Diageo Great Britain Limited

Annual report and financial statements

30 June 2021

Registered number: 00507652

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2021

CONTENTS

Strategic report

The directors present their strategic report for the year ended 30 June 2021.

Activities

The principal activities of Diageo Great Britain Limited ('the company') are the packaging of beer and the distribution, marketing, importing and selling of spirits and beer across off-trade channel (customer retail outlets) and on-trade channel (pubs, bars and restaurants).

The company is also the brand owner of Guinness in the United Kingdom and owns the exclusive rights to manufacture, bottle, package, distribute and market Smirnoff in the United Kingdom.
In addition to its principal activities, the company acts as an intermediary entity for centrally managed recharges within the Diageo Group ('the group').

The directors foresee no material change to the activities of the company.

Business review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2021

Covid-19 restrictions in Great Britain meant continued closure of pubs, bars and restaurants, leading to sharp increases in consumer purchases from retail outlets in the country. Restrictions also led to shifts in consumer behaviour and purchasing patterns, with a large increase in the 'at home' occasion and online shopping for our brands which has contributed positively to the growth of the company.

Net sales increased to £790 million (2020 - £733 million), gross profit increased to £300 million (2020 - £271 million). Net sales increased 7% primarily driven by strong consumer demand in the off-trade channel. The e-commerce channel experienced strong growth as consumption shifted to the at-home occasion. Spirits growth was driven by scotch, Baileys, vodka and gin, supported by innovation, including Gordon's Sicilian Lemon and Captain Morgan Tiki. Beer declined due to the significant impact of lost sales in the on-trade being only partially offset by strong growth in the off-trade channel.

As a consequence of the continued off-trade recovery the company recognised an operating profit in the amount of £41 million at 30 June 2021 (2020 – operating loss of £28 million). Profit before tax decreased by £1,554 million to £123 million (2020 - £1,677 million).
Dividends received from subsidiary and joint venture undertakings was £73 million (2020 - £208 million) during the year ended 30 June 2021.

During the year ended 30 June 2021 the increase in the value of Investments was £73 million, which comprised the acquisitions of 100% of Chase Distillery (Holdings) Limited and of 20% Leaf Arbor Limited, and capital injection into Copper Dog Whisky Limited.

Strategic report (continued)

Business review (continued)

Financial and other key performance indicators

The principal key performance indicators used by the company's management to analyse the development, performance and position of the company's business are generally the same as those disclosed in the consolidated financial statements of the group. The directors consider company key performance indicators to measure the performance of the company such as net sales and operating profit. Other financial performance indicators (including contribution to the free cash flow initiatives of the group) and non-financial performance indicators used to measure the company's performance are the same as those disclosed in Diageo plc's 2021 Annual Report ('Annual Report') on pages 36-37.

As the company acts as a financing vehicle in the group, the company's performance is measured accordingly. The company receives interest income from Diageo Finance plc, dividend income from its subsidiaries and pays dividends to its parent, Grand Metropolitan Limited.

The company's principal key performance indicators are analysed below for the year ended 30 June 2021.

Net sales increased by £57 million from £733 million to £790 million as a consequence of strong off-trade recovery.
Operating loss turned to an operating profit of £41 million (2020 – operating loss of £28 million) mainly due to the continued off-trade recovery and the lapping of £35 million of exceptional operating costs (Raising the Bar provision and obsolete inventory destruction provision) in the previous financial year arising as a consequence of the Covid-19 pandemic.
Dividends received decreased to £73 million (2020 - £208 million) in line with the decreased business performance in year ended 30 June 2020 compared to the year ended 30 June 2019.

Principal risks and uncertainties facing the company as at 30 June 2021

The principal risks identified by the group are disclosed on page 45 to 48 of Diageo plc's 2021 Annual Report. The most relevant of the group risks to this entity are the ones we have selected and articulated below, together with specific considerations relating to the company's operations and environment. If any of these risks occur, the company's business, financial condition and operational results could suffer. As the company forms part of the group's financial operations, the financial risk management measures used by management to analyse the development, performance and position of the company's business are mainly similar to those facing the group as a whole and are managed by the group's treasury department.

<u>Pandemics</u>

Global outbreak of a public health threat, or fear of such an event, could result in increased government restrictions and regulations including the shutdown of the on-trade, restrictions to travel, and quarantining of employees, resulting in a negative impact to consumer demand. It could also cause a slowdown or halting of the group business operations due to supply or logistics constraints and could adversely impact the group's financial performance. To mitigate these challenges the group regularly gathers data and obtains insights which enable management to assess conditions in the markets where the group operates and to amend forecasts and investment decisions appropriately.

Strategic report (continued)

Business review (continued)

Pandemics (continued)

The directors believe that the risk mitigation actions taken in relation to the Covid-19 pandemic have been agile and effective and that the group will maintain adequate liquidity and be strongly positioned for a continued recovery in consumer demand. Further information on the group's risk management measures in relation to Covid-19 is disclosed on pages 45 to 48 of Diageo plc's 2021 Annual Report.

The group and the company has prepared cash flow forecasts which have also been sensitised to reflect severe, but plausible downside scenarios taking into consideration the group's principal risks. The potential financial impact of a slower Covid-19 pandemic recovery has been modelled in plausible downside scenarios. Even with these negative sensitivities, the group and the company's cash positions are still considered to remain strong, therefore it is not anticipated that the solvency or the liquidity of the company will deteriorate.

Climate change

The group has a long-standing commitment to combating climate change and the related issue of water stress. Both physical risks, such as changes in climate and acute weather events, and transition risks, such as impacts on economies, changes in consumer attitude, and regulatory developments, have the potential to affect the group and the company. The company might be impacted through its investment in Diageo Scotland Limited and the future performance of this business. Diageo Scotland Limited is the main supplier of the company with regards to finished products and its principal activities are the distillation, warehousing, maturation, bottling and packaging of Scotch whisky and other spirits and distribution to fellow group undertakings and third parties.

The group conducted a detailed climate change risk assessment (CCRA) this year in North America and Scotland. The group chose these two regions since they account for around half of the group's net sales value globally, are home to many of the group's manufacturing sites, and have extensive global raw material supply chains. This review found that, with respect to Scotland, risks related to water temperature and wildfire hazard are projected to significantly increase in the future. By contrast, whilst extreme cold events will continue to be a risk, overall, the risks associated with this hazard are projected to improve due to warming temperatures. In addition, sea level rise and coastal flooding may have an impact on assets near to the coastlines. Physical and Transition Climate risks, such as impacts on supply chain or economies, changes in consumer attitude, and regulatory developments, have the potential to affect all businesses, including our own. Many are difficult to quantify, but we are monitoring developments closely with the group.
Results of the CCRAs were shared with the business in Scotland to assess the results and recommendations, incorporate these risks to the market risk register, and to develop mitigation plans and document these within the existing risk management process. The group then tracks climate risk mitigation efforts.

Any physical and/or transition climate change risks could reduce the company dividend income and profit in the future. It may also impact trust and reputation amongst consumers and other stakeholders of the group. By considering the results of CCRA, it is not likely to have significant impact on the valuation of investment in Scotland on short to mid-term, and as a consequence no impact on the company financial statements. Further information on the group's risk management measures in relation to climate change is disclosed on page 46 of Diageo plc's 2021 Annual Report.

Strategic report (continued)

Business review (continued)

Brexit

The European Union and the United Kingdom have agreed the EU-UK Trade and Cooperation Agreement which fully came into force on 1 May 2021. The direct financial impact of Brexit mitigation is not material to Diageo and we are confident we are able to manage any future volatility.
A cross-functional working group is in place to identify and assess any future consequences of Brexit, with all major functions within our business represented, including the function of raising external funding.
The group is monitoring the potential implications of any breakdown in UK-EU negotiations; we have always been prepared for any scenario and we remain of that view. The group is closely monitoring the situation and has a structure in place to minimize any potential disruptions and swiftly take actions to mitigate any risks that may arise.

The company faces competition that may reduce its market share and margins

The company faces substantial competition from several international companies as well as local and regional companies in the United Kingdom. The company competes with drinks companies across a wide range of consumer drinking occasions. Increased competition and unanticipated actions by competitors could lead to downward pressure on prices and/or a decline in the company's market share in any of these categories, which could adversely affect the company's results and hinder its growth potential.

Demand for the company's products may be adversely affected by changes in consumer preferences and tastes and adverse impacts of a declining economy

The brands which the company manufactures/produces and distributes include some of the world's leading beverage alcohol brands. Maintaining the company's competitive position depends on its continued ability to offer products that have a strong appeal to consumers. Consumer preferences may shift due to a variety of factors including changes in demographic and social trends, public health regulations, holiday or leisure activity patterns, weather effects or a downturn in economic conditions, which may reduce consumers' willingness to purchase premium branded products.

In addition, potential concerns about health effects due to negative publicity regarding alcohol consumption, negative dietary effects, regulatory action or any litigation or customer complaints against companies in the industry may have an adverse effect on the company's profitability. Any significant changes in consumer preferences and failure to anticipate and react to such changes could result in reduced demand for the company's products and erosion of its competitive and financial position. Continued economic pressures could lead to consumer selection of products at lower price points, whether the company's or those of competitors, which may have an adverse effect on the company's profitability.

The company mitigates the risk with highly diversified portfolio of brands to ensure coverage of consumer occasions, trends and price points and continuous focus on innovation through global brand extensions and new-to-world products. Diageo group have continued to be at the forefront of industry initiatives to promote positive drinking, including responsible drinking at home, and other awareness-building programmes.

Strategic report (continued)

Business review (continued)

Demand for the company's products may be adversely affected by changes in consumer preferences and tastes and adverse impacts of a declining economy (continued)

The social distancing measures deployed in response to the Covid-19 pandemic have had a significant impact on where and how people purchase and consume alcohol. In particular, the on-trade has faced significant disruption globally leading to higher consumption in the home which has been coupled with a shift to online purchasing. These trends are likely to continue to some degree after social restrictions are eased. The company will continuously assess consumer trends and shifting behaviours and is well positioned to remain agile and continue to flex commercial strategies.

The company's operations and financial results may be adversely affected by movements in the value of the Diageo UK pension funds

Many current and former employees of the company are members of Diageo's UK pension funds. These funds may be affected by, amongst other things, the performance of assets owned by these plans, the underlying actuarial assumptions used to calculate the surplus or deficit in the plans, in particular the discount rate and long term inflation rates used to calculate the liabilities of the pension funds, and any changes in applicable laws and regulations. If there are significant declines in financial markets and/or a deterioration in the value of fund assets or changes in discount rates or inflation rates, the company may need to make additional contributions to the pension funds in the future.

As these pension plans are treated as defined contribution schemes in the company's financial statements, the contributions are accounted for as a charge to the statement of comprehensive income and may adversely affect the company's financial results.

Regulatory decisions and changes in the legal and regulatory environment could increase the company's costs and liabilities or limit its business activities

The company's operations are subject to extensive regulatory requirements, which include those in respect of production, product liability, distribution, marketing, promotion, labelling, advertising, labour, pensions, excise tax and environmental issues. Changes in laws, regulations or governmental policy could cause the company to incur material additional costs or liabilities that could adversely affect its business.

Changes in tax law (including tax rates), accounting policies and accounting standards could materially reduce the company's reported profit after tax.
Breach of data privacy laws or regulations could harm the trust and/or reputation of the company, its brands or people and could significantly restrict the company's ability to deliver its digital productivity and growth plans and might result financial penalty as well.

Strategic report (continued)

Business review (continued)

The company's operations, financial results and reputation may be adversely affected by the theft, loss and misappropriation of the company's most important digital assets

Cyber-attacks or incidents could result in financial loss, operational disruption and reputational damage. The company could also be adversely affected by non-compliance with statutory data protection legislation.

In order to mitigate the enterprise-wide cyber risk, appropriate management processes and policies have been implemented. Information Security committee was appointed to govern, track and report risk and compliance activities. The company extended the comprehensive IT controls framework to manufacturing facilities and applied rigorous approach to third party risk management. Next generation security technologies were deployed to tackle advanced attacks and use of machine learning and threat intelligence are applied to detect and block sophisticated threats. Risk awareness of employees is enhanced through mandatory global e-learning and regular phishing exercises for all employees. The company also successfully implemented additional security measures enabling secure working from home environments.

Cyber strategy is reviewed continuously to tackle risks related to Covid-19 and remote working.

Financial risk management

The company's funding, liquidity and exposure to foreign exchange rate risk are similar to those facing the group as a whole and are managed by the group's treasury department. The treasury department uses a range of financial instruments to manage these underlying risks.

Currency risk
The company publishes its financial statements in sterling and conducts some of its business in foreign currencies. As a result, it is subject to foreign currency risk due to exchange rate movements, which affect the company's transactions. To manage currency risk the company uses certain financial instruments.

Liquidity risk
In order to maintain liquidity and ensure that sufficient funds are available for ongoing operation and future developments, the company has access to group funding.

Credit risk
The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The company sets credit limits for, and monitors its credit exposure to its counterparties via their credit ratings (where applicable).

Strategic report (continued)

Business review (continued)

Statement on Section 172 of the Companies Act 2006

Section 172 of the Companies Act 2006 requires the directors to promote the success of the company for the benefit of the members as a whole, having regard to the interests of stakeholders in their decision-making. In making decisions, the directors consider what is most likely to promote the success of the company for its shareholders in the long term, as well as the interests of the group's stakeholders. The directors understand the importance of taking into account the views of stakeholders and the impact of the company's activities on local communities, the environment, including climate change, and the group's reputation. The Employee Engagement Statement and Business Relationship Statement of the Company have been detailed in the Directors' report from page 12 to 13.

The company is a member of the group of companies (the "group") whose ultimate holding company is Diageo plc ("Diageo"). In accordance with the requirements of UK company law, Diageo has included in its 2021 Annual Report and Accounts on page 7 a statement as to how the directors of Diageo have had regard to the matters set out in Section 172 of the Companies Act 2006.

In order to ensure consistency in how the group operates with regard to its wider stakeholders, the group has adopted an internal Code of Business Conduct alongside a comprehensive framework of global policies and standards that are designed to ensure, amongst other things, that all companies throughout the group, including the company, have regard to its wider stakeholders in a consistent manner.

The company has therefore had regard to the matters set out in Section 172 of the Act in a manner that is consistent with the approach adopted by Diageo, while at the same time ensuring the directors of the company are fulfilling their duties.

Strategic report (continued)

Business review (continued)

Main activities of the Board

The activities of the Board during the year include:

- Approval of transfer pricing policies in relation to the company;
- Approval of the terms of acquisition of the entire share capital of Chase Distillery (Holdings) Limited and entry into a share purchase agreement;
- Approval of various transactions relating to an intragroup reorganisation including the release of an intercompany receivable loan owed by its subsidiary and the subscription of shares in its subsidiary;
- Approval of the financial statements and dividend for the year ended 30 June 2020;
- Approval of an organisational restructuring including the outsourcing of certain commercial activities;
- Review of reports in relation to the company's performance, tax status, risk management processes including its risk footprint, workforce and employee engagement survey results and activities, Health and Safety procedures, and material legal and regulatory matters.

By order of the Board

DocuSigned by:
Lisa Lunoe
431983D8423C4A9...

L Lunoe
Director

Lakeside Drive
Park Royal
London
NW10 7HQ

15 December 2021

Directors' report

The directors are pleased to submit their annual report, together with the audited financial statements for the year ended 30 June 2021.

The company is incorporated and domiciled as a private company limited by shares in England, United Kingdom.

The registered address is Lakeside Drive, Park Royal, London, NW10 7HQ.

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the strategic report on pages 2 to 9. The company is expected to continue to generate profit for its own account and to remain in a positive net asset position for the foreseeable future. The company participates in the group's centralised treasury arrangements. The company is not reliant on external third-party financing. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. On the basis of their assessment, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for a period of at least 12 months from the date financial statements are approved and signed. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. In arriving at this conclusion, the directors have also considered the potential impact that the Covid-19 outbreak may have on the company and believe that any impact would not be significant in respect of our going concern conclusions.

Financial

The results for the year ended 30 June 2021 are shown on page 21.

The profit for the year transferred to reserves was £114 million (2020 - £1,669 million).

Dividends paid during the year ended 30 June 2021 were £100 million (2020 - £320 million).

Proposed dividend

The directors have proposed a final ordinary dividend in respect of the year ended 30 June 2021 of £360 million. This has not been included as a liability as it was not approved before the balance sheet date.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

H Patel
J M C Edmunds
L Lunoe
D Nayager
N Szakolczai
R D Adam (appointed 15 October 2020)
G Zeisler (resigned 1 August 2020)
S L Fennessy (resigned 9 August 2021)
Gy Geiszl (appointed 9 August 2021)

Director's report (continued)

Directors' remuneration

Details of the directors' remuneration are shown in note 4 of these financial statements.

Employee involvement

The company's goal is to offer an energising work environment, personal growth and recognition and attractive rewards for the performance contribution its people make to the company. Its employee policies are designed to support these goals and to do so in a manner that is fair and equitable to all employees. These policies take account of external legislation, internal codes of conduct, as well as the company's values as an organisation.

Employee engagement is a key element of the company's people strategy. Diageo's values are embedded in the business and guide how all employees operate and behave. Pulse surveys provide insight into what employees are thinking and feeling about the business and enable Diageo to assess how the business is tracking against its goal to have highly engaged and inclusive teams that consistently bring Diageo's values to life.

A key strategic imperative of the company is to attract, retain and grow a pool of diverse, talented employees. Diageo recognises that a diversity of skills and experiences in its workplace and communities will provide a competitive advantage. To enable this the company has various global employment policies and standards, covering such issues as resourcing, data protection, human rights, health, safety and wellbeing. These policies and standards seek to ensure that the company treats current or prospective employees justly, solely according to their abilities to meet the requirements and standards of their role and in a fair and consistent way. This includes giving full and fair consideration to applications from prospective employees who are disabled, having regard to their aptitudes and abilities, and not discriminating against employees under any circumstances (including in relation to applications, training, career development and promotion) on the grounds of any disability.

The company is a multi-cultural community operating in an increasingly diverse business world and is committed to active inclusion and diversity practices. The company is also committed to attracting and retaining talented people, by investing in the growth and development of its people, which contributes directly to the performance and results of the business. We want all our employees to feel valued and to make a meaningful contribution to the company's purpose and ambition. In addition, and where practical, the company encourages flexible ways of working to enable employees to balance work and life priorities.

The company's reward systems continue to recognise employees' contribution to the success of the business and to promote employee engagement. The company is also committed to the safety and well-being of employees at work. It promotes positive drinking behaviours amongst all its people.

We are committed to open and continuous dialogue with employees to inform and engage them in the company's strategy and business goals as well as harnessing their ideas on improving broad areas of business performance. By driving a progressive culture, policies and practices, the company aims to differentiate itself as a leading employer and shape broader positive societal change.

Directors' report (continued)

Employee involvement (continued)

Each senior manager is responsible for delivering against key communication and employee engagement goals. Diageo also has an intranet web site from which employees with access to a computer can obtain timely and accurate news and information, and join online conversations that are relevant to their role, location and interests.

Employee Engagement Statement

Our people are our most important asset and our inclusive and diverse culture is core to our purpose of 'Celebrating life, every day, everywhere', and essential to our future growth. We invest to grow and develop our people and aim to create an environment that enables everyone to thrive. We want to nurture great, diverse talent, with a range of backgrounds, skills and capabilities, while making a positive contribution to society. Diversity of thought fuels growth and innovation in our organisation and brings us closer to our consumer base. Understanding our employees' views on the way they experience life at Diageo, from what works well, to where we can improve, makes good business sense. These insights help to shape our culture and make Diageo an attractive place to work, enabling us to recruit and retain the best talent.

The Board recognises the importance of effective engagement with the Company's employees and wider workforce, including contractors and temporary staff and is committed to creating opportunities for growth and to a continuous learning culture. Consistent with Group's approach towards workforce engagement, the Company has adopted a variety of engagement methods that are designed to ensure that there is an on-going dialogue with its employees and workforce. These engagement methods include participation in Group-wide employee engagement surveys, a consistent approach to talent and performance management, extensive online learning and development material, information and up-to-date employee communication channels, meetings with employee and workforce forums, community groups, employee interest groups, pulse surveys and town hall meetings. Decisions taken by Directors and by the Company's executive management team are informed by the interests of its employees and workforce, as guided by these engagement methods.

Further information on engagement with employees is outlined under 'Employee Involvement' in the directors' report on page 11 and 12.

Business Relationship Statement

In order to ensure consistency in how the Group operates, the Company has adopted an internal Code of Business Conduct alongside a comprehensive framework of global policies and standards that are designed to ensure, amongst other things, that all companies throughout the Group, including the Company, have regard to its wider stakeholders, including those in a business relationship with the Company, in a consistent manner. Decisions taken by Directors, and by the Company's executive management team, are informed by the interests of its wider stakeholders, including suppliers, customers and others in a business relationship with the Company, as guided by, amongst other things, the Code of Business Conduct and framework of polices and standards, as well as reviews, reports and proposals presented to the Board or executive management team for approval.

Directors' report (continued)

Business Relationship Statement (continued)

All supplier related activity is managed in line with the Group's Partnering with Suppliers Standard which is adhered to by the Company. The Company ensures that by working with suppliers, we not only deliver high-quality products marketed responsibly, but improve our collective impact, ensuring sustainable supply chains, reducing our environmental impact and making positive contributions to society.

The Board considers that it is important that the Group remains a trusted partner for suppliers, with the relationship enhanced through fair contract and payment terms and through compliance with the Group's Partnering with Suppliers Standard. Other methods used by the Company to ensure that it responds to the needs of its suppliers include direct resolution processes, access to a confidential, independent whistleblowing helpline and website, regional supplier awards, supplier financing, supplier performance measurement and reviews with two-way feedback, standards assessments through independent bodies.

In relation to the Company's customers and indirectly its consumers, the Board believes that the business of the Company can only be sustained by a deep understanding of its customer base, both large and small, on-trade and off-trade, digital and e-commerce, their behaviours and motivations. The Board aims to ensure the Company nurtures mutually beneficial relationships that deliver joint value and the best outcome for all its customers and indirectly its consumers. Consistent with the Group's processes, the Company uses a variety of ways to ensure that these business relationships are maintained including through a broad portfolio of choices across categories and price points, best practice sales analytics and technology to support distributors and retail, ongoing dialogue and account management support, physical and virtual sales calls, development of joint business plans, regular business updates, training, webinars and unique offerings such as the Diageo Bar Academy, and the provision of responsible advertising tools and materials in compliance with the Diageo Marketing Code.

More details on how the Diageo group has cultivated its relationships with suppliers, customers and other stakeholders, please see pages 20 and 21 of its 2021 Annual Report and Accounts

Corporate Governance Statement

The Company is a subsidiary of Diageo, a UK premium listed company that is subject to the UK Corporate Governance Code 2018 (the "Code"). In accordance with the UK Listing Rules, Diageo has issued a detailed corporate governance report describing how Diageo has applied the Code's main principles and highlighting non-compliance with any of the Code's provisions. That corporate governance report is available on Diageo's website (http://www.diageo.com).

Given that Diageo applies the Code throughout the Group, its corporate governance report also describes corporate governance at subsidiary level. The Code is applicable to the Company in its capacity as a subsidiary of Diageo and as a member of the Group.

Directors' report (continued)

Corporate Governance Statement (continued)

As regards the application of the Code by the Company, it should be noted that the Code contains to a substantial extent principles and provisions that are concerned with the listed parent company only. These relevant principles and provisions of the Code are applied by Diageo on the above mentioned comply-or-explain basis. They relate, for instance, to the role of the Diageo board in engaging with shareholders; processes for board appointments, succession and evaluation; director remuneration; and the role of the board's audit committee. Given the nature of the Company, as a wholly owned subsidiary with no external shareholders, these elements of the Code are not applicable and so were not applied by the Company.

Other parts of the Code can be seen to apply to the Group as a whole. For instance, the Code's focus on promoting long-term sustainable success and contributing to society and the Code's requirement that workforce policies and practices are consistent with the company's values.

Diageo has adopted an internal Code of Business Conduct alongside a comprehensive framework of global policies and standards that are designed to ensure that all companies throughout the Group adhere to those elements of the Code which are of relevance to the Group as a whole. The directors of the Company operate in line with these central standards and are responsible for their application within the Company.

In addition, the Company has adopted a set of subsidiary governance principles designed to enhance the robustness of its corporate governance procedures and practices. These principles include a formal delegation of authority to the Company's executive management team in respect of the day-to-day management of the Company's business and execution of its strategy. It is the practice of the Company to ensure that the Board includes members of the executive management team as well as other senior executives of the Group.

Directors' indemnity

The Articles of Association permit qualifying third-party indemnities for the directors as defined by Section 234 of the Companies Act 2006. No such indemnity was in force during the last financial year, nor is any currently in force.

Post balance sheet events

On 5 October 2021 the Board approved an additional investment of £1 million in Pulpex Limited. After the additional investment, the company holds 38% of the share capital of Pulpex Limited.

Internal control and risk management over financial reporting

The company operates under the financial reporting processes and controls of the group. Diageo plc's internal control and risk management systems, including its financial reporting process, which include those of the company, are discussed in the group's Annual Report 2021 on page 91 at www.diageo.com. The group's Annual Report does not form part of this report.

Directors' report (continued)

Streamlined energy and carbon reporting (SECR)

Under changes introduced by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ('SI 2018/1155'), large unquoted companies and large LLPs are now obliged to report their UK energy use and associated greenhouse gas emissions in their annual reports for the first time.

Carbon emissions are a key element of Diageo's, and the industry's, environmental impact. Reducing the company's carbon emissions is a significant part of Diageo's efforts to mitigate climate change, positioning us well for a future low-carbon economy, while creating energy efficiencies and savings. The company is exempt from providing the disclosures as relevant information is included in the consolidated accounts of Diageo group that provides disclosures on SECR in Diageo plc's annual report for the year ended 30 June 2021 on pages 36, 50 to 51 and 146. Furthermore additional information is disclosed by the group in the Environmental, social and governance (ESG) reporting index (https://www.diageo.com/PR1346/aws/media/13178/esg-reporting-index-2021.pdf).

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor, PricewaterhouseCoopers LLP, has been reappointed and will continue in office as the auditor of the company.

Disclosure of information to the auditor

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

By order of the Board

DocuSigned by:
Lisa Lunoe
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L Lunoe
Director

Lakeside Drive
Park Royal
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15 December 2021

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Independent auditors' report to the members of Diageo Great Britain Limited

Report on the audit of the financial statements

Opinion

In our opinion, Diageo Great Britain Limited's ("the company") financial statements ("the financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 June 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 30 June 2021; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 30 June 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" and applicable law), competition law and tax regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate manual journal entries to manipulate results and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with management, including consideration of known and suspected instances of non compliance with laws and regulation and fraud;
- Enquiry of those charged with governance and in-house legal team around actual and potential litigations and claims;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management;
- Reading the minutes of Board meetings;
- Reviewing financial statements disclosures to supporting documentation to assess compliance with applicable laws and regulations; and
- Challenging management's significant judgements and estimates in particular those related to trade spend.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

CSchroeder

Catherine Schroeder (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 December 2021

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2021

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 30 June 2021 £ million	Year ended 30 June 2020 £ million
Turnover	2	**1,803**	1,658
Excise duties	3	**(1,013)**	(925)
Net sales		**790**	733
Cost of sales	3	**(490)**	(462)
Gross profit		**300**	271
Marketing expense	3	**(147)**	(91)
Other operating expenses	3-5	**(112)**	(208)
Operating profit/(loss)		**41**	(28)
Gain on sale of property, plant and equipment		**(3)**	—
Reversal of provision for impairment	12	**4**	1,500
Net result from shares in subsidiaries and joint ventures	6	**73**	208
Net finance income/(charge)	7	**8**	(3)
Profit before taxation on ordinary activities		**123**	1,677
Taxation on profit on ordinary activities	8	**(9)**	(8)
Profit for the financial year and total comprehensive income for the year		**114**	1,669

The statement above represents the profit for the year and any other impact to comprehensive income.

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET

	Notes	30 June 2021 £ million	30 June 2020 £ million
Non-current assets			
Intangible assets	9	**75**	80
Property, plant and equipment	10	**124**	105
Investments in subsidiaries	12	**4,152**	4,076
Investments in associates and joint ventures	12	**28**	27
Deferred tax assets	13	**31**	29
		4,410	4,317
Current assets			
Inventories	14	**56**	55
Trade and other receivables	15	**395**	397
Cash and cash equivalents		**—**	—
		451	452
Total assets		**4,861**	4,769
Current liabilities			
Trade and other payables	17	**(461)**	(394)
Corporate tax payable	8	**(4)**	—
Provisions	18	**(12)**	(35)
Other financial liabilities	16	**(5)**	(10)
		(482)	(439)
Non-current liabilities			
Trade and other payables	17	**(59)**	(27)
Provisions	18	**(8)**	(3)
Other financial liabilities	16	**(8)**	(15)
		(75)	(45)
Total liabilities		**(557)**	(484)
Net assets		**4,304**	4,285
Equity			
Called up share capital	19	**278**	278
Share premium		**73**	73
Hedging reserve		**4**	(1)
Retained earnings		**3,949**	3,935
Total equity		**4,304**	4,285

BALANCE SHEET (continued)

The accompanying notes are an integral part of these financial statements. The accounting policies and other notes on pages 24 to 53 form part of the financial statements.

These financial statements on pages 20 to 53 were approved by the board of directors on 15 December 2021 and were signed on its behalf by:

DocuSigned by:
Lisa Lunoe
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L Lunoe
Director

STATEMENT OF CHANGES IN EQUITY

Attributable to shareholders of the company

	Notes	**Called up share capital £ million**	**Share premium £ million**	**Hedging reserve £ million**	**Retained earnings £ million**	**Total £ million**
Balance at 30 June 2019		278	73	(1)	2,585	2,935
Profit for the financial year and total comprehensive income for the year		—	—	—	1,669	1,669
Tax on share-based incentive plans		—	—	—	1	1
Hedging reserve		—	—	—	—	—
Dividends to shareholder		—	—	—	(320)	(320)
Balance at 30 June 2020		**278**	**73**	**(1)**	**3,935**	**4,285**
Profit for the financial year and total comprehensive income for the year		—	—	—	114	114
Tax on share-based incentive plans		—	—	—	—	—
Hedging reserve		—	—	5	—	5
Dividends to shareholder		—	—	—	(100)	(100)
Balance at 30 June 2021	19	**278**	**73**	**4**	**3,949**	**4,304**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements are prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (IFRS), but makes amendments where necessary in order to comply with Companies Act 2006 and sets out below where the FRS 101 disclosure exemptions have been taken.

These financial statements are prepared on a going concern basis under the historical cost convention, except that certain financial instruments are measured at their fair value.

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available.

The preparation of financial statements in conformity with FRS 101 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 79(a)(iv) (comparative information requirements);
  - 111 (cash flow statement information);
  - 134-136 (capital management disclosures)

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

The following paragraphs of IAS 8, 'Accounting policies, changes in accounting estimates and errors':

- 30 (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- 31 (disclosures complying with paragraph 30, relating to new IFRS that has been issued but not yet effective).
- Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets' (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives, and management's approach to determining these amounts).
- The following paragraphs of IAS 24 'Related party disclosures':
  - 17 (key management compensation);
  - 18A (key management services provided by a separate management entity).
- The requirements of IFRS 7 Financial Instruments: Disclosures, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
  - (iii) paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliation between the carrying amount at the beginning and end of the period).

The company has taken advantage of the exemption by virtue of section 400 under Companies Act 2006, from the requirement to prepare consolidated financial statements, as it and its subsidiaries are included in the consolidated financial statements of its ultimate parent, Diageo plc.

These financial statements are separate financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

New accounting standards and interpretations

The following amendments to the accounting standards, issued by the IASB which have been endorsed by the EU, have been adopted by the group and therefore by the company from 1 July 2020 with no impact on the company's results, financial position or disclosures:

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IAS 1 and IAS 8 – Definition of Material;
- Amendments to IFRS 16 – Covid-19 - Related Rent Concessions;

The following amendments and standard, issued by the IASB have been adopted by the group and therefore by the company with no material impact on the company's results, financial positions or disclosures:

• Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (phase 1):

The amendment provides temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by interbank offered rate (IBOR) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. The expectations are that the cash flows in relation to hedging relationships will not be altered by the reform and the derivative instruments used in hedge accounting will still provide a close approximation to the extent of the managed risk exposures.

• Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

The amendment requires the remeasurement of service cost and interest charge for the rest of the period following plan amendments, settlements and curtailments using actuarial assumptions prevailing at the date of these events. The amendment is applicable to the company from 1 July 2019 on a prospective basis and did not have an effect on the company in the year ended 30 June 2020 or in the year ended 30 June 2021.

• IFRS 16 - Leases:

The company early adopted IFRS 16 in the year ended 30 June 2020 and disclosed it's impact in the company's previous year financial statements.

Functional and presentational currency

These financial statements are presented in sterling (£), which is the company's functional currency.

All financial information presented in sterling has been rounded to the nearest million unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Turnover

Turnover comprises revenue from the sale of goods, the provision of manufacturing services and royalties receivable. Revenue from the sale of goods includes excise and other duties which the company pays as principal but excludes duties and taxes collected on behalf of third parties, such as value added tax. Sales are recognised as or when performance obligations are satisfied by transferring control of a good or service to the customer. Generally, the transfer of control of goods occurs at the time of dispatch but in the case of wholesale customers may be on delivery to customers. The company includes in sales the net consideration to which it expects to be entitled. Sales are recognised to the extent that it is highly probable that a significant reversal will not occur. Therefore, sales are stated net of expected price discounts, allowances for customer loyalty and certain promotional activities and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing. Royalties are accrued as earned.

Advertising

Advertising expenditure, such as advertising costs, points of sale materials and sponsorship payments, are charged to the statement of comprehensive income within marketing expenses when the company has the right of access to the goods or services acquired.

Finance income/charges

Finance income/charges are recognised in the statement of comprehensive income in the year in which they are earned/incurred.

Share based payments

The ultimate parent, Diageo plc, operates a number of share-based incentive schemes (awards of shares and options) and grants rights to its equity instruments to the company's employees. The company accounts for these share-based payments as cash-settled instruments. Amounts recharged by the parent in respect of the cost of providing the benefit are measured at the fair value of the share or share option at the date of grant, and are recognised on a straight-line basis over the vesting period of the award. The fair value is measured using the Monte Carlo models, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Pensions and other post-employment benefits

The employees of the company are members of the Diageo UK pension plans, which are defined benefit schemes. It is not possible to allocate the assets and liabilities of the pension plans on a consistent and reasonable basis between individual companies and therefore the company accounts for the plans as defined contribution schemes. Contributions payable in respect of the pension plans in respect of current and former employees are charged to operating profit as incurred. The assets and liabilities of the pension plans are reported by the sponsoring employer, Diageo plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the financial year end exchange rates and these foreign exchange differences are recognised in the statement of comprehensive income.

Intangible assets

Intangible assets that are regarded as having limited useful economic lives are amortised on a straight-line basis over those lives and reviewed for impairment whenever events or circumstances indicate that carrying amount may not be recoverable. These assets are reviewed for impairment at least annually or when there is an indication that the assets may be impaired.

To ensure that assets are not carried at above their recoverable amounts, the impairment reviews compare the net carrying value with the recoverable amount, where the recoverable amount is the higher of value in use or fair value less cost to sell. Amortisation and any impairment write downs are charged to other operating expenses in the statement of comprehensive income.

Computer software is amortised on a straight-line basis to estimated residual value over its expected useful life. Residual values and useful lives are reviewed each year. Subject to these reviews, the estimated useful lives are up to 15 years. Assessment of the estimated residual value of an intangible asset and the useful economic life of an asset, requires management judgement.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation.

Freehold land is not depreciated. Leaseholds are depreciated over the unexpired period of the lease. Other property, plant and equipment are depreciated on a straight-line basis to estimated residual values over their expected useful lives, and these values and lives are reviewed each year. Subject to these reviews, the estimated useful lives fall within the following ranges:

Buildings	10 to 50 years
Plant and equipment	5 to 25 years
Fixtures and fittings	5 to 15 years
Casks and containers	5 to 23 years
Computer hardware	2 to 9 years

Reviews are carried out if there is an indication that impairment may have occurred, to ensure that property, plant and equipment are not carried at above their recoverable amounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Leases

Where the company is the lessee, all leases are recognised on the balance sheet as right of use assets and depreciated on a straight-line basis with the charge recognised in cost of sales. The liability, recognised as part of net borrowings, is measured at a discounted value and any interest is charged to finance charges.

The company recognises services associated with a lease as other operating expenses. Payments associated with leases where the value of the asset when it is new is lower than $5,000 (leases of low value assets) and leases with a lease term of twelve months or less (short term leases) are recognised as other operating expenses.

A judgement in calculating the lease liability at initial recognition includes determining the lease term where extension or termination options exist. In such instances any economic incentive to retain or end a lease are considered and extension periods are only included when it is considered reasonably certain that an option to extend a lease will be exercised.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are stated at historical cost less impairment provisions for any permanent decrease in value. The carrying amounts of the company's investments are reviewed at each reporting date to determine whether there is an indication of impairment. If such an indication exists, then the asset's recoverable amount is estimated. Losses are recognised in the statement of comprehensive income to reflect an allowance against the carrying value. Where an event results in the asset's recoverable amount being higher than the previously impaired carrying value, the original impairment may be reversed through the statement of comprehensive income in subsequent periods.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, and an appropriate proportion of production and other overheads, but not borrowing costs. Cost is calculated at the weighted average cost incurred in acquiring inventories.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Financial assets and liabilities

Financial assets and liabilities are initially recorded at fair value including, where permitted by IFRS 9, any directly attributable transaction costs. For those financial assets that are not subsequently held at fair value, the company assesses whether there is evidence of impairment at each balance sheet date. The company classifies its financial assets and liabilities into the following categories: financial assets and liabilities at amortised cost, financial assets and liabilities at fair value through profit and loss and financial assets at fair value through other comprehensive income. Where financial assets or liabilities are eligible to be carried at either amortised cost or fair value the company does not apply the fair value option.

Trade and other receivables Amounts owed by other group companies are initially measured at fair value and are subsequently reported at amortised cost. Non-interest bearing trade receivables are stated at their nominal value as they are due on demand. Allowances for expected credit losses are made based on the risk of non-payment, taking into account ageing, previous experience, economic conditions and forward looking data. Such allowances are measured as either 12-month expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

The company sells certain of its trade receivables through factoring transactions without recourse to the seller. The risks and rewards are substantially transferred to the factoring company; consequently, receivables sold through factoring transactions are derecognised. The company classifies these receivables under the held to collect and sell business model, which would result in fair value measurement through other comprehensive income. In practise, factored receivables are short-term receivables where the difference between invoice value and fair value is insignificant, therefore the company measures factored receivables at amortised cost under IFRS 9.

Trade payables Trade payables are non-interest bearing and are stated at their nominal value as they are due on demand. Amounts owed to other group companies are initially measured at fair value and are subsequently reported at amortised cost.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at amortised cost.

Provisions

Provisions are liabilities of uncertain timing or amount. A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis, where the effect is material to the original undiscounted provision.

The carrying amounts of provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Taxation

Current tax is based on taxable profit for the year. Taxable profit is different from accounting profit due to temporary differences between accounting and tax treatments, and due to items that are never taxable or tax deductible. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, tax benefits are reviewed each year to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. Tax provisions are included in current liabilities. Penalties and interest on tax liabilities are included in profit before taxation.

Full provision for deferred tax is made for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and their value for tax purposes. The amount of deferred tax reflects the expected recoverable amount and is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the basis of taxation enacted or substantively enacted by the balance sheet date. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future.

Dividends received and paid

The interim dividend is included in the financial statements in the year in which it is approved by the directors, and the final dividend in the year in which it is approved by shareholders. Dividends received are included in the financial statements in the year in which they are receivable.

Judgements in applying accounting policies and key sources of estimation uncertainty

The directors make estimates and judgements concerning the future of the company. The resulting accounting estimates will, by definition, seldom equate to actual results. The company's directors are of the opinion that there are no estimates and judgements that have a significant risk of material adjustment to the carrying value of the assets and liabilities for the company within the next financial year due to the nature of the business.

The critical accounting policies, which the directors consider are of greater complexity and/or particularly subject to the exercise of estimates, are set out in detail in the relevant accounting policies:

- Investment in subsidiaries, associates and joint ventures: A critical accounting estimate, specific to the company, is the assessment that recoverable amount of the company's investment in subsidiaries, associates and joint ventures is greater than the carrying amount.

- Financial guarantee contract liabilities: We perform an assessment to determine whether there is any legal obligation in respect of a financial guarantee that requires estimates concerning the future of the company. Based on their assessment, the directors do not expect the company to be liable and so the value of the liabilities has been recognised at nil fair value.

- Price discounts, allowances for customer loyalty and certain promotional activities and similar items: We perform an assessment to determine that the recorded amounts are complete, accurate and valued appropriately when forming our estimate. Based on that assessment, the directors do not expect material inaccurate or incomplete trade spend balances.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. TURNOVER

The turnover and profit on ordinary activities before taxation are attributable to the packaging of beer, distribution, marketing, importing and selling of spirits and beer to third parties and fellow group undertakings.

Geographical analysis of turnover

	Year ended 30 June 2021 £ million	Year ended 30 June 2020 £ million
United Kingdom	**1,742**	1,604
Rest of Europe	**56**	50
North America	**3**	2
Africa	**2**	2
	1,803	1,658

Analysis of turnover by class of business

	Year ended 30 June 2021 £ million	Year ended 30 June 2020 £ million
Marketing and selling of spirits and beers	**1,736**	1,600
Packaging of beer	**64**	56
Royalties	**3**	2
	1,803	1,658

Segmental information is provided in the consolidated financial statements of the ultimate parent company, Diageo plc.

Sales to fellow group undertakings included in turnover amounted to £75 million (2020 - £70 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING COSTS

	Year ended 30 June 2021 £ million	Year ended 30 June 2020 £ million
Excise duties	**1,013**	925
Cost of sales	**490**	462
Marketing expenses	**147**	91
Other operating expenses	**112**	208
	1,762	1,686
Comprising by the following cost categories:		
Excise duties	**1,013**	925
Decrease/(increase) in inventories of finished goods and goods for resale	**(2)**	5
Raw materials and consumables	**458**	434
Marketing expenses (b)	**147**	91
Other external charges (a)	**68**	127
Staff costs (note 4)	**65**	56
Depreciation and amortisation	**57**	60
Net foreign exchange (gain)/loss	**(9)**	2
Other operating income (c)	**(34)**	(49)
Other exceptional items	**(1)**	35
	1,762	1,686

(a) During the year ended 30 June 2021, the group embedded a refreshed global transfer pricing policy to ensure the way profits are taxed continues to be consistent with business activities and economic substance. The refreshed global transfer pricing policy, which came into effect on 1 July 2020, has resulted in an increase in income for the Company.
Other external charges includes lease rentals for plant and equipment of £1 million (2020 - £2million), and intercompany royalty charges of £31 million (2020 - £28 million).

(b) The amount of marketing expenses increased in line with net sales value as per the recovery of underlying business, as well as in the year ended 30 June 2020 the marketing expenses contained an intercompany transfer pricing element which has not been incurred in the year ended 30 June 2021.

(c) Other operating income comprises of intercompany management income in the amount of £34 million (2020 - £49 million)

Fees in respect of services provided by the auditors were: audit fees of £143,511, non-audit fees of nil (2020 - audit fee of £135,743, non-audit fee of nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. EMPLOYEES

The average number of employees on a full-time basis, including directors, during the year was:

	Year ended 30 June 2021	Year ended 30 June 2020
Production	161	161
Selling and distribution	442	494
Corporate and administration	384	451
	987	1,106

The monthly average number of employees of the company, including part time employees, for the year was 992 (2020 - 1133).

	Year ended 30 June 2021 £ million	Year ended 30 June 2020 £ million
Aggregate remuneration		
Wages and salaries	46	28
Employer's social security	5	4
Employer's pension	10	13
Share-based incentive plans	1	1
Other employment costs	3	10
	65	56

Retirement benefits

The employees of the company are members of the Diageo UK pension plans, which are defined benefit schemes.

It is not possible to allocate the assets and liabilities of the pension plans on a consistent and reasonable basis between individual companies and therefore the company accounts for the plans as defined contribution schemes. Contributions payable in respect of defined contribution plans in respect of current and former employees are charged to operating profit as incurred. The company made cash contributions of £10 million to the schemes in respect of its employees in the year ended 30 June 2021 (2020 - £13 million). As there is no contractual agreement for allocating the surplus or deficit of pension funds to participating entities, it is recognised fully by the sponsoring employer, Diageo plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. EMPLOYEES (continued)

Directors' remuneration

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Directors' remuneration (excluding pension contributions)	**734**	257
Amounts receivable under long term incentive schemes	—	—
	734	257

The aggregate remuneration of the highest paid director employed by the company, was £380,172 (2020 - £256,783). During the year ended 30 June 2020 the highest paid director was a member of a defined benefit pension scheme, under which the director's accrued annual pension at the year-end was £28,709. During the year ended 30 June 2021 there was no pension scheme accrual for the highest paid director, therefore the accrued amount is nil. In the current year the highest paid director's share option was exercised. Other directors were paid by fellow group undertakings, and no cost was recharged to the company on the basis that an insignificant proportion of their time was spent on the company.

	Year ended 30 June 2021	Year ended 30 June 2020
The number of directors who exercised share options	2	1
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes	3	1
The number of directors in respect of whose retirement benefits were accrued for under defined benefit pension schemes	1	1

5. EMPLOYEE SHARE COMPENSATION

A number of the employees of the company participate in a number of equity settled and cash settled share plans, all of which are operated by the Diageo group, to grant options and share awards to its directors and employees.

Further details of the assumptions used for the valuation and the accounting for share options schemes are disclosed in Diageo plc's Annual Report for the year ended 30 June 2021 (see note 17 of Diageo plc's 2021 Annual Report).

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. NET RESULT FROM SHARES IN SUBSIDIARIES AND JOINT VENTURES

	Year ended 30 June 2021 £ million	Year ended 30 June 2020 £ million
Dividend income from joint venture undertakings:		
Lothian Distillers Limited	—	2
Dividend income from shares in group undertakings:		
Diageo Scotland Limited	60	180
UDV Kenya Limited	—	16
Justerini & Brooks, Limited	13	10
	73	206
Net result from shares in subsidiaries and joint ventures	73	208

The decrease in dividend income is mainly explained by lower business performance in year ended 30 June 2020.

7. NET FINANCE (CHARGE) /INCOME

	Year ended 30 June 2021 £ million	Year ended 30 June 2020 £ million
Net finance income		
Interest income from fellow group undertakings	11	2
Total interest income	11	2
Interest charge on all other borrowings	—	—
Other financial charges	(3)	(5)
Total interest charges	(3)	(5)
Net finance (charge)/income	8	(3)

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. TAXATION

	Year ended 30 June 2021 £ million	Year ended 30 June 2020 £ million
(a) Analysis of taxation charge for the year		
Current tax		
UK corporation tax	**(4)**	(3)
Overseas corporation tax	**(6)**	(7)
Total current tax	**(10)**	(10)
Deferred tax		
Origination and reversal of temporary differences	**(6)**	(1)
Adjustments in respect of prior years	—	—
Changes in tax rate	7	3
Total deferred tax	**1**	2
Taxation on profit on ordinary activities	**(9)**	(8)
(b) Tax credit included in equity		
Current tax	**1**	3
Deferred tax	**1**	(2)
Total tax credit included in equity	**2**	1
(c) Tax credit included in other comprehensive expense		
Deferred tax	**(1)**	—
(c) Factors affecting total tax charge for the year		
Profit on ordinary activities before taxation	**123**	1,677
Taxation on profit on ordinary activities at UK corporation tax rate of 19% (2020 - 19%)	**(23)**	(319)
Expenses not deductible for tax purposes	**(4)**	(11)
Income not taxable	**15**	325
Group relief received for nil consideration	**1**	5
Overseas tax suffered	**(4)**	(7)
Changes in tax rates	**7**	3
Deferred tax not recognised	—	(5)
Share options	—	1
Provision for uncertain tax positions	**(1)**	—
Total tax charge for the year	**(9)**	(8)

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. TAXATION (continued)

(c) Factors affecting total tax charge for the year (continued)

The UK corporation tax rate for the year ended 30 June 2021 is 19% which has been effective since 1 April 2017. In the Spring Budget 2021, the UK Government announced an increase in the corporation tax rate to 25% which will apply from 1 April 2023. The legislation increasing the tax rate to 25% rate was substantively enacted on 24 May 2021. Deferred taxes at 30 June 2021 have been measured using this enacted tax rate and reflected in these financial statements.

9. INTANGIBLE ASSETS

	Computer software £ million	Under construction £ million	Total £ million
Cost			
At 30 June 2020	330	34	364
Additions	8	21	29
Disposals	(6)	(3)	(9)
Write-off	—	—	—
Transfers	33	(33)	—
At 30 June 2021	**365**	**19**	**384**
Amortisation			
At 30 June 2020	(284)	—	(284)
Amortisation	(29)	—	(29)
Disposals	4	—	4
At 30 June 2021	**(309)**	**—**	**(309)**
Carrying amount			
At 30 June 2021	**56**	**19**	**75**
At 30 June 2020	46	34	80

Amortisation of computer software is recognised in other operating expenses in the statement of comprehensive income.
Assets that are not in use are written off to the statement of comprehensive income.

Additions to assets under construction are in respect of a number of ongoing information system projects.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. PROPERTY, PLANT AND EQUIPEMENT

	Land and building £ million	Plant and equipment £ million	Computer hardware £ million	Fixtures and fittings £ million	Casks and containers £ million	Under construction £ million	Total £ million
Cost							
At 30 June 2020	58	131	32	4	62	15	302
Additions	7	10	1	—	—	31	49
Disposal	—	(2)	(19)	—	—	(1)	(22)
Transfers	—	2	3	—	(2)	(3)	—
At 30 June 2021	**65**	**141**	**17**	**4**	**60**	**42**	**329**
Depreciation							
At 30 June 2020	(32)	(91)	(28)	(2)	(44)	—	(197)
Depreciation	(13)	(11)	(2)	(1)	(1)	—	(28)
Disposal	—	1	19	—	—	—	20
At 30 June 2021	**(45)**	**(101)**	**(11)**	**(3)**	**(45)**	**—**	**(205)**
Net book value							
At 30 June 2021	**20**	**40**	**6**	**1**	**15**	**42**	**124**
At 30 June 2020	26	40	4	2	18	15	105

	30 June 2021 £ million	30 June 2020 £ million
Freehold	**11**	14
Short leasehold	**3**	5
Long leasehold	**5**	7
	19	26

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. LEASES

(a) Movements of leases

	Land and buildings £ million	Plant and equipment £ million	Cars £ million	Total £ million
Movement of right-of-use assets				
At 30 June 2020	12	2	1	15
Addition	—	—	1	1
Remeasurement	6	—	(1)	5
Depreciation	(11)	—	(1)	(12)
At 30 June 2021	**7**	**2**	**—**	**9**

	Land and buildings £ million	Plant and equipment £ million	Cars £ million	Total £ million
Movement of lease liabilities				
At 30 June 2020	(21)	(1)	(2)	(24)
Addition	—		(2)	(2)
Payments	7	1	1	9
Remeasurement	(1)	—	—	(1)
Interest expense	—	—	—	—
At 30 June 2021	**(15)**	**—**	**(3)**	**(18)**
Current				(10)
Non-current				(8)

(b) Amounts recognised in the statement of profit or loss

Other operating expenses associated with leases of low value assets and short-term leases were £1 million in the year ended 30 June 2021 (2020: £2 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS

	30 June 2021 £ million	30 June 2020 £ million
Investments in subsidiaries (i)	**4,089**	4,013
Loan to fellow group undertaking (ii)	**63**	63
	4,152	4,076
Investments in associates and joint ventures (i)	**28**	27
	4,180	4,103

(i) Shares in subsidiaries, associates and joint ventures

	Subsidiaries £ million	Associates £ million	Joint ventures £ million	Total £ million
Cost				
At 30 June 2020	4,017	—	27	4,044
Additions	72	1	—	73
Disposals	—	—	—	—
At 30 June 2021	**4,089**	**1**	**27**	**4,117**
Provision				
At 30 June 2020	(4)	—	—	(4)
Disposals	—	—	—	—
Reversal of provision for impairment	4	—	—	4
At 30 June 2021	**—**	**—**	**—**	**—**
Carrying amount				
At 30 June 2021	**4,089**	**1**	**27**	**4,117**
At 30 June 2020	4,013	—	27	4,040

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS (continued)

(i) Shares in subsidiaries, associates and joint ventures (continued)

Subsidiaries

During the year ended 30 June 2021 the increase in the value of Investments was £73 million, which comprised the 100% acquisition of Chase Distillery (Holdings) Limited and 20% of Leaf Arbor Limited, and capital injection into Copper Dog Whisky Limited.

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows. Unless otherwise stated the percentage of shares held are in respect of ordinary share capital.

The risk of climate change has been considered during the valuation assessment of our investment recoverability and no valuation impact has been identified based on those assessments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS (continued)

(i) Shares in subsidiaries, associates and joint ventures (continued)

Name of investment Direct holdings	Notes	Registered office address	Proportion of ownership interest%*	Proportion of effective interest%**
Direct holdings				
Subsidiaries				
Cellarers (Wines) Limited		Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%	100%
Chase Distillery (Holdings) Limited	(iii)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%	100%
Copper Dog Whisky Limited		11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom	100%	100%
Diageo Scotland Limited		11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom	100%	100%
Diageo South Africa (Pty) Limited		Building 3, Maxwell Office Park, Magwa Crescent West, Waterfall City, Midrand, 2090, South Africa	51%	51%
Horizon Developments Limited	(i)	3 Themistokli Dervi Ave, Julia House, 1066, Nicosia, Cyprus	100%	100%
Justerini & Brooks, Limited		61 St. James's Street, London, SW1A 1LZ, United Kingdom	100%	100%
Lochside MWS Limited Partnership	(iv)	11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom		
S & B Production Limited		3rd Floor Capital House, 3 Upper Queen Street, Belfast, United Kingdom	100%	100%
UDV Kenya Limited		Tusker House, Ruaraka, PO Box 30161, 00100 Nairobi GPO, Kenya	53.68%	53.68%
Joint ventures				
Diageo Angola Limitada	(v)	Rua Fernao de Sousa, Condominio Bengo, Letter A, 11.s floor, Fraction A37, neighbourhood Vila Alice, Municipality of Luanda, Province of Luanda, Angola	50%	50%
Lothian Distillers Limited		9 Wheatfield Road, Edinburgh, EH11 2PX, Scotland, United Kingdom	50%	50%
Associate				
Leaf Arbor Limited		71-75 Shelton Street, Covent Garden, London, England, WC2H 9JQ, United Kingdom	20%	20%
Pulpex Limited		64 New Cavendish Street, London, W1G 8TB, United Kingdom	42.13%	42.13%

* The percentage of shares held by the immediate shareholder(s) of the subsidiary

**Effective percentage of shares held by the company directly and indirectly

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS (continued)

(i) Shares in subsidiaries, associates and joint ventures (continued)

Name of investment Indirect holdings	Notes	Registered office address	Proportion of ownership interest%*	Proportion of effective interest%**
Indirect holdings				
Subsidiaries				
Arthur Bell & Sons Limited	(i)	11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom	100 %	100 %
Chase Distillery Limited		Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
D.C.L (Holdings) Australia Proprietary Limited	(i) (ii)	Level 1, 162 Blues Point Road, McMahons Point, NSW 2060, Australia	100 %	100 %
Diageo (IH) Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
Diageo New Zealand Limited	(ii)	123 Carlton Gore Road, Level 2, Newmarket, 1023, Auckland, New Zealand	100 %	100 %
Diageo Scotland Investment Limited		Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
Diageo South Africa Empowerment Trust		17 Greenhills Road, Elandsfontein, Germiston, 1601, South Africa	100 %	51 %
James Buchanan & Company Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
Jiangsu Diageo Spirits Co., Ltd		Room 1101, Building 3, No.68, Aoti Street, Jianye District, Nanjing City, China	100 %	50 %
John Haig & Company Limited		11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom	100 %	100 %
John Walker and Sons Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
Lakeside MWS Limited Liability Partnership	(iv)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom		
The Distillers Company (Biochemicals) Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
The Lochnagar Distillery Limited	(i)	11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom	100 %	100 %
Trelawny Estates Limited	(vii)	7th Floor, Scotiabank Centre, Duke Street, Kingston, Jamaica	100 %	100 %
United Distillers France Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
United Distillers France SAS		73, Rue de Provence 75009 Paris, Francc	100 %	100 %

* The percentage of shares held by the immediate shareholder(s) of the subsidiary

**Effective percentage of shares held by the company directly and indirectly

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2021

Name of investment Indirect holdings	Notes	Registered office address	Proportion of ownership interest%*	Proportion of effective interest%**
William Sanderson & Son, Limited	(i)	11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom	100 %	100 %
Zepf Technologies UK Limited		11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom	100 %	100 %
Associates				
Ballindalloch Distillery LLP		Ballindalloch Castle, Ballindalloch, Banffshire AB37 9AX, Scotland, United Kingdom	33.33 %	33.33 %
Diageo Suisse S.A.	(vi)	Place de la Gare 12, Lausanne, 1003 Switzerland	45.13 %	45.13 %
The Scotch Whisky Heritage Centre Limited		354 Castlehill, The Royal Mile, Edinburgh, EH1 2NE, United Kingdom	29 %	29 %
Joint ventures				
Diageo International Spirits Company Limited		Room 06, 13A/F., South Tower, World Finance Centre, Harbour City, 17 Canton Road, Tsim Sha Tsui, Kowloon, Hong	50 %	50 %
Diageo Southern Africa Markets (Pty) Ltd	(v) (viii)	Building 3, Maxwell Office Park, Magwa Crescent West, Waterfall City, Midrand, 2090, South Africa	50 %	50 %
Grand Metropolitan Capital Company Limited	(v)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	50 %	50 %
The North British Distillery Company Limited		9 Wheatfield Road, Edinburgh, EH11 2PX, Scotland, United Kingdom	99.99 %	50 %

(i) Dormant company.
(ii) Ownership held in class of A shares.
(iii) Ownership held in class of A shares and B shares.
(iv) No percentage is disclosed as Lochside MWS and Lakeside MWS Limited Liability Partnership are partnerships.
(v) Subsidiary at group level but a joint venture on the effective percentage of shares held by the company.
(vi) Subsidiary at group level but an associate based on the effective percentage of shares held by the company.
(vii) In liquidation.
(viii) Dissolved.

* The percentage of shares held by the immediate shareholder(s) of the subsidiary
**Effective percentage of shares held by the company directly and indirectly

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS (continued)

(i) Shares in subsidiaries, associates and joint ventures (continued)

The investments in subsidiaries, associates and joint ventures are held at cost less, where appropriate, provision for impairment in value.

In the opinion of the directors, the investment in and amounts due from the company's subsidiaries, associates and joint ventures are worth at least the amount at which they are stated in the financial statements.

(ii) Loan to fellow group undertaking

	30 June 2021 £ million	30 June 2020 £ million
Amount owed by fellow group undertaking	63	63

In June 2010, the company, as a sole general partner, established Lochside MWS Limited Partnership ('Lochside') together with the UK Diageo Pension Scheme ('UK Scheme') and another fellow group undertaking (limited partners). The company made a capital contribution to Lochside of £63 million and is entitled to a profit distribution from Lochside each year allocated in line with the Partnership Agreement of Lochside. As the distributions represent a contractual right for the company to receive cash from Lochside, the capital contribution is shown as a loan to fellow group undertaking and the profit distribution received is presented as finance income (note 21(d)).

Under this structure, the company entered into an agreement with the fellow partners of the arrangement to grant the UK Scheme a put option to require the company to acquire all of the UK Scheme's interest in Lochside. The UK Scheme granted the company a call option to require the UK Scheme to transfer all of the interests in Lochside to the company. The company together with the other fellow group undertaking granted the UK scheme a call option to require the company and the other fellow group undertaking to transfer all of their respective interests to the UK Scheme.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. DEFERRED TAX ASSETS

The amounts of deferred tax accounted for in the balance sheet comprises the following net deferred tax assets:

	Property, plant and equipment £ million	Other temporary differences £ million	Total £ million
At 30 June 2019	27	2	29
Recognised in statement of comprehensive income	1	1	2
Recognised in equity	—	(2)	(2)
At 30 June 2020	28	1	29
Recognised in statement of comprehensive income	—	(1)	(1)
Recognised in income statement	2	—	2
Recognised in equity	—	1	1
At 30 June 2021	**30**	**1**	**31**

Diageo has launched the 'Raising the Bar' programme to support pubs and bars to welcome customers back and recover following the Covid-19 pandemic including a commitment of £28 million by the company over a period of up to two years from 1 July 2020, to support qualifying outlets in the United Kingdom, out of which £8 million was outstanding at 30 June 2021. Due to current uncertainty on the precise nature of the spend, it cannot be determined whether the amounts will be deductible for tax purposes in future periods. As a result, no deferred tax asset has been recognised in respect of the provision at the year ended 30 June 2021.

	30 June 2021 £ million	30 June 2020 £ million
Other temporary differences	—	5
	—	**5**

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. INVENTORIES

	30 June 2021 £ million	30 June 2020 £ million
Spare parts and consumables	**2**	3
Work in progress	**—**	—
Finished goods and goods for resale	**54**	52
	56	55

Inventories are disclosed net of provisions of £5 million (2020 - £7 million) for obsolescence.

15. TRADE AND OTHER RECEIVABLES

	30 June 2021 £ million	30 June 2020 £ million
Amounts owed by fellow group undertakings	**260**	266
Trade receivables	**110**	101
Prepayments and accrued income	**19**	24
Other receivables	**6**	6
	395	397

All amounts fall due within one year.

Amounts owed by Diageo Finance plc of £102 million (2020 - £229 million) are interest rate bearing, unsecured and repayable on demand. These balances bear interest at variable rates from (0.87%) to 19.95% for the year ended 30 June 2021 (2020 – from (0.88%) to 24.41%). Other amounts owed by fellow group undertakings are interest free, unsecured and repayable on demand.

Trade receivables are disclosed net of provisions of £1 million (2020 - £3 million) for bad and doubtful debts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. OTHER FINANCIAL LIABILITIES

Commodity price risk

Commodity price risk is managed either through long-term purchase contracts with suppliers or, where appropriate, derivative contracts. The group policy is to maintain the Value at Risk of commodity price risk arisen from commodity exposures below 75 bps of forecast gross margin in any given financial year. Where derivative contracts are used the commodity price risk exposure is hedged up to 24 months of forecast volume through exchange-traded and over-the-counter contracts (futures, forwards and swaps) and cash flow hedge accounting is applied.

	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million
2021			
Intra-group derivative assets/(liabilities)			
Designated in a hedge relationship	5	—	—
	5	—	—
Non-derivative liabilities			
Lease liabilities	—	(10)	(8)
	—	(10)	(8)
	5	**(10)**	**(8)**

	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million
2020			
Intra-group derivative assets/(liabilities)			
Designated in a hedge relationship	—	(1)	—
	—	(1)	—
Non-derivative liabilities			
Lease liabilities	—	(9)	(15)
	—	(9)	(15)
	—	**(10)**	**(15)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. OTHER FINANCIAL LIABILITIES (continued)

			30 June 2021			30 June 2020
	Future minimum lease payments £ million	Future finance charges £ million	Present value of minimum lease payments £ million	Future minimum lease payments £ million	Future finance charges £ million	Present value of minimum lease payments £ million
Less than one year	10	—	10	9	—	9
Between one and five years	3	—	3	10	—	10
More than five years	5	—	5	5	—	5
	18	—	18	24	—	24

17. TRADE AND OTHER PAYABLES

		30 June 2021		30 June 2020
	Amounts falling due within one year £ million	Amounts falling due after one year £ million	Amounts falling due within one year £ million	Amounts falling due after one year £ million
Trade payables	**141**	—	105	—
Amounts owed to fellow group undertakings	**67**	—	79	—
Amounts owed to joint ventures	**6**	—	6	—
Tax and social security excluding income tax	**125**	—	137	—
Accruals and deferred income	**114**	—	64	—
Other payables	**8**	**59**	3	27
	461	**59**	394	27

Amounts owed to fellow group undertakings are interest free, unsecured and repayable on demand.

Included as other payables falling due after one year is £59 million (2020 - £27 million) in respect of the contingent consideration payable on the acquisition of Copper Dog Whisky Limited and Chase Distillery (Holdings) Limited.

For the year ended 30 June 2021 accruals and deferred income has increased significantly due to £27 million bonus accrued (2020 - nil) and trade investment accrued in the amount of £60 million (2020 – £36 million). The trade investment accrual has been increased in line with the increase of the business.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. PROVISIONS

	Restructuring £ million	Other £ million	Total £ million
At 30 June 2020	3	35	38
Impact of IFRS16	—	—	—
Released during the year	(2)	(3)	(5)
Charged during the year	2	8	10
Utilised during the year	(2)	(21)	(23)
Transfer	—	—	—
At 30 June 2021	**1**	**19**	**20**
Current liabilities	1	11	12
Non-current liabilities	—	8	8
	1	**19**	**20**

The largest item in other provisions at 30 June 2021 is £8 million in respect of the 'Raising the Bar' programme. In June 2020 Diageo group launched this two-year global programme to support pubs and bars to welcome customers back and recover following the Covid-19 pandemic.

19. SHARE CAPITAL

	30 June 2021 £ million
Allotted, called up and fully paid:	
1,113,082,750 (2020 - 1,113,082,750) ordinary shares of 25p each	**278**

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. COMMITMENTS

Capital expenditure commitments not provided for in these financial statements are estimated at £29 million (2020 - £41 million).

At 30 June 2021, the company had other purchase commitments of £131 million (2020 - £86 million).

The amount of purchase commitments contains mainly commitments for marketing, HR and IT services.

21. RELATED PARTY TRANSACTIONS

Transactions between the company and its related parties are made on terms equivalent to those that prevail in arm's length transactions.

The company provides services to and act as an agent for a number of not wholly owned fellow group undertakings. The costs and income (excluding agents' fees) in respect of agency activities (for certain packaging services) are not disclosed separately in the company's statement of comprehensive income. This is included in the 'Packaing beer' revenue in Note 2 on page 37.

The following transactions were carried out with related parties:

(a) Sales of goods and services

	Year ended 30 June 2021 £ million	**Year ended 30 June 2020 £ million**
Subsidiaries not wholly owned by the Diageo group	2	1

(b) Purchases of goods and services

	Year ended 30 June 2021 £ million	**Year ended 30 June 2020 £ million**
Subsidiaries not wholly owned by the Diageo group	5	4

(c) Year-end balances arising from sales/purchases of goods and services

	30 June 2021 £ million	**30 June 2020 £ million**
Trade receivables due from related parties:		
Subsidiaries not wholly owned by the Diageo group	1	2

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. RELATED PARTY TRANSACTIONS (continued)

(d) Loans in respect of related parties

At 30 June 2021, amounts owed by fellow group companies includes £63 million (2020 - £63 million) in respect of loans provided to Lochside MWS Limited Partnership and £6 million (2020 - £6 million) in respect of loans payable to The North British Distillery Company Limited not wholly owned by the group.

(e) Profit on ordinary activities includes dividend income from a joint venture undertaking of nil million (2020 - £2 million).

22. FINANCE GUARANTEE CONTRACT

Effective from January 2014 the company and Diageo Scotland Limited, a wholly owned subsidiary undertaking, jointly entered into a 10-year agreement with Ardagh Glass Limited and Ardagh Packaging Holdings Limited for the supply of glass in Europe. Diageo Scotland Limited and the company are jointly and severally liable to the supplier in respect of any liabilities of Diageo Scotland Limited in the agreement.

23. POST BALANCE SHEET EVENTS

On 5 October 2021 the Board approved additional investment of £1 million in Pulpex Limited. The company's proportion of ownership in Pulpex Limited after the additional investment is 38%.

24. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking of the company is Grand Metropolitan Limited, a company incorporated and registered in England, United Kingdom.

The ultimate parent undertaking of the company is Diageo plc which is the ultimate controlling party of the group. The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Diageo plc. Diageo plc is incorporated and registered in England, United Kingdom. The consolidated financial statements of Diageo plc can be obtained from the registered office at Diageo, Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom.