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S & B Production Limited

Directors' report and
financial statements

Year ended 30 June 2008

Registered number: NI 42257

S & B Production Limited

Directors' report and financial statements

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S & B Production Limited

Directors and other information

Directors

Mr. D. Gosnell
Mr. J. Miller
Mr. D. A. Pimm

Registered office

c/o Arthur Cox N Ireland
Capital House
3 Upper Queen Street
Belfast
BT1 6PU

Company secretary

Ms. C. Gilleece

Auditor

KPMG
Chartered Accountants
1 Stokes Place
St. Stephen's Green
Dublin 2

Bankers

Ulster Bank Limited
11-16 Donegal Square East
Belfast
BT1 5HD

Solicitors

Arthur Cox
Capital House
3 Upper Queen Street
Belfast
BT1 6PU

S & B Production Limited

Directors' report

The directors present their annual report together with the audited financial statements for the year ended 30 June 2008.

Principal activities and review of the business

The company provides production services to the drinks industry.

Business Review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2008

The development and performance of the business of the company (being a toll manufacturer for the production of standard cases of Baileys cream liqueur on behalf of R & A Bailey & Co trading as Diageo Baileys Global Supply) was, for the year ended 30 June 2008, entirely dependent on the respective demands of the Diageo subsidiary with whom it trades.

During the year the company increased the volume it produced (3.3m to 3.5m cases). Associated overhead costs decreased by 16% due to a number of one – off exceptional items including a lower depreciation due to change in asset lives, receipt of grants from the Industrial Development Board for Northern Ireland and release of prior year engineering spares provision.

Principal risks and uncertainties facing the company as at 30 June 2008

The principal risks and uncertainties facing the company, as a member of the Diageo group, coincide with those facing the group as a whole. These are disclosed in the accounts of Diageo plc which are available as indicated in note 16 to the accounts.

In so far as the company is concerned, since all of its transactions are with fellow members of the Diageo group, the risk of non-performance by counterparties to transactions of the company is considered remote. The company's present activities are remunerated on a cost-plus basis and are therefore not considered to expose the company to significant risks and uncertainties.

Financial and other key performance indicators

The directors do not consider the publication of the analysis using key performance indicators is necessary for an understanding of the development, performance or position of the business of the company. In addition, the directors do not consider that there are any factors by reference to which any meaningful analysis of the development, performance or position of the business of the company could be carried out.

The principal key performance indicators that are used to assess the performance of the Diageo group as a whole are described in the Operating and Financial Review contained within the annual report of Diageo plc.

S & B Production Limited

Directors' report *(continued)*

Business Review *(continued)*

The information in this review has been prepared only for the purpose of complying with the requirements of Article 242ZZB (*Directors' report: business review*) of the Companies (Northern Ireland) Order 1986. The information in this review does not constitute an offer to sell or an invitation to buy shares in the company (or any other company within the Diageo group) or constitute any other invitation or inducement to engage in investment activities. Any reader seeking information on the business and/or results of the Diageo group is directed to the annual report of Diageo plc (the company's ultimate parent undertaking). Past performance cannot be relied upon as a guide to future performance.

Results and dividends

The results for the year are set out on page 10. The directors do not recommend the payment of a dividend.

Directors and secretary

The directors who held office during the year and subsequent to the year end unless otherwise indicated were:

Mr. D. Gosnell
Mr. K. Gowing (resigned 1 August 2008)
Mr. J. Miller (appointed 1 August 2008)
Mr. D. A. Pimm (appointed 9 April 2008)

The secretary who held office for the year was Ms. C. Gilleece.

The Articles of Association of the company do not require the directors to retire by rotation.

Charitable and political donations

The company made one charitable donation during the year for £1,000 (2007: *£nil*). No political contributions were made during the year.

Creditors payment policy

The company's current policy concerning the payment of its creditors is to:

- (i) settle the terms of payment with suppliers when agreeing the terms of each transaction;
- (ii) ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- (iii) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments for revenue and capital items without exception.

S & B Production Limited

Directors' report *(continued)*

Post balance sheet events

There have been no significant events affecting the company since the year end.

Disclosure of information to auditor

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

Auditor

In accordance with the Companies (Northern Ireland) Order 1986, the auditor, KPMG, Chartered Accountants, have indicated their willingness to continue in office.

On behalf of the board



D. A. Pimm
Director

5 December 2008

S & B Production Limited

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are also responsible for preparing a Directors' report that complies with the Companies (Northern Ireland) Order 1986.

On behalf of the board



D. A. Pimm
Director



KPMG
Chartered Accountants
1 Stokes Place
St. Stephen's Green
Dublin 2
Ireland

Independent auditor's report to the members of S & B Production Limited

We have audited the financial statements of S & B Production Limited for the year ended 30 June 2008 which comprises the Profit and Loss account, Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 243 of the Companies (Northern Ireland) Order 1986. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As described in the Statement of Directors' Responsibilities on page 5, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Northern Ireland) Order 1986. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper books of account, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.



Independent auditor's report to the members of S & B Production Limited
(continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order, 1986; and
- the information given in the directors' report is consistent with the financial statements.

Chartered Accountants
Registered Auditor

5 December 2008

S & B Production Limited

Statement of accounting policies *for the year ended 30 June 2008*

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

The financial statements are prepared in accordance with generally accepted accounting principles under the historical cost convention and, comply with financial reporting standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland.

Tangible fixed assets

Tangible fixed assets are stated at original cost less accumulated depreciation. No depreciation is provided on freehold land. The charge for depreciation is calculated to write down the cost of other tangible fixed assets to their estimated residual values by equal annual instalments on a straight line basis over their expected useful lives using the following rates:

Buildings	2% – 6.67%
Plant & equipment	6.67% – 20%
Fixtures and fittings	20%
IT equipment	20%

Leased assets

Tangible fixed assets acquired under finance leases are included in the balance sheet at their equivalent capital value and are depreciated over the shorter of the lease term and their useful lives. The corresponding liabilities are recorded as a creditor and the interest element of the finance lease rentals is charged to the profit and loss account on an annuity basis. Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Foreign currencies

Trading activities denominated in foreign currencies are recorded in pounds sterling at planned exchange rates which are not materially different from actual rates. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the period end or at the rate of exchange in a related forward exchange contract where such a contract exists. Any gain or loss arising from a change in exchange rates is dealt with in the profit and loss account.

S & B Production Limited

Statement of accounting policies (continued) for the year ended 30 June 2008

Taxation

Current tax is provided on the company's taxable profits at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statement

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Cash flow statement

As the company is a wholly owned subsidiary of a company which is preparing a consolidated cash flow statement, it is availing of the exemption under FRS 1: *Cash flow Statements* not to prepare a cash flow statement.

Pension

Pension benefits are funded by payments to a trustee administered fund. The cost of providing pensions is charged to the profit and loss account on a systematic basis, with pension surpluses and deficits arising allocated over the expected remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to the pension fund are treated as assets or liabilities.

The employees of the company are members of the Diageo UK pension fund. The assets and liabilities of the Diageo UK pension fund cannot be separately identified or attributed to S&B Production Limited. The disclosures required by FRS 17: *Retirement benefits* for the Diageo UK pension fund are included in the consolidated financial statements of Diageo plc, which are publicly available.

Share based payments

The ultimate parent Diageo plc operates a number of share-based incentive schemes (awards of shares and options). Where the ultimate parent's shares or options over the company's shares are granted to a subsidiary undertakings employees, an expense should be recorded in the profit and loss account, with a corresponding credit to reserves. This charge is measured at the fair value of the share or share option at the date of grant (for awards granted after 7 November 2002), 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 model, 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.

S & B Production Limited

Profit and loss account for the year ended 30 June 2008

	Notes	2008 STG£	2007 STG£
Turnover - continuing activities	<i>1</i>	6,175,309	7,362,314
Operating costs		(5,881,495)	(7,011,728)
Operating profit - continuing activities		293,814	350,586
Interest payable		(15,206)	-
Profit on ordinary activities before taxation	<i>2</i>	278,608	350,586
Taxation on profit on ordinary activities	<i>4</i>	(104,000)	243,000
Profit for the financial year		174,608	593,586

The company had no recognised gains or losses during the financial year or the preceding financial year other than those dealt with in the profit and loss account.

On behalf of the board



D. A. Pimm
Director

S & B Production Limited

Balance sheet at 30 June 2008

	Notes	2008 STG£	2007 STG£
Fixed assets	5	33,919,936	34,629,926
Current assets			
Stock	6	555,653	-
Debtors	7	540,384	8,834,995
Cash at bank and in hand		27,668	1,378,297
		1,123,705	10,213,292
Creditors: amounts falling due within one year	8	(13,075,537)	(23,150,058)
Net current liabilities		(11,951,832)	(12,936,766)
Total assets less current liabilities		21,968,104	21,693,160
Creditors: amounts falling due after more than one year	9	(1,133,437)	(1,209,000)
Provisions for liabilities and charges	10	(2,155,000)	(2,051,000)
Net assets		18,679,667	18,433,160
Capital and reserves			
Share capital	11	20,031,648	20,031,648
Capital contributions	12	236,899	165,000
Profit and loss account	13	(1,588,880)	(1,763,488)
Shareholders' funds - equity	14	18,679,667	18,433,160

On behalf of the board



D. A. Pimm
Director

S & B Production Limited

Notes

forming part of the financial statements

1 Turnover

The entire turnover arises from the production of standard cases of Baileys cream liqueur on behalf of R & A Bailey & Co trading as Diageo Baileys Global Supply in the Republic of Ireland.

2 Statutory and other disclosures	2008 STG£	2007 STG£
Directors' remuneration	-	-
Auditors' remuneration	18,865	16,100
Depreciation	1,873,970	2,154,984
Government grants amortised	75,563	75,563

3 Staff numbers and costs

The average number of persons employed by the company (including executive directors) during the year was 38 (2007: 40).

The aggregate remuneration costs of these employees were:

	2008 STG£	2007 STG£
Wages and salaries	1,297,482	1,392,709
Social security costs	86,487	99,370
Share costs	71,899	52,000
Other pension costs (note 15)	171,054	223,561
	1,626,922	1,767,640

Share based payments

The fair value of share options or share grants is measured at grant date, based on the binomial or Monte Carlo model, and is recognised as a cost in the profit and loss account over the vesting period of the option or share grant with a corresponding adjustment to reserves. Full details of the valuation and accounting for share options schemes and policies are contained in note 33 of Diageo plc's annual report for the year ended 30 June 2008.

S & B Production Limited

Notes (continued)

4 Taxation on profit on ordinary activities

(i) Analysis of credit/(charge) in year	2008 STG£	2007 STG£
<i>Current tax:</i>		
Corporation tax on profits for the year	-	-
<i>Total current tax</i>		
<i>Deferred tax:</i>		
Current year	(98,000)	(41,000)
Adjustment for change in rate of corporation tax	-	146,000
Prior year adjustment	(6,000)	138,000
 Tax (charge)/credit on profit on ordinary activities	 (104,000)	 243,000

(ii) Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom. The differences are explained below:

	2008 STG£	2007 STG£
Profit on ordinary activities before tax	278,608	350,586
 Profit on ordinary activities multiplied by standard rate of corporation tax of 29.5% (2007: 30%)	 82,189	 105,176
<i>Effects of:</i>		
Expenditure not deductible for tax purposes	(106,189)	18,600
Group relief surrendered for nil consideration	128,000	155,400
Accelerated capital allowances and other timing differences	(104,000)	(279,176)
 Current tax charge for year	 -	 -

(iii) Factors that may affect future tax charges

There are no factors affecting the tax charge in future years.

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Notes (continued)

5 Tangible fixed assets

	Land STG£	Buildings STG£	Plant & equipment STG£	Fixtures & fittings STG£	IT equipment STG£	Assets in course of construction STG£	Total STG£
Cost							
At 30 June 2007	2,077,890	18,841,935	21,623,548	63,876	447,314	-	43,054,563
Transfer	(11,459)	(137,809)	(474,585)	19,090	139,905	465,946	1,088
Additions	-	-	341,217	-	-	822,763	1,163,980
At 30 June 2008	2,066,431	18,704,126	21,490,180	82,966	587,219	1,288,709	44,219,631
Depreciation							
At 1 July 2007	-	2,161,461	5,864,645	40,601	357,930	-	8,424,637
Transfer	-	(696,304)	750,941	23,006	(76,555)	-	1,088
Charge for the year	-	374,082	1,409,899	16,593	73,396	-	1,873,970
At 30 June 2008	-	1,839,239	8,025,485	80,200	354,771	-	10,299,695
Net book amounts							
At 30 June 2008	2,066,431	16,864,887	13,464,695	2,766	232,448	1,288,709	33,919,936
At 30 June 2007	2,077,890	16,680,474	15,758,903	23,275	89,384	-	34,629,926

S & B Production Limited

Notes (continued)

6 Stock

Stock held at year end relates to machinery/engineering spares.

7 Debtors

	2008 STG£	2007 STG£
Trade debtors	54,058	-
Other debtors	486,326	-
Amounts due from group undertaking	-	8,834,995
	<hr/> 540,384	<hr/> 8,834,995

8 Creditors: amounts falling due within one year

	2008 STG£	2007 STG£
Trade creditors	206,766	342,553
Other creditors	125,082	-
Accruals and deferred income	1,053,402	525,325
Amounts owed to group undertakings	11,675,686	22,210,575
VAT Payable	14,601	71,605
	<hr/> 13,075,537	<hr/> 23,150,058

9 Creditors: amounts falling due after more than one year

	2008 STG£	2007 STG£
<i>Government grants</i>		
At beginning of year	1,209,000	1,284,563
Amortised during the year	(75,563)	(75,563)
	<hr/> 1,133,437	<hr/> 1,209,000

S & B Production Limited

Notes (continued)

10 Provisions for liabilities and charges

	2008 STG£	2007 STG£
<i>Deferred taxation</i>		
At beginning of year as originally stated	2,051,000	2,328,000
Prior year adjustment	6,000	(34,000)
At beginning of year as restated	2,057,000	2,294,000
Charged/(credited) to profit and loss account during the year	98,000	(243,000)
	2,155,000	2,051,000

The deferred tax liability is made up as follows:

	2008 STG£	2007 STG£
Accelerated tax depreciation	2,221,000	2,102,000
Other timing differences	(66,000)	(51,000)
At end of year	2,155,000	2,051,000

11 Share capital

	2008 STG£	2007 STG£
<i>Authorised</i>		
20,031,648 ordinary shares of £1 each	20,031,648	20,031,648
<i>Allotted, called up and fully paid</i>		
20,031,648 ordinary shares of £1 each	20,031,648	20,031,648

The entire shareholders' funds consists of equity interests.

S & B Production Limited

Notes (continued)

12 Capital contribution to share based incentive schemes

	2008 STG£	2007 STG£
At beginning of the year	165,000	113,000
Capital contribution during the year	71,899	52,000
At end of year	236,899	165,000

13 Reconciliation of movements in profit and loss account

	2008 STG£	2007 STG£
Profit and loss account at beginning of year	(1,763,488)	(2,357,074)
Profit for the financial year	174,608	593,586
Profit and loss account at end of year	(1,588,880)	(1,763,488)

14 Reconciliation of movements in shareholders' funds

	2008 STG£	2007 STG£
Shareholders' funds at beginning of year	18,433,160	17,787,574
Total recognised gains and losses	174,608	593,586
Capital contribution during the year	71,899	52,000
Shareholders' funds at end of year	18,679,667	18,433,160

S & B Production Limited

Notes (continued)

15 Pension scheme

The company is a member of a group pension scheme which is operated by its ultimate parent undertaking, Diageo plc. The scheme is a defined benefit pension scheme, and is administered by trustees and maintained independently of the finance of Diageo plc and its subsidiaries.

The company has accounted for contributions to the pension scheme as if it was a defined contribution scheme under the multi-employer provisions of FRS 17: *Retirement benefits*, due to the fact that the underlying assets and liabilities attributable to individual employees cannot be identified on a consistent and reasonable basis.

16 Contingent liability

Under a grant agreement with the Industrial Development Board for Northern Ireland, S&B Production Limited has received grants, amounting to £1,511,252 (2007: £1,511,252), which may be revoked, cancelled or abated in certain circumstances.

17 Ultimate parent company

The company is a wholly owned subsidiary of Diageo Great Britain Limited, a company registered in the United Kingdom. The ultimate holding company is Diageo plc, a company incorporated in Great Britain and registered in England. The group into which the results of the company are consolidated is that headed by Diageo plc. The consolidated financial statements of this group are available to the public and maybe obtained from The Secretary, Diageo plc, 8 Henrietta Place, London W1G 0NB.

18 Related party transactions

The company has availed of the exemption available in FRS 8: *Related party disclosures* from disclosing transactions with group undertakings. Details on the availability of the group consolidated financial statements are given in note 17.

19 Post balance sheet events

There have been no significant events affecting the company since the year end.

20 Approval of financial statements

The board of directors approved these financial statements on 5 December 2008.