Justerini & Brooks, Limited

Annual Report and Financial Statements

30 June 2018

Registered number: 68576

Justerini & Brooks, Limited
Registered number: 68576
Year ended 30 June 2018

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Justerini & Brooks, Limited
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STRATEGIC REPORT

The directors have pleasure in submitting their strategic report, their annual report and the audited financial statements for the year ended 30 June 2018.

Activities

The principal activities of Justerini & Brooks, Limited are the trading of wines and spirits, the marketing of scotch whisky and the distribution of these products to third parties and other Diageo group ("the group") undertakings. In addition to trade and marketing activities, the company is also the brand owner of Knockando whisky.

The company operates fine wine merchant activities where wine, sourced from various producers, is sold in different countries. There are three separate types of external trade (distribution, brokering and en primeur). En primeur is the sale of wines while a vintage remains in the barrel or bottle and offers the customer the opportunity to purchase particular wines before they are fully matured.

Business review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2018

The company has continued its focus on becoming the world's most prestigious and respected fine wine merchant by strengthening its relationships with producers and customers. The company's objective is also to become the wine and spirits supplier of choice to London's premium hotels, restaurants and catering market.

Financial and other key performance indicators

The principal key performance indicators used by the company's management to analyse development, performance and position of the company's business are turnover and operating profit.

Turnover increased by £9,945,000 to £57,174,000 in the year ended 30 June 2018 from £47,229,000 in the year ended 30 June 2017. The principal drivers of this increase are larger en primeur campaigns, growing sales of rare and collectable whiskies and growth in the on and off trade wines and spirits business.

Operating profit increased by £2,066,000 from £1,745,000 to £3,811,000 principally as a consequence of the drivers of the increase in turnover.

Net assets of the company decreased by £856 million as the company paid dividend of £860 million to its immediate parent undertaking, Diageo Great Britain Limited on 26 June 2018. In addition, during the year ended 30 June 2018 Arthur Bell and Sons Limited (a wholly owned subsidiary of the company) repaid £203 million and provided an intercompany loan, repayable on demand, of £680 million.

Principal risks and uncertainties facing the company as at 30 June 2018

In the ongoing uncertain economic environment, certain risks may gain more prominence either individually or when taken together.

<u>Changes in exchange rates</u>

The company's wine merchant activities may be adversely affected, if the euro strengthened against pound sterling and increased the cost of fine wine sourced from Europe.

Exchange exposures in respect of trading and distribution of scotch whisky is managed in accordance with Diageo's policy whilst local risk management procedures are applied to mitigate currency risks arising on the trading of wines.

STRATEGIC REPORT (continued)

Principal risks and uncertainties facing the company as at 30 June 2018 (continued)

Changes in consumer preferences and tastes

Products sold by the company include some of the most valued wines in the world. Consumer preferences may shift due to a variety of factors including changes in demographic and social trends, and changes in the economic environment.

The company's business may be adversely impacted by unfavourable economic conditions, including those resulting from Brexit

The company's business is dependent on general economic conditions in the United Kingdom and in other important markets. A significant deterioration in such conditions, including as a result of reduced consumer spending levels due to economic slowdowns or recessions, the imposition of tariffs or other trade restrictions, inflationary pressures, disruptions to credit markets, and/or the failure of a significant customer, could have a material adverse effect on the company's business and operational results.

There also continues to be uncertainty with respect to the process surrounding the United Kingdom's proposed exit from the European Union and the eventual outcome of the ongoing Brexit negotiations. This has in turn resulted in political and economic instability and complexity, which could negatively impact economic conditions in the United Kingdom and in Europe more generally, although the full implications of Brexit will not be understood until the future tariffs, trade, regulatory, tax, and other free trade agreements to be entered into by the United Kingdom are established. In particular, there continues to be uncertainty surrounding future trading agreements between the United Kingdom and the rest of the world, including the short term disruption that could arise from a "no deal" scenario in which the UK leaves the EU on the current Article 50 notification deadline for Brexit of 29 March 2019 without the parties reaching a formal withdrawal agreement approved by the UK Parliament, and including the inability of the UK Government to renew existing EU Free Trade Agreements with third party countries with which products are traded or otherwise exported and where trading could revert to WTO rules. It is anticipated that, in the event of either a negotiated exit or "no deal scenario", the direct financial impact to the company will not be material. In the EU, it is expected that the goods will continue to trade tariff free in either scenario. The principal impact to the company's supply chain have been assessed and the impact is expected to be limited and the company secured appropriate inventory level in place to mitigate this risk.There could also be changes to laws and regulations post Brexit in areas such as intellectual property rights, employment, environment, supply chain logistics, data protection, and health and safety.

The company faces competition that may reduce its market share and margins

The company faces substantial competition from several international companies as well as local and regional companies in the United Kingdom. Increased competition and unanticipated actions by competitors or customers could lead to downward pressure on prices and/or a decline in the company's market share in any of its product categories, which would adversely affect the company's results and hinder its growth potential.

STRATEGIC REPORT (continued)

Principal risks and uncertainties facing the company as at 30 June 2018 (continued)

Regulatory decisions and changes in the legal and regulatory environment could increase the company's costs and liabilities or limit its business activities

The company's operations are subject to extensive regulatory requirements, which include those in respect of product liability, distribution, marketing, promotion, labelling, advertising, labour, pensions, excise tax and environmental issues. Changes in laws, regulations or governmental policy could cause the company to incur material additional costs or liabilities that could adversely affect its business.

Changes in tax law (including tax rates), accounting policies and accounting standards could materially reduce the company's reported after tax profit.

Breach of data privacy laws or regulations could harm the trust and/or reputation of the company, its brands or people and could significantly restrict the company's ability to deliver its digital productivity and growth plans.

Financial risk management

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

Currency risk

The company publishes its financial statements in pound sterling and conducts some of its business in foreign currencies. As a result, it is subject to exchange rate risk due to exchange rate movements, which will affect the company's transactions.

The group's policy is to hedge up to 24 months forecasted transactional foreign currency risk on the net US dollar exposure of the group targeting 75% coverage of the current financial year when the annual plan is approved, and up to 18 months for other currency pairs.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operation and future developments, the company has access to funding from the Diageo group.

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STRATEGIC REPORT (continued)

Financial risk management (continued)

Credit risk

The company's credit risk is primarily in respect of to its trade receivables and amounts due from fellow subsidiary undertakings. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The company sets credit limits for, and monitors its credit exposure to its counterparties via their credit ratings.

On behalf of the board

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A Mahler
Director

61 St. James's Street
London
SW1A 1LZ

12 March 2019

Justerini & Brooks, Limited
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Year ended 30 June 2018

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2018.

The company is incorporated and domiciled as a private limited company in the United Kingdom.

The registered address is 61 St James's St, London, SW1A 1LZ.

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the strategic report on pages 2 to 5. The company is expected to continue to generate profit for 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 and the parent and fellow group undertakings are expected to provide financial support for the foreseeable future, therefore the company is not reliant on external third party financing. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the 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.

Financial

The result for the year ended 30 June 2018 is shown on page 12.

The profit for the year transferred to reserves is £3,723,000 (2017 - £1,917,000).

Dividend paid during the year ended 30 June 2018 was £860,000,000 (2017 - £nil).

Directors

The directors who held office during the year were as follows:

G P Crickmore

J M C Edmunds (appointed 8 March 2018)

D Heginbottom

A Mahler

J J Nicholls (resigned 9 March 2018)

E M Peachey

The following directors were appointed after the year end:

S L Fennessy (appointed 28 September 2018)

K E Major (appointed 1 August 2018)

The following directors resigned after the year end:

S J Bolton (resigned 28 September 2018)

D F Harlock (resigned 1 August 2018)

Directors' remuneration

None of the directors received any remuneration during the year in respect of their services as directors of the company (2017 - £nil).

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DIRECTORS' REPORT (continued)

Secretary
On 5 January 2018, C E Matthews resigned as secretary of the company.

On 5 January 2018, J M Guttridge was appointed, and on 20 April 2018, resigned as secretary of the company.

Directors' indemnity
The Articles of Association permit qualifying third-party indemnities for the directors as defined by Section 234 of the Companies Act 2006. No such indemnity was in force during the last financial year, nor is any currently in force.

Post balance sheet events
On 25 June 2018 Arthur Bell & Sons Limited (a wholly owned subsidiary undertaking of the company) approved a reduction of capital by way of the solvency statement procedure to reduce the Arthur Bell & Sons Limited capital by £680,000,000, creating distributable reserves in the company. The board of Arthur Bell & Sons Limited also approved that a £680,369,317 interim dividend be paid to its holding company, Justerini & Brooks, Limited. Subsequent to 30 June 2018, it was discovered that the capital reduction of Arthur Bell & Sons Limited was not correctly registered with the UK Companies Registrar and, as a result, was not effective. As a consequence, the capital reduction in Arthur Bell & Sons Limited was not completed and therefore the amount paid to Justerini & Brooks Limited has been recognised as an intercompany liability rather than dividend income as at 30 June 2018.

On 27 February 2019, the UK Companies House registered a reduction of the capital of Arthur Bell & Sons Limited resulting in the creation of distributable reserves of £884,920,227. On 28 February 2019 a dividend of £680,369,317 was declared by Arthur Bell & Sons Limited in favour of the company.

Independent auditor
Pursuant to Section 487 of the Companies Act 2006, the auditor, PricewaterhouseCoopers LLP, has been reappointed and will continue in office as the auditor of the company.

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DIRECTORS' REPORT (continued)

Disclosure of information to the auditor

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

On behalf of the board

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A Mahler
Director

61 St. James's Street
London
SW1A 1LZ

12 March 2019

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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 regulation.

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 the 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 Justerini & Brooks, Limited

Report on the audit of the financial statements

Opinion

In our opinion, Justerini & Brooks, Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2018 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 2018, the statement of comprehensive income, the statement of changes in equity for the year than 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. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 2018 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 9, 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.

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Christopher Richmond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 March 2019

Justerini & Brooks, Limited
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STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 30 June 2018 £ 000	Year ended 30 June 2017 £ 000
Turnover	2	57,174	47,229
Excise duties	3	(5,881)	(5,873)
Net sales		51,293	41,356
Cost of sales	3	(41,312)	(33,248)
Gross profit		9,981	8,108
Marketing expenses	3	(764)	(1,175)
Other operating expenses	3	(5,406)	(5,188)
Operating profit		3,811	1,745
Dividend income from associate undertakings	5	235	378
Net finance charges	6	(318)	(149)
Profit before taxation		3,728	1,974
Taxation on profit on ordinary activities	7	(5)	(57)
Profit for the financial year and total comprehensive income		3,723	1,917

The accounting policies and other notes on pages 15 to 35 form part of the financial statements.

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

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BALANCE SHEET

	Note	30 June 2018 £ 000	30 June 2017 £ 000
Non-current assets			
Intangible assets	8	50	122
Property, plant and equipment	9	114	67
Investments in subsidiary undertakings	10	680,374	680,374
Investments in associate undertakings	10	500,000	500,000
Deferred tax assets	11	80	91
		1,180,618	1,180,654
Current assets			
Inventories	12	15,140	15,590
Trade and other receivables	13	54,973	223,310
Cash and cash equivalents	14	6,136	12,463
		76,249	251,363
Total assets		1,256,867	1,432,017
Current liabilities			
Trade and other payables	15	(713,365)	(32,228)
Other financial liabilities	16	(1)	(11)
		(713,366)	(32,239)
Net assets		543,501	1,399,778
Equity			
Called up share capital	18	520,087	520,087
Retained earnings		23,414	879,691
Total equity		543,501	1,399,778

The accounting policies and other notes on pages 15 to 35 form part of the financial statements.

These financial statements on pages 12 to 35 were approved by the board of directors on 12 March 2019 and were signed on its behalf by:

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A Mahler

Director

Justerini & Brooks, Limited
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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 2016	520,087	877,774	1,397,861
Profit for the financial year	-	1,917	1,917
Balance at 30 June 2017	520,087	879,691	1,399,778
Profit for the financial year	-	3,723	3,723
Dividend to shareholders	-	(860,000)	(860,000)
Balance at 30 June 2018	520,087	23,414	543,501

The accounting policies and other notes on pages 15 to 35 form part of the financial statements.

Justerini & Brooks, Limited
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NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation

These financial statements are prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (IFRS), but makes amendments where necessary in order to comply with Companies Act 2006 and sets out below where the FRS 101 disclosure exemptions have been taken.

These financial statements are prepared on a going concern basis under the historical cost convention, except that certain financial instruments are stated at their fair value.

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available.

The company has taken advantage of the following exemptions from the requirements of IFRS in the preparation of these financial statements, in accordance with FRS 101:

- a cash flow statement and related notes;
- comparative period reconciliations for share capital, property, plant and equipment, intangible assets and investments;
- disclosures in respect of transactions with wholly owned subsidiaries;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of key management personnel.

The company has taken advantage of the exemption under IAS 27, 'Consolidated and separate financial statements', from the requirement to prepare consolidated financial statements as it and its subsidiaries are included in the consolidated financial statements of its ultimate parent, Diageo plc.

These financial statements are separate financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

New accounting policies

The following standards, issued by the IASB and endorsed by the EU, have been early adopted by the company from 1 July 2017:

- ***IFRS 9 - Financial instruments replaces IAS 39*** (Financial instruments - Recognition and measurement) and addresses the classification and measurement of financial instruments, introduces new principles for hedge accounting and a new forward-looking impairment model for financial assets. The adoption of IFRS 9 hedge accounting principles did not result in a restatement of the company's results and the impact on the year ended 30 June 2018 is not material. All classes of financial assets and financial liabilities had as at 1 July 2017 the same carrying values under IFRS 9 as they had under IAS 39. The new impairment model under IFRS 9 requires the recognition of allowances for doubtful debt based on expected credit losses (ECL), rather than incurred credit losses as under IAS 39. The adoption of the ECL approach did not result in any additional impairment loss for trade and loan receivables as at 1 July 2017.
- ***IFRS 15 - Revenue from contracts with customers*** provides enhanced detail on the principle of recognising revenue to reflect the concept that revenue should be recognised when the control of goods or services is transferred to the customer at a value that the company is expected to receive. It replaces the separate models for goods, services and construction contracts under previous IFRS (IAS 11, IAS 18 and related interpretations) which was based on the concept of the transfer of risks and rewards. It also provides further guidance on the initial measurement of sales on contracts which have discounts, rebates and consignment inventories by identifying separate performance obligations that may apply. The adoption of IFRS 15 principles did not result any changes on the principle of recognising revenue and had no impact on the balance sheet and on other comprehensive income of the company for the year ended 30 June 2018.

Going concern

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

Functional and presentational currency

These financial statements are presented in pound sterling (£), which is the company's functional currency.

All financial information presented in pound sterling (£) has been rounded to the nearest thousand unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Turnover

Turnover comprises revenue from the sale of goods and rents receivable. Revenue from the sale of goods includes excise and other duties which the company pays as principal but excludes amounts collected on behalf of third parties, such as value added tax.

Turnover for goods is recognised at the fair value of the right to consideration. Turnover is recognised depending upon individual customer terms at the time of dispatch, delivery or some other specific point when the risks and rewards transfer. Sales are recognised to the extent that it is highly probable that a significant reversal will not occur. Therefore, sales are stated net of expected price discounts, allowances for customer loyalty and certain promotional activities and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing.

En primeur sales comprise the sale of wine while it is still in the barrel and/or bottle, offering the customer the opportunity to invest in a particular wine before it is matured. En primeur sales initially exclude excise and other duties, and are recognised at the time of delivery to the customer.

The associated excise duty and other duties, which exclude amounts collected on behalf of third parties, such as value added tax, are recognised upon delivery of goods to the customers, at a location which is not a 'bonded' warehouse.

Revenue from wine storage facility services represents the amount of rent receivable from third party customers, net of value added tax. This revenue is recognised on a time apportioned basis.

Marketing expenses

Marketing expenditure, such as advertising costs, points of sale materials and sponsorship payments, are charged to the statement of comprehensive income within marketing expenses when the company has the right of access to the goods or services acquired.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

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 statement of comprehensive income.

Derivative financial instruments

Derivative financial instruments are carried at fair value using a discounted cash flow technique based on market data applied consistently for similar types of instruments. Gains and losses on derivatives that do not qualify for hedge accounting treatment are taken to the statement of comprehensive income they arise.

Derivative financial instruments are presented in the statement of comprehensive income as 'Intra-group derivative liabilities'as these transactions are entered into by Diageo Finance plc, a fellow group undertaking, and subsequently passed to the company.

Intangible assets

Computer software is amortised on a straight-line basis to estimated residual value over its expected useful life. Residual values and useful lives are reviewed each year. Subject to these reviews, the estimated useful lives are up to 4 years.

Assessment of the recoverable value of an intangible asset, the useful economic life of an asset, or that an asset has an indefinite life, requires management judgement.

Property, plant and equipment

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

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:

Asset class	Depreciation method and rate
Fixtures and fittings	5 to 10 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 has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Other leases are treated as operating leases, with payments and receipts taken to the statement of comprehensive income on a straight-line basis over the life of the lease.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Investments in subsidiaries and associates

Investments in subsidiaries and associates are stated at historical cost less impairment provisions for any permanent decrease in value. The carrying amounts of the company's investments are reviewed at each reporting date to determine whether there is an indication of impairment. If such an indication exists, then the asset's recoverable amount is estimated. Losses are recognised in the statement of comprehensive income and reflected in an allowance against the carrying value. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated at the weighted average cost incurred in acquiring inventories. Maturing inventories which are retained for more than one year are classified as current assets, as they are expected to be realised in the normal operating cycle.

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. Where financial assets or liabilities are eligible to be carried at either amortised cost or fair value the company does not apply the fair value option.

Trade and other receivables
Amounts owed by other group companies are initially measured at fair value and are subsequently reported at amortised cost. Non-interest bearing trade receivables are stated at their nominal value as they are due on demand. 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 are measured as either 12-months expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

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 Amounts owed to other group companies are initially measured at fair value and are subsequently reported at amortised cost. Non-interest bearing trade payables are stated at their nominal value as they are due on demand.

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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 for the year ended 30 June 2018 are included in profit before taxation. In prior years penalties and interest on tax liabilities were provided for in the tax charge.

Full provision for deferred tax is made for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and their value for tax purposes. The amount of deferred tax reflects the expected recoverable amount and is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the basis of taxation enacted or substantively enacted by the balance sheet date. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future.

Dividends received and paid

The interim dividend is included in the financial statements in the year in which they are approved by the directors, and the final dividend in the year in which it is approved by shareholders. Dividends received are included in the financial statements in the year in which they are receivable.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Judgements in applying accounting policies and key sources of estimation uncertainty

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 judgements that have a significant risk of causing a 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 particularly subject to the exercise of judgements, are set out in detail in the relevant accounting policies:

- Investment in subsidiaries and associates: a critical accounting judgement is the assessment that recoverable amount of the company's investment is greater than the carrying amount.
- Taxation: the evaluation of deferred tax assets recoverability requires judgements to be made regarding the availability of future taxable income. The directors believe that the company will generate sufficient future taxable income to recover the deferred tax assets.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ANALYSIS OF TURNOVER AND PROFIT BEFORE TAXATION

For the year ended 30 June 2018 the turnover and profit before taxation are attributable to the trading of wines and spirits, wines storage services and the marketing of Scotch whisky.

Geographical analysis of turnover

	Year ended 30 June 2018 £ 000	Year ended 30 June 2017 £ 000
United Kingdom and Ireland	32,635	28,743
Rest of Europe	8,270	6,129
Asia Pacific	14,384	11,401
Rest of world	1,885	956
	57,174	47,229

Analysis of turnover by class of business

	Year ended 30 June 2018 £ 000	Year ended 30 June 2017 £ 000
Trading of wines and spirits	50,463	41,646
Marketing and distribution of whisky	5,756	4,677
Wine storage service	955	906
	57,174	47,229

Sales to fellow group undertakings included in turnover amounted to £5,949,000 (2017 - £4,797,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING COSTS

	Year ended 30 June 2018 £ 000	Year ended 30 June 2017 £ 000
Excise duties	5,881	5,873
Cost of sales	41,312	33,248
Marketing expenses	764	1,175
Other operating expenses	5,406	5,188
	53,363	45,484
Comprising:		
Raw materials and consumables	40,862	35,313
Decrease/(increase) in stocks of finished goods and goods for resale	450	(2,065)
Excise duties	5,881	5,873
Staff costs	3,902	3,734
Other external charges	1,754	1,588
Marketing expenses	764	1,175
Depreciation and amortisation	103	96
Net foreign exchange gains	(353)	(230)
	53,363	45,484

Other external charges include, bad debt provision and write-off of £nil (2017 - £13,000), intercompany management charges of £892,000 (2017 - £750,000), operating lease rentals of £345,000 (2017 - £326,000), and audit fee of £25,000 (2017 - £39,000).There were no fees payable to the auditor in respect of non-audit services (2017 - £nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. STAFF COSTS

The average number of employees on a full time basis during the year was:

	Year ended 30 June 2018	Year ended 30 June 2017
Selling and distribution	42	39
Corporate and administration	12	12
	54	51

	Year ended 30 June 2018 £ 000	Year ended 30 June 2017 £ 000
Aggregate remuneration		
Wages and salaries	3,021	2,883
Employer's social security costs	319	309
Employer's pension costs	562	542
	3,902	3,734

None of the directors received any remuneration during the financial year in respect of their services as directors of the company (2017 - £nil), as the directors are paid by fellow group undertakings.

Retirement benefits

The majority of 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 in the Diageo group and therefore the company accounts for its obligation as if they were defined contribution schemes. The company made cash contributions of £562,000 to the schemes in respect of its employees in the year ended 30 June 2018 (2017 - £542,000). As there is no contractual agreement for allocating the surplus or deficit of pension funds to participating entities, it is recognised fully by the sponsoring employer, Diageo plc.

The assets and liabilities of the Diageo UK pension plans and related disclosures are contained in Diageo plc's annual report for the year ended 30 June 2018. The balances disclosed in Diageo's annual report are attributable to a number of group companies including Justerini & Brooks, Limited.

Justerini & Brooks, Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

5. DIVIDEND INCOME FROM ASSOCIATE UNDERTAKINGS

	Year ended 30 June 2018 £ 000	Year ended 30 June 2017 £ 000
Dividend income from shares in group undertakings		
Grand Metropolitan Capital Company Limited	235	378

6. FINANCE INCOME AND CHARGES

	Year ended 30 June 2018 £ 000	Year ended 30 June 2017 £ 000
Interest income	69	137
Interest charge to fellow group undertakings	(387)	(286)
Net finance charges	(318)	(149)

7. TAXATION

	Year ended 30 June 2018 £ 000	Year ended 30 June 2017 £ 000
(i) Analysis of taxation charge for the year		
Current tax		
UK corporation tax	(3)	(22)
Double tax relief	3	22
Foreign tax suffered	(3)	(22)
Adjustments in respect of prior years	9	(13)
Total current tax	6	(35)
Deferred tax		
Origination and reversal of timing differences	(9)	(7)
Effect of changes in tax rates	1	(15)
Adjustments in respect of prior years	(3)	-
Total deferred tax	(11)	(22)
Taxation on profit on ordinary activities	(5)	(57)

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. TAXATION (continued)

	Year ended 30 June 2018 £ 000	Year ended 30 June 2017 £ 000
(ii) Factors affecting total tax charge for the year		
Profit on ordinary activities before taxation	3,728	1,974
Tax on profit on ordinary activities at UK corporation tax rate of 19% (2017 - 19.75%)	(708)	(390)
Income not chargeable for tax purposes	45	75
Adjustments in respect of prior years	6	(13)
Non-deductible expenses and other permanent differences	(23)	(41)
Group relief received	1,410	943
Change in tax rate	1	(15)
Other items	(736)	(616)
Total tax charge for the year	(5)	(57)

The UK tax rate changed from 19% to 17% (effective from 1 April 2020). This change was substantively enacted in September 2016. Deferred taxes at 30 June 2018 have been measured using the 17% enacted rate.

In its financial statements for the year ended 30 June 2017, Justerini & Brooks Ltd reported that discussions were being held with HMRC to seek clarity on Diageo's transfer pricing and related issues, and that a preliminary assessment for diverted profits tax notice had been issued. Diageo agreed in June 2018 with HMRC that diverted profits tax does not apply and at the same time has reached resolution on the transfer pricing issues being discussed. The amendments in relation to the transfer pricing issues are reflected elsewhere in the group and did not affect the tax position of Justerini & Brooks Ltd.

Justerini & Brooks, Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

8. INTANGIBLE ASSETS

	Computer software £ 000
Cost	
At 30 June 2017	1,397
At 30 June 2018	1,397
Accumulated amortisation	
At 30 June 2017	(1,275)
Amortisation	(72)
At 30 June 2018	(1,347)
Carrying amount	
At 30 June 2018	50
At 30 June 2017	122

9. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £ 000
Cost	
At 30 June 2017	316
Additions	78
At 30 June 2018	394
Accumulated depreciation	
At 30 June 2017	(249)
Depreciation charge	(31)
At 30 June 2018	(280)
Carrying amount	
At 30 June 2018	114
At 30 June 2017	67

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INVESTMENTS

Shares in subsidiary and associates

	Subsidiaries £ 000	Associates £ 000	Total £ 000
Cost			
At 30 June 2018 and at 30 June 2017	884,881	500,000	1,384,881
Provisions			
At 30 June 2018 and at 30 June 2017	(204,507)	-	(204,507)
Carrying amount			
At 30 June 2018	680,374	500,000	1,180,374
At 30 June 2017	680,374	500,000	1,180,374

The investments are held at cost less, where appropriate, provision for impairment in value.

In the opinion of the directors, the investments in the company's subsidiary and associate undertakings are worth at least the amounts at which they are stated in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INVESTMENTS (continued)

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows. Unless otherwise stated the percentage of shares held are in respect of ordinary share capital.

Name of investment	Notes	Registered office address	Proportion of ownership interest %
Direct holdings			
Subsidiary undertaking			
Arthur Bell & Sons Limited		Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100%
Associate undertaking			
Grand Metropolitan Capital Company Limited	(ii)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	17%

Name of investment	Notes	Registered office address	Proportion of ownership interest %
Indirect holdings			
Subsidiary undertakings			
Diageo (IH) Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%
Grand Metropolitan (Cayman Islands) Limited	(i)	Second Floor, Century Yard, P O Box 448GT, Cricket Square, Grand Cayman, Cayman Islands	100%
Myers Rum Company (Jamaica) Limited	(i)	Lot14, Gilbert Drive, Lakeside Park, Discovery Bay, St. Ann, Jamaica	100%
Trelawny Estates Limited		7th Floor, Scotiabank Centre, Duke Street, Kingston, Jamaica	100%
Associate undertaking			
Clarendon Distillers Limited		2nd Floor, 2-6 Grenada Crescent; Kingston 5, Jamaica	27%

(i) Dormant company.
(ii) In the opinion of the directors, significant influence is exercised over Grand Metropolitan Capital Company Limited.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. DEFERRED TAX ASSETS

The amounts of deferred tax accounted for in the balance sheet comprises the following net deferred tax assets:

	Property, plant and equipment £ 000
At 30 June 2016	113
Recognised in statement of comprehensive income	(22)
At 30 June 2017	91
Recognised in statement of comprehensive income	(11)
As at 30 June 2018	80

12. INVENTORIES

	30 June 2018 £ 000	**30 June 2017 £ 000**
Finished goods and goods for resale	15,140	15,590

Inventories are disclosed net of provisions of £72,000 (2017 - £322,000) for obsolescence.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. TRADE AND OTHER RECEIVABLES

	30 June 2018 £ 000	30 June 2017 £ 000
Amounts owed by subsidiary undertaking	-	203,631
Amounts owed by other fellow group undertakings	32,945	847
Prepayments and accrued income	16,684	12,047
Trade receivables	5,302	6,736
Other receivables	33	49
Corporation tax receivables	9	-
	54,973	223,310

Trade receivables are disclosed net of provisions of £47,000 (2017 - £55,000) for bad and doubtful debts. Amounts owed by Diageo Finance plc of £14,462,000 (2017 - £nil) are interest bearing. All other amounts owed by subsidiary undertaking and other fellow group undertakings are interest free.

The aged analysis of trade receivables is as follows:

	30 June 2018 £ 000	30 June 2017 £ 000
Not overdue	4,666	6,609
Overdue 1-30 days	299	9
Overdue 31-60 days	106	21
Overdue 61-90 days	33	49
Overdue 91-180 days	52	43
Overdue more than 180 days	146	5
	5,302	6,736

14. CASH AND CASH EQUIVALENTS

The amount disclosed in the balance sheet at 30 June 2018, comprises bank accounts in a group cash pool of £4,412,000 (2017 - £10,914,000), and bank accounts outside of the group cash pool of £1,724,000 (2017 - £1,549,000).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

15. TRADE AND OTHER PAYABLES

	30 June 2018 £ 000	30 June 2017 £ 000
Trade payables	3,967	4,571
Amounts owed to subsidiary undertaking	680,369	-
Amounts owed to other fellow group undertakings	1,338	6,474
Other taxation including social security	748	859
Other payables	5,162	1,786
Accruals and deferred income	21,781	18,537
Corporation tax payables	-	1
	713,365	32,228

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

Amounts owed to Diageo Finance plc in the amount of £nil (2017 - £4,116,000) is interest bearing. All other amounts owed to subsidiary undertaking and other fellow group undertakings are interest free.

16. OTHER FINANCIAL LIABILITIES

	30 June 2018 £ 000	30 June 2017 £ 000
Intra-group derivative liabilities		
Not designated in a hedge relationship	1	11

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Currency risk
The company presents its financial statements in pound sterling and conducts business in many currencies. As a result, it is subject to foreign currency risk due to exchange rate movements, which will affect the company's transactions. To manage the currency risk the company uses certain financial instruments.

Transaction exposure hedging
The company hedge transactional foreign currency risk as it arises.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(b) Fair value measurements

Fair value measurements of financial instruments are presented through the use of a three-level fair value hierarchy that prioritises the valuation techniques used in fair value calculations.

The company maintains policies and procedures to value instruments using the most relevant data available. If multiple inputs that fall into different levels of the hierarchy are used in the valuation of an instrument, the instrument is categorised on the basis of the most subjective input.

Foreign currency forwards are valued using discounted cash flow techniques. These techniques incorporate inputs at levels 1 and 2, such as exchange rates and interest rates. These market inputs are used in the discounted cash flow calculation incorporating the instrument's term, notional amount and discount rate, and taking credit risk into account. As significant inputs to the valuation are observable in active markets, these instruments are categorised as level 2 in the hierarchy.

There were no transfers between levels during the two years ended 30 June 2018 and 30 June 2017.

18. CALLED UP SHARE CAPITAL

Share capital

Allotted, called up and fully paid:

	30 June 2018 £ 000
520,086,500 (2017 - 520,086,500) ordinary share of £1 each	520,087

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NOTES TO THE FINANCIAL STATEMENTS (continued)

19. COMMITMENTS

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

			30 June 2018		
	Land and buildings £ 000	Cars £ 000	Total £ 000	Land and buildings £ 000	Cars £ 000
Payments falling due:					
Within one year	215	28	243	232	17
Between one and two years	181	24	205	181	28
Between two and three years	138	20	158	145	24
Between three and four years	125	13	138	145	20
Between four and five years	125	3	128	140	13
After five years	344	-	344	344	3
	1,128	88	1,216	1,187	105

	30 June 2017
	Total £ 000
Payments falling due:	
Within one year	249
Between one and two years	209
Between two and three years	169
Between three and four years	165
Between four and five years	153
After five years	347
	1,292

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NOTES TO THE FINANCIAL STATEMENTS (continued)

20. RELATED-PARTY TRANSACTIONS

Transactions between the company and its related parties (group undertakings not wholly owned by the Diageo group) are made on terms equivalent to those that prevail in arm's length transactions.

Transactions between the company and other group undertakings not wholly owned by Diageo group were as follows:

Turnover includes £4,495,000 (2017 - £4,555,000) in respect of group undertakings not wholly owned by the Diageo group and operating costs include services of £170,000 (2017 - £567,000) from group undertakings not wholly owned by the Diageo group.

At 30 June 2018, payables include £84,000 (2017 - £257,000) in respect of amounts owed to MHD Moet Hennessy Diageo SAS (a joint operation of Diageo and the Moet Hennessy group).

21. POST BALANCE SHEET EVENT

On 25 June 2018 Arthur Bell & Sons Limited (a wholly owned subsidiary undertaking of the company) approved a reduction of capital by way of the solvency statement procedure to reduce the Arthur Bell & Sons Limited capital by £680,000,000, creating distributable reserves in the company. The board of Arthur Bell & Sons Limited also approved that a £680,369,317 interim dividend be paid to its holding company, Justerini & Brooks, Limited. Subsequent to 30 June 2018, it was discovered that the capital reduction of Arthur Bell & Sons Limited was not correctly registered with the UK Companies Registrar and, as a result, was not effective. As a consequence, the capital reduction in Arthur Bell & Sons Limited was not completed and therefore the amount paid to Justerini & Brooks Limited has been recognised as an intercompany liability rather than dividend income as at 30 June 2018.

On 27 February 2019, the UK Companies House registered a reduction of the capital of Arthur Bell & Sons Limited resulting in the creation of distributable reserves of £884,920,227. On 28 February 2019 a dividend of £680,369,317 was declared by Arthur Bell & Sons Limited in favour of the company.

22. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

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

The ultimate parent undertaking of the company is Diageo plc which is the ultimate controlling party of the Diageo group. Diageo plc is incorporated and registered in England. The consolidated financial statements of Diageo plc can be obtained from the registered office at Diageo, Lakeside Drive, Park Royal, London, NW10 7HQ.