

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2019

S & B Production Limited
Annual report and financial statements
Year ended 30 June 2019
Registered number: NI 042257



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S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2019

Directors and other information

Director	Mr. M. Hailes Ms. A. Donaldson Ms. L. Milburn
Registered office	Third Floor Capital House 3 Upper Queen Street Belfast Northern Ireland
Company secretary	Mrs. J. Trundle
Independent auditors	PricewaterhouseCoopers Chartered Accountants One Spencer Dock North Wall Quay Dublin 1
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 have pleasure to present their strategic report for the year ended 30 June 2019.

Principal activities

S&B Production Limited (“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 2019

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 2019, entirely dependent on the respective demands of the Diageo subsidiary with whom it trades.

The company’s activities are remunerated on a cost-plus basis resulting in turnover dependent on the operating costs incurred during the financial year.

Financial and other key performance indicators

Turnover, which is solely made up of toll manufacturing income increased by 8%. Operating costs increased by 8% which is in line with the increase in turnover.

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 majority of the company’s transactions are with fellow members of the Diageo group, therefore 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 risk management

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

Strategic Report (continued)

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 exchange rate risk due to exchange rate movements, which will affect the company's transactions.

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



L. Milburn
Director

Third Floor Capital House
3 Upper Queen Street
Belfast
Northern Ireland

Date: 11/12/2019

Directors' Report

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

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 to 3. The company is expected to continue to generate positive cash flow for its own account in the foreseeable future. The company participates in the group's centralised treasury arrangements and the parent and fellow group undertakings are expected to provide financial support for the foreseeable future. The company is not reliant on external third party financing. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Diageo group to continue as a going concern. On the basis of their assessment, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future as a fellow group undertaking has agreed to provide financial support 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 £433,000 (2018 - profit of £403,000).

No dividend was paid during the year (2018 - £nil).

Directors

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

Mr. M. Hailes
Ms. A. Donaldson
Ms. L. Milburn (Appointed on 01 November 2019)

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 5 of the 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 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 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.

On behalf of the board



L. Milburn
Director

Third Floor Capital House
3 Upper Queen Street,
Belfast
Northern Ireland

Date: 11/12/2019.

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 S&B Production Limited

Report on the audit of the financial statements

Opinion

In our opinion, S&B Production 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 (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Dublin
12th December 2019

STATEMENT OF COMPREHENSIVE INCOME

		Year ended 30 June 2019	Year ended 30 June 2018
	<i>Notes</i>	£'000	£'000
Turnover	2	8,518	7,909
Cost of sales	3	(8,208)	(7,578)
		<hr/>	<hr/>
Gross profit		310	331
Other operating income/(expense)	3	101	46
		<hr/>	<hr/>
Operating profit		411	377
Net finance charges	6	(3)	(3)
		<hr/>	<hr/>
Profit before taxation on ordinary activities		408	374
Taxation on profit on ordinary activities	7	25	29
		<hr/>	<hr/>
Profit for the financial year and total comprehensive income for the year		433	403
		<hr/> <hr/>	<hr/> <hr/>

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

	<i>Note</i>	30 June 2019 £'000	30 June 2018 £'000
Non - current assets			
Property, plant and equipment	8	24,278	25,119
Current assets			
Inventories	9	738	656
Trade and other receivables	10	1,338	935
Cash and cash equivalents		—	—
		2,076	1,591
Total assets		26,354	26,710
Current liabilities			
Trade and other creditors	11	(1,651)	(2,335)
Provisions	12	(10)	(15)
		(1,661)	(2,350)
Non - current liabilities			
Deferred income	11	(227)	(302)
Deferred tax liabilities	13	(2,267)	(2,292)
		(2,494)	(2,594)
Total liabilities		(4,155)	(4,944)
Net assets		22,199	21,766
Equity			
Called up share capital	14	20,032	20,032
Retained earnings		2,167	1,734
Total equity		22,199	21,766

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2019

BALANCE SHEET (*continued*)

The accounting policies and other notes on pages 13 to 28 form part of the financial statements.

These financial statements on page 9 to 28 were approved by the board of directors on 11/12/2019
and were signed on its behalf by:



L. Milburn
Director

STATEMENT OF CHANGES IN EQUITY
ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 30 June 2017	20,032	1,331	21,363
Profit for the financial year and total comprehensive income	—	403	403
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2018	20,032	1,734	21,766
Profit for the financial year and total comprehensive income	—	433	433
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2019	20,032	2,167	22,199
	<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.

General information

S & B Production Limited ("the company") provides production services in the beverage industry. The company is a toll manufacturer of the production of Baileys cream liqueur on behalf of R & A Bailey & Co trading as Diageo Baileys Global Supply.

The company is incorporated as a private limited company in the United Kingdom, under the register number NI042257.

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:

Basis of preparation (continued)

- 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.

Going concern

The financial statements have been prepared on a going concern basis as a fellow group undertaking has agreed to provide financial support for the foreseeable future.

Turnover

Turnover comprises of income from the sale of goods. The turnover is attributable to the production of standard cases of Baileys Irish cream liqueur on behalf of R&A Bailey & Co.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

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 leave in employees are charged to operating profit as incurred. The assets and liabilities of the pension plans are reported by the sponsoring employer, Diageo plc.

Government grants

Government grants are not recognised until there is reasonable assurance that the company will comply with the conditions pursuant to which they have been granted and that the grants will be received. Government grants in respect of property, plant and equipment are treated as deferred income, and are credited to the income statement on the same basis as the related tangible fixed assets are depreciated.

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.

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.

Factored debts Trade receivables acquired as a result of the factoring activities are shown in the balance sheet as factored debts and are stated at the amount of the original factored debt, net of provision for doubtful debts.

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.

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	15 to 50 years
Plant and equipment	4 to 50 years
Fixtures and fittings	5 to 20 years

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

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.

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 on ordinary activities before taxation are attributable to the production of standard cases of Baileys Irish cream liqueur on behalf of R&A Bailey & Co.

The geographical analysis of turnover by destination is given below:

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Republic of Ireland	8,518	7,909

Analysis of turnover by class of business

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Toll manufacturing of cream liqueurs	8,518	7,909

3. OPERATING COSTS

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Cost of sales	8,208	7,578
Other operating income	(101)	(46)
	<u>8,107</u>	<u>7,532</u>
Raw materials and consumables	1,009	833
Staff costs (note 4)	2,947	2,602
Depreciation, amortisation and impairment	1,438	1,552
Other external charges (a)	2,814	2,592
Net foreign exchange (gain)/losses	(25)	29
Government grants amortised	(76)	(76)
	<u>8,107</u>	<u>7,532</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. OPERATING COSTS *(continued)*

- (a) Other external charges include: repair and maintenance costs of £1,048,000 (2018 - £1,028,000), temporary staff costs of £588,000 (2018 - £434,000), security and insurance costs of £254,000 (2018 - £280,000), operating lease rentals for plant and machinery of £169,000 (2018 - £174,000).

The auditors' remuneration was paid on behalf of the company by a fellow group undertaking. There were no fees payable to the auditors in respect of non-audit services.

4. EMPLOYEES

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

	Year ended 30 June 2019	Year ended 30 June 2018
Production	56	59
Administration	1	1
	<u>57</u>	<u>60</u>

The average number of the company, including part time employees, for the year was 57 (2018: 60).

The aggregate remuneration of all employees comprised:

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Wages and salaries	2,179	1,879
Employer's social security costs	226	225
Employer's pension costs	542	498
	<u>2,947</u>	<u>2,602</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. EMPLOYEES *(continued)*

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 £541,916 to the schemes in respect of its employees in the year ended 30 June 2019 (2018 – £497,611). 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.

5. DIRECTORS' REMUNERATION

Directors' remuneration

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Directors' remuneration (excluding pension contributions)	93	86
Company contributions to money purchase pension schemes	17	11
Share incentives	1	—
	<u>111</u>	<u>97</u>

The aggregate remuneration of the highest paid director was £111,000 (2018 - 97,000). The highest paid director is a member of a UK defined benefit scheme under which his accrued annual pension at the year-end, including all contributions, was £24,000 (2018 - £19,000).

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	—	—
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	1	—
The number of directors in respect of whose retirement benefits were accrued for under defined benefit schemes	1	1

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

6. NET FINANCE CHARGES

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Interest charge to fellow group undertakings	(3)	(3)
Net finance charge	(3)	(3)

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
(a) Analysis of taxation credit for the year		
Current tax:		
Overseas corporation tax	—	—
Total current tax	—	—
Deferred tax:		
Origination and reversal of timing differences	(30)	(34)
Changes in tax rates	3	4
Adjustment in respect of prior years	2	1
Taxation on profit on ordinary activities	(25)	(29)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

(b) Factors affecting total tax credit for the year

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Profit on ordinary activities before taxation	408	374
Taxation on profit on ordinary activities at UK corporation tax rate of 19.00% (2018 – 19.00%)	78	71
Transfer pricing adjustment	1	(2)
Non-qualifying depreciation	13	9
Group relief received for nil consideration	(95)	(82)
Adjustment in respect of prior years	2	1
Changes in tax rates	3	4
Share options	(27)	(30)
Total tax credit for the year	(25)	(29)

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000	Plant and equipment £'000	Fixtures and Fittings £'000	Assets under construction £'000	Total £'000
Cost					
At 30 June 2018	22,394	28,350	11	939	51,694
Additions	3	16	—	577	597
Transfers	14	65	—	(78)	—
Disposals	—	—	—	—	—
At 30 June 2019	22,411	28,431	11	1,438	52,291
Accumulated Depreciation					
At 30 June 2018	6,817	19,758	—	—	26,575
Charged during year	473	963	2	—	1,438
Transfers	—	—	—	—	—
Disposals	—	—	—	—	—
At 30 June 2019	7,290	20,721	2	—	28,013
Carrying amount					
At 30 June 2019	15,121	7,710	8	1,438	24,278
At 30 June 2018	15,577	8,592	11	939	25,119

Included within the net book value of freehold properties is £2,066,432 (2018 - £2,066,432) in respect of land on which no depreciation is charged.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9. INVENTORIES

	30 June 2019	30 June 2018
	€'000	€'000
Engineering spares	738	656

10. TRADE AND OTHER RECEIVABLES

	30 June 2019	30 June 2018
	Due within one year	Due within one year
	£'000	£'000
Amounts owed by fellow group undertakings	1,247	802
Prepayments and accrued income	37	76
Trade and other receivables	54	57
	1,338	935

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11. TRADE AND OTHER CREDITORS

	30 June 2019		30 June 2018	
	Due within one year	Due after one year	Due within one year	Due after one year
	£'000	£'000	£'000	£'000
Trade creditors	853	—	1,038	—
Amounts owed to fellow group undertakings	213	—	237	—
Accruals and deferred income	510	—	984	—
Government grants	75	227	76	302
	<u>1,651</u>	<u>227</u>	<u>2,335</u>	<u>302</u>

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

12. PROVISIONS

	Other £'000	Total £'000
At 30 June 2018	15	15
Charged during the year	7	7
Utilised	(6)	(6)
Released	(6)	(6)
	<u>10</u>	<u>10</u>
At 30 June 2019	10	10
Current liabilities	10	10
Non-current liabilities	—	—
	<u>10</u>	<u>10</u>

Provisions relate to potential PAYE costs and are expected to be utilised or released within one year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13. DEFERRED TAX LIABILITIES

	Property, plant and equipment £'000	Other temporary differences £'000	Total £'000
At 30 June 2017	2,398	(77)	2,321
Recognised in income statement	(42)	13	(29)
At 30 June 2018	2,356	(64)	2,292
Recognised in income statement	(40)	15	(25)
Deferred tax liability/(asset) at 30 June 2019	2,316	(49)	2,267

Deferred tax on other temporary differences includes items such as capital grants received.

14. SHARE CAPITAL AND RESERVES

	30 June 2019
	£'000
<i>Authorised</i>	
20,031,648 ordinary shares of £1 each	20,032
	<hr/>
	30 June 2019
	£'000
<i>Allotted, called up and fully paid</i>	
20,031,648 ordinary shares of £1 each	20,032
	<hr/>

The retained earnings account represents accumulated comprehensive income for the financial year and prior financial years.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

15. COMMITMENTS

Capital commitments

Commitments for expenditure on property, plant and equipment not provided for in these financial statements are estimated at £27,000 (2018 - £292,000).

Operating lease commitments

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

	30 June 2019			30 June 2018		
	Plant & machinery	Other	Total	Plant & machinery	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Payments falling due:						
Within one year	89	1	90	75	8	83
Between one and two years	66	—	66	50	1	51
Between two and three years	21	—	21	27	—	27
Between three and four years	—	—	—	4	—	4
Between four and five years	—	—	—	—	—	—
After five years	—	—	—	—	—	—
	<u>176</u>	<u>1</u>	<u>177</u>	<u>156</u>	<u>9</u>	<u>165</u>

Other purchase commitments

At 30 June 2019 the company had purchase commitments totalling £nil (2018 - £35,000).

16. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking of the company is Diageo Great Britain Limited, a company incorporated and registered in England.

The 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 Lakeside Drive, Park Royal, London, England, NW10 7HQ.