Diageo Northern Ireland Limited

Annual report and financial statements
30 June 2019

Registered number: NI 003755

Diageo Northern Ireland Limited
Registered number: NI 003755
Year ended 30 June 2019

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Directors and other information

Directors	Mr. R. Cowan Mr. K. Gowing
Company secretary	Mrs. J. Trundle
Registered office	Third Floor Capital House 3 Upper Queen Street Belfast Northern Ireland
Independent auditors	PricewaterhouseCoopers Chartered accountants One Spencer Dock North Wall Quay Dublin 1
Company registration number	NI 003755
Banker	Bank of America 2 King Edward Street EC1A 1HQ London, United Kingdom
Solicitor	William Fry 2 Grand Canal Square Dublin

Strategic report

The directors present their strategic report for the year ended 30 June 2019.

Principal 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 2019

The company had a favourable financial year benefiting from improved market conditions and growing market share in a competitive market place. Sales volume grew in both categories beers and spirits resulting in increase of turnover during the year.

Financial and other key performance indicators

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

Turnover increased due to improved market conditions for spirits and growing market share for beer in a competitive market place. 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 2019

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 similar to those facing the Diageo 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 will affect the company's transactions. To manage the currency risk the company uses certain financial instruments.

Liquidity risk

In order to maintain liquidity and 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 group 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).

On behalf of the board

K. Gowing
Director

Third Floor Capital House
3 Upper Queen Street
Belfast
Northern Ireland

Date: 19 DECEMBER 2019

Directors' report

The directors are pleased to submit their annual report, together with the audited financial statements for the year ended 30 June 2019.

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 pages 2-3. The company is expected to continue to generate profit on 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 company 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.

Results and dividends

The results for the year ended 30 June 2019 are shown on page 9.

The profit for the year transferred to reserves is £3,172,000 (2018 - £2,972,000).

Dividend paid during the year ended 30 June 2019 was £1,400,000 (2018 - £6,000,000).

Directors

The directors who held office during the year and up to the date of this report were as follows:

Mr. R. Cowan
Mr. K. Gowing

The directors all served for the entire financial year.

Secretary

The secretaries who held office during the year and up to the date of this report were as follows:

Mrs. A. Kenealy	(resigned 1 March 2019)
Mrs. J. Trundle	(appointed 1 March 2019)

Directors' remuneration

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

Research and development

The company has not undertaken any material research and development activities during the financial year.

Political contributions

The company has not made any donations to a registered political party, other political organisations within the EU or any independent election candidate during the financial year.

Post balance sheet events

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

Internal control and risk management over financial reporting

The company operates under the financial reporting processes and controls of the group. The internal control and risk management systems over the financial reporting process of Diageo plc, which include those of the company, are discussed in the Group Annual Report 2019 on pages 75 to 76 at www.diageo.com, which does not form part of this report.

Independent auditors

The statutory auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting.

Disclosure of information to the 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.

On behalf of the board

K. Gowing
Director

Third Floor Capital House
3 Upper Queen Street
Belfast
Northern Ireland

Date: 19 DECEMBER 2019

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 regulations.

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 these 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 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.

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.

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

Report on the audit of the financial statements

Opinion

In our opinion, Diageo Northern Ireland Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2019 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 Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 30 June 2019; the statement of comprehensive income, 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

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

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

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2019 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 Directors' Responsibilities Statement set out on page 6, 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.

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 received 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.

Paul O'Connor

Paul O'Connor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Dublin
19 December 2019

Diageo Northern Ireland Limited
Registered number: NI 003755
Year ended 30 June 2019

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Turnover	2	**144,036**	**133,356**
Excise duties	3	(63,233)	(61,227)
Net sales		**80,803**	**72,129**
Cost of sales	3	(61,828)	(54,343)
Gross profit		**18,975**	**17,786**
Marketing expenses	3	(5,834)	(5,381)
Other operating expenses	3	(9,781)	(9,370)
Operating profit		**3,360**	**3,035**
Net finance income	6	87	81
Profit before taxation on ordinary activities		**3,447**	**3,116**
Taxation on profit on ordinary activities	7	(275)	(144)
Profit for the financial year and total comprehensive income for the year		**3,172**	**2,972**

The company had no other comprehensive income or expense during the current and previous year.

Diageo Northern Ireland Limited
Registered number: NI 003755
Year ended 30 June 2019

BALANCE SHEET

	Note	30 June 2019 €'000	30 June 2018 €'000
Non-current assets			
Property, plant and equipment	8	3,253	2,087
Investments	9	2,664	2,918
Deferred tax assets	10	630	761
		6,547	**5,766**
Current assets			
Inventories	11	4,615	3,440
Trade and other receivables	12	24,941	24,689
Other financial assets	13	—	35
Cash and cash equivalents		996	1,846
		30,552	**30,010**
Total assets		**37,099**	**35,776**
Current liabilities			
Trade and other creditors	14	(24,124)	(24,723)
Provisions	15	(40)	(41)
Other financial liabilities	13	(12)	(5)
		(24,176)	**(24,769)**
Total liabilities		**(24,176)**	**(24,769)**
Net assets		**12,923**	**11,007**
Equity			
Called up share capital	16	—	—
Other reserves		187	43
Retained earnings		12,736	10,964
Total equity		**12,923**	**11,007**

The accounting policies and other notes on pages 12 to 35 form an integral part of the financial statements.

These financial statements on pages 9 to 35 were approved by the board of directors on 19 DECEMBER 2019 and were signed on its behalf by:

K. Gowing
Director

Diageo Northern Ireland Limited
Registered number: NI 003755
Year ended 30 June 2019

STATEMENT OF CHANGES IN EQUITY
ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	Called up share capital	Other reserves	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
Balance at 30 June 2017	—	26	13,992	14,018
Profit for the financial year and total comprehensive income	—	—	2,972	2,972
Dividends to shareholders	—	—	(6,000)	(6,000)
Tax on share-based payments	—	17	—	17
Balance at 30 June 2018	—	43	10,964	11,007
Profit for the financial year and total comprehensive income	—	—	3,172	3,172
Dividends to shareholders	—	—	(1,400)	(1,400)
Tax on share-based payments	—	144	—	144
Balance at 30 June 2019	—	187	12,736	12,923

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.

General information

Diageo Northern Ireland Limited ("the company") is engaged in the sale of alcoholic and other beverages. The company sells alcoholic and other beverages mainly in the UK and the Republic of Ireland.

The company is a private limited company and is incorporated and domiciled in the UK. The address of its registered office is Third Floor Capital House, Upper Queen Street, Belfast, Northern Ireland.

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 2014 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 stated at their fair value.

The preparation of financial statements in conformity with FRS 101 requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the 'Critical accounting estimates and assumptions' paragraph of this note.

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 exemption 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, property, plant and equipment and intangible assets;
- Disclosures in respect of capital management, and
- Disclosures in respect of the compensation of key management personnel.

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.

The company has taken advantage of the exemption under IAS 27, 'Consolidated and separate financial statements', 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)

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 unless otherwise stated.

New accounting policies

The following standard, issued by the IASB and endorsed by the EU, has not yet been adopted by the company:

IFRS 16 - Leases (effective in the year ending 30 June 2020) sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. It eliminates the classification of leases as either operating leases or finance leases currently required under IAS 17 and introduces a single lessee accounting model where the lessee is required to recognise assets and liabilities for all material leases. All material leases will be recognised on the balance sheet as right of use assets and depreciated on a straight-line basis. The liability, recognised as part of net borrowings, will be measured at a discounted value and any interest will be charged to finance charges in the income statement. Therefore, the charge to the income statement for the operating lease payment will be replaced with depreciation on the right of use asset and the interest charge inherent in the lease.

The company will implement IFRS 16 from 1 July 2019 by applying the modified retrospective method, meaning that the comparative figures in the financial statements for the year ending 30 June 2019 will not be restated to show the impact of IFRS 16. The operating leases which will be recorded on the balance sheet following implementation of IFRS 16 are principally in respect of (warehouses, office buildings, plant and machinery, cars and distribution vehicles). The company has decided to reduce the complexity of implementation to take advantage of a number of practical expedients on transition on 1 July 2019 namely:

(i) to measure the right of use asset at the same value as the lease liability
(ii) to apply the short term and low value exemptions
(iii) to treat, wherever possible, services provided as an income statement item and only capitalise the lease payment amounts in respect of the asset

IFRS 16 is expected to have an impact on the company's results and financial position from the year ending 30 June 2020.

Turnover

Turnover comprises income 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 as or when performance obligations are satisfied by transferring control of a good or service to a customer. Generally, the transfer of control of goods occurs at the time of dispatch but in some countries may be on delivery. Provision is made for returns where appropriate. Sales are stated net of price discounts. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Advertising

Advertising expenditure, such as advertising costs, point of sale materials and sponsorship payments, are charged to the income statement within marketing expenses 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.

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.

Land and buildings are stated at cost less depreciation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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 any 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 leases.

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.

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.

Trade and other receivables are initially recognised at fair value less transaction costs and subsequently carried at amortised costs less any allowance for discounts and doubtful debts. Trade receivables arise from contracts with customers, and are recognised when performance obligations are satisfied, and the consideration due is unconditional as only a passage of time is required before payment is received. Allowance losses are calculated by reviewing lifetime expected credit losses using historical and forward-looking data on credit risk.

Amounts owed by other group companies are initially measured at fair value and are subsequently reported at amortised cost. Allowance 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 allowance is measured as either 12-months expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

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 and other payables are interest free and are stated at their nominal value.

Amounts owed to other group companies are initially measured at fair value and are subsequently reported at amortised cost. Interest free trade payables are stated at their nominal value as they are due 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 derivative 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 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 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.

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 THE 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. 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. Penalties and interest on tax liabilities are included in operating profit and finance charges, respectively.

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 manner of recovery 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 paid

Interim dividends are included in the financial statements in the year in which they are 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.

Critical accounting estimates and assumptions

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.

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

- Taxation: The evaluation of deferred tax assets recoverability requires judgements to be made regarding the availability of future taxable income. The directors believe that the company will generate sufficient future taxable income.
- Post-employment benefits: Management estimate in determining the assumptions in calculating the fund liabilities.

NOTES TO THE 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 2019 £'000	Year ended 30 June 2018 £'000
United Kingdom	144,036	133,356
	144,036	133,356

Analysis of turnover by class of business

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Marketing and selling of beer	104,911	95,694
Marketing and selling of spirits	39,125	37,662
	144,036	133,356

Sales to fellow group undertakings included in turnover amounted to £nil (2018 - £nil).

Contracts with customers are mainly with external customers at standard terms and conditions without revenue and cash flow uncertainties.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING COSTS

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Excise duties	63,233	61,227
Cost of sales	61,828	54,343
Marketing expenses	5,834	5,381
Other operating expenses	9,781	9,370
	140,676	130,321
Comprising:		
Excise duties	63,233	61,227
Raw materials and consumables	61,173	53,735
Marketing expenses	5,834	5,381
Other external charges (a)	3,407	3,148
Staff costs (note 4)	7,017	6,351
Depreciation, amortisation and impairment	708	661
Net foreign exchange losses	6	865
Other operating income (b)	(702)	(1,047)
	140,676	130,321

(a) **Other external charges include**: provision for fixed asset investments £nil (2018 - £nil); facilities and operating rental of land &building of £451,000 (2018 - £409,000) of which other lease rentals of £253,000 (2018 - £227,000); maintenance costs of £67,000 (2018 - £56,000); recharged overhead costs of £ 2,324,000 (2018 - £1,900,000).

(b) **Other operating income includes**: intercompany management income of £596,000 (2018 - £870,000).

Auditors' fees in respect of services provided by the auditors was £22,000 (2018 - £19,000). There were no fees payable to the auditors in respect of non-audit services (2018 - £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 2019	Year ended 30 June 2018
Selling and distribution	118	111
	118	111

The average number of employees of the company, including part time employees, for the year was 118 (2018 - 111).

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Wages and salaries	4,814	4,534
Employer's pension costs	1,265	1,135
Employer's social security costs	525	510
Other employment costs	413	172
	7,017	6,351

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 £1,265,000 to the schemes in respect of its employees in the year ended 30 June 2019 (2018 – £1,135,000). 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 THE FINANCIAL STATEMENTS (continued)

4. EMPLOYEES (continued)

Directors' remuneration

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Directors' remunerations (excluding pension contributions)	227	255
Amounts receivable under long term incentive schemes	16	20
Company contributions to pension schemes	1	23
	244	298

The aggregate remuneration of the highest paid director was £147,000 (2018 - £204,000). The highest paid director is a member of a defined benefit scheme under which his accrued annual pension at the year-end, including all contributions, was £3,000 (2018 - £22,000).

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 2019	Year ended 30 June 2018
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	2	2

NOTES TO THE 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 normally 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 the achievement of three equally weighted performance tests over the three-year performance period for the 2013 and 2014 grants these were; 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. For awards made in September 2015 or later, the third measure was replaced by one based on cumulative free cash flow over a three-year period, measured at constant exchange rates. Performance share options under the DLTIP (previously SESOP) are subject to the achievement of an earnings per share growth condition over a three-year period. 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 option schemes and policies are contained in Diageo plc's annual report for the three years ended 30 June 2019 (see note 17 of Diageo plc's 2019 annual report).

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. NET FINANCE INCOME

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
(a) Net interest		
Interest income from fellow group undertakings	95	62
Other interest income	1	25
Total interest income	**96**	**87**
Interest charge to fellow group undertakings	(9)	(6)
Total interest charge	**(9)**	**(6)**
	87	**81**

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
(a) Analysis of taxation charge for the year		
Current tax		
Current tax on profits for the year	143	14
Adjustment in respect of prior years	—	60
Total current tax	**143**	**74**
Deferred tax		
Origination and reversal of differences	148	137
Changes in tax rates	(16)	(53)
Adjustment in respect of prior years	—	(14)
Total deferred tax	**132**	**70**
Taxation on profit on ordinary activities	**275**	**144**

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)

(b) Tax credit included in equity

Current tax	(143)	(14)
Deferred tax	(1)	(3)
Total tax credit included in equity	**(144)**	**(17)**

(c) Factors affecting total tax charge for the year

Profit on ordinary activities before taxation	**3,447**	**3,116**
Taxation on profit on ordinary activities at UK corporation tax rate of 19.00% (2018 - 19.00%)	655	592
Income not taxable and expenses not deductible for tax purposes	8	13
Group relief received for nil consideration	(343)	(404)
Share options	(29)	(50)
Changes in tax rates	(16)	(14)
Adjustment in respect of prior years	—	7
Total tax charge for the year	**275**	**144**

Factors which may affect future tax charges

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Assets under construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 30 June 2018	534	8,394	10	8,938
Additions	—	1,850	25	1,875
Transfers	—	8	(8)	—
At 30 June 2019	**534**	**10,252**	**27**	**10,813**
Accumulated depreciation				
At 30 June 2018	(157)	(6,694)	—	(6,851)
Depreciation charge	(53)	(655)	—	(707)
At 30 June 2019	**(210)**	**(7,349)**	—	**(7,559)**
Net book value				
At 30 June 2019	**324**	**2,903**	**27**	**3,254**
At 30 June 2018	377	1,700	10	2,087

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. FINANCIAL ASSETS AND LIABILITIES

(a) Investments

	Trade loans
	£'000
Cost	
At 30 June 2017	10,106
New loans advanced	615
Repayments and redemptions	(2,770)
Loan write off	(14)
At 30 June 2018	7,937
New loans advanced	675
Repayments and redemptions	(1,203)
Loan written off	(772)
At 30 June 2019	**6,637**
Provisions	
At 30 June 2017	(5,481)
Provided during the year	448
Release of provision against loans written off	14
At 30 June 2018	(5,019)
Released during the year	274
Release of provision against loans written off	772
At 30 June 2019	**(3,973)**
Net book value	
At 30 June 2019	**2,664**
At 30 June 2018	2,918
At 30 June 2017	4,625

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. FINANCIAL ASSETS AND LIABILITIES (continued)

(b) Other financial assets and liabilities

	Current assets £'000	Current liabilities £'000
30 June 2019		
Intra-group derivative assets/(liabilities)		
Not designated in a hedge relationship	—	(12)
	—	**(12)**

	Current assets £'000	Current liabilities £'000
30 June 2018		
Intra-group derivative assets/(liabilities)		
Not designated in a hedge relationship	35	(5)
	35	(5)

NOTES TO THE 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
At 30 June 2017	805	—	23	828
Recognised in income statement	(67)	—	(3)	(70)
Recognised in equity	—	—	3	3
At 30 June 2018	738	—	23	761
Recognised in income statement	—	—	—	—
Recognised in equity	—	—	—	—
At 30 June 2019	738	—	23	761

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

11. INVENTORIES

	30 June 2019	30 June 2018
	£'000	£'000
Finished goods and goods for resale	4,615	3,440

There is no significant difference between the replacement costs of finished goods and goods for resale and their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. TRADE AND OTHER RECEIVABLES

	30 June 2019 Due within one year £'000	30 June 2018 Due within one year £'000
Trade receivables	14,485	16,502
Amounts owed by fellow group undertakings	9,969	7,755
Prepayments and accrued income	456	400
Other receivables	31	32
	24,941	24,689

The aged analysis of trade receivables is as follows:

	30 June 2019 £'000	30 June 2018 £'000
Not overdue	14,273	16,241
Overdue 61-90 days	21	—
Overdue 91-180 days	—	122
Overdue more than 180 days	191	139
	14,485	16,502

Trade and other receivables are disclosed net of provisions of £9,000 (2018 - £80,000) for bad and doubtful debts.

As of 30 June 2019, trade receivables of £14,259,000 (2018 - £16,241,000) were fully performing.

As of 30 June 2019, trade receivables of £36,000 (2018 - £122,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

As of 30 June 2019, trade receivables of £191,000 (2018 - £139,000) were impaired. The amount of the provision was £9,000 as of 30 June 2019 (2018 - £80,000). These relate to a number of customers. It was assessed that a portion of the receivables is expected to be recovered.

Accrued income primarily represents amounts receivable from customers in respect of performance obligations satisfied but not yet invoiced.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. TRADE AND OTHER RECEIVABLES (continued)

Amounts owed by group undertakings relate to normal trading balances with those undertakings and are unsecured and repayable on demand. Amounts owed by Diageo Finance plc bear interest at a floating rate.

As of 30 June 2019, amounts owed by Diageo Finance plc was £5,313,000 (2018 - £7,705,000).

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Currency risk

The company presents its financial statements in sterling which is the functional currency of the entity 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 company in accordance with the group's policy hedges 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. The company's exposure to foreign currency risk arising principally on forecasted sales transactions is managed using forward agreements.

(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 2019 £'000	30 June 2018 £'000
Derivative assets	—	35
Derivative liabilities	(12)	(5)
Valuation techniques based on observable market input (Level 2)	**(12)**	**30**

There were no transfers between levels during the two years ended 30 June 2019 and 30 June 2018.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. TRADE AND OTHER PAYABLES

	30 June 2019 Due within one year £'000	30 June 2018 Due within one year £'000
Amounts owed to fellow group undertakings	9,983	11,110
Accruals and deferred income	6,363	5,307
Tax and social security excluding income tax	3,721	4,029
Trade creditors	4,057	4,197
Corporate tax payable	—	60
Other creditors	—	20
	24,124	24,723

The Tax and social security excluding income tax of compromise:

	30 June 2019 £'000	30 June 2018 £'000
Customs and excise duty	2,545	2,734
Value added tax	1,176	1,295
	3,721	**4,029**

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

Trade and other payables are payable in accordance with the suppliers' usual and customary credit terms.

Tax and social insurance are repayable at various dates over the coming months in accordance with the applicable statutory provisions.

Deferred income represents amounts paid by customers in respect of performance obligations not yet satisfied.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. PROVISIONS

	Total
	£'000
At 30 June 2018	41
Charged during the year	27
Utilised	(12)
Released	(16)
At 30 June 2019	**40**

Provisions contains PAYE (Pay as You Earn) provision in relation to travel & entertainment expenses. It is expected to be utilised or released within one year.

16. SHARE CAPITAL

	30 June 2019
	£
Authorised	
100 ordinary shares of £1 each	100

	30 June 2019
	£
Allotted, called up and fully paid	
100 ordinary shares of £1 each	100

17. RELATED-PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(a) Purchase of goods and services

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Fellow subsidiaries:		
Ketel One Worldwide B.V.	183	220
	183	**220**

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

	30 June 2019 £'000	30 June 2018 £'000
Trade receivables due from related parties:		
Ketel One Worldwide B.V.	32	41
	32	**41**

18. COMMITMENTS

Capital commitments

Commitments for expenditure on property, plant and equipment not provided for in these financial statements are estimated at £108,000 (2018 - £201,000).

Operating lease commitments

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

	Land & Buildings	Other	30 June 2019 Total	Land & Buildings	Other	30 June 2018 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Payments falling due:						
Within one year	146	175	321	146	172	318
Between one and two years	146	82	228	—	133	133
Between two and three years	146	46	192	—	44	44
Between three and four years	146	8	154	—	14	14
Between four and five years	86	—	86	—	—	—
After five years	—	—	—	—	—	—
	670	311	981	146	363	509

Other purchase commitments

At 30 June 2019 the company had purchase commitments originating from purchase orders totaling £6,321,000 (2018 - £5,268,000).

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.