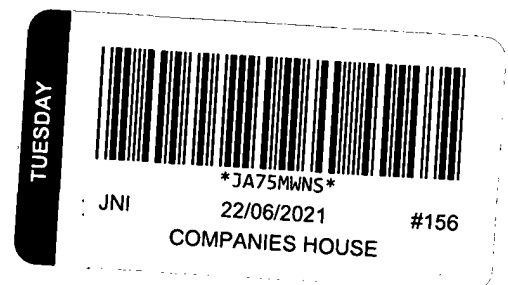


S & B Production Limited
Annual report and financial statements
year ended 30 June 2020
Registered number: NI 042257



S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

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S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

Directors and other information

Director	Ms. A. Donaldson Ms. L. Milburn Mr. D. V. Varian
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

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

Strategic Report

The directors have pleasure to present their strategic report for the year ended 30 June 2020.

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 2020

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 2020, 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 decreased by 7%. Operating costs decreased by 7% which is in line with the decrease in turnover.

Principal risks and uncertainties facing the company as at 30 June 2020

The company believes the following to be the principal risks and uncertainties it faces. If any of these risks occur, the company’s business, financial condition and operational results could suffer. As the company forms part of the group’s financial operations, the financial risk management measures used by management to analyse the development, performance and position of the company’s business are mainly similar to those facing the group as a whole and are managed by the group’s treasury department.

At the beginning of calendar year 2020 a new coronavirus, referred to as ‘Covid-19’, emerged and has been classified as a pandemic due to its spread across the world. Given the global nature of the Covid-19 pandemic, and the uncertainty as to the severity and duration of the impact across multiple markets, it is difficult to accurately assess the impact the virus will have on the future financial performance of the group and the company. The global economic outlook remains uncertain currently, as the pandemic has created volatility in the short term as a result of the social restrictions implemented across the world. The impact of the virus on economic conditions over the medium-term (one to three years) is highly uncertain, in sharp contrast to the stable and growing GDP performance across most markets experienced in recent years. As a result, significant volatility is likely to continue or increase as markets face challenging economic conditions and higher levels of unemployment leading to reduced consumer spending.

To mitigate these challenges the group regularly gathers data and obtains insights which enable management to assess conditions in the markets where the group operates and to amend forecasts and investment decisions appropriately. The directors believe that the risk mitigation actions taken in relation to the pandemic have been agile and effective and that the group will maintain adequate liquidity and be strongly positioned for a recovery in consumer demand. Further information on the group’s risk management measures are disclosed on pages 38-40 of Diageo plc’s 2020 Annual Report.

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

Strategic report (continued)

Financial risk management

The company's funding, liquidity and exposure to foreign exchange rate risk are similar to those facing the Diageo group ("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.

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

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 to ensure that sufficient funds are available for ongoing operations 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).

Section 172 (1) Statement

Section 172 of the Companies Act 2006 requires the Directors to promote the success of the company for the benefit of the members as a whole, having regard to the interests of stakeholders in their decision-making. In making decisions, the Directors consider what is most likely to promote the success of the company for its shareholders in the long term, as well as the interests of the group's stakeholders. The Directors understand the importance of taking into account the views of stakeholders and the impact of the company's activities on local communities, the environment, including climate change, and the group's reputation.

The Company is a member of the group of companies (the "Group") whose ultimate holding company is Diageo plc ("Diageo"). In accordance with the requirements of UK company law, Diageo has included in its 2020 Annual Report and Accounts on page 5 a statement as to how the directors of Diageo have had regard to the matters set out in Section 172 of the Companies Act 2006.

In order to ensure consistency in how the Group operates with regard to its wider stakeholders, the Group has adopted an internal Code of Business Conduct alongside a comprehensive framework of global policies and standards that are designed to ensure, amongst other things, that all companies throughout the Group, including the Company, have regard to its wider stakeholders in a consistent manner.

The Company has therefore had regard to the matters set out in Section 172 of the Act in a manner that is consistent with the approach adopted by Diageo, while at the same time ensuring the directors of the Company are fulfilling their duties.

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

Business review (continued)

Main activities of the Board

The activities of the Board include:

- Approval of the financial statements for the financial year ended 30 June 2019;
- Approval of amendments to the Company's constitutional documents;
- Ratification of actions taken by the Crisis Management Team, regarding decision making during the Covid-19 pandemic; and
- Review of updates in relation the impact of Covid-19 on the operations of the Company, its suppliers and customers.

On behalf of the board,

DocuSigned by:

CSB48D24F06249A...
L. Milburn
Director

Third Floor Capital House
3 Upper Queen Street
Belfast
Northern Ireland

Date: 17 December 2020

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

Directors' Report

The directors are pleased to submit their annual report, together with the audited financial statements for the year ended 30 June 2020.

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 2020 are shown on page 12.

The profit for the year transferred to reserves is £164,000 (2019 - profit of £433,000).

No dividend was paid during the year (2019 - £nil).

Directors

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

Ms. L. Milburn	
Mr. D. V. Varian	(appointed 10 August 2020)
Mr. M. Hailes	(resigned 17 April 2020)
Ms. A. Donaldson	(resigned 1 December 2020)

Secretary

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

Mrs. J. Trundle

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.

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

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 2020 on page 79 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.

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

Directors' report (continued)

Business relationship statement

In order to ensure consistency in how the Group operates, the Company has adopted an internal Code of Business Conduct alongside a comprehensive framework of global policies and standards that are designed to ensure, amongst other things, that all companies throughout the Group, including the Company, have regard to its wider stakeholders, including those in a business relationship with the Company, in a consistent manner. Decisions taken by Directors, and by the Company's executive management team, are informed by the interests of its wider stakeholders, including suppliers, customers and others in a business relationship with the Company, as guided by, amongst other things, the Code of Business Conduct and framework of policies and standards, as well as reviews, reports and proposals presented to the Board or executive management team for approval.

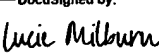
All supplier related activity is managed in line with the Group's Partnering with Suppliers Standard which is adhered to by the Company. The Company ensures that by working with suppliers, we not only deliver high-quality products marketed responsibly, but improve our collective impact, ensuring sustainable supply chains, reducing our environmental impact and making positive contributions to society.

The Board considers that it is important that the Group remains a trusted partner for suppliers, with the relationship enhanced through fair contract and payment terms and through compliance with the Group's Partnering with Suppliers Standard. Other methods used by the Company to ensure that it responds to the needs of its suppliers include direct resolution processes, access to a confidential, independent whistleblowing helpline and website, regional supplier awards, supplier financing, supplier performance measurement and reviews with two-way feedback, standards assessments through independent bodies.

In relation to the Company's customers and indirectly its consumers, the Board believes that the business of the Company can only be sustained by a deep understanding of its customer base, both large and small, on-trade and off-trade, digital and e-commerce, their behaviours and motivations. The Board aims to ensure the Company nurtures mutually beneficial relationships that deliver joint value and the best outcome for all its customers and indirectly its consumers. Consistent with the Group's processes, the Company uses a variety of ways to ensure that these business relationships are maintained including through a board portfolio of choices across categories and price points, best practice sales analytics and technology to support distributors and retail, ongoing dialogue and account management support, physical and virtual sales calls, development of joint business plans, regular business updates, training, webinars and unique offerings such as the Diageo Bar Academy, and the provision of responsible advertising tools and materials in compliance with the Diageo Marketing Code.

More details on how Diageo has cultivated its relationships with suppliers, customers and other stakeholders, please see pages 77 and 78 of its 2020 Annual Report and Accounts.

On behalf of the board,

DocuSigned by:

C5B48D24F0B24BA...
L. Milburn
Director

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

Date: 17 December 2020

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

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 2020 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 and financial statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2020; 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 2020 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 Statement of directors' responsibilities in respect of the financial statements set out on page 7, 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.

A handwritten signature in cursive script, reading 'Paul O'Connor'.

Paul O'Connor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Dublin
17 December 2020

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

STATEMENT OF COMPREHENSIVE INCOME

		Year ended 30 June 2020	Year ended 30 June 2019
	<i>Notes</i>	£'000	£'000
Turnover	2	7,905	8,518
Cost of sales	3	(7,580)	(8,208)
Gross profit		325	310
Other operating income/(expense)	3	47	101
Operating profit		372	411
Net finance charges	6	(2)	(3)
Profit before taxation on ordinary activities		370	408
Taxation on profit on ordinary activities	7	(206)	25
Profit for the financial year and total comprehensive income for the year		164	433

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.

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

BALANCE SHEET

		30 June 2020	30 June 2019
	<i>Note</i>	£'000	£'000
Non - current assets			
Property, plant and equipment	8	<u>23,482</u>	<u>24,278</u>
Current assets			
Inventories	10	746	738
Trade and other receivables	11	<u>2,429</u>	<u>1,338</u>
		3,175	2,076
Total assets		<u>26,657</u>	<u>26,354</u>
Current liabilities			
Trade and other creditors	12	(1,583)	(1,651)
Provisions		—	(10)
Lease liabilities - Current	9	<u>(66)</u>	<u>—</u>
		(1,649)	(1,661)
Non - current liabilities			
Deferred income	12	(151)	(227)
Deferred tax liabilities	13	(2,473)	(2,267)
Lease liabilities - Non-Current	9	<u>(21)</u>	<u>—</u>
		(2,645)	(2,494)
Total liabilities		<u>(4,294)</u>	<u>(4,155)</u>
Net assets		<u>22,363</u>	<u>22,199</u>
Equity			
Called up share capital	14	20,032	20,032
Retained earnings		<u>2,331</u>	<u>2,167</u>
Total equity		<u>22,363</u>	<u>22,199</u>

The accounting policies and other notes on pages 15 to 30 form part of the financial statements.

These financial statements on page 12 to 30 were approved by the board of directors on 17 December 2020 and were signed on its behalf by:

DocuSigned by:

 CSB48D24F06249A...
 L. Milburn
 Director

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

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 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
Profit for the financial year and total comprehensive income	—	164	164
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2020	20,032	2,331	22,363
	<hr/>	<hr/>	<hr/>

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

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

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 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 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.

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

NOTES TO THE FINANCIAL STATEMENTS (continued)

Basis of preparation (continued)

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

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

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.

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 amendments to the accounting standards, issued by the IASB which have been endorsed by the EU, have been adopted by the group and therefore by the company from 1 July 2019 with no impact on the company's results, financial position or disclosures:

- a. Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures
- b. Amendments to IFRS 9 - Prepayment Features with Negative Compensation
- c. Improvements to IFRS 3 and IFRS 11 - Business combinations and Joint arrangements - Accounting for previously held interests
- d. Improvements to IAS 12 - Income taxes - Accounting for income tax consequences of payments on financial instruments that are classified as equity
- e. Improvements to IAS 23 - Borrowing costs on completed qualifying assets

IFRS 16 – Leases The company adopted IFRS 16 from 1 July 2019 by applying the modified retrospective method, meaning that the figures, as at, and for the years ended 30 June 2018 and 2019 have not been restated. IFRS 16 replaced existing lease guidance including IAS 17 - Leases, IFRIC 4, SIC 15 and SIC 27. Information in respect of the adoption of IFRS 16 is included in Note 9.

The following amendment and standard, issued by the IASB have not been adopted by the company:

IFRS 17 – Insurance contracts (effective in the year ending 30 June 2022) is ultimately intended to replace IFRS 4. Based on a preliminary assessment the company believes that the adoption of IFRS 17 will not have a significant impact on the company's result.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform (phase 1).

The amendment provides temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by interbank offered rate (IBOR) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. There are a number of other amendments and clarifications to IFRS, effective in future years, which are not expected to significantly impact the company's results or financial position.

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

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.

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.

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2020

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

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.

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Year ended 30 June 2020

NOTES TO THE FINANCIAL STATEMENTS (continued)

Property, plant and equipment

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

Land and buildings are stated at cost less depreciation.

Returnable packaging represents assets (kegs, bottles and crates) that are expected to be used multiple times across more than one financial year.

Assets under construction include costs incurred on all fixed assets that have not yet been completed and have not yet started to be depreciated. Assets under construction are transferred to other fixed assets categories upon completion and at that point depreciation is started in accordance with the Group Accounting Policy.

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 is the lessee, all leases are recognised on the balance sheet as right of use assets and depreciated on a straight-line basis with the charge recognised in cost of sales. The liability, recognised as part of net borrowings, is measured at a discounted value and any interest is charged to finance charges. The company recognises services associated with a lease as other operating expenses. Payments associated with leases where the value of the asset when it is new is lower than \$5,000 (leases of low value assets) and leases with a lease term of twelve months or less (short term leases) are recognised as other operating expenses.

A judgement in calculating the lease liability at initial recognition includes determining the lease term where extension or termination options exist. In such instances any economic incentive to retain or end a lease are considered and extension periods are only included when it is considered reasonably certain that

For the years ended 30 June 2019 and 2018, where the company had substantially all the risks and rewards of ownership of an asset subject to a lease, the lease was treated as a finance lease. Assets held under finance leases were recognised as assets of the company at their fair value at the inception of the lease. The corresponding liability to the lessor was included in *other financial liabilities/lease liability* on the balance sheet. Lease payments were apportioned between interest expense and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Other leases were 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.

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NOTES TO THE FINANCIAL STATEMENTS *(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 causing material adjustment to the carrying value of the assets and liabilities for the company within the next financial year due to the nature of the business.

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

- Due to the impact of COVID-19 on the Company, estimates have been made around the credit losses expected to be incurred on the company's financial assets – principally being trade receivables. In determining the expected credit losses, the company has applied a company specific risk assessment approach, following guidance from Diageo Group.

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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 2020 £'000	Year ended 30 June 2019 £'000
Republic of Ireland	7,905	8,518

Analysis of turnover by class of business

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Toll manufacturing of cream liqueurs	7,905	8,518

3. OPERATING COSTS

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Cost of sales	7,580	8,208
Other operating income	(47)	(101)
	<u>7,533</u>	<u>8,107</u>
Raw materials and consumables	911	1,009
Staff costs (note 4)	2,604	2,947
Depreciation, amortisation and impairment	1,443	1,438
Other external charges (a)	2,622	2,814
Net foreign exchange (gain)/losses	29	(25)
Government grants amortised	(76)	(76)
	<u>7,533</u>	<u>8,107</u>

(a) Other external charges include: repair and maintenance costs of £871,000 (2019 - £1,048,000), temporary staff costs of £704,000 (2019 - £588,000), security and insurance costs of £213,000 (2019 - £254,000), lease rentals for plant and machinery of £76,000 (2019 - £169,000).

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.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. EMPLOYEES

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

	Year ended 30 June 2020	Year ended 30 June 2019
Production	53	56
Administration	8	1
	<u>61</u>	<u>57</u>

The average number of employees of the company, including part time employees, for the year was 61 (2019: 57).

The aggregate remuneration of all employees comprised:

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Wages and salaries	1,931	2,179
Employer's social security costs	207	226
Employer's pension costs	466	542
	<u>2,604</u>	<u>2,947</u>

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 £466,048 to the schemes in respect of its employees in the year ended 30 June 2020 (2019 – £541,916). 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.

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Year ended 30 June 2020

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. DIRECTORS' REMUNERATION

Directors' remuneration

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Directors' remuneration (excluding pension contributions)	97	93
Company contributions to money purchase pension schemes	14	17
Share incentives	—	1
	<u>111</u>	<u>111</u>

The aggregate remuneration of the highest paid director was £111,000 (2019 - £111,000). 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 £19,000 (2019 - £24,000).

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

	Year ended 30 June 2020	Year ended 30 June 2019
The number of directors who exercised share options was	<u>—</u>	<u>—</u>
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	<u>1</u>	<u>1</u>
The number of directors in respect of whose retirement benefits were accrued for under defined benefit schemes	<u>1</u>	<u>1</u>

6. NET FINANCE CHARGES

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Interest charge to fellow group undertakings	<u>(2)</u>	<u>(3)</u>
Net finance charge	<u><u>(2)</u></u>	<u><u>(3)</u></u>

S & B Production Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'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	61	(30)
Adjustment in respect of prior years	—	2
Changes in tax rates	(267)	3
Taxation on profit on ordinary activities	<u>(206)</u>	<u>(25)</u>

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
(b) Factors affecting total tax credit for the year		
Profit on ordinary activities before taxation	370	408
Taxation on profit on ordinary activities at UK corporation tax rate of 19.00% (2019 – 19.00%)	70	78
Adjustment in respect of prior years	—	2
Expenses not deductible	1	—
Transfer pricing adjustment	1	1
Tax rate changes	267	3
Group relief received for nil consideration	(105)	(95)
Share options	(32)	(27)
Non-qualifying depreciation	4	13
Total tax credit for the year	<u>206</u>	<u>(25)</u>

The UK tax rate is 19% effective from 1 April 2017 which is applied for the year ended 30 June 2019. In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020.

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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 2019	22,411	28,431	11	1,438	52,291
Recognition of right-of-use asset on adoption of IFRS 16	—	160	—	—	160
Adjusted balance at 1 July 2019	22,411	28,591	11	1,438	52,451
Additions	—	66	—	419	485
Transfers	253	940	3	(1,196)	—
Disposals	—	(13)	—	—	(13)
At 30 June 2020	22,664	29,584	14	661	52,923
Accumulated Depreciation					
At 30 June 2019	7,290	20,721	2	—	28,013
Charged during year	432	1,006	3	—	1,441
Disposals	—	(13)	—	—	(13)
At 30 June 2020	7,722	21,714	5	—	29,441
Carrying amount					
At 30 June 2020	14,942	7,870	9	661	23,482
At 30 June 2019	15,121	7,710	8	1,438	24,278

In regards to the Recognition of Right-of-use assets, these are disclosed in Note 9.

Included within the net book value of freehold properties is £2,066,432 (2019 - £2,066,432) in respect of land on which no depreciation is charged.

S & B Production Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

9. LEASES

(a) Adoption of IFRS 16

Under the new standard, outstanding lease liabilities have been recognised at 1 July 2019, for leases previously classified as operating leases, at the present value of the future lease payments over their reasonably certain lease term. Right-of-use assets have been recognised equal to the net present value of the lease liabilities, adjusted for the amount of any prepaid or accrued lease payment, lease incentives and provisions for onerous leases. There was no impact on retained earnings as at 1 July 2019. The interest rate used to discount the future payments in the calculation of the lease liability is the incremental borrowing rate at 1 July 2019 taking into account the currency and duration of the lease. The weighted average incremental borrowing rate applied across all operating leases capitalised on 1 July 2019 was 0.8%.

The company has decided to reduce the complexity of implementation by taking advantage of a number of practical expedients on transition on 1 July 2019 namely:

- to not capitalise leases which expire within a year of 1 July 2019;
- to apply a single discount rate to portfolios of leases with similar characteristics; and
- to adjust the right-of-use asset by the amount of any provision for onerous leases recognised immediately before the date of initial application.

The company has not capitalised leases on transition where the value of the asset when it is new is lower than \$5,000 (low value assets).

The impact of the adoption of IFRS 16 on affected lines of the balance sheet at 1 July 2019 is as follows:

	30 June 2019	IFRS 16 Impact	01 July 2019
	£'000	£'000	£'000
Non-current assets			
Property, plant and equipment	24,278	160	24,438
Current liabilities			
Lease liabilities	—	(73)	(73)
Non-current liabilities			
Lease liabilities	—	(87)	(87)

As a result of the adoption of IFRS 16 the total assets increased by £160,000 from £26,354,000 to £26,514,000 and the total liabilities increased by £160,000 from £4,155,000 to £4,315,000 on 1 July 2019. The leases (previously classified as operating leases) which have been recognised at adoption are principally in respect of production equipment and machinery and commercial vehicles and tools.

S & B Production Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

9. LEASES (continued)

A reconciliation of differences between the operating lease commitments disclosed in note 16 of S&B Production Limited financial statements and the lease liabilities under IFRS 16, at 1 July 2019, is as follows:

	£'000
Operating lease commitments at 30 June 2019	177
Leases expiring within a year of 1 July 2019	(15)
Impact of discounting	(2)
Total additional lease liabilities recognised on adoption of IFRS 16	160
Finance lease liabilities at 30 June 2019	—
Total lease liabilities at 1 July 2019	160
 Total lease liabilities at 1 July 2019 – current	 73
Total lease liabilities at 1 July 2019 - non-current	87

(b) Movements of leases

	Plant and equipment £'000
Movement of right-of-use assets	
At 30 June 2019	
IFRS 16 transition	160
Depreciation	(73)
At 30 June 2020	87

Rental contracts are typically made for fixed periods of 5 years.

	Plant and equipment £'000
Movement of lease liabilities	
At 30 June 2019	
IFRS 16 transition	(160)
Payments	73
At 30 June 2020	(87)
 Current	 (66)
Non-current	(21)

S & B Production Limited
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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10. INVENTORIES

	30 June 2020	30 June 2019
	£'000	£'000
Engineering spares	746	738

11. TRADE AND OTHER RECEIVABLES

	30 June 2020	30 June 2019
	Due within one year	Due within one year
	£'000	£'000
Amounts owed by fellow group undertakings	2,097	1,247
Prepayments and accrued income	—	37
Trade and other receivables	332	54
	2,429	1,338

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

12. TRADE AND OTHER CREDITORS

	30 June 2020		30 June 2019	
	Due within one year	Due after one year	Due within one year	Due after one year
	£'000	£'000	£'000	£'000
Trade creditors	751	—	853	—
Amounts owed to fellow group undertakings	199	—	213	—
Accruals and deferred income	557	—	510	—
Government grants	76	151	75	227
	<u>1,583</u>	<u>151</u>	<u>1,651</u>	<u>227</u>

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

13. DEFERRED TAX

	Property, plant and equipment	Other temporary differences	Total
	£'000	£'000	£'000
At 30 June 2018	2,356	(64)	2,292
Recognised in income statement	<u>(40)</u>	<u>15</u>	<u>(25)</u>
At 30 June 2019	2,316	(49)	2,267
Recognised in income statement	<u>198</u>	<u>8</u>	<u>206</u>
Deferred tax liability/(asset) at 30 June 2020	<u>2,514</u>	<u>(41)</u>	<u>2,473</u>

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

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14. SHARE CAPITAL AND RESERVES

	30 June 2020	30 June 2019
	£'000	£'000
<i>Authorised</i>		
20,031,648 ordinary shares of £1 each	<u>20,032</u>	<u>20,032</u>
	30 June 2020	30 June 2019
	£'000	£'000
<i>Allotted, called up and fully paid</i>		
20,031,648 ordinary shares of £1 each	<u>20,032</u>	<u>20,032</u>

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

15. COMMITMENTS

Capital commitments

Commitments for expenditure on property, plant and equipment not provided for in these financial statements are estimated at £135,000 (2019 - £27,000).

Operating lease commitments

All operating lease commitments have been transferred as a result of the adoption of IFRS 16 and it is disclosed in Notes 8 and 9.

Other purchase commitments

At 30 June 2020 the company had purchase commitments totalling £nil (2019 - £nil).

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, United Kingdom.

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, United Kingdom. The consolidated financial statements of Diageo plc can be obtained from the registered office at Lakeside Drive, Park Royal, London, England, NW10 7HQ, United Kingdom.