Diageo Northern Ireland Limited

Financial statements
30 June 2016

Registered number: NI 003755

Diageo Northern Ireland Limited
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Year ended 30 June 2016

CONTENTS

Directors and other information

Directors	Mr. R. Cowan Mr. K. Gowing Mr. J. Lopes
Company secretary	Mrs. A. Kenealy
Registered office	Third Floor Capital House 3 Upper Queen Street Belfast Northern Ireland
Auditors	PricewaterhouseCoopers Chartered accountants One Spencer Dock North Wall Quay Dublin 1
Company registration number	NI 003755

Strategic report

The directors have pleasure to present their strategic report for the year ended 30 June 2016.

Activities

The company's activity is the sale of alcoholic and other beverages. The directors consider both the results for the year and trading prospects are satisfactory.

Business review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2016

The business performed satisfactorily in the year in a competitive market place for both beers and spirits. The business grew volumes in beer category whilst turnover was depressed by lower pricing.

Financial and other key performance indicators

The principal key performance indicators used by management to operate the business are turnover, operating profit and cash.

The decline in turnover was driven mostly by the disposal of certain brands and a reduction in spirits volumes. Pricing remains very competitive in the market. Operating profit margins were maintained by effective cost control and cash flow benefited from strong management of working capital.

Principal risks and uncertainties facing the company as at 30 June 2016

The company believes the following to be the principal risks and uncertainties it has to face. If any of these risks occur, the company's business, financial condition and results of operations could suffer.

The directors consider the principal risks and uncertainties the company faces to be:

- the risk of a downturn in global and local economy
- the risk of not retaining key employees; and
- the risk posed by a rising cost base to purchase and distribute the products.

The directors believe that these risks are effectively managed through a strong focus on product development, employee development and rigorously identifying and realising cost efficiencies.

Strategic report (continued)

Financial risk management

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

Liquidity risk

In order to maintain liquidity to 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 and to fellow subsidiary undertakings. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The company sets credit limits for, and monitors its exposure to, its counterparties via their credit ratings (where applicable).

By order of the board

J. Lopes
Director
Date: 12/12/16

Directors' report

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2016.

Future developments

The company does not foresee any major changes in the operation of the business.

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the strategic report on page 2-3. 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 directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Diageo group 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 the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Financial

The results for the year ended 30 June 2016 are shown on page 10.

The profit for the year transferred to reserves is £2,310,000 (2015 - £2,497,000).

No dividend was paid during the year (2015 - £18,000,000).

The transition to FRS 101 decreased the profit for the financial year reported in the year ended 30 June 2015 from £2,516,000 to £2,497,000 as a result of applying hedge accounting.

Directors

The directors who held office during the year were as follows:

Mr. R. Cowan
Mr. K. Gowing
Mr. J. Lopes

Secretary

The secretaries who held office during the year were as follows:

Mrs. A. Kenealy
Mrs. C. McDonnell (resigned 21 June 2016)

Directors' remuneration

Details of the directors' emoluments are detailed in note 5 of these financial statements.

Directors' report (continued)

Directors' indemnity

As permitted by the Articles of Association, each of the directors has the benefit of an indemnity, which is a qualifying third-party indemnity as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the tenure of each director during the last financial year, and is currently in force.

Post balance sheet events

There have been no significant post balance sheet events affecting the company.

Auditors

Following an audit tender conducted during last year, PricewaterhouseCoopers LLP were selected as auditors for the Diageo group. Accordingly, PricewaterhouseCoopers were appointed to replace KPMG as auditors of the company for the year ended 30 June 2016.

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information.

By order of the board

J. Lopes
Director

12 December 2016

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 - Reduced Disclosure Framework (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholder in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

pwc

Independent auditors' report to the members of Diageo Northern Ireland Limited

Report on the financial statements

Our opinion

In our opinion, Diageo Northern Ireland Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 June 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Financial Statements (the "Financial Statements"), comprise:

- the balance sheet as at 30 June 2016;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Financial Statements, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

pwc

Independent auditors' report to the members of Diageo Northern Ireland Limited - continued

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities in respect of the strategic reports, the directors' report and the financial statements set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

pwc

Independent auditors' report to the members of Diageo Northern Ireland Limited - continued

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Paul O'Connor

Paul O'Connor
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Dublin

13 December 2016

INCOME STATEMENT

	Notes	Year ended 30 June 2016 £'000	Year ended 30 June 2015 (restated) £'000
Turnover	2	**111,026**	**122,440**
Excise duties	3	(47,527)	(51,124)
Net sales		**63,499**	**71,316**
Cost of sales	3	(49,832)	(55,302)
Gross profit		**13,667**	**16,014**
Marketing expenses	3	(4,301)	(4,984)
Other operating expenses	3	(6,793)	(8,157)
Operating profit		**2,573**	**2,873**
Net finance income	6	174	124
Profit before taxation on ordinary activities		**2,747**	**2,997**
Taxation on profit on ordinary activities	7	(437)	(500)
Profit for the financial year		**2,310**	**2,497**

Figures for the year ended 30 June 2015 have been restated following the adoption of FRS 101. See note 1 and note 20 to the financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 (restated) £'000
Other comprehensive income/(expense):		
Items that may be recycled subsequently to the income statement		
Effective portion of changes in fair value of cash flow hedges		
- gains/(losses) taken to other comprehensive income	357	(19)
- recycled to income statement	(357)	19
Tax on effective portion of changes in fair value of cash flow hedges	-	-
Other comprehensive income for the year, net of tax	-	-
Profit for the year	2,310	2,497
Total comprehensive income for the year	**2,310**	**2,497**

Figures for the year ended 30 June 2015 have been restated following the adoption of FRS 101. See note 1 and note 20 to the financial statements.

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

BALANCE SHEET

	Notes	30 June 2016 £'000	30 June 2015 (restated) £'000
Fixed assets			
Property, plant and equipment	*8*	2,587	2,896
Investments	*9*	8,445	11,925
		11,032	**14,821**
Current assets: due after one year			
Deferred tax assets	*10*	1,291	1,707
Current assets: due within one year			
Inventories	*11*	2,912	2,628
Trade and other receivables	*12*	18,121	48,174
Cash and cash equivalents		2,385	3,953
Other financial assets	*13*	338	-
		23,756	**54,755**
Creditors: amounts falling due within one year			
Trade and other creditors	*15*	(15,649)	(52,968)
Provisions	*16*	(37)	(234)
Other financial liabilities	*13*	-	(19)
		(15,686)	**(53,221)**
Net current assets		**9,361**	**3,241**
Total assets less current liabilities		**20,393**	**18,062**
Net assets		**20,393**	**18,062**
Equity			
Called up share capital	*17*	-	-
Other reserves		22	1
Retained earnings		20,371	18,061
Total equity		**20,393**	**18,062**

Figures for the year ended 30 June 2015 have been restated following the adoption of FRS 101. See note 1 and note 20 to the financial statements.

The accounting policies and other notes on pages 15 to 40 form part of the financial statements.

These financial statements on pages 10 to 40 were approved by the board of directors on 12 December 2016 and were signed on its behalf by:

J. Lopes
Director

STATEMENT OF CHANGES IN EQUITY
ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	Share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 30 June 2014 as previously reported	-	-	**33,558**	**33,558**
Adoption of FRS 101	-	-	6	6
Balance at 30 June 2014 (restated)	-	-	33,564	33,564
Total comprehensive income for the year	-	-	2,497	2,497
Tax on share-based payments	-	1	-	1
Dividends to shareholders	-	-	(18,000)	(18,000)
Balance at 30 June 2015 (restated)	-	**1**	**18,061**	**18,062**
Total comprehensive income for the year	-	-	2,310	2,310
Tax on share-based payments	-	21	-	21
Balance at 30 June 2016	-	**22**	**20,371**	**20,393**

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently, in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

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.

Transition to FRS 101

The company has applied FRS 101 for the first time for the year ended 30 June 2016 with comparative information for the year ended 30 June 2015 also prepared under FRS 101. The accounting policies applicable to the company from 1 July 2014 are set out below. This involved preparation of an opening FRS 101 balance sheet as at 1 July 2014, which is the company's date of transition to FRS 101 reporting.

The FRS 101 figures have been prepared in accordance with IFRS standards and interpretations as in force at 30 June 2016. In preparing the comparative information and the opening FRS 101 balance sheet, the company has adjusted amounts reported previously in financial statements prepared in accordance with its former basis of accounting under UK GAAP.

An explanation of how the transition to FRS 101 has affected the company's financial position and financial performance is set out in note 20 to the financial statements.

These financial statements are prepared on a going concern basis under the historical cost convention, except that certain financial instruments are stated 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 company has taken advantage of the following exemptions from the requirements of IFRS in the preparation of these financial statements, in accordance with FRS 101:

- A cash flow statement and related notes;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Comparative period reconciliations for share capital, tangible fixed assets;
- Disclosures in respect of capital management;
- An additional balance sheet at 1 July 2014; and
- Disclosures in respect of the compensation of Key Management Personnel.

NOTES TO FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

As the consolidated financial statements of Diageo plc include equivalent disclosures, the company has also utilised exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 2 Share-based Payments in respect of group settled share based payments;
- The disclosures required by IFRS 7 Financial Instruments Disclosures;
- The disclosures required by IFRS 13 Fair Value Measurement;

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 thousand.

Turnover

Turnover comprises revenue from the sale of goods and services. Revenue from the sale of goods includes excise and other duties which the company pays as principal but excludes amounts collected on behalf of third parties, such as value added tax. Turnover is recognised depending upon individual customer terms at the time of dispatch, delivery or some other specific point when the risk of loss transfers. Provision is made for returns where appropriate. Turnover is stated net of price discounts, allowances for customer loyalty and certain promotional activities and similar items.

Advertising

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

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 is recognised on a straight-line basis over the vesting period of the award. The fair value is measured on the binomial or 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 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. If hedged forward, the impact of hedging is recognised, where permitted, under hedge accounting (refer to accounting policy for derivative financial instruments). 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 income statement.

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 years
Plant and machinery	-	3-8 years
Dispensing equipment	-	3-10 years

Reviews are carried out if there is some indication that impairment may have occurred, to ensure that fixed assets are not carried at above their recoverable amounts.

Profit or loss on the sale of a property is the difference between the disposal proceeds and the net book value.

Investments

Investments are initially recorded at cost less, where appropriate, provision for impairment in value where such impairment is expected by the directors to be permanent. Income from investments is credited to the income statement.

Leases

Where the company has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Other leases are treated as operating leases, with payments and receipts taken to the income statement on a straight-line basis over the life of the lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated at the weighted average cost incurred in acquiring inventories.

NOTES TO FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Financial assets and liabilities

Trade receivables Trade receivables are non-interest bearing and are stated at their nominal amount that is usually the original invoiced amount less provisions made for bad and doubtful receivables. Estimated irrecoverable amounts are based on the ageing of the receivable balances and historical experience. Individual trade receivables are provided against when management deems them not to be collectable.

Cash and cash equivalents Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less at acquisition, including money market deposits, commercial paper and investments.

Trade creditors Trade creditors are non-interest bearing and are stated at their nominal value.
Amounts owed to and from other group companies are reported at initial cost, subject to impairment, as they are repayable on demand.

Derivative financial instruments

Derivative financial instruments are carried at fair value using a discounted cash flow technique based on market data applied consistently for similar type of instruments. Gains and losses on derivatives that do not qualify for hedge accounting treatment are taken to the income statement as they arise.

The company designates and documents certain derivatives as hedging instruments against highly probable forecast transactions (cash flow hedges). The effectiveness of such hedges is assessed at inception and at least on a quarterly basis, using prospective and retrospective testing. Methods used for testing effectiveness include dollar offset, critical terms, regression analysis and hypothetical derivative method.

Cash flow hedges are used to hedge the foreign currency risk of highly probable future foreign currency cash flows, as well as the cash flow risk from changes in exchange rates. The effective portion of the gain or loss on the hedges is recognised in the other comprehensive income, while any ineffective part is recognised in the income statement. Amounts recorded in the other comprehensive income are recycled to the income statement in the same period in which the underlying foreign currency affects the income statement.

Derivative financial instruments are presented in the financial statements as 'Intra-group derivative assets/ (liabilities)'as these transactions are entered into by Diageo Finance plc, a fellow group undertaking, and subsequently passed to the company.

NOTES TO FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

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.

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. Interests and penalties on tax liabilities are provided in the tax charge.

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 recovery 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.

Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, management reviews each material tax benefit 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.

Dividends 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.

Judgements in applying accounting policies and key sources of estimation uncertainty

The directors make estimates and assumptions 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 assumptions that have a significant risk of casting 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.

NOTES TO FINANCIAL STATEMENTS (continued)

2. TURNOVER

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

Geographical analysis of turnover

Turnover originated from the United Kingdom and the geographical analysis of turnover by destination is given below:

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
United Kingdom	111,026	122,440

Analysis of turnover by class of business

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Marketing and selling of beer	84,247	84,740
Marketing and selling of spirits	26,779	35,832
Marketing and selling of wine	-	1,868
	111,026	122,440

Segmental information is provided in the consolidated accounts of the ultimate parent company, Diageo plc.
Sales to fellow group undertakings included in turnover amounted to £1,000 (2015 - £nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING COSTS

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Excise duties	47,527	51,124
Cost of sales	49,832	55,302
Marketing expenses	4,301	4,984
Other operating expenses	6,793	8,157
	108,453	119,567

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Comprising:		
Excise duties	47,527	51,124
Raw materials and consumables	49,026	54,440
Marketing expenses	4,301	4,984
Other external charges (a)	4,580	7,012
Staff costs (note 4)	6,003	5,476
Depreciation, amortisation and impairment	857	902
(Gains)/losses on disposal of property	(1)	102
Net foreign exchange (gains)/losses	(271)	(787)
Other operating income (b)	(3,569)	(3,686)
	108,453	119,567

(a) **Other external charges include**: provision for fixed asset investments £525,000 (2015 - £649,000); operating lease rentals for land & building of £87,000 (2015 - £126,000); other lease rentals of £251,000 (2015 - £274,000); maintenance costs of £163,000 (2015 - £386,000); recharged overhead costs of £1,764,000 (2015 - £2,845,000); facility costs of £463,000 (2015 - £935,000).

(b) **Other operating income includes**: intercompany management income of £1,969,000 (2015 - £2,655,000); provision release of £200,000 (2015 - £nil); one-off refund £528,000 (2015 - £nil).

Auditors fees in respect of services provided by the auditors was £17,500 (2015 - £42,000). There were no fees payable to the auditor in respect of non-audit services (2015 - £nil).

NOTES TO 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 2016	Year ended 30 June 2015
Selling and distribution	121	123

The average number of employees of the company, including part time employees, for the year was 142 (2015 - 145).

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Wages and salaries	4,180	3,707
Employer's pension costs	1,115	1,153
Employer's social security costs	461	373
Other employment costs	247	243
	6,003	5,476

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 £1,115,000 to the schemes in respect of its employees in the year ended 30 June 2016 (2015 – £1,153,000). As there is no contractual agreement for allocating the surplus or deficit to participating entities, it is recognised fully by the sponsoring employer, Diageo plc.

NOTES TO FINANCIAL STATEMENTS (continued)

4. EMPLOYEES (continued)

Directors' remuneration

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Directors' remunerations (excluding pension contributions)	164	173
Amounts receivable under long term incentive shcemes	12	10
Company contributions to pension schemes	19	18
	195	201

The aggregate remuneration of the highest paid director was £195,000 (2015 - £201,000). The highest paid director is a member of a defined benefit scheme under which his accrued annual pension at the year end was £29,000 (2015 - £29,000). The lump sum equivalent of the highest paid director's pension entitlement at the year end was £29,000 (2015 - £29,000).

Some of the directors were paid by fellow group undertakings. All of the directors paid by the company are members of the Diageo UK pension plans and are entitled to receive share based payments from Diageo plc.

	Year ended 30 June 2016	Year ended 30 June 2015
The number of directors who exercised share options was	1	1
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	1	1
The number of directors in respect of whose retirement benefits were accrued for under defined benefit schemes	1	1

NOTES TO FINANCIAL STATEMENTS (continued)

5. EMPLOYEE SHARE COMPENSATION

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

Executive share awards are made under the Diageo 2014 Long Term Incentive plan (DLTIP) from September 2014 onwards. Prior to that, awards were made under the Diageo Executive Long Term Incentive Plan (DELTIP) or the Performance Share Plan (PSP). Under all of these plans, conditional awards can be delivered in the form of restricted shares or share options at the market value at the time of grant.
To date, participants in the Performance shares under the DLTIP (previous PSP) have been granted only with conditional rights to receive shares, whilst under DELTIP both share awards and share options have been made.
Share awards vest and are released on the third anniversary of the grant date. Participants do not make a payment to receive the award at grant. Executive Directors are required to hold any vested shares awarded from 2014 for a further two-year period. Share options may normally be exercised between three and ten years after the grant date.
Performance shares under the DLTIP (previous PSP) are subject to achievement of three equally weighted performance tests over the three-year performance period; 1) a comparison of Diageo's three-year TSR with a peer group; 2) compound annual growth in organic net sales over three years; 3) total organic operating margin improvement over three years. Performance measures and targets are set annually by the remuneration committee. The vesting range is 20% or 25% (for Executive Directors and for other participants respectively) for achieving minimum performance targets, up to 100% for achieving the maximum target level. Retesting of the performance condition is not permitted.
For performance shares under the DLTIP (previous PSP) dividends are accrued on awards and are given to participants to the extent that the awards actually vest at the end of the performance period. Dividends can be paid in the form of cash or shares.

Further details of the valuation and accounting for share options schemes and policies are contained in Diageo plc's annual report for the year ended 30 June 2016 (see note 17 of Diageo plc's 2016 annual report).

6. FINANCE INCOME AND CHARGES

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Interest income from fellow group undertakings	169	144
Other interest income	43	3
Total interest income	**212**	**147**
Interest charge to fellow group undertakings	(38)	(23)
Total interest charge	**(38)**	**(23)**
	174	**124**

NOTES TO FINANCIAL STATEMENTS (continued)

7. TAXATION

(a) Analysis of taxation charge/(credit) for the year	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Total current tax	**9**	**4**
Deferred tax		
Origination and reversal of differences	461	621
Changes in tax rates	16	(23)
Adjustment in respect of prior years	(49)	(102)
Total deferred tax	**428**	**496**
Taxation on profit on ordinary activities	**437**	**500**
(b) Tax charge/(credit) included in equity		
Current tax	(9)	(4)
Deferred tax	(12)	3
Total tax charge/(credit) included in equity	**(21)**	**(1)**

(c) Factors affecting total tax charge for the year	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Profit on ordinary activities before taxation	**2,747**	**2,997**
Taxation on profit on ordinary activities at UK corporation tax rate of 20.00% (2015 - 20.75%)	549	622
Income not taxable and expenses not deductible for tax purpuses	22	38
Group relief received for nil consideration	(58)	(31)
Derivatives	4	(4)
Share options	(47)	-
Changes in tax rates	16	(23)
Adjustment in respect of prior years	(49)	(102)
Total tax charge for the year	**437**	**500**

Factors which may affect future tax charges

The UK tax rate reduced from 21% to 20% on 1 April 2015. In November 2015 a reduction to 19% was substantively enacted (effective from 1 April 2017), whilst a further reduction to 17% (effective from 1 April 2020) was substantively enacted in September 2016. The net deferred tax asset (note 10) will reduce as a consequence of these rate changes.

NOTES TO FINANCIAL STATEMENTS (continued)

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Assets in course of construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 30 June 2015	492	7,944	55	8,491
Additions	42	412	95	549
Disposals	-	-	(1)	(1)
Transfers	-	141	(141)	-
At 30 June 2016	**534**	**8,497**	**8**	**9,039**
Depreciation				
At 30 June 2015	(1)	(5,594)	-	(5,595)
Depreciation charge	(50)	(807)	-	(857)
Disposals	-	-	-	-
At 30 June 2016	**(51)**	**(6,401)**	**-**	**(6,452)**
Carrying amount				
At 30 June 2016	**483**	**2,096**	**8**	**2,587**
At 30 June 2015	491	2,350	55	2,896

NOTES TO FINANCIAL STATEMENTS (continued)

9. INVESTMENTS

	Trade loans £'000
Cost	
At 30 June 2014	24,804
New loans advanced	2,010
Repayments and redemptions	(4,804)
Loan write off	(3,285)
At 30 June 2015	18,725
New loans advanced	827
Repayments and redemptions	(3,782)
Loan written off	(1,599)
At 30 June 2016	**14,171**
Provisions	
At 30 June 2014	(9,436)
Provided during the year	(649)
Release of provision against loans written off	3,285
At 30 June 2015	(6,800)
Provided during the year	(525)
Release of provision against loans written off	1,599
At 30 June 2016	**(5,726)**
Carrying amount	
At 30 June 2016	**8,445**
At 30 June 2015	11,925
At 30 June 2014	15,368

NOTES TO FINANCIAL STATEMENTS (continued)

10. 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	**Tax losses**	**Other temporary differences**	**Total**
	£'000	£'000	£'000	**£'000**
Balance at 30 June 2014 as previously reported	**1,363**	**841**	**(4)**	**2,200**
Adoption of FRS 101	-	-	6	6
At 30 June 2014 as restated	**1,363**	**841**	**2**	**2,206**
Recognised in income statement	(669)	167	6	(496)
Recognised in equity	-	-	(3)	(3)
At 30 June 2015 as restated	**694**	**1,008**	**5**	**1,707**
Recognised in income statement	(89)	(353)	14	**(428)**
Recognised in equity	-	-	12	**12**
At 30 June 2016	**605**	**655**	**31**	**1,291**

Deferred tax on other temporary differences includes items such as share-based payments and derivatives.

11. INVENTORIES

	Year ended 30 June 2016	**Year ended 30 June 2015**
Finished goods and goods for resale	2,912	2,628

Inventories are disclosed net of provision of £20,000 (2015 - £36,000) for obsolescence.

NOTES TO FINANCIAL STATEMENTS (continued)

12. TRADE AND OTHER RECEIVABLES

	30 June 2016 Due within one year £'000	30 June 2015 Due within one year £'000
Trade receivables	10,967	13,687
Amounts owed by fellow group undertakings	5,684	30,724
Prepayments and accrued income	1,450	3,713
Other receivables	20	50
	18,121	48,174

The aged analysis of trade receivables is as follows:

	30 June 2016 £'000	30 June 2015 £'000
Not overdue	10,793	13,003
Overdue 1-30 days	-	-
Overdue 31-60 days	-	134
Overdue 61-90 days	8	59
Overdue 91-180 days	55	118
Overdue more than 180 days	111	373
	10,967	13,687

Trade and other receivables are disclosed net of provisions of £522,000 (2015 - £505,000) for bad and doubtful debts.

NOTES TO FINANCIAL STATEMENTS (continued)

13. OTHER FINANCIAL ASSETS AND LIABILITIES

	Current assets £'000	Current liabilities £'000
2016		
Intra-group derivative assets/(liabilities)		
Not designated in a hedge relationship	338	-
	338	-

	Current assets £'000	Current liabilities £'000
2015		
Intra-group derivative assets/(liabilities)		
Not designated in a hedge relationship	-	(19)
	-	(19)

NOTES TO FINANCIAL STATEMENTS (continued)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Currency risk

The company presents its financial statements in sterling and conducts business in a few other currencies. As a result, it is subject to foreign currency risk due to exchange rate movements, which will affect the company's transactions. To manage the currency risk the company uses certain financial instruments. Where hedge accounting is applied, hedges are documented and tested for effectiveness on an ongoing basis. The company expects hedges entered into to continue to be effective and therefore does not expect the impact of ineffectiveness on the income statement to be material.

Transaction exposure hedging

The group's policy is to hedge up to 24 months forecast transactional foreign currency risk on the net US dollar exposure of the group targeting 75% coverage for the current financial year and up to 18 months for other currency pairs.

(b) Fair value measurements

Fair value measurements of financial instruments are presented through the use of a three-level fair value hierarchy that prioritises the valuation techniques used in fair value calculations.
The group maintains policies and procedures to value instruments using the most relevant data available. If multiple inputs that fall into different levels of the hierarchy are used in the valuation of an instrument, the instrument is categorised on the basis of the most subjective input.
Foreign currency forwards are valued using discounted cash flow techniques. These techniques incorporate inputs at levels 1 and 2, such as foreign exchange rates and interest rates. These market inputs are used in the discounted cash flow calculation incorporating the instrument's term, notional amount and discount rate, and taking credit risk into account. As significant inputs to the valuation are observable in active markets, these instruments are categorised as level 2 in the hierarchy.

The company's financial assets and liabilities measured at fair value are categorised as follows:

	30 June 2016 £'000	30 June 2015 £'000
Derivative assets	338	-
Derivative liabilities	-	(19)
Valuation techniques based on observable market input (Level 2)	**338**	**(19)**

There were no transfers between levels during the two years ended 30 June 2016 and 30 June 2015.

NOTES TO FINANCIAL STATEMENTS (continued)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) *Results of hedging instruments*

In respect of cash flow hedging instruments, a gain of £357,000 (2015 - £19,000 loss) has been recognised in other comprehensive income due to changes in fair value. A gain of £357,000 has been transferred out of comprehensive income to other operating income (2015 - a loss of £19,000).
For cash flow hedges of forecast transactions at 30 June 2016, based on year end interest and foreign exchange rates, there is expected to be a result to the income statement of £nil in 2017 and a result of £nil in 2018.

15. TRADE AND OTHER CREDITORS

	30 June 2016 Due within one year £'000	30 June 2015 Due within one year £'000
Amounts owed to fellow group undertakings	2,490	39,246
Tax and social security excluding income tax	6,001	6,679
Accruals and deferred income	4,182	3,892
Trade creditors	2,695	2,702
Other creditors	281	449
	15,649	52,968

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

16. PROVISIONS

	Other £'000	Total £'000
At 30 June 2015	234	234
Charged during the year	31	31
Released	(228)	(228)
At 30 June 2016	**37**	**37**

NOTES TO FINANCIAL STATEMENTS (continued)

17. SHARE CAPITAL

	30 June 2016
	£
Allotted, called up and fully paid	
100 ordinary shares of £1 each	100

18. COMMITMENTS

Capital commitments

Commitments for expenditure on property, plant and equipment not provided for in these financial statements are estimated at £26,000 (2015 - £9,000).

Operating lease commitments

The minimum lease rentals to be paid under non-cancellable leases are as follows:

	30 June 2016			30 June 2015		
	Land & Buildings	Other	Total	Land & Buildings	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Payments falling due:						
Within one year	124	223	347	124	181	305
Between one and two years	122	156	278	122	90	212
Between two and three years	101	97	198	122	35	157
Between three and four years	-	52	52	81	3	84
Between four and five years	-	1	1	-	-	-
After five years	-	-	-	-	-	-
	347	**529**	**876**	**449**	**309**	**758**

Other purchase commitments

At 30 June 2016 the company had purchase commitments originating from purchase orders totalling £2,026,000 (2015 - £2,574,000).

NOTES TO FINANCIAL STATEMENTS (continued)

19. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

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

20. EXPLANATION OF TRANSITION TO FRS 101 FROM OLD UK GAAP

As stated in note 1, these are the company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2016, the comparative information presented in these financial statements for the year ended 30 June 2015 and in the preparation of an opening FRS 101 balance sheet at 1 July 2014 (the company's date of transition).

In preparing its FRS 101 balance sheet, the company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting. An explanation of how the transition from previous UK GAAP to FRS 101 has affected the company's financial position and financial performance is set out in the following tables.

Notes to the reconciliation from old UK GAAP to FRS 101

(a) Hedge accounting
Derivative financial instruments are carried at fair value at the end of the year. The effective portion of the gain or loss on cash flow hedges is recognised in other comprehensive income, while any ineffective part is recognised in the income statement. Amounts recorded in other comprehensive income are recycled to the income statement in the same period in which the underlying foreign currency affects the income statement. Under previous UK GAAP, no amounts were recognised in the company's accounts during the life of the derivate contract. Profits and losses arising on the derivative contracts were recognised in the income statement in the same period in which the underlying hedged transaction occurred.

(b) Share Based Payments
Deferred tax on changes in the share price on share options issued to employees which were not required under old UK GAAP.

NOTES TO FINANCIAL STATEMENTS (continued)

20. EXPLANATION OF TRANSITION TO FRS 101 FROM OLD UK GAAP (continued)

Reconciliation of shareholders' equity as at 1 July 2014:

	Under UK GAAP £[000]	Hedge accounting £[000]	Share Based Payments £[000]	Total impact of transition to FRS 101 £[000]	Under FRS 101 £[000]
Fixed assets					
Property, plant and equipment	2,909	-	-	-	2,909
Investment	15,368	-	-	-	15,368
	18,277	-	-	-	18,277
Current assets: due after one year					
Deferred tax asset	2,200	-	6	6	2,206
Current assets: due within one year					
Inventories	3,198	-	-	-	3,198
Trade and other receivables	50,775	-	-	-	50,775
Cash and cash equivalents	2,850	-	-	-	2,850
Other financial assets	-	-	-	-	-
Total current assets	59,023	-	6	6	59,029
Creditors: amounts falling due within one year					
Trade and other creditors	(43,504)	-	-	-	(43,504)
Provisions	(238)	-	-	-	(238)
Other financial liabilities	-	-	-	-	-
	(43,742)	-	-	-	(43,742)
Net current assets	15,281	-	6	6	15,287
Total assets less current liabilities	33,558	-	6	6	33,564
Net assets	**33,558**	-	**6**	**6**	**33,564**

NOTES TO FINANCIAL STATEMENTS (continued)

20. EXPLANATION OF TRANSITION TO FRS 101 FROM OLD UK GAAP (continued)

Reconciliation of shareholders' equity as at 1 July 2014:

	Under UK GAAP £[000]	Hedge accounting £[000]	Share Based Payments £[000]	Total impact of transition to FRS 101 £[000]	Under FRS 101 £[000]
Equity					
Called up share capital	-	-	-	-	-
Retained earnings	33,558	-	6	6	33,564
Total equity	**33,558**	-	**6**	**6**	**33,564**

NOTES TO FINANCIAL STATEMENTS (continued)

20. EXPLANATION OF TRANSITION TO FRS 101 FROM OLD UK GAAP (continued)

Reconciliation of shareholders' equity as at 30 June 2015:

	Under UK GAAP £[000]	Hedge accounting £[000]	Share Based Payments £[000]	Total impact of transition to FRS 101 £[000]	Under FRS 101 £[000]
Fixed assets					
Property, plant and equipment	2,896	-	-	-	2,896
Investment	11,925	-	-	-	11,925
	14,821	-	-	-	14,821
Current assets: due after one year					
Deferred tax asset	1,700	4	3	7	1,707
Current assets: due within one year					
Inventories	2,628	-	-	-	2,628
Trade and other receivables	48,174	-	-	-	48,174
Cash and cash equivalents	3,953	-	-	-	3,953
Other financial assets	-	-	-	-	-
Total current assets	56,455	4	3	7	56,462
Creditors: amounts falling due within one year					
Trade and other creditors	(52,968)	-	-	-	(52,968)
Provisions	(234)	-	-	-	(234)
Other financial liabilities	-	(19)	-	(19)	(19)
	(53,202)	(19)	-	(19)	(53,221)
Net current assets/(liabilities)	3,253	(15)	3	(12)	3,241
Total assets less current liabilities	18,074	(15)	3	(12)	18,062
Net assets	**18,074**	**(15)**	**3**	**(12)**	**18,062**

NOTES TO FINANCIAL STATEMENTS (continued)

20. EXPLANATION OF TRANSITION TO FRS 101 FROM OLD UK GAAP (continued)

Reconciliation of shareholders' equity as at 30 June 2015:

	Under UK GAAP £[000]	Hedge accounting £[000]	Share Based Payments £[000]	Total impact of transition to FRS 101 £[000]	Under FRS 101 £[000]
Equity					
Called up share capital	-	-	-	-	-
Other reserves	-	-	1	1	1
Retained earnings	18,074	(15)	2	(13)	18,061
Total equity	**18,074**	**(15)**	**3**	**(12)**	**18,062**

NOTES TO FINANCIAL STATEMENTS (continued)

20. EXPLANATION OF TRANSITION TO FRS 101 FROM OLD UK GAAP (continued)

Reconciliation of comprehensive income as at 30 June 2015:

	Under UK GAAP £[000]	Hedge accounting £[000]	Share Based Payments £[000]	Total impact of transition to FRS 101 £[000]	Under FRS 101 £[000]
Turnover	122,440	-	-	-	122,440
Excise duties	(51,124)	-	-	-	(51,124)
Net sales	71,316	-	-	-	71,316
Cost of sales	(55,302)	-	-	-	(55,302)
Gross profit	16,014	-	-	-	16,014
Marketing expenses	(4,984)				(4,984)
Other operating expenses	(8,138)	(19)	-	(19)	(8,157)
Operating profit	2,892	(19)	-	(19)	2,873
Net finance income	124	-	-	-	124
Profit before taxation on ordinary activities	3,016	(19)	-	(19)	2,997
Taxation on profit on ordinary activities	(500)	4	(4)	-	(500)
Profit for the financial year	2,516	(15)	(4)	(19)	2,497

NOTES TO FINANCIAL STATEMENTS (continued)

20. EXPLANATION OF TRANSITION TO FRS 101 FROM OLD UK GAAP (continued)

Reconciliation of comprehensive income as at 30 June 2015:

	Under UK GAAP £[000]	Hedge accounting £[000]	Share Based Payments £[000]	Total impact of transition to FRS 101 £[000]	Under FRS 101 £[000]
Other comprehensive income/(expense):					
Items that may be recycled subsequently to the income statement					
Effective portion of changes in fair value of cash flow hedges					
- gains/(losses) taken to other comprehensive income	-	(19)	-	(19)	(19)
- recycled to income statement	-	19	-	19	19
Tax on effective portion of changes in fair value of cash flow hedges	-	-	-	-	-
Other comprehensive income for the year, net of tax	-	-	-	-	-
Profit for the year	2,516	(15)	(4)	(19)	2,497
Total comprehensive income for the year	2,516	(15)	(4)	(19)	2,497