The Opportunity

This is a rare opportunity to invest in a quality distillery project in an evocative island location with unique characteristics for Scotch whisky production, given its own water, barley and connections with *Whisky Galore*. All the necessary research, planning permission and design work has been completed and funded, and now £3.5m is required to bring the Barra Distillery to fruition.

Scotch whisky is a long term, but rewarding interest. This Business Plan gives investors the opportunity to be part of a distillery business and a community, and have their investment directly in a community distillery.



The Barra Distillery Project

Background

Uisge Beatha Nan Eilean Limited has been set up as a Community Benefit Society. Peter Brown, the founder of the Society who has largely funded the project to date, is based on the Isle of Barra in close proximity to the proposed distillery site.

Isle of Barra

With much improved transport links, the number of visitors to the island has increased rapidly from 7,000 to its current level of 18,000. As a very small island, there are a limited number of tourist attractions available to visitors. These include Kisimul Castle, which is situated on a rocky islet in the bay. There is also the airstrip (unique in that it is operated from the beach), and a local heritage centre.

Given the limited number of attractions on the island, the Barra Distillery expects to attract a high percentage of these visitors, and to attract an increasing number of repeat visits of both tourists and local islanders by provision of good service in excellent surroundings.

In addition to attracting a good portion of existing visitor numbers as an added attraction for the island, it is expected the Distillery will augment visitor numbers and result in extended stays, especially in the quieter months.

The Team

The current Directors are:

Peter Brown

Peter has spent over twenty years in the tourism industry in Scotland, both in domestic and international fields. He has a history of pioneering new markets and creating effective businesses, having successfully formed QED Couriers, a leading Edinburgh motorcycle courier service. He has also been a prominent figure on the Isle of Barra, having built a successful car hire business and established a café at the airport and ferry terminal.

Due to his prominent position in the island's tourism industry, Peter was the Barra representative on the Outer Hebrides Tourist Industry Association for many years. He is a founding non-executive director of Barra and Vatersay Wind Energy Limited which has built and commissioned a £2m wind turbine to benefit the Barra Community Society. Peter will be the ambassador for the Barra Distillery brand, applying his whisky knowledge to help oversee the development of the distillery and the running of the commercial operations once the distillery opens.

Neil Mackinnon

Neil MacKinnon is from the island of Barra. He gained extensive experience in the construction industry on projects throughout the UK before returning to his native Barra in 2008. Since then he has been involved in several major construction projects on the island, including road construction, installing and managing the civil engineering for a wind turbine and Bayhead Primary School. He is therefore highly experienced in managing the logistical problems of construction on Barra. Neil was also the administrator of Barra and Vatersay Community Company.

Malcom Fraser

Malcolm Fraser is an Edinburgh-based architect whose practice has been involved in lottery-funded arts projects, many of which redefined the townscape and urban realm of Edinburgh's Old Town, such as the Scottish Poetry Library, The Scottish Storytelling Centre, Dance Base and the Dovecot Studios. The Scottish Ballet Headquarters in Glasgow and Dance City in Newcastle upon Tyne are among many other exemplary projects. Highlands and Islands projects include public projects in Orkney and the rebuilding of Less Castle in Lewis.

Malcolm's practice also worked with volume housebuilders, successfully re-defining normative parameters to produce housing with improved space and environmental standards which was driven from the desire to provide socially sustainable communities. It has won innumerable awards at local and national level, including eight RIBA awards. Malcolm has used his influence in public life in Scotland to advise and campaign on key public and environmental issues.

Non-director team members

Iain Brown

Brought up on the Isle of Barra, Iain has a masters degree in engineering. He has an innovative approach and up-to-date knowledge of renewable energy and will be responsible for advising on that aspect of the project.

Pilar González

Pilar lives on the Isle of Barra and will be responsible for managing the café and restaurant facilities. She has several years' experience of running both the airport café and ferry terminal waiting room café on the island, and has a reputation for excellence in baking.

Location

Peter Brown had the idea of establishing a distillery on the Isle of Barra when the application of EC water regulations led the local water authority to equip only one of the lochs supplying the local community with a treatment plant to remove peat from the water and to chlorinate the water. The other loch, appropriately named Loch Uisge, with its reservoir/water supply, wayleaves, land and dam was acquired by Uisge Beatha nan Eilean Ltd, and is the basis for the Barra Distillery project.

The site purchased for the Distillery is located at Borge, a village on the West Coast of Barra. Resources in the area make it a fitting location, with a loch, dam and water pipes all under the ownership of the Society. It is situated within a short distance of Castlebay, the main village on Barra.



Distillery Plan

The initial property will consist of the key distillery functions, incorporating a loading bay, production buildings, barrel filling room and bonded storage facility. The Society will look to incorporate further commercial activities into the project, including:

- A shop and visitor centre selling whisky, whisky related products and stocking a range of Barra-related merchandise.
- Operation of a café.
- The provision of guided tours of the distillery facility.
- Whisky tasting courses.
- On-site bottling facilities.

The size and layout of the site lend themselves to an artisan, craft distillery with attached café, visitor centre and retail unit. These additional streams of revenue will generate important cash flow and profile while stocks of whisky are maturing.

Construction

The scope of the works will provide a comprehensive construction and development programme for the site, ensuring it is fit for purpose as a working Scotch whisky distillery, including sufficient storage for the whisky casks.

Distilling Equipment and Capacity

The Society has selected Forsyths Ltd as the supplier of distillery equipment for the project. Forsyths is an internationally famous company whose work in the alcoholic beverage industry includes providing turnkey plant to distilleries throughout the world. Forsyths have been chosen due to their reputation, reliability and after sales support.



The proposed system will allow production of 16,650 litres of pure alcohol ("LPA") per annum - equating to 26,220 bulk litres of whisky. The Forsyths system will provide a full distilling process for the desired artisan, small batch quantities and also provide the stunning visuals which are vital to the visitor centre experience at the heart of the Barra Distillery project.

Renewables Initiative

The Society has established the first phase of its renewables scheme, consisting of four wind turbines on site. The turbines are fully operational, with the energy generated being sold on to the National Grid in return for Feed-In-Tariff payments. Although a second hydro phase is envisaged, it is forecast that the Society's first phase renewable scheme will significantly reduce the energy burden and highlights their forward-thinking approach to the project.

Staffing

In addition to the Directors, once fully operational the Distillery's staffing will comprise:

Operations	2
Cafe	1
Chef	1
Seasonal assistant	2
Sales, marketing & packaging	1
Total	<u><u>7</u></u>

Staff with the relevant skills will be phased in throughout the early years of the project into designated departments, based on current needs. Recruitment is expected to be straightforward, and some staff have already been identified. The skills needed are available through locals on the island, or can be recognised through further training.

The Business

The Experience

The core business will be a modest scale distillery producing single cask Scotch Malt Whisky. All ingredients will be sourced from the Outer Hebrides and all the production processes, malting, mashing, distilling, maturing and bottling will be conducted on the Isle of Barra, giving a uniquely Barra whisky.

It is the Society's aim to have the Isle of Barra Distillery operational by early 2020. Although the distillery will begin distilling immediately the equipment is installed and commissioned, the first batches of whisky produced on site will not be available for sale until year 5, given the minimum three-year maturation period required for the whisky to be classified as Scotch Whisky. To ease the working capital requirement in the early years, the Society will look to set aside a small portion of each year's production to be sold as souvenir miniatures. The financial projections are based on between 10-15% of production capacity being set aside.

In the intervening three years, the distillery will operate a small visitor centre, retail outlet and tourist attraction, illustrating the history and tradition of Barra. It will provide its visitors with a full range of activities onsite, including:

- distillery tours
- tasting of new spirit
- a shop and visitor centre
- cafe

Whisky

Sales of Barra Distillery whisky will be mainly to visitors to the distillery, a specialist whisky retailer and by mail order, thereby selling its modest volume of production direct to customers rather than in high volumes through the export market. The main sales channels will be:

- On-site visitor centre - it is assumed that this will generate the largest volume of whisky sales.
- Single specialist whisky retailer (Edinburgh based) - this will target the gift and specialist buyer market.
- Web-based sales - expected to be for repeat buyers, with initial purchases assumed to be through the methods above. It is assumed that this will generate the smallest volume of sales which can be handled by existing staff during regular scheduled mail out days.

In this way, the Society will benefit from the full retail price of its product, avoiding the need to pay for distribution or offer discounts to wholesalers and retailers. Moving forward, there may be the option to include a few additional specialist whisky retailers into the sales method.

The whisky produced will have its own unique Isle of Barra Distillery brand. Made from traditional bere barley, the distinct characteristics of each individually numbered bottle will be presented (i.e. colour, batch etc), with no two casks being identical. The Society will offer single cask, single malt whisky exclusively, hand labelled and hand bottled with the option to introduce white spirits to the range until the whisky matures.

All ingredients at the Isle of Barra Distillery will be sourced from the Islands, supporting local businesses and giving a unique Barra taste, with the production processes used in whisky-making also being conducted solely on the island. The key selling points for the whisky will therefore be its exclusivity, brought about by:

- the limited number of outlets through which the whisky can be purchased; and
- the whisky being non-chill filtered, meaning that each barrel will have a slightly different character. Bottles will include cask numbers, and so as an illustration, cask number 35 will be somewhat different in taste to number 36.

The Barra Distillery has already captured the imagination of whisky enthusiasts monitoring the progress of the project through the Society's website (<http://www.uisgebeathananeilean.co.uk/>). Orders and deposits have been taken from all over Europe, the USA and Japan to reserve some casks from the early years of production.

At the premium end of the Scotch whisky market, small batch, limited edition, first releases are extremely sought after and can command high prices (eg 3 year old artisan whisky can command a significantly higher selling price than mainstream 12 year old single malt). The Barra Distillery brand will be an Outer Hebrides spirit, introducing a new distillery to the Hebridean and West Coast Malt Whisky Trail, and one of only two community owned distilleries present in Scotland.

Visitor Centre

While visitor facilities will initially be modest, namely a meet and greet area for tours and a stall, eventually these will be fully developed to allow the sale of the following:

- whisky and whisky related products
- a range of quality distillery or Barra-related merchandise
- glassware
- clothing
- books
- CDs
- locally sourced food

In addition, revenue will be generated from the sale of food and drink in the café.

Community Benefits

Barra's population is around 1,175. The traditional economic base of the island is fishing and fish processing, and whilst that is still important, it is not growing, and the growth area of the island's economy is tourism and renewables. There is only one other significant manufacturing business on the island - the Hebridean Toffee Factory in Castlebay.

The community benefits of the Barra Distillery scheme will be six fold:

- A craft whisky distillery which is community-owned on Barra.
- A craft whisky distillery which will provide 3 sustainable, all year round manufacturing jobs in a remote island community.
- All ingredients to be sourced, where possible, from the island, directly supporting local businesses.

- A visitor centre to stimulate tourism on the Isle of Barra, which in turn will support the local tourism infrastructure of hotels, guest houses, holiday lets, ferry services and the airport.
- A visitor centre which will provide 3 sustainable retail and service jobs in a remote island community.
- A charity fund set up to distribute profits to community and charitable projects on the island.

Without sustainable all year round employment, Barra (like many Highland communities) faces depopulation, especially among the 16-35 demographic. Six new sustainable jobs on the island will have a disproportionate impact given the size of the community.

The new charitable fund will create a conduit for the profits from the distillery to be used for community benefit on Barra and Vatersay. This will create a long term sustainable fund to support investment in this island community.

Members' Rewards

Clearly, an investment in Barra Distillery is not an opportunity to make a quick financial return, and instead this is a long term investment for individuals who value craft distilled Scottish whisky, ethically provided.

Investors will become individual members of the Society – this includes anyone to whom membership is gifted. Members will have access to all future promotions and discounts and will receive a monthly newsletter detailing offers and the latest Society news.

The Society hopes to begin paying interest on members' shares from year seven once sufficient levels of aged single malt whisky are being sold and appropriate profits and cash are being generated. However, on investing, distillery members will receive individual reward packages, tailored to the size of investment, as follows:

Invest £250 - £749 (Postcode restriction to HS9 postcodes)

*Polo shirt now

*Inaugural bottle of Whisky in year 5

Invest £750 - £2,499

*Polo shirt and Barra guidebook now

*Inaugural bottle of Whisky in year 5

*Shared distillery tour for 2

*One unique members' miniature collection

Invest £2,500 - £4,499

*2 polo shirts and Barra guidebook now

*3 Inaugural bottles of Whisky in year 5

*Shared distillery tour for 2

*One unique members' miniature collection

*A day in the distillery including filling a cask

Invest £4,500 - £7,499

- *2 polo shirts and Barra guidebook now
- *3 Inaugural bottles of Whisky in year 5
- *Shared distillery tour for 2
- *One unique members' miniature collection
- *A day in the distillery including filling a cask
- *One return flight Glasgow to Barra

Invest £7,500 - £14,999

- *2 polo shirts and Barra guidebook now
- *3 Inaugural bottles of Whisky in year 5
- *One unique members' miniature collection
- *A day in the distillery including filling a cask
- *A private distillery tour for you and your friends (up to 8)
- *2 return flights Glasgow to Barra
- *One case of 10 year old Whisky

Invest £15,000 - £49,999

- *2 polo shirts and Barra guidebook now
- *3 Inaugural bottles of Whisky in year 5
- *One unique members' miniature collection
- *A day in the distillery including filling a cask
- *A private distillery tour for you and your friends (up to 8)
- *2 return flights Glasgow to Barra
- *One case of 10 year old Whisky
- *Inscription of your name on the wall or roof of the distillery

Invest £50,000 - £100,000

Investments will be considered by application only and bespoke packages similar to above can be arranged.

Members Engagement

The opportunity to become a member of the Society is more than a simple investment. The aim is to involve members in ways beyond the legal minimums of most conventional investments:

- A vote - all members will have one vote each, regardless of how many shares they hold (providing they have the minimum number of shares).
- The right to participate in the Annual General Meeting, elect the Board of Directors and decide on the future of the business.
- Opportunity to become one of the volunteer directors of the Society.
- Members will have, between them, skills and talents which can improve the business. There is the opportunity to look at ways in which members can make use of those skills and talents, to the benefit of the distillery and the community as a whole.

Target Communities

The three main target communities, and the methods of targeting are set out below:

People living on Barra and neighbouring islands

- Local media (including informal newsletters), public meetings, displays at events on Barra and other nearby islands.
- Publicity at ferry points, on ferries and at Barra airport.
- Presence within Castlebay.
- Social media.

People with a connection to Barra (tourists, regular visitors, diaspora)

- Publicity at ferry points, on ferries and at Barra airport and feature within in-flight magazines to/from Barra.
- Leaflets in hotel rooms, holiday lets, etc.
- Barra memorabilia.
- Social media.
- Scottish media (radio, TV, papers, magazines).
- Website.

Scotch whisky enthusiasts from around the world

- Social media.
- Scottish media (radio, TV, papers, magazines).
- Specialist whisky media (magazines).
- Website.

Community Benefit Society and Community Shares

There is a legal obligation to be very clear on how the community share process works, and a moral obligation to be true to the twin aims of safeguarding Barra Distillery for the community, and safeguarding investors' money. To achieve this:

- Shares are priced nominally at £1. The minimum investment is £250 with a maximum investment of £100,000 for a single investor.
- Members must be at least 16, and must pay for their shares in full at the time of application.
- All members have one vote irrespective of their shareholding.
- Shares are non-transferable, and may be withdrawn from the Society after a minimum of three years, subject to terms listed below.
- Nominal share value cannot increase, however, the value may fall if, for example, liabilities exceed assets or if the business fails. Your investment is fully at risk and before investing you should read the risk factors section of this Business Plan above (this is not an exhaustive list).
- Your personal liability in all circumstances is restricted to the value of your shares. You could potentially lose what you invest, but nothing more.
- The Society is allowed to pay interest on shares, provided the business performance allows it. Our aim is not to pay any interest until year 7, as our first priority is to build the distillery

and produce Scotch whisky. However, a rewards package for members in the first few years (see reward section above) has been established. Our target interest rate once whisky sales start is 4%. Any payment of interest on shares is dependent on the Society making a profit, and is subject to the approval of the shareholders.

- After the minimum three years, share capital may be withdrawn from the Society, provided notice of three months is given (in writing) and the board does not block the request for any reason. (This could be the case, for example, if there was a sudden rush of people wanting to withdraw share capital.)
- Crowdfunder's payment engine ('Stripe') will collect the funds at the point you use the site to pledge to invest, and will hold the funds until the share offer is either successful and hits at least its minimum target (in which case funds will be paid to the society), or else is unsuccessful (in which case funds are returned to you by Stripe).
- You can also invest by sending a cheque with an application form (available from our website) but we urge you to use Crowdfunder.
- If the offer is oversubscribed and investments totalling more than £2,500,000 are received, the board will prioritise applications from investors located on the Islands and those who are unsuccessful will have their capital returned to them.
- If your application for shares is unsuccessful, your money will be returned within 28 days of the Board meeting. If fewer are issued to you than you applied for, the balance will be returned to you within 28 days of the meeting. The money will belong to the Society as soon as it issues shares to you (to the extent that it takes it as payment for shares). The Society will not pay interest on any money it returns to you.
- Once issued with shares, investors will become members of the Society and will be entitled to full voting rights at general meetings, and to stand as a director of the Society. If shareholdings drop below the minimum amount, this right will be lost.
- In the event of the death or bankruptcy of a member, shares will go to their estate. Membership is not otherwise transferable.
- The Society has a statutory asset lock designed to safeguard Barra Distillery for the future, meaning that if the Society is dissolved, then once shares and other liabilities are paid, residual assets cannot be distributed amongst the shareholders, but must be used to benefit the Isle of Barra.
- Uisge Beatha nan Eilean Limited is registered with the Financial Conduct Authority. However, special rules apply to Co-operative and Community Benefit Societies and there is no right of complaint to an ombudsman. See www.fsa.gov.uk/doing/small_firms/msr/societies for full details. As with any share offer, investors are advised to seek independent financial advice before investing.

Exit Strategies for Investors

Uisge Beatha nan Eilean Limited, as a Community Benefit Society, is set up for the long-term benefit of the community of the Isle of Barra. There is no intention for the Society or its assets to be sold on, and therefore there is no expectation of an exit through by this route

As the shares are not freely traded, the only anticipated exit routes are for the shares to be sold back to the Society, at nominal value.

Given that the Society will not be generating cash for a number of years, any buy-back would require to be matched by a purchase of shares by another investor. The Society will keep a waiting list of potential investors, and offer shares to those investors based on their position on a dated waiting list. In the first 10 years, withdrawals will be at the discretion of the Directors and only in exceptional circumstances.

Once the Society starts generating cash, applications for withdrawal will be at the discretion of the Board of Directors.

In the event of the Society becoming insolvent, shareholders will receive any surpluses after everyone else has been paid, including:

- the administrator;
- the bank and other secured creditors;
- preferential creditors, including employees; and
- unsecured creditors, including HMRC and suppliers.

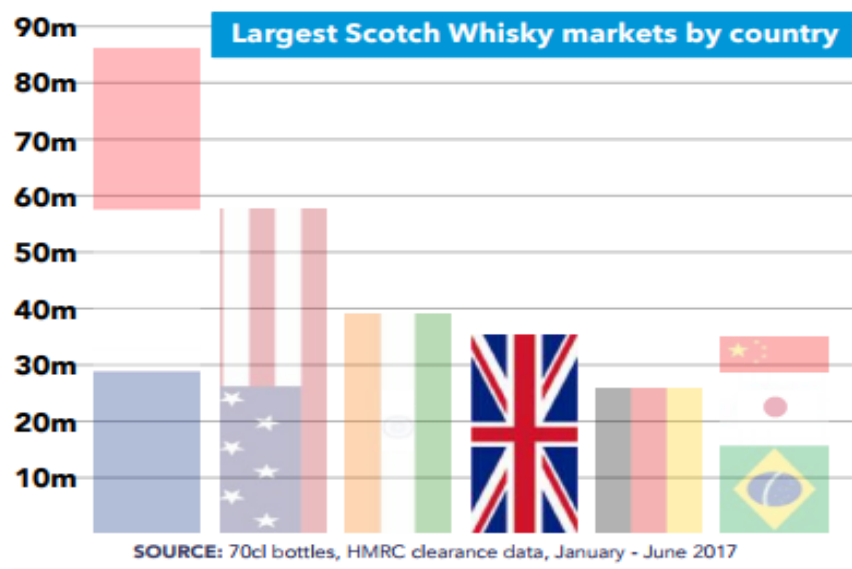
As Barra Distillery is a Community Benefit Society, a shareholder can only receive the face value of the share and any assets left above the total face value would have to be transferred to another body approved by the FCA Regulator which would use those assets for the benefit of the community.

The Market

Scotch Whisky Sales

In 2016/17, UK spirits revenue increased by £229m (7.2%) to £3.38bn, overtaking the revenue generated by beer for the first time, and highlighting their continued prominence and popularity. From a Scotch whisky value perspective, export values have increased by 56% between 2006 and 2015, from £2.5bn to £3.9bn, in part reflective of the increasing demand for artisan single malts and premium blends.

Scotch Whisky accounts for almost a quarter of all UK food and drink exports and is currently exported to over 175 countries globally. In the first 6 months of 2017, based on the number of 70cl bottles sold, the top five markets for Scotch Whisky were France, USA, Ireland, the UK and Germany:



There has also been significant growth in demand for Scotch whisky in emerging economies, such as Brazil, Russia, India and China, which provides for further growth in the sector. A recent Scotch Whisky Association ("SWA") commissioned report by 4-consulting identified this as a 'golden age' for the industry.

The vast majority of Scotch Whisky distilling capacity and case sales comes from six distilling companies, with the two largest global suppliers, Diageo and Pernod Ricard, accounting for c.60% of the market. Diageo and Pernod Ricard volume whisky brands such as Bell's, Johnnie Walker and Chivas typically cover the lower end of the quality and value spectrum. The recent trend among consumers has been to focus on top-end, single malts, resulting in growth in this higher margin category. Within malts, the most sought-after types are seen to be micro and artisan products.

The SWA estimates that more than 40 new small distilleries are setting up across Scotland, in a trend mirroring the rapid rise of craft brewing that has reinvigorated the beer industry, and in handcrafted, flavoured gins. It is important to note that, as with craft brewing, the craft distilleries are not in competition with each other for market. In an international whisky mass market and one that is growing, there is plenty of space for distinctive, local, product. Large scale distilleries by their nature are unable to satisfy consumer desire for known provenance and traceability, which a small artisan distillery is uniquely able to provide.

Whisky Tourism

Whisky tourism has also been buoyant and growing over the past number of years. According to the SWA Autumn Budget Submission, in 2016, whisky distilleries attracted in excess of 1.7 million visitors, acting as a major catalyst for tourism in Scotland. Total visitor spending at these distilleries totalled £53m, an average spend of £31 per person and higher than ever before at distilleries. The largest proportion of visitors came from Germany, USA, UK and France, reflecting some of the largest markets for Scotch whisky.

Additionally, 20% of research participants of a Scotland Visitor Survey stated they visited a whisky distillery on their holiday, making it one of the top activities for overnight tourists on their trip to Scotland, and ranking among many well known UK attractions for visitation.

Customer Opportunities

Due to the size and global scale of the Scotch Whisky market, there are a variety of potential customers for the whisky distilled at the Isle of Barra Distillery, and, given management's experience in both tourism and whisky, the Society will not be starting from a zero base.

However, visitors to Barra and the distillery will be the main focus of sales in the early years. Mail order routes will also be a target area, in addition to customers such as specialist whisky retailers in years to come.

Given the relatively small volumes in which the Barra Distillery's whisky will be sold, management are confident that demand will significantly exceed supply when the mature whisky becomes available to market. Indeed, as highlighted below, it is the Society's intention to sell 15% of the 3 year old stock when it becomes available each year and allow further maturation to create a number of products. There will, however, be opportunities for higher volumes of the 3 year old stock to be sold, dependent on the demand for the product. In the longer term, the Society response to demand increasing beyond supply will be to increase price, not production.

Competitors

The only distilleries operating in the Outer Hebrides are the Isle of Harris Distillery and Abhainn Dearg Distillery on the Isle of Lewis, neither of which operate as community ventures. However, direct substitutes for the Isle of Barra's products are not present due to the unique characteristics of each bottle and the use of traditional bere barley, exclusive to the island.

The Society's products will complement those of other small independent distilleries, along with premium whisky brands from the global distillers. Importantly, the Society will be able to tap into the considerable level of brand equity and brand loyalty to the Isle of Barra and its rich heritage.

Overall, the growth in the global market and the increased interest and popularity of the smaller, niche distilleries will help drive the interest in the super premium sector, rather than limiting sales. Emphasising this acceleration has been the recent development of the 'Scottish Craft Distillers Association', which looks to champion the values of small batch produce spirits.

The Directors are confident that the experience at the Isle of Barra Distillery will be particularly attractive to visiting tourists, expanding the island's current range of tourist activities and encouraging repeat visits.

Financial Information

Overview

Construction of the Barra Distillery is estimated to take 12 months from funding being secured to the distillery being complete and ready to commence whisky production.

The construction work will be phased in order to ensure the shop and café are open for business as soon as possible, with the projected date for the final installation of the distilling equipment being in month 12 of the project, which will ensure the lead time to sales of mature Scotch Whisky is minimised, and sales of such are projected to commence in year 5 of the project.

Detailed financial projections have been included at Appendix I and the key assumptions underpinning these are shown at Appendix II.

Forecast Profit & Loss Accounts

The Society's trading forecast is shown below:

Year	1	2	3	4	5	6	7	8	9	10
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	24	130	185	242	429	657	913	1,219	1,486	1,790
Cost of Sales	50	104	156	209	278	330	372	416	451	488
Gross Profit	-26	26	29	33	151	327	540	803	1,035	1,302
Overheads	142	176	164	167	171	190	219	224	228	233
EBITDA	-168	-150	-135	-134	-19	137	321	579	806	1,070
Depreciation	10	68	69	69	70	70	70	71	71	71
EBIT	-178	-217	-204	-204	-89	67	251	508	736	999
Interest	8	50	50	50	50	50	45	95	85	75
Profit before tax	-186	-267	-254	-254	-139	17	205	413	650	923

As the above summary demonstrates, the Society is projecting that the Distillery will become EBITDA positive during year 5.

An analysis of the Society's sales and gross profit between its core whisky sales and other activities is as follows:

Year	Whisky		Visitor centre		Café		Renewables		Total	
	Sales £'000	Gross profit £'000	Sales £'000	Gross profit £'000	Sales £'000	Gross profit £'000	Sales £'000	Gross profit £'000	Sales £'000	Gross profit £'000
1	0	-50	0	0	0	0	24	24	24	-26
2	40	-25	30	9	36	18	24	24	130	26
3	41	-46	46	14	73	37	25	25	185	29
4	42	-67	62	19	112	56	25	25	242	33
5	209	44	80	24	115	57	26	26	429	151
6	417	213	97	29	117	58	26	26	657	327
7	668	424	99	30	119	60	27	27	913	540
8	969	685	101	30	122	61	27	27	1,219	803
9	1,231	914	103	31	124	62	28	28	1,486	1,035
10	1,530	1,179	105	32	127	63	28	28	1,790	1,302

Forecast Balance Sheets

The forecast balance sheets are shown below:

Year	1	2	3	4	5	6	7	8	9	10
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed assets	2,858	2,907	2,846	2,783	2,720	2,655	2,589	2,522	2,454	2,384
Stock	0	92	184	276	353	414	460	489	507	512
Debtors	0	4	5	5	29	57	89	126	158	193
Creditors	0	-15	-18	-21	-25	-28	-31	-33	-35	-38
Taxes	103	4	2	0	-23	-49	-76	-106	-130	-155
Director's loan	-103	-103	-103	-103	-103	-103	-103	-103	-103	-103
Loan	-750	-1,000	-1,000	-1,000	-1,000	-1,000	-800	-600	-400	-200
Bank/(funding)	306	257	-23	-302	-451	-429	-406	-160	335	1,115
Public sector funding	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000
	<u>1,414</u>	<u>1,146</u>	<u>892</u>	<u>638</u>	<u>499</u>	<u>516</u>	<u>722</u>	<u>1,135</u>	<u>1,785</u>	<u>2,708</u>
Community shares	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600
Profit & loss account	-186	-454	-708	-962	-1,101	-1,084	-878	-465	185	1,108
	<u>1,414</u>	<u>1,146</u>	<u>892</u>	<u>638</u>	<u>499</u>	<u>516</u>	<u>722</u>	<u>1,135</u>	<u>1,785</u>	<u>2,708</u>

Apart from the distillery land & buildings and equipment, the Society's main asset is its stock of maturing whisky which is included at its production cost. If the stock was included at its net realisable value, the Directors believe that the overall value would be significantly higher.

Forecast Cash Flows

The forecast cash flows are summarised as follows:

Year	1	2	3	4	5	6	7	8	9	10
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash inflows:										
Sales income	28	157	227	295	582	939	1,327	1,775	2,165	2,589
Community shares	1,500	0	0	0	0	0	0	0	0	0
Public sector funding	1,000	0	0	0	0	0	0	0	0	0
Loan	750	250	0	0	0	0	0	0	0	0
	3,278	407	227	295	582	939	1,327	1,775	2,165	2,589
Cash outflows:										
Suppliers	0	164	214	254	294	336	367	397	423	449
Payroll	35	36	50	64	78	90	110	112	114	116
Overheads	170	191	180	183	187	191	194	198	202	206
Interest	8	50	50	50	50	50	45	95	85	75
Loan repayments	0	0	0	0	0	0	200	200	200	200
Capex	3,198	140	9	9	8	6	5	4	3	2
Taxes	-439	-125	5	15	116	244	382	523	642	760
	2,973	456	507	574	732	917	1,304	1,530	1,670	1,809
Net cash inflow/(outflow)	306	-49	-280	-279	-149	22	24	246	495	780
Opening cash/(funding)	0	306	257	-23	-302	-451	-429	-406	-160	335
Closing cash/(funding)	306	257	-23	-302	-451	-429	-406	-160	335	1,115

Funding Requirement

The Society is seeking £3.5m to fund the project expenditure and working capital requirements, to establish the distillery and commence production of Scotch Whisky.

The Directors have identified two funding phases to meet the Society's forecast cash requirements. The first phase is to provide the necessary start-up funding as follows:

	£'000
Distillery land & buildings	1,488
Distillery equipment	1,107
Renewables	180
Start-up costs, initial stock and working capital	725
	3,500
Funded by:	
Community shares	1,500
Public sector funding	1,000
Loan	1,000
	3,500

Public sector grant funding is currently being discussed.

The Directors are currently in discussion with a number of banks to ensure that the Society has access to the most appropriate and affordable funding streams. Updates will be provided once funding is accessed but based on discussions held it is assumed the finance will be at around 4%.

The second phase of the funding will be to finance the Society's working capital requirements commencing in year 3 (and increasing to a peak of £0.5m in year 6), primarily to continue to build stocks of maturing Scotch Whisky. The Directors have assumed that this second funding round will be in the form of bank debt, rather than equity, given the security available to lenders as shown below. Experience from other distilleries is that once the Society has laid down whisky in its bonded warehouse, this stock is viewed as good security by lenders because of its future increase in value:

Year	1	2	3	4	5	6	7	8	9	10
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Borrowings:										
Loan	-750	-1,000	-1,000	-1,000	-1,000	-1,000	-800	-600	-400	-200
Bank / (Funding)	306	257	-23	-302	-451	-429	-406	-160	335	1,115
Net	-444	-743	-1,023	-1,302	-1,451	-1,429	-1,206	-760	-65	915
Assets:										
Tangible Assets	2,858	2,907	2,846	2,783	2,720	2,655	2,589	2,522	2,454	2,384
Stock (at cost)	0	92	184	276	353	414	460	489	507	512
Trade debtors	0	4	5	5	29	57	89	126	158	193
	2,858	3,004	3,034	3,064	3,101	3,126	3,138	3,137	3,118	3,089
Asset cover	6.43	4.04	2.97	2.35	2.14	2.19	2.60	4.13	48.05	n/a