

**Diageo Northern Ireland Limited**  
**Annual report and financial statements**  
**30 June 2017**

Registered number: NI 003755



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**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

**Independent 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 2017.

### **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 2017*

The company had a favourable financial year benefitting 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 2017*

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.

#### Currency risk

The company publishes its financial statements in sterling and conducts some of its business in foreign currencies.

The group's policy is to hedge up to 24 months forecasted transactional foreign currency risk in the three major currency pairs (US dollar/sterling, euro/sterling and euro/US dollar) targeting 75% coverage of the current financial year when the annual plan is approved, and up to 18 months for other currency pairs.

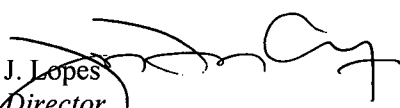
#### Liquidity risk

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

  
J. Lopes  
Director

Third Floor Capital House  
3 Upper Queen Street  
Belfast  
Northern Ireland

Date:

06/12/17

## **Directors' report**

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2017.

### **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 2017 are shown on page 9.

The profit for the year transferred to reserves is £1,621,000 (2016 - £2,310,000).

Dividend paid during the year ended 30 June 2017 was £8,000,000 (2016 - £nil).

### **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

### **Directors' remuneration**

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

### **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.

## **Directors' report (continued)**

### **Research and development**

The company has not undertaken any 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 Diageo 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's Annual Report 2017 on pages 62 to 63 at [www.diageo.com](http://www.diageo.com), which does not form part of this report.

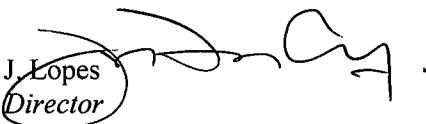
### **Independent auditors**

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

### **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.

On behalf of the board

  
J. Lopes  
Director

Third Floor Capital House  
3 Upper Queen Street  
Belfast  
Northern Ireland

Date: 06/12/17

## **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**

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#### **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 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 30 June 2017; the statement of comprehensive income, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

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#### **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.

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#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which 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.

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.

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#### **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 2017 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 5, 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](http://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.

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## **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  
for and on behalf of PricewaterhouseCoopers  
Chartered Accountants and Statutory Auditors  
Dublin  
6 December 2017

## STATEMENT OF COMPREHENSIVE INCOME

		Year ended 30 June 2017	Year ended 30 June 2016
	<i>Notes</i>	£'000	£'000
<b>Turnover</b>	2	122,346	111,026
Excise duties	3	(55,028)	(47,527)
<b>Net sales</b>		<b>67,318</b>	<b>63,499</b>
Cost of sales	3	(50,652)	(49,832)
<b>Gross profit</b>		<b>16,666</b>	<b>13,667</b>
Marketing expenses	3	(5,162)	(4,301)
Other operating expenses	3	(9,454)	(6,793)
<b>Operating profit</b>		<b>2,050</b>	<b>2,573</b>
Net finance income	6	38	174
<b>Profit before taxation on ordinary activities</b>		<b>2,088</b>	<b>2,747</b>
Taxation on profit on ordinary activities	7	(467)	(437)
<b>Profit for the financial year and total comprehensive income for the year</b>		<b>1,621</b>	<b>2,310</b>

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

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

## BALANCE SHEET

		30 June 2017	30 June 2016
	Notes	£'000	£'000
<b>Non-current assets</b>			
Property, plant and equipment	8	2,321	2,587
Investments	9	4,625	8,445
Deferred tax assets	10	828	1,291
		<b>7,774</b>	<b>12,323</b>
<b>Current assets</b>			
Inventories	11	2,949	2,912
Trade and other receivables	12	25,902	18,121
Other financial assets	13	-	338
Cash and cash equivalents		1,903	2,385
		<b>30,754</b>	<b>23,756</b>
<b>Total assets</b>		<b>38,528</b>	<b>36,079</b>
<b>Current liabilities</b>			
Trade and other creditors	15	(24,470)	(15,649)
Provisions	16	(36)	(37)
Other financial liabilities	13	(4)	-
		<b>(24,510)</b>	<b>(15,686)</b>
<b>Total liabilities</b>		<b>(24,510)</b>	<b>(15,686)</b>
<b>Net assets</b>		<b>14,018</b>	<b>20,393</b>
<b>Equity</b>			
Called up share capital	17	-	-
Other reserves		26	22
Retained earnings		13,992	20,371
<b>Total equity</b>		<b>14,018</b>	<b>20,393</b>

The accounting policies and other notes on pages 12 to 33 form part of the financial statements.

These financial statements on pages 9 to 33 were approved by the board of directors on 06/12/17 and were signed on its behalf by:

J. Lopes  
Director

*[Signature]* 06/12/17

**STATEMENT OF CHANGES IN EQUITY**  
ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	<b>Called up share capital £'000</b>	<b>Other reserves £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
<b>Balance at 30 June 2015</b>	-	1	18,061	18,062
Profit for the financial year and total comprehensive income	-	-	2,310	2,310
Tax on share-based payments	-	21	-	21
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 30 June 2016</b>	-	22	20,371	20,393
	<hr/>	<hr/>	<hr/>	<hr/>
Profit for the financial year and total comprehensive income	-	-	1,621	1,621
Dividends to shareholders	-	-	(8,000)	(8,000)
Tax on share-based payments	-	4	-	4
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 30 June 2017</b>	-	26	13,992	14,018
	<hr/>	<hr/>	<hr/>	<hr/>

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.

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 and property, plant and equipment;
- Disclosures in respect of capital management;
- 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.

#### **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.

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. ACCOUNTING POLICIES (continued)**

#### **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 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 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1. ACCOUNTING POLICIES (continued)

#### Property, plant and equipment

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

Land and buildings 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 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 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 THE 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 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, 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 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.

#### **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.

## 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 2017 £'000	Year ended 30 June 2016 £'000
United Kingdom	122,346	111,026
	<u>122,346</u>	<u>111,026</u>

#### Analysis of turnover by class of business

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Marketing and selling of beer	90,998	84,247
Marketing and selling of spirits	31,348	26,779
	<u>122,346</u>	<u>111,026</u>

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

Sales to fellow group undertakings included in turnover amounted to £nil (2016 - £1,000).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 3. OPERATING COSTS

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Excise duties	55,028	47,527
Cost of sales	50,652	49,832
Marketing expenses	5,162	4,301
Other operating expenses	9,454	6,793
	<hr/> 120,296 <hr/>	<hr/> 108,453 <hr/>
	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>Comprising:</b>		
Excise duties	55,028	47,527
Raw materials and consumables	49,921	49,026
Marketing expenses	5,162	4,301
Other external charges (a)	4,432	4,580
Staff costs (note 4)	6,088	6,003
Depreciation, amortisation and impairment	785	857
Net foreign exchange losses/(gains)	1,725	(271)
Other operating income (b)	(2,845)	(3,569)
Gains on disposal of property	-	(1)
	<hr/> 120,296 <hr/>	<hr/> 108,453 <hr/>

(a) **Other external charges include:** provision for fixed asset investments £402,000 (2016 - £525,000); facilities and operating rental of land & building of £347,000 (2016 - £777,000); other lease rentals of £212,000 (2016 - £251,000); maintenance costs of £150,000 (2016 - £163,000); recharged overhead costs of £2,396,000 (2016 - £1,764,000).

(b) **Other operating income includes:** intercompany management income of £2,200,000 (2016 - £1,969,000).

Auditors' fees in respect of services provided by the auditors was £19,000 (2016 - £17,500). There were no fees payable to the auditors in respect of non-audit services (2016 - £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 2017	Year ended 30 June 2016
Selling and distribution	127	121

The average number of employees of the company, including part time employees, for the year was 136 (2016 - 142).

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Wages and salaries	4,329	4,180
Employer's pension costs	1,116	1,115
Employer's social security costs	472	461
Other employment costs	171	247
	6,088	6,003

#### 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 £1,116,000 to the schemes in respect of its employees in the year ended 30 June 2017 (2016 – £1,115,000). 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 2017 £'000	Year ended 30 June 2016 £'000
Directors' remunerations (excluding pension contributions)	263	243
Amounts receivable under long term incentive schemes	18	12
Company contributions to pension schemes	28	28
	<hr/>	<hr/>
	309	283
	<hr/>	<hr/>

The aggregate remuneration of the highest paid director was £221,000 (2016 - £195,000). 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 (2016 - £29,000). The lump sum equivalent of the highest paid director's pension entitlement at the year end was £29,000 (2016 - £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 2017	Year ended 30 June 2016
The number of directors who exercised share options was	1	1
	<hr/>	<hr/>
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	1	1
	<hr/>	<hr/>
The number of directors in respect of whose retirement benefits were accrued for under defined benefit schemes	2	2
	<hr/>	<hr/>

## **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 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 2017 (see note 17 of Diageo plc's 2017 annual report).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 6. NET FINANCE INCOME

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Interest income from fellow group undertakings	28	169
Other interest income	22	43
<b>Total interest income</b>	<b>50</b>	<b>212</b>
Interest charge to fellow group undertakings	(12)	(38)
<b>Total interest charge</b>	<b>(12)</b>	<b>(38)</b>
	<b>38</b>	<b>174</b>

### 7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>(a) Analysis of taxation charge for the year</b>		
<b>Total current tax</b>	<b>8</b>	<b>9</b>
<b>Deferred tax</b>		
Origination and reversal of differences	339	461
Changes in tax rates	132	16
Adjustment in respect of prior years	(12)	(49)
<b>Total deferred tax</b>	<b>459</b>	<b>428</b>
<b>Taxation on profit on ordinary activities</b>	<b>467</b>	<b>437</b>
<b>(b) Tax credit included in equity</b>		
Current tax	(8)	(9)
Deferred tax	4	(12)
<b>Total tax credit included in equity</b>	<b>(4)</b>	<b>(21)</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>(c) Factors affecting total tax charge for the year</b>		
Profit on ordinary activities before taxation	<u>2,088</u>	<u>2,747</u>
Taxation on profit on ordinary activities at UK corporation tax rate of 19.75% (2016 - 20.00%)	412	549
Income not taxable and expenses not deductible for tax purposes	21	22
Group relief received for nil consideration	(10)	(58)
Derivatives	-	4
Share options	(76)	(47)
Changes in tax rates	132	16
Adjustment in respect of prior years	<u>(12)</u>	<u>(49)</u>
<b>Total tax charge for the year</b>	<u>467</u>	<u>437</u>

#### Factors which may affect future tax charges

The UK tax rate reduced from 20% to 19% on 1 April 2017. A further reduction to 17% (effective from 1 April 2020) was substantively enacted in September 2016.

The net deferred tax asset/liability (see note 10) will reduce as a consequence of the rate change.

## NOTES TO FINANCIAL THE STATEMENTS (continued)

### 8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Assets under construction	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 30 June 2016	534	8,497	8	9,039
Additions	-	507	12	519
Disposals	-	-	-	-
Transfers	-	12	(12)	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 30 June 2017</b>	<b>534</b>	<b>9,016</b>	<b>8</b>	<b>9,558</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>				
At 30 June 2016	(51)	(6,401)	-	(6,452)
Depreciation charge	(53)	(732)	-	(785)
Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 30 June 2017</b>	<b>(104)</b>	<b>(7,133)</b>	<b>-</b>	<b>(7,237)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
At 30 June 2017	430	1,883	8	2,321
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2016	483	2,096	8	2,587
	<hr/>	<hr/>	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9. INVESTMENTS

	<b>Trade loans £'000</b>
<b>Cost</b>	
At 30 June 2015	18,725
New loans advanced	827
Repayments and redemptions	(3,782)
Loan write off	(1,599)
 At 30 June 2016	 14,171
New loans advanced	1,652
Repayments and redemptions	(5,070)
Loan written off	(647)
 <b>At 30 June 2017</b>	 <b>10,106</b>
<b>Provisions</b>	
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)
Provided during the year	(402)
Release of provision against loans written off	647
 <b>At 30 June 2017</b>	 <b>(5,481)</b>
<b>Net book value</b>	
<b>At 30 June 2017</b>	<b>4,625</b>
 At 30 June 2016	 8,445
 At 30 June 2015	 11,925

## 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
<b>At 30 June 2015</b>	<b>694</b>	<b>1,008</b>	<b>5</b>	<b>1,707</b>
Recognised in income statement	(89)	(353)	14	(428)
Recognised in equity	-	-	12	12
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 30 June 2016</b>	<b>605</b>	<b>655</b>	<b>31</b>	<b>1,291</b>
Recognised in income statement	200	(655)	(4)	(459)
Recognised in equity	-	-	(4)	(4)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 30 June 2017</b>	<b>805</b>	<b>-</b>	<b>23</b>	<b>828</b>
	<hr/>	<hr/>	<hr/>	<hr/>

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

### 11. INVENTORIES

	30 June 2017	30 June 2016
Finished goods and goods for resale	2,949	2,912
	<hr/>	<hr/>

Inventories are disclosed net of provision of £11,000 (2016 - £20,000) for obsolescence.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 12. TRADE AND OTHER RECEIVABLES

	30 June 2017 Due within one year £'000	30 June 2016 Due within one year £'000
Trade receivables	12,577	10,967
Amounts owed by fellow group undertakings	12,773	5,684
Prepayments and accrued income	532	1,450
Other receivables	20	20
	<hr/>	<hr/>
	25,902	18,121
	<hr/>	<hr/>

The aged analysis of trade receivables is as follows:

	30 June 2017 £'000	30 June 2016 £'000
Not overdue	12,475	10,793
Overdue 1-30 days	-	-
Overdue 31-60 days	-	-
Overdue 61-90 days	19	8
Overdue 91-180 days	19	55
Overdue more than 180 days	64	111
	<hr/>	<hr/>
	12,577	10,967
	<hr/>	<hr/>

Trade and other receivables are disclosed net of provisions of £133,000 (2016 - £522,000) for bad and doubtful debts.

As of 30 June 2017, trade receivables of £12,475,000 (2016 - £10,793,000) were fully performing.

As of 30 June 2017, trade receivables of £38,000 (2016 - £63,000) 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 2017, trade receivables of £197,000 (2016 - £633,000) were impaired. The amount of the provision was £133,000 as of 30 June 2017 (2016 - £522,000). These relate to a number of customers. It was assessed that a portion of the receivables is expected to be recovered.

The carrying value of trade and other receivables is approximate to their fair value.

## 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.

### 13. OTHER FINANCIAL ASSETS AND LIABILITIES

	Current assets £'000	Current liabilities £'000
<b>30 June 2017</b>		
<b>Intra-group derivative assets/(liabilities)</b>		
Not designated in a hedge relationship	-	(4)
	-	(4)

	Current assets £'000	Current liabilities £'000
<b>30 June 2016</b>		
<b>Intra-group derivative assets</b>		
Not designated in a hedge relationship	338	-
	338	-

### 14. 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### *Transaction exposure hedging*

The company in accordance with 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 2017 £'000	30 June 2016 £'000
Derivative assets	-	338
Derivative liabilities	(4)	-
<b>Valuation techniques based on observable market input (Level 2)</b>	<b>(4)</b>	<b>338</b>

There were no transfers between levels during the two years ended 30 June 2017 and 30 June 2016.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 15. TRADE AND OTHER CREDITORS

	30 June 2017 Due within one year £'000	30 June 2016 Due within one year £'000
Amounts owed to fellow group undertakings	11,652	2,490
Accruals and deferred income	4,964	4,182
Tax and social security excluding income tax	4,218	6,001
Trade creditors	3,265	2,695
Other creditors	371	281
	<u>24,470</u>	<u>15,649</u>

The Tax and social security excluding income tax of compromise:

	30 June 2017 €'000	30 June 2016 €'000
Excise duty	2,797	2,318
Value added tax	1,421	3,683
	<u>4,218</u>	<u>6,001</u>

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

Trade and other creditors 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 16. PROVISIONS

	Other £'000	Total £'000
At 30 June 2016	37	37
Charged during the year	37	37
Utilised	(22)	(22)
Released	(16)	(16)
<b>At 30 June 2017</b>	<b>36</b>	<b>36</b>

### 17. SHARE CAPITAL

	<b>30 June 2017</b> £
<i>Authorised</i>	
100 ordinary shares of £1 each	100
	<hr/>
	<b>30 June 2017</b> £
<i>Allotted, called up and fully paid</i>	
100 ordinary shares of £1 each	100
	<hr/>

### 18. RELATED-PARTY TRANSACTIONS

The following transactions were carried out with related parties:

#### (a) Sales of goods and services

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>Subsidiaries:</b>		
Ketel One Worldwide B.V.	48	-
Guinness Nigeria plc	5	-
	<hr/>	<hr/>
	4	-
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 18. RELATED-PARTY TRANSACTIONS (continued)

#### (b) Purchase of goods and services

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>Subsidiaries:</b>		
Ketel One Worldwide B.V.	5	-
	<u>5</u>	<u>-</u>

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

	30 June 2017 £'000	30 June 2016 £'000
<b>Trade receivables due from related parties:</b>		
Ketel One Worldwide B.V.	7	-
	<u>7</u>	<u>-</u>

### 19. COMMITMENTS

#### Capital commitments

Commitments for expenditure on property, plant and equipment not provided for in these financial statements are estimated at £203,000 (2016 - £26,000).

#### Operating lease commitments

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 19. COMMITMENTS (continued)

	30 June 2017			30 June 2016		
	Land & Buildings	Other	Total	Land & Buildings	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Payments falling due:						
Within one year	244	577	821	124	223	347
Between one and two years	102	275	377	122	156	278
Between two and three years	-	187	187	101	97	198
Between three and four years	-	36	36	-	52	52
Between four and five years	-	-	-	-	1	1
After five years	-	-	-	-	-	-
	<b>346</b>	<b>1,075</b>	<b>1,421</b>	<b>347</b>	<b>529</b>	<b>876</b>

#### Other purchase commitments

At 30 June 2017 the company had purchase commitments originating from purchase orders totalling £40,154,000 (2016 - £2,026,000).

### 20. 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.