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S & B Production Limited

Annual report and financial statements

year ended 30 June 2021

Registered number: NI 042257

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2021

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S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2021

Directors and other information

Director	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
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Year ended 30 June 2021

Strategic Report

The directors present their strategic report for the year ended 30 June 2021.

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 2021

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 2021, 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

For the year ended 30 June 2021, turnover, which is solely made up of toll manufacturing income, increased by 9.6%, while operating costs increased by 7% which is lower than the increase in turnover. During the financial year, net assets have decreased by 0.4% or £90 thousand, from £22,363 thousand to £22,273 thousand, as a result of increase in assets of 4% or £1,009 thousand, from £22,657 thousand to £27,666 thousand, mainly driven by increase in trade receivables from related parties, and increase in liabilities by 26%, from £4,294 thousand to £5,393 thousand. The higher liabilities are mainly driven by the increase in deferred tax liabilities of 28% or £694 thousand, from £2,473 thousand to £3,167 thousand, and increase in current liabilities by 30% or £500 thousand, from £1,649 thousand to £2,149 thousand.

Principal and financial risks and uncertainties facing the company as at 30 June 2021

The principal risks identified by the group are disclosed on page 45 to 48 of Diageo Plc’s 2021 Annual Report. The most relevant of the group risks to this entity are the ones we have selected and articulated below, together with specific considerations relating to the company’s operations and environment. 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. The directors consider that the following risks might impact the performance and the solvency or liquidity of the company through its intercompany financing structure.

Pandemics

Global outbreak of a public health threat or fear of such an event could result in increased government restrictions and regulations including the shutdown of the on-trade, restrictions to travel, and quarantining of employees resulting in a negative impact to consumer demand, or a slowdown or halting of the group business operations due to supply or logistic constraints and could adversely impact the group financial performance. 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.

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Strategic report (*continued*)

Business review (*continued*)

Principal and financial risks and uncertainties facing the company as at 30 June 2021 (continued)

The directors have assessed that the key impacts from the pandemic on the company would be in respect of any change in credit risk impacting the valuation of intercompany receivables and the effect of Covid-19 on remote working and ability to access IT systems, along with a potentially heightened cyber risk. The directors believe that the risk mitigation actions taken by the group in relation to the Covid-19 pandemic, which incorporate those taken on behalf of the company, have been agile and effective and that the group will maintain adequate liquidity and be strongly positioned for a recovery in consumer demand. During the year, the group took actions to protect the business and support Diageo partners and communities. Further information is disclosed on pages 45 to 48 of Diageo plc's 2021 Annual Report.

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 from 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).

Statement on Section 172 of the Companies Act 2006

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

S & B Production Limited
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Year ended 30 June 2021

Strategic report (*continued*)

Business review (*continued*)

Statement on Section 172 of the Companies Act 2006 (continued)

its 2021 Annual Report and Accounts on page 7 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.

Main activities of the Board

The activities of the Board during the year include the approval of the financial statements for the financial year ended 30 June 2021.

On behalf of the Board,

DocuSigned by:

David Varian

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D. Varian

Director

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

Date: 16/12/2021

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2021

Directors' Report

The directors are pleased to submit their annual report, together with the audited financial statements for the year ended 30 June 2021.

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 a toll manufacturer of standard cases of Baileys cream liqueur on behalf of R & A Bailey & Co, the production was 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. Based on that, 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 a period of at least 12 months from the date the financial statements are approved and signed. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. In arriving at this conclusion, the directors have also considered the potential impact that the Covid-19 outbreak may have on the company and believe that any impact would be minimal.

Results and dividends

The results for the year ended 30 June 2021 are shown on page 10.

The company recorded a loss of £90,000 (2020 - profit of £164,000) for the financial year which has been transferred to reserves. Equity at the 30 June 2021 amounted to £22,273,000 (2020 - £22,363,000). During the financial year, assets have increased by 4% or £1,009 thousand, from £22,657 thousand to £27,666 thousand, mainly driven by increase in trade receivables from related parties, and liabilities have increased by 26%, from £4,294 thousand to £5,393 thousand. The higher liabilities are mainly driven by the increase in deferred tax liabilities of 28% or £694 thousand, from £2,473 thousand to £3,167 thousand, and increase in current liabilities by 30% or £500 thousand, from £1,649 thousand to £2,149 thousand. No dividend was paid during the year (2020 - £nil).

Future developments

The directors' objective is to maintain and, if possible, increase the level of turnover and operating profit in the coming years.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

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

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Directors' Report (*continued*)

Secretary

The secretary of the company who was in office during the year and up to the date of signing the financial statements was:

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.

Political contributions

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

Research and development

The company has not undertaken any research and development activities 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 2021 on page 45 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.

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Year ended 30 June 2021

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.

On behalf of the Board,

DocuSigned by:

66C6A00063614E1...
D. Varian
Director

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

Date: 16/12/2021



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 2021 and of its loss 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 the Financial Statements, which comprise:

- the balance sheet as at 30 June 2021;
- the statement of comprehensive income for the year then ended;
- 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report and the Financial Statements 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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 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, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to:

- laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, including United Kingdom Generally Accepted Accounting Practice, the Companies Act 2006 and taxation legislation; and



- those laws and regulations which do not have a direct effect on the determination of material amounts and disclosures in the financial statements but where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: data protection and certain aspects of company legislation. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and the posting of fraudulent journal entries. Audit procedures performed by the engagement team included:

- Consideration of fraud risk as part of our audit planning process;
- Identification of potential risk factors through consideration of the company's business strategies and risks. This includes meetings with management as well as the those charged with governance and staff regarding their perspectives on fraud and compliance with applicable laws and regulations;
- Evaluation of the company's programs and controls designed to address fraud risk;
- Responding to the risk identified by designing appropriate audit procedures;
- Maintaining professional scepticism throughout the audit;
- Implementing specific procedures to address risks associated with the management override of controls, including close examination of journal entries and other adjustments, accounting estimates, identifying indicators of possible management bias and significant unusual transactions;
- Incorporating unpredictability into our audit process;
- Implementing specific procedures to address risks associated with non-compliance with laws and regulations; and
- Careful evaluation of the amount and quality of audit evidence obtained at all stages of the audit.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 obtained 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 black ink that reads 'Paul O' Connor'.

Paul O' Connor
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Dublin
Ireland
16 December 2021

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2021

STATEMENT OF COMPREHENSIVE INCOME

		Year ended 30 June 2021	Year ended 30 June 2020
	<i>Notes</i>	£'000	£'000
Turnover	2	8,667	7,905
Cost of sales	3	<u>(8,155)</u>	<u>(7,580)</u>
Gross profit		512	325
Other operating income	3	<u>93</u>	<u>47</u>
Operating profit		605	372
Net finance charges	6	<u>(1)</u>	<u>(2)</u>
Profit before taxation on ordinary activities		604	370
Taxation on profit on ordinary activities	7	<u>(694)</u>	<u>(206)</u>
(Loss) / Profit for the financial year and total comprehensive (expense) / income for the year		<u>(90)</u>	<u>164</u>

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.

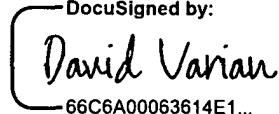
S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2021

BALANCE SHEET

		30 June 2021	30 June 2020
	<i>Note</i>	£'000	£'000
Non - current assets			
Property, plant and equipment	8	<u>22,563</u>	<u>23,482</u>
Current assets			
Inventories	10	648	746
Trade and other receivables	11	<u>4,455</u>	<u>2,429</u>
		5,103	3,175
Total assets		<u>27,666</u>	<u>26,657</u>
Current liabilities			
Trade and other creditors	12	(2,130)	(1,583)
Lease liabilities - Current	9	<u>(19)</u>	<u>(66)</u>
		(2,149)	(1,649)
Non - current liabilities			
Deferred income	12	(75)	(151)
Deferred tax liabilities	13	(3,167)	(2,473)
Lease liabilities - Non-Current	9	<u>(2)</u>	<u>(21)</u>
		(3,244)	(2,645)
Total liabilities		<u>(5,393)</u>	<u>(4,294)</u>
Net assets		<u>22,273</u>	<u>22,363</u>
Equity			
Called up share capital	14	20,032	20,032
Retained earnings		<u>2,241</u>	<u>2,331</u>
Total equity		<u>22,273</u>	<u>22,363</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 16/12/2021 and were signed on its behalf by:

DocuSigned by:

 66C6A00063614E1...
 D. Varian
 Director

S & B Production Limited
Registered number: NI 042257
Year ended 30 June 2021

STATEMENT OF CHANGES IN EQUITY
ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 July 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
 Loss for the financial year and total comprehensive income	 —	 (90)	 (90)
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2021	20,032	2,241	22,273
	<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 2021

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 company limited by shares in Northern Ireland, 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(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.

Going concern

The company is a toll manufacturer of standard cases of Baileys cream liqueur on behalf of R & A Bailey & Co, the production was 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. Based on that, 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 a period of at least 12 months from the date the financial statements are approved and signed. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. In arriving at this conclusion, the directors have also considered the potential impact that the Covid-19 outbreak may have on the company and believe that any impact would be minimal. As such, the financial statements have been prepared on a going concern basis.

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 from 1 July 2020 with no impact on the company and group's consolidated results, financial position or disclosures:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 – Definition of a Business
- Amendments to IAS 1 and IAS 8 – Definition of Material
- Amendments to IFRS 16 – Covid-19 - Related Rent Concessions

The following amendments and standards issued by the IASB which have been endorsed by the EU, have been adopted by the group:

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement. The amendment requires the remeasurement of service cost and interest charge for the rest of the period following plan amendments, settlements and curtailments using actuarial assumptions prevailing at the date of these events. The amendment is applicable to Diageo from 1 July 2019 on a prospective basis and has resulted in no impact on the company's result and financial position.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

New accounting policies *(continued)*

The following amendment and standard, issued by the IASB has not been adopted by the group:

IFRS 17 – Insurance contracts (effective in the year ending 30 June 2024) is ultimately intended to replace IFRS 4. Based on a preliminary assessment the group believes that the adoption of IFRS 17 will not have a significant impact on its consolidated or company's results or financial position.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (phase 2). The amendment to IFRS 9 provides relief from applying specific hedge accounting and financial instrument derecognition requirements directly affected by interbank offered rate (IBOR) reform. By applying the practical expedient, Diageo will not be required to discontinue its hedging relationships as a result of changes in reference rates due to the IBOR reform. The amendment to IFRS 7 will require additional disclosure explaining the nature and extent of risk related to the reform and the progress of the transition. There are a number of other amendments and clarifications to IFRS, effective in future years, which are not expected to significantly impact the group's consolidated or company's results or financial position.

S & B Production Limited
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Year ended 30 June 2021

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

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. 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.

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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.

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

1. ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

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

Land and buildings are stated at cost less depreciation.

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

Reviews are carried out if there is an indication that assets may be impaired, to ensure that property, plant and equipment are not carried at above their recoverable amounts.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

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.

S & B Production Limited
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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 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.

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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 2021 £'000	Year ended 30 June 2020 £'000
Republic of Ireland	8,667	7,905

Analysis of turnover by class of business

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Toll manufacturing of cream liqueurs	8,667	7,905

3. OPERATING COSTS

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Cost of sales	8,155	7,580
Other operating income (a)	(93)	(47)
	<u>8,062</u>	<u>7,533</u>
Raw materials and consumables	830	911
Staff costs (note 4)	3,074	2,604
Depreciation, amortisation and impairment	1,354	1,443
Other external charges (b)	2,897	2,622
Net foreign exchange (gain)/losses	(17)	29
Government grants amortised	(76)	(76)
	<u>8,062</u>	<u>7,533</u>

(a) Other operating income for £93,000 is the result of yearly amortization of government grants for £76,000 and net foreign exchange gains for £17,000.

(b) Other external charges include: repair and maintenance costs of £1,063,000 (2020 - £871,000), temporary staff costs of £674,000 (2020 - £704,000), security and insurance costs of £272,000 (2020 - £213,000), low value assets and short-term leases for plant and machinery of £120,000 (2020 - £76,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING COSTS (continued)

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:

	Average number of employees	
	Year ended	Year ended
	30 June 2021	30 June 2020
Production	55	53
Administration	7	8
	<u>62</u>	<u>61</u>

The average number of employees of the company, including part time employees, for the year was 62 (2020: 61).

The aggregate remuneration of all employees comprised:

	Year ended	Year ended
	30 June 2021	30 June 2020
	£'000	£'000
Wages and salaries (a)	2,381	1,931
Employer's social security costs	250	207
Employer's pension costs	443	466
	<u>3,074</u>	<u>2,604</u>

(a) Wages and salaries include share option costs for £40,000 (2020 - £nil).

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 £443,183 to the schemes in respect of its employees in the year ended 30 June 2021 (2020 – £466,048). As there is no contractual agreement for allocating the surplus or deficit to participating entities, it is recognised fully by the sponsoring employer, Diageo plc.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. DIRECTORS' REMUNERATION

Directors' remuneration

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Directors' remuneration (excluding pension contributions)	—	97
Company contributions to money purchase pension schemes	—	14
Share incentives	—	—
	<u>—</u>	<u>111</u>

The aggregate remuneration of the highest paid director was £nil (2020 - £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 £nil (2020 - £19,000).

The directors were paid by fellow group undertakings and no cost was recharged to the company. 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 2021	Year ended 30 June 2020
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

6. NET FINANCE CHARGES

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Interest charge to fellow group undertakings	(1)	(2)
Net finance charge	<u>(1)</u>	<u>(2)</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
(a) Analysis of taxation charge for the year		
Current tax:		
Corporation tax	—	—
Total current tax	—	—
Deferred tax:		
Origination and reversal of timing differences	66	61
Changes in tax rates	(760)	(267)
Taxation on profit on ordinary activities	(694)	(206)
(b) Factors affecting total tax charge for the year		
	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Profit on ordinary activities before taxation	604	370
Taxation on profit on ordinary activities at UK corporation tax rate of 19.00% (2020 – 19.00%)	115	70
Adjustment in respect of prior years	—	—
Expenses not deductible	—	1
Transfer pricing adjustment	6	1
Tax rate changes	760	267
Group relief received for nil consideration	(182)	(105)
Share options	(20)	(32)
Non-qualifying depreciation	15	4
Total tax charge for the year	694	206

The UK corporation tax rate for the year ended 30 June 2021 is 19% which has been effective since 1 April 2017. In the Spring Budget 2021, the UK Government announced an increase in the corporation tax rate to 25% which will apply from 1 April 2023. The legislation increasing the tax rate to 25% rate was substantively enacted on 24 May 2021. Deferred taxes at 30 June 2021 have been measured using this enacted tax rate and reflected in these financial statements.

S & B Production Limited
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Year ended 30 June 2021

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 1 July 2020	22,664	29,584	14	661	52,923
Additions	132	157	—	213	502
Transfers	75	128	—	(203)	—
Disposals	—	(104)	—	(67)	(171)
At 30 June 2021	22,871	29,765	14	604	53,254
Accumulated Depreciation					
At 1 July 2020	7,722	21,714	5	—	29,441
Charged during year	423	930	1	—	1,354
Disposals	—	(104)	—	—	(104)
At 30 June 2021	8,145	22,540	6	—	30,691
Carrying amount					
At 30 June 2021	14,726	7,225	8	604	22,563
At 1 July 2020	14,942	7,870	9	661	23,482

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 (2020 - £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

Movements of leases

	Plant and equipment £'000
Movement of right-of-use assets	
At 1 July 2020	87
Depreciation	(66)
	<hr/>
At 30 June 2021	21
	<hr/> <hr/>

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

	Plant and equipment £'000
Movement of lease liabilities	
At 1 July 2020	(87)
Payments	66
	<hr/>
At 30 June 2021	(21)
	<hr/> <hr/>
Current	(19)
Non-current	(2)
	<hr/> <hr/>

Other external charges associated with leases of low value assets and short-term leases were £120,000 (2020 - £ 76,000) in the year ended 30 June 2021.

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

10. INVENTORIES

	30 June 2021	30 June 2020
	£'000	£'000
Engineering spares	<u>648</u>	<u>746</u>

Inventories are disclosed net of provisions of £122,000 (2020 - £142,000) for obsolescence.

11. TRADE AND OTHER RECEIVABLES

	30 June 2021	30 June 2020
	Due within one year	Due within one year
	£'000	£'000
Amounts owed by fellow group undertakings	4,215	2,097
Prepayments and accrued income	—	—
Other receivables	<u>240</u>	<u>332</u>
	<u>4,455</u>	<u>2,429</u>

Amounts owed by fellow group undertakings are unsecured, interest free and repayable on demand.
Other receivables for £240,000 relate to VAT receivable.

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

12. TRADE AND OTHER CREDITORS

	30 June 2021		30 June 2020	
	Due within one year £'000	Due after one year £'000	Due within one year £'000	Due after one year £'000
Trade creditors	965	—	751	—
Amounts owed to fellow group undertakings	237	—	199	—
Accruals and deferred income	852	—	557	—
Government grants	76	75	76	151
	<u>2,130</u>	<u>75</u>	<u>1,583</u>	<u>151</u>

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

13. DEFERRED TAX LIABILITIES

	Property, plant and equipment £'000	Other temporary differences £'000	Total £'000
At 1 July 2019	2,316	(49)	2,267
Recognised in income statement	<u>198</u>	<u>8</u>	<u>206</u>
At 30 June 2020	2,514	(41)	2,473
Recognised in income statement	<u>689</u>	<u>5</u>	<u>694</u>
Deferred tax liability/(asset) at 30 June 2021	<u>3,203</u>	<u>(36)</u>	<u>3,167</u>

The deferred tax liability arises from differences in the accounting and tax basis for fixed assets used in the Company's business and is therefore considered long term in nature.
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 2021	30 June 2020
	£'000	£'000
<i>Authorised</i>		
20,031,648 (2020 - 20,031,648) ordinary shares of £1 each	<u>20,032</u>	<u>20,032</u>
	30 June 2021	30 June 2020
	£'000	£'000
<i>Allotted, called up and fully paid</i>		
20,031,648 (2020 - 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. RELATED-PARTY TRANSACTIONS

The company has transactions only with Diageo wholly owned subsidiaries and it is exempt from disclosing it.

16. COMMITMENTS

Capital commitments

Commitments for expenditure on property, plant and equipment not provided for in these financial statements are estimated at £287,000 (2020 - £135,000).

Other purchase commitments

At 30 June 2021 the company had purchase commitments totalling £nil (2020 - £nil).

17. EVENTS AFTER THE END OF THE REPORTING PERIOD

There have been no significant events affecting the company after the end of the reporting period.

18. 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 the group. The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Diageo plc., which is incorporated and registered in England, United Kingdom. The consolidated financial statements of Diageo plc can be obtained from the registered office at Diageo, Lakeside Drive, Park Royal, London, England, NW10 7HQ, United Kingdom.