Diageo Great Britain Limited

Annual report and financial statements

30 June 2020

Registered number: 00507652

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2020

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Year ended 30 June 2020

Strategic report

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

Activities

The principal activities of Diageo Great Britain Limited ('the company') are the packaging of beer and the distribution, marketing, importing and selling of spirits and beer.

The company is also the brand owner of Guinness in the United Kingdom and owns the exclusive rights to manufacture, bottle, package, distribute and market Smirnoff in the United Kingdom.
In addition to its principal activities, the company acts as an intermediary entity for centrally managed recharges within the Diageo Group ('the group').

The directors foresee no material change to the activities of the company.

Business review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2020

In March 2020, as a result of the rapid spread of the Covid-19 pandemic, the UK government implemented a lockdown, leading to a sharp fall in private consumption and investments in the second quarter of 2020.
Net sales decreased to £733 million (2019 - £764 million), gross profit decreased to £271 million (2019 - £303 million). Strong first half results were offset by the impact of on-trade closures from March despite an increase in off-trade sales. The impact was further amplified by the cancellation of significant sporting and cultural events. Continued growth in rum and liqueurs were offset by declines in beer, scotch and vodka. Guinness was impacted by on-trade closures and the decision to support customers, and maintain product quality, through a keg return scheme.

Diageo group has launched the "Raising the Bar" programme to support pubs and bars to welcome customers back and recover following the Covid-19 pandemic. The programme includes a commitment of £28 million over a period of up to two years from 1 July 2020, to support qualifying outlets in the United Kingdom. The company has provided other forms of support to help the communities and the industry during the Covid-19 pandemic. Support packages for bartenders and bar owners and donations of grain neutral spirit to produce hand sanitisers amounted to £1 million in the year ended 30 June 2020. In the year ended 30 June 2020, an exceptional charge of £6 million was recognised in respect of destruction costs of obsolete inventories that have been or will be destroyed as a direct consequence of the Covid-19 pandemic.

As a consequence of the exceptional costs incurred in respect of Covid-19 pandemic, amplified with the drop in net sales, the company recognised an operating loss in the amount of £ 28 million at 30 June 2020 (2019 – operating profit of £48 million). Profit before tax increased by £1,518 million to £1,677 million (2019 - £159 million) primarily as a result of recognizing an impairment reversal in the amount of £1,500 million following a group restructuring, and a dividend received from subsidiary and joint venture undertakings in the amount of £208 million (2019 - £110 million) during the year ended 30 June 2020.

Strategic report (continued)

Business review (continued)

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2020 (continued)

In 1999, the company acquired 100% shareholding in Diageo Scotland Limited ('DSL') (formerly: United Distillers & Vintners (ER) Limited) for £3,450 million. In 2001 DSL recognised a significant drop in net assets, turnover and profit and it was anticipated that the company's profitability would not improve in the foreseeable future. Consequently, the company recognised an impairment in respect of its investment in DSL in the amount of £1,500 million, so the carrying amount decreased to £1,950 million.
The company reviewed DSL historical business performance and assessed the future cash flows of DSL during the year. DSL profitability is expected to increase following a group restructuring, therefore the indicators that resulted the previous impairment cease to exist. The company therefore reversed the previous impairment of £1,500 million, as the fair value of the investment has substantially improved, and exceeds the acquisition value of £3,450 million.

Financial and other key performance indicators

The principal key performance indicators used by the company's management to analyse the development, performance and position of the company's business are generally the same as those disclosed in the consolidated financial statements of the group. The directors consider company key performance indicators to measure the performance of the company such as net sales and operating profit. Other financial performance indicators (including contribution to the free cash flow initiatives of the group) and non-financial performance indicators used to measure the company's performance are the same as those disclosed in Diageo plc's 2020 Annual Report ('Annual Report') on pages 30-31.

The company's principal key performance indicators are analysed below for the year ended 30 June 2020.

Net sales decreased by £35 million from £764 million to £733 million as a consequence of on-trade closures and cancellation of significant sporting and cultural events.

Operating profit decreased to an operating loss of £28 million (2019 – operating profit of £48 million) mainly due to £35 million of exceptional operating costs derived as a direct impact of the Covid-19 pandemic and due to lower sales.

Dividends received increased to £208 million (2019 - £110 million).

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

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

Strategic report (continued)

Business review (continued)

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

Covid-19

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

To mitigate these challenges the group regularly gathers data and obtains insights which enable management to assess conditions in the markets where the group operates and to amend forecasts and investment decisions appropriately. The directors believe that the risk mitigation actions taken in relation to the pandemic have been agile and effective and that the group will maintain adequate liquidity and be strongly positioned for a recovery in consumer demand. Further information on the group's risk management measures in relation to Covid-19 are disclosed on pages 38-39 of Diageo plc's 2020 Annual Report.

Brexit

The process surrounding the United Kingdom's future trading relationship with the European Union continues. We remain of the view that, in the event of either a future free trade agreement (FTA) or a 'no FTA' outcome at the end of the implementation period between the UK and the EU, the direct financial impact to Diageo will not be material. In the EU, we expect that the vast majority of our finished case goods will continue to trade tariff free, with no change to existing tariffs in either scenario. There has been progress made in relation to the future trading arrangements of the UK with a number of third party countries enabling us to trade on the terms of existing EU FTAs, once the UK leaves the EU. If the UK Government is unable to renew all of the existing FTAs on which we rely, trading could revert to WTO rules but we believe this risk to be manageable. We have mitigation plans in place to minimise any short term disruption that could arise from such a scenario.

We have further considered the principal impact to our supply chain of a no FTA scenario which we have assessed as limited and believe that we have appropriate plans in place to mitigate this risk. The full implications of Brexit will not be understood until future trade, regulatory and tax arrangements to be entered into by the United Kingdom are established. Furthermore, we could experience changes to laws and regulations in the future in areas such as intellectual property rights, employment, environment, supply chain logistics, data protection, and health and safety.

A cross-functional working group is in place that meets on a regular basis to identify and assess the consequences of Brexit, with all major functions within our business represented, including the function of raising external funding. The group continues to monitor this risk area very closely, as well as the broader environment risks, including a continuing focus on identifying critical decision points to ensure potential disruption is minimised, and take prudent actions to mitigate these risks wherever practical. Further information on the group's risk management measures in relation to Brexit are disclosed on page 39 of Diageo plc's 2020 Annual Report.

Strategic report (continued)

Business review (continued)

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

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. The company competes with drinks companies across a wide range of consumer drinking occasions. Increased competition and unanticipated actions by competitors could lead to downward pressure on prices and/or a decline in the company's market share in any of these categories, which could adversely affect the company's results and hinder its growth potential.

Demand for the company's products may be adversely affected by changes in consumer preferences and tastes and adverse impacts of a declining economy

The brands which the company manufactures/produces and distributes include some of the world's leading beverage alcohol brands. Maintaining the company's competitive position depends on its continued ability to offer products that have a strong appeal to consumers. Consumer preferences may shift due to a variety of factors including changes in demographic and social trends, public health regulations, holiday or leisure activity patterns, weather effects or a downturn in economic conditions, which may reduce consumers' willingness to purchase premium branded products.

In addition, potential concerns about health effects due to negative publicity regarding alcohol consumption, negative dietary effects, regulatory action or any litigation or customer complaints against companies in the industry may have an adverse effect on the company's profitability. Any significant changes in consumer preferences and failure to anticipate and react to such changes could result in reduced demand for the company's products and erosion of its competitive and financial position. Continued economic pressures could lead to consumer selection of products at lower price points, whether the company's or those of competitors, which may have an adverse effect on the company's profitability.

The company mitigates the risk with highly diversified portfolio of brands to ensure coverage of consumer occasions, trends and price points and continuous focus on innovation through global brand extensions and new-to-world products.

The social distancing measures deployed in response to the Covid-19 pandemic have had a significant impact on where and how people purchase and consume alcohol. In particular, the on-trade has faced significant disruption globally leading to higher consumption in the home which has been coupled with a shift to on-line purchasing. These trends are likely to continue to some degree after social restrictions are eased. The company will continuously assess consumer trends and shifting behaviours and is well positioned to remain agile and continue to flex commercial strategies.

Strategic report (continued)

Business review (continued)

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

The company's operations and financial results may be adversely affected by movements in the value of the Diageo UK pension funds

Many current and former employees of the company are members of Diageo's UK pension funds. These funds may be affected by, amongst other things, the performance of assets owned by these plans, the underlying actuarial assumptions used to calculate the surplus or deficit in the plans, in particular the discount rate and long term inflation rates used to calculate the liabilities of the pension funds, and any changes in applicable laws and regulations. If there are significant declines in financial markets and/or a deterioration in the value of fund assets or changes in discount rates or inflation rates, the company may need to make additional contributions to the pension funds in the future.

As these pension plans are treated as defined contribution schemes, in the company's financial statements, the contributions are accounted for as a charge to the statement of comprehensive income and may adversely affect the company's financial results.

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 production, 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 profit after tax.

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, and might result financial penalty as well.

Strategic report (continued)

Business review (continued)

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

The company's operations, financial results and reputation may be adversely affected by the theft, loss and misappropriation of the company's most important digital assets

Cyber attacks or incidents could result in financial loss, operational disruption and reputational damage. The company could also be adversely affected by non-compliance with statutory data protection legislation.

In order to mitigate the enterprise-wide cyber risk, appropriate management processes and policies have been implemented. Information Security committee was appointed to govern, track and report risk and compliance activities. The company extended the comprehensive IT controls framework to manufacturing facilities and applied rigorous approach to third party risk management. Next generation security technologies were deployed to tackle advanced attacks and use of machine learning and threat intelligence are applied to detect and block sophisticated threats. Risk awareness of employees is enhanced through mandatory global e-learning and regular phishing exercises for all employees.

Cyber strategy is reviewed continuously to tackle risks related to Covid-19 and remote working.

Financial risk management

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

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 risk due to exchange rate movements, which affect the company's transactions. To manage currency risk the company uses certain financial instruments.

Liquidity risk

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

Credit risk

The company's credit risk is primarily attributable to its trade receivables. 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 (where applicable).

Strategic report (continued)

Business review (continued)

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

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

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

Strategic report (continued)

Business review (continued)

Main activities of the Board

The activities of the Board during the year ended 30 June 2020 include:

• Approval of amendments to the agreements relating to the group's UK pension scheme, intragroup supply and pricing agreements;
• Approval of the investment by the company in a renewable and sustainable packaging joint venture entity now called Pulpex Limited;
• Approval of the financial statements and dividend for the financial year ended 30 June 2019;
• Adoption of subsidiary governance principles, delegation of authority to the company's executive management team and ratification of actions taken by the Crisis Management Team, regarding decision making during the Covid-19 pandemic;
• Review of updates in relation the Health and Safety Report and the impact of Covid-19 on the operations of the company, its suppliers, customers, employees and workforce; and
• Approval of the company's participation in the group's "Raising the Bar" recovery programme to support pubs and bars during the Covid-19 pandemic.

By order of the board

DocuSigned by:
Richard Adam
945F61872508421...

R D Adam
Director

Lakeside Drive
Park Royal
London
NW10 7HQ

11 December 2020

Directors' report

The directors are pleased to submit their annual report, together with the audited financial statements for the year ended 30 June 2020.
The company is incorporated and domiciled as a private company limited by shares in England, United Kingdom.
The registered address is Lakeside Drive, Park Royal, London, NW10 7HQ.

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 9. 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. 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 on the company's ability 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. 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 it would not have impact on the company's ability to continue as a going concern. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Financial

The results for the year ended 30 June 2020 are shown on page 19.
The profit for the year transferred to reserves was £1,669 million (2019 - £146 million).
Dividends paid during the year ended 30 June 2020 were £320 million (2019 - £200 million).

Proposed dividend

The directors have proposed a final ordinary dividend in respect of the year ended 30 June 2020 of £100 million. This has not been included as a liability as it was not approved before the balance sheet date.

Directors

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

H Patel
J M C Edmunds
S L Fennessy
L Lunoe (appointed 30 June 2020)
D Nayager (appointed 30 June 2020)
N Szakolczai (appointed 30 June 2020)
G P Crickmore (resigned 30 June 2020)
D Heginbottom (resigned 30 June 2020)
K L Haynes (resigned 30 June 2020)

Directors' report (continued)

Directors (continued)

The following director was appointed after the year end:
R D Adam (appointed 15 October 2020)

The following director resigned after the year end:
G Zeisler (resigned 1 August 2020)

Directors' remuneration

Details of the directors' remuneration are shown in note 4 of these financial statements.

Employee involvement

The company's goal is to offer an energising work environment, personal growth and recognition and attractive rewards for the performance contribution its people make to the company. Its employee policies are designed to support these goals and to do so in a manner that is fair and equitable to all employees. These policies take account of external legislation, internal codes of conduct, as well as the company's values as an organisation.

Employee engagement is a key element of the company's people strategy. Diageo's values are embedded in the business and guide how all employees operate and behave. Pulse surveys provide insight into what employees are thinking and feeling about the business and enable Diageo to assess how the business is tracking against its goal to have highly engaged and inclusive teams that consistently bring Diageo's values to life.

A key strategic imperative of the company is to attract, retain and grow a pool of diverse, talented employees. Diageo recognises that a diversity of skills and experiences in its workplace and communities will provide a competitive advantage. To enable this the company has various global employment policies and standards, covering such issues as resourcing, data protection, human rights, health, safety and wellbeing. These policies and standards seek to ensure that the company treats current or prospective employees justly, solely according to their abilities to meet the requirements and standards of their role and in a fair and consistent way. This includes giving full and fair consideration to applications from prospective employees who are disabled, having regard to their aptitudes and abilities, and not discriminating against employees under any circumstances (including in relation to applications, training, career development and promotion) on the grounds of any disability.

The company is a multi-cultural community operating in an increasingly diverse business world and is committed to active inclusion and diversity practices. The company is also committed to attracting and retaining talented people, by investing in the growth and development of its people, which contributes directly to the performance and results of the business. We want all our employees to feel valued and to make a meaningful contribution to the company's purpose and ambition. In addition, and where practical, the company encourages flexible ways of working to enable employees to balance work and life priorities.

The company's reward systems continue to recognise employees' contribution to the success of the business and to promote employee engagement. The company is also committed to the safety and wellbeing of employees at work. It promotes positive drinking behaviours amongst all its people.

Directors' report (continued)

Employee involvement (continued)

We are committed to open and continuous dialogue with employees to inform and engage them in the company's strategy and business goals as well as harnessing their ideas on improving broad areas of business performance. By driving a progressive culture, policies and practices, the company aims to differentiate itself as a leading employer and shape broader positive societal change.

Each senior manager is responsible for delivering against key communication and employee engagement goals. Diageo also has an intranet web site from which employees with access to a computer can obtain timely and accurate news and information, and join online conversations that are relevant to their role, location and interests.

Employee Engagement Statement

Our people are our most important asset and our inclusive and diverse culture is core to our purpose of 'Celebrating life, every day, everywhere', and essential to our future growth. We invest to grow and develop our people and aim to create an environment that enables everyone to thrive. We want to nurture great, diverse talent, with a range of backgrounds, skills and capabilities, while making a positive contribution to society. Diversity of thought fuels growth and innovation in our organisation and brings us closer to our consumer base. Understanding our employees' views on the way they experience life at Diageo, from what works well, to where we can improve, makes good business sense. These insights help to shape our culture and make Diageo an attractive place to work, enabling us to recruit and retain the best talent.

The Board recognises the importance of effective engagement with the Company's employees and wider workforce, including contractors and temporary staff and is committed to creating opportunities for growth and to a continuous learning culture. Consistent with group's approach towards workforce engagement, the company has adopted a variety of engagement methods that are designed to ensure that there is an on-going dialogue with its employees and workforce. These engagement methods include participation in Group-wide employee engagement surveys, a consistent approach to talent and performance management, extensive online learning and development material, information and up-to-date employee communication channels, meetings with employee and workforce forums, community groups, employee interest groups, pulse surveys and town hall meetings. Decisions taken by Directors and by the Company's executive management team are informed by the interests of its employees and workforce, as guided by these engagement methods.

Business Relationship Statement

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

Directors' report (continued)

Business Relationship Statement (continued)

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

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

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

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

Corporate Governance Statement

The company is a subsidiary of Diageo, a UK premium listed company that is subject to the UK Corporate Governance Code 2018 (the "Code"). In accordance with the UK Listing Rules, Diageo has issued a detailed corporate governance report describing how Diageo has applied the Code's main principles and highlighting non-compliance with any of the Code's provisions. That corporate governance report is available on Diageo's website (http://www.diageo.com).

Given that Diageo applies the Code throughout the Group, its corporate governance report also describes corporate governance at subsidiary level. The Code is applicable to the Company in its capacity as a subsidiary of Diageo and as a member of the Group.

Directors' report (continued)

Corporate Governance Statement (continued)

As regards the application of the Code by the Company, it should be noted that the Code contains to a substantial extent principles and provisions that are concerned with the listed parent company only. These relevant principles and provisions of the Code are applied by Diageo on the above mentioned comply-or-explain basis. They relate, for instance, to the role of the Diageo board in engaging with shareholders; processes for board appointments, succession and evaluation; director remuneration; and the role of the board's audit committee. Given the nature of the Company, as a wholly owned subsidiary with no external shareholders, these elements of the Code are not applicable and so were not applied by the Company.

Other parts of the Code can be seen to apply to the group as a whole. For instance, the Code's focus on promoting long-term sustainable success and contributing to society and the Code's requirement that workforce policies and practices are consistent with the company's values.

Diageo has adopted a Code of Business Conduct alongside a comprehensive framework of global policies and standards that are designed to ensure that all companies throughout the Group adhere to those elements of the Code which are of relevance to the group as a whole. The directors of the company operate in line with these central standards and is responsible for their application within the company.

In addition, the company has adopted a set of subsidiary governance principles designed to enhance the robustness of its corporate governance procedures and practices. These principles include a formal delegation of authority to the company's executive management team in respect of the day-to-day management of the company's business and execution of its strategy. It is the practice of the company to ensure that the Board includes members of the executive management team as well as other senior executives of the group.

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 20 September 2020, the Board approved to acquire 20% shareholding in Leaf Arbor Limited, with an option to acquire the remaining 80% shareholding in due course.

On 26 October 2020, it was announced, that the company agreed to acquire 100% shareholding in Chase Distillery with a portfolio including seven gins, four vodkas and an elderflower liqueur. The acquisition is expected to close in early 2021 subject to regulatory clearances.

Directors' report (continued)

Internal control and risk management over financial reporting

The company operates under the financial reporting processes and controls of the group. Diageo plc's internal control and risk management systems, including its financial reporting process, which include those of the company, are discussed in the group's Annual Report 2020 on page 75 at www.diageo.com. The group's Annual Report does not form part of this report.

Streamlined energy and carbon reporting (SECR)

Under changes introduced by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ('SI 2018/1155'), large unquoted companies and large LLPs are now obliged to report their UK energy use and associated greenhouse gas emissions in their annual reports for the first time.

Carbon emissions are a key element of Diageo's, and the industry's, environmental impact. Reducing the company's carbon emissions is a significant part of Diageo's efforts to mitigate climate change, positioning us well for a future low-carbon economy, while creating energy efficiencies and savings. The company is exempt from providing the disclosures as relevant information is included in the consolidated accounts of Diageo group that provides disclosures on SECR in Diageo plc's annual report for the year ended 30 June 2020 on pages 28 to 31 and page 41.

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.

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.

By order of the board

DocuSigned by:
Richard Adam
945F61872508421...

R D Adam
Director

Lakeside Drive
Park Royal
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11 December 2020

Statement of directors' responsibilities in respect of the financial statements

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

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.

Independent auditors' report to the members of Diageo Great Britain Limited

Report on the audit of the financial statements

Opinion

In our opinion, Diageo Great Britain Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2020; the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 16, 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.

CRichmond

Christopher Richmond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
11 December 2020

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million
Turnover	2	**1,658**	1,656
Excise duties	3	**(925)**	(892)
Net sales		**733**	764
Cost of sales	3	**(462)**	(461)
Gross profit		**271**	303
Marketing expense	3	**(91)**	(100)
Other operating expenses	3-5	**(208)**	(155)
Operating (loss)/profit		**(28)**	48
Reversal of provision for impairment	12	**1,500**	—
Net result from shares in subsidiaries and joint ventures	6	**208**	110
Net finance (charge)/ income	7	**(3)**	1
Profit before taxation on ordinary activities		**1,677**	159
Taxation on profit on ordinary activities	8	**(8)**	(13)
Profit for the financial year and total comprehensive income for the year		**1,669**	146

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.

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2020

BALANCE SHEET

	Notes	30 June 2020 £ million	30 June 2019 £ million
Non-current assets			
Intangible assets	9	**80**	84
Property, plant and equipment	10	**105**	82
Investments in subsidiaries	12	**4,076**	2,576
Investments in associates and joint ventures	12	**27**	27
Deferred tax assets	13	**29**	29
		4,317	2,798
Current assets			
Inventories	14	**55**	60
Trade and other receivables	15	**397**	510
Cash and cash equivalents		**—**	—
		452	570
Total assets		**4,769**	3,368
Current liabilities			
Trade and other payables	17	**(394)**	(404)
Provisions	18	**(35)**	(1)
Other financial liabilities	16	**(10)**	(1)
		(439)	(406)
Non-current liabilities			
Trade and other payables	17	**(27)**	(10)
Provisions	18	**(3)**	(17)
Other financial liabilities	16	**(15)**	—
		(45)	(27)
Total liabilities		**(484)**	(433)
Net asset		**4,285**	2,935
Equity			
Called up share capital	19	**278**	278
Share premium		**73**	73
Hedging reserve		**(1)**	(1)
Retained earnings		**3,935**	2,585
Total equity		**4,285**	2,935

BALANCE SHEET (continued)

The accompanying notes are an integral part of these financial statements. The accounting policies and other notes on pages 23 to 55 form part of the financial statements.

These financial statements on pages 19 to 55 were approved by the board of directors on 11 December 2020 and were signed on its behalf by:

DocuSigned by:
Richard Adam
945F61872506421...

R D Adam
Director

STATEMENT OF CHANGES IN EQUITY

Attributable to shareholders of the company

	Called up share capital £ million	Share premium £ million	Hedging reserve £ million	Retained earnings £ million	Total £ million
Balance at 30 June 2018	278	73	—	2,637	2,988
Profit for the financial year and total comprehensive income for the year	—	—	—	146	146
Tax on share-based incentive plans	—	—	—	2	2
Hedging reserve	—	—	(1)	—	(1)
Dividends to shareholder	—	—	—	(200)	(200)
Balance at 30 June 2019	**278**	**73**	**(1)**	**2,585**	**2,935**
Profit for the financial year and total comprehensive income for the year	—	—	—	1,669	1,669
Tax on share-based incentive plans	—	—	—	1	1
Hedging reserve	—	—	—	—	—
Dividends to shareholder	—	—	—	(320)	(320)
Balance at 30 June 2020	**278**	**73**	**(1)**	**3,935**	**4,285**

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 measured 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 preparation of financial statements in conformity with FRS 101 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 79(a)(iv) (comparative information requirements);
  - 111 (cash flow statement information);
  - 134-136 (capital management disclosures)

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

The following paragraphs of IAS 8, 'Accounting policies, changes in accounting estimates and errors':

- 30 (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- 31 (disclosures complying with paragraph 30, relating to new IFRS that has been issued but not yet effective).
- Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets' (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives, and management's approach to determining these amounts).
- The following paragraphs of IAS 24 'Related party disclosures':
  - 17 (key management compensation);
  - 18A (key management services provided by a separate management entity).
- The requirements of IFRS 7 Financial Instruments: Disclosures, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
  - (iii) paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).

The company has taken advantage of the exemption by virtue of section 400 under Companies Act 2006, 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 standards and interpretations

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

- Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures;
- Amendments to IFRS 9 - Prepayment Features with Negative Compensation;
- Improvements to IFRS 3 and IFRS 11 - - Business combinations and Joint arrangements - Accounting for previously held interests;
- Improvements to IAS 12 - Income taxes - Accounting for income tax consequences of payments on financial instruments that are classified as equity;
- Improvements to IAS 23 – Borrowing costs on completed qualifying assets;
- Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement.

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

- IFRS 17 – Insurance contracts
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (phase 1)

IFRS 16 – Leases The company adopted IFRS 16 from 1 July 2019 by applying the modified retrospective method, meaning that the figures, as at, and for the years ended 30 June 2018 and 2019 have not been restated. IFRS 16 replaced existing lease guidance including IAS 17 - Leases, IFRIC 4, SIC 15 and SIC 27. Information in respect of the adoption of IFRS 16 is included in Note 11.

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 million unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Turnover

Turnover comprises revenue from the sale of goods, the provision of manufacturing services and royalties receivable. Revenue from the sale of goods includes excise and other duties which the company pays as principal but excludes duties and taxes collected on behalf of third parties, such as value added tax. Sales are recognised as or when performance obligations are satisfied by transferring control of a good or service to the customer. Generally, the transfer of control of goods occurs at the time of despatch but for in case of wholesale customers may be on delivery to customers. The company includes in sales the net consideration to which it expects to be entitled. 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. Royalties are accrued as earned.

Advertising

Advertising 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.

Finance income/charges

Finance income/charges are recognised in the statement of comprehensive income in the year in which they are earned/incurred.

Share based payments

The ultimate parent, Diageo plc, operates a number of share-based incentive schemes (awards of shares and options) and grants rights to its equity instruments to the company's employees. The company accounts for these share-based payments as cash-settled instruments. Amounts recharged by the parent in respect of the cost of providing the benefit are measured at the fair value of the share or share option at the date of grant, and are recognised on a straight-line basis over the vesting period of the award. The fair value is measured using the Monte Carlo models, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

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 current and former 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.

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.

Intangible assets

Intangible assets that are regarded as having limited useful economic lives are amortised on a straight-line basis over those lives and reviewed for impairment whenever events or circumstances indicate that carrying amount may not be recoverable. These assets are reviewed for impairment at least annually or when there is an indication that the assets may be impaired.

To ensure that assets are not carried at above their recoverable amounts, the impairment reviews compare the net carrying value with the recoverable amount, where the recoverable amount is the higher of value in use or fair value less cost to sell. Amortisation and any impairment write downs are charged to other operating expenses in the statement of comprehensive income.

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 15 years. Assessment of the estimated residual value of an intangible asset and the useful economic life of an asset, requires management judgement.

Property, plant and equipment

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

Freehold land is not depreciated. Leaseholds are depreciated over the unexpired period of the lease. Other property, plant and equipment are depreciated on a straight-line basis to estimated residual values over their expected useful lives, and these values and lives are reviewed each year. Subject to these reviews, the estimated useful lives fall within the following ranges:

Buildings	10 to 50 years
Plant and equipment	5 to 25 years
Fixtures and fittings	5 to 15 years
Casks and containers	5 to 23 years
Computer hardware	2 to 9 years

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Leases

Where the company is the lessee, all leases are recognised on the balance sheet as right of use assets and depreciated on a straight-line basis with the charge recognised in cost of sales. The liability, recognised as part of net borrowings, is measured at a discounted value and any interest is charged to finance charges.

The company recognises services associated with a lease as other operating expenses. Payments associated with leases where the value of the asset when it is new is lower than $5,000 (leases of low value assets) and leases with a lease term of twelve months or less (short term leases) are recognised as other operating expenses.

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

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

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures 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 to reflect an allowance against the carrying value. Where an event results in the asset's recoverable amount being higher than the previously impaired carrying value, the original impairment may be reversed through the statement of comprehensive income in subsequent periods.

Inventories

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

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. Allowances 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 allowances are measured as either 12-month expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

The company sells certain of its trade receivables through factoring transactions without recourse to the seller. The risks and rewards are substantially transferred to the factoring company; consequently, receivables sold through factoring transactions are derecognised. The company classifies these receivables under the held to collect and sell business model, which would result in fair value measurement through other comprehensive income. In practise, factored receivables are short-term receivables where the difference between invoice value and fair value is insignificant, therefore the company measures factored receivables at amortised cost under IFRS 9.

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

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at amortised cost.

Provisions

Provisions are liabilities of uncertain timing or amount. A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis, where the effect is material to the original undiscounted provision.
The carrying amounts of provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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 profit before taxation.

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 it is 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.

Judgements in applying accounting policies and key sources of estimation uncertainty

The directors make estimates and judgements 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 material adjustment to the carrying value of the assets and liabilities for the company within the next financial year due to the nature of the business.

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

- Investment in subsidiaries, associates and joint ventures: A critical accounting estimate, specific to the company, is the assessment that recoverable amount of the company's investment in subsidiaries, associates and joint ventures is greater than the carrying amount.

- Financial guarantee contract liabilities: As part of the assessment to determine whether there is any legal obligation in respect of the financial guarantee requires estimates concerning the future of the company. Based on their assessment, the directors do not expect the company to be liable and so the value of the liabilities has been recognised at nil fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. TURNOVER

The turnover and profit on ordinary activities before taxation are attributable to the packaging of beer, distribution, marketing, importing and selling of spirits and beer to third parties and fellow group undertakings.

Geographical analysis of turnover

	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million
United Kingdom	**1,604**	1,602
Rest of Europe	**50**	50
North America	**2**	2
Africa	**2**	2
	1,658	1,656

Analysis of turnover by class of business

	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million
Marketing and selling of spirits and beers	**1,600**	1,600
Packaging of beer	**56**	53
Royalties	**2**	3
	1,658	1,656

Segmental information is provided in the consolidated financial statements of the ultimate parent company, Diageo plc.

Sales to fellow group undertakings included in turnover amounted to £70 million (2019 - £69 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING COSTS

	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million
Excise duties	**925**	892
Cost of sales	**462**	461
Marketing expenses	**91**	100
Other operating expenses	**208**	155
	1,686	1,608
Comprising:		
Excise duties	**925**	892
Decrease/(increase) in inventories of finished goods and goods for resale	**5**	(11)
Raw materials and consumables	**434**	447
Marketing expenses	**91**	100
Other external charges (a)	**127**	112
Staff costs (note 4)	**56**	55
Depreciation and amortisation	**60**	50
Net foreign exchange loss	**2**	5
Other operating income (b)	**(49)**	(42)
Other exceptional items (c)	**35**	—
	1,686	1,608

(a) Other external charges includes lease rentals for plant and equipment of £2 million (2019 - £3 million), lease rentals for land and buildings of £nil (2019 - £10 million), and intercompany royalty charges of £28 million (2019 - £29 million).

(b) Other operating income comprises intercompany management income of £49 million (2019 - £42 million).

(c) Diageo group has launched the "Raising the Bar" programme to support pubs and bars to welcome customers back and recover following the Covid-19 pandemic. The programme includes a commitment of £28 million over a period of up to two years from 1 July 2020, to support qualifying outlets in the United Kingdom. The company has provided other forms of support to help the communities and the industry during the Covid-19 pandemic. Support packages for bartenders and bar owners and donations of grain neutral spirit to produce hand sanitisers amounted to £1 million in the year ended 30 June 2020. In the year ended 30 June 2020, an exceptional charge of £6 million was recognised in respect of destruction costs of obsolete inventories that have been or will be destroyed as a direct consequence of the Covid-19 pandemic.

Fees in respect of services provided by the auditors were: audit fees of £135,743 in respect of current year audit services (2019 - £97,850); other non-audit fees of £nil (2019 - £19,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. EMPLOYEES

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

	Year ended 30 June 2020	Year ended 30 June 2019
Production	161	161
Selling and distribution	494	509
Corporate and administration	451	477
	1,106	1,147

The monthly average number of employees of the company, including part time employees, for the year was 1,133 (2019 - 1,201).

	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million
Aggregate remuneration		
Wages and salaries	28	29
Employer's social security	4	4
Employer's pension	13	17
Share-based incentive plans	1	4
Other employment costs	10	1
	56	55

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 £13 million to the schemes in respect of its employees in the year ended 30 June 2020 (2019 - £17 million). 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. EMPLOYEES (continued)

Directors' remuneration

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Directors' remuneration (excluding pension contributions)	257	284
Amounts receivable under long term incentive schemes	—	44
	257	328

The aggregate remuneration of the highest paid director employed by the company, was £256,783 (2019 - £284,176). The highest paid director is a member of a defined benefit pension scheme, under which the director's accrued annual pension at the year-end was £28,709 (2019 - £42,614). In the current year the highest paid director's share option was exercised. Other directors were paid by fellow group undertakings, and no cost was recharged to the company.

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

5. EMPLOYEE SHARE COMPENSATION

A number of the employees of the company participate in a number of equity settled and cash settled share plans, all of which are operated by the Diageo group, to grant options and share awards to its directors and employees.

Further details of the assumptions used for the valuation and the accounting for share options schemes are disclosed in Diageo plc's Annual Report for the year ended 30 June 2020 (see note 17 of Diageo plc's 2020 Annual Report).

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. NET RESULT FROM SHARES IN SUBSIDIARIES AND JOINT VENTURES

	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million
Dividend income from joint venture undertakings:		
Lothian Distillers Limited	**2**	2
Dividend income from shares in group undertakings:		
Diageo Scotland Limited	**180**	100
UDV Kenya Limited	**16**	8
Justerini & Brooks, Limited	**10**	—
Otford Estates Limited	**—**	1
	206	109
Provision against subsidiary undertaking		
Otford Estates Limited	**—**	(1)
Net result from shares in subsidiaries and joint ventures	**208**	110

During the year ended 30 June 2019, Otford Estates Limited (a wholly owned subsidiary of the company) paid an interim dividend to the company of £1,348,000 resulting in a decrease of the net assets of Otford Estates Limited. An impairment of £1,348,000 was charged to provisions against subsidiary undertaking in respect of the company's shares owned in Otford Estates Limited. On 17 December 2019 Otford Estates Limited was dissolved.

7. NET FINANCE (CHARGE) /INCOME

	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million
Net finance income		
Interest income from fellow group undertakings	**2**	3
Total interest income	**2**	3
Interest charge on all other borrowings	**—**	(1)
Other finance charges	**(5)**	(1)
Total finance charge	**(5)**	(2)
Net finance (charge)/income	**(3)**	1

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. TAXATION

	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million
(a) Analysis of taxation charge for the year		
Current tax		
UK corporation tax	**(3)**	(3)
Overseas corporation tax	**(7)**	(7)
Total current tax	**(10)**	(10)
Deferred tax		
Origination and reversal of temporary differences	**(1)**	(3)
Changes in tax rate	**3**	—
Total deferred tax	**2**	(3)
Taxation on profit on ordinary activities	**(8)**	(13)
(b) Tax credit included in equity		
Current tax	**3**	2
Deferred tax	**(2)**	—
Total tax credit included in equity	**1**	2
(c) Factors affecting total tax charge for the year		
Profit on ordinary activities before taxation	**1,677**	159
Taxation on profit on ordinary activities at UK corporation tax rate of 19% (2019 - 19%)	**(319)**	(30)
Expenses not deductible for tax purposes	**(11)**	(1)
Income not taxable	**325**	21
Group relief received for nil consideration	**5**	4
Overseas tax suffered	**(7)**	(7)
Changes in tax rates	**3**	1
Deferred tax not recognised	**(5)**	—
Share options	**1**	(1)
Total tax charge for the year	**(8)**	(13)

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. TAXATION (continued)

(c) Factors affecting total tax charge for the year (continued)

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

9. INTANGIBLE ASSETS

	Computer software £ million	Under construction £ million	Total £ million
Cost			
At 30 June 2019	303	29	332
Additions	12	25	37
Disposals	(2)	—	(2)
Write-off	—	(3)	(3)
Transfers	17	(17)	—
At 30 June 2020	**330**	**34**	**364**
Amortisation			
At 30 June 2019	(248)	—	(248)
Amortisation	(37)	—	(37)
Disposals	1	—	1
At 30 June 2020	**(284)**	**—**	**(284)**
Carrying amount			
At 30 June 2020	**46**	**34**	**80**
At 30 June 2019	55	29	84

Amortisation of computer software is recognised in other operating expenses in the statement of comprehensive income.
Assets that are not in use are written off to the statement of comprehensive income.

Additions to assets under construction are in respect of a number of ongoing information system projects.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. PROPERTY, PLANT AND EQUIPEMENT

	Land and buildings £ million	Plant and equipment £ million	Computer hardware £ million	Fixtures and fittings £ million	Casks and containers £ million	Under construction £ million	Total £ million
Cost							
At 30 June 2019	39	110	30	3	62	13	257
Recognition of right-of-use asset on adoption of IFRS 16	19	6	—	—	—	—	25
Adjusted balance at 1 July 2019	58	116	30	3	62	13	282
Additions	—	9	—	—	—	13	22
Disposals	(1)	(1)	—	—	—	—	(2)
Transfers	1	7	2	1	—	(11)	—
At 30 June 2020	**58**	**131**	**32**	**4**	**62**	**15**	**302**
Depreciation							
At 30 June 2019	(24)	(79)	(27)	(2)	(43)	—	(175)
Depreciation	(9)	(13)	(1)	—	(1)	—	(24)
Disposals	1	1	—	—	—	—	2
At 30 June 2020	**(32)**	**(91)**	**(28)**	**(2)**	**(44)**	**—**	**(197)**
Net book value							
At 30 June 2020	**26**	**40**	**4**	**2**	**18**	**15**	**105**
At 30 June 2019	15	31	3	1	19	13	82

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. PROPERTY, PLANT AND EQUIPEMENT (continued)

	30 June 2020 £ million	30 June 2019 £ million
Freehold	**14**	15
Short leasehold	**5**	—
Long leasehold	**7**	—
	26	15

11. LEASES

(a) Adoption of IFRS 16

Under the new standard, outstanding lease liabilities have been recognised at 1 July 2019, for leases previously classified as operating leases, at the present value of the future lease payments over their reasonably certain lease term. Right-of-use assets have been recognised equal to the net present value of the lease liabilities, adjusted for the amount of any prepaid or accrued lease payment, lease incentives and provisions for onerous leases. There was no impact on retained earnings as at 1 July 2019. The interest rate used to discount the future payments in the calculation of the lease liability is the incremental borrowing rate at 1 July 2019 taking into account the currency and duration of the lease. The weighted average incremental borrowing rate applied across all operating leases capitalised on 1 July 2019 was 0.9%.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. LEASES (continued)

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

	30 June 2019 £ million	IFRS 16 Impact £ million	1 July 2019 £ million
Non-current assets			
Property, plant and equipment	82	25	107
Current assets	—		
Trade and other receivables	510	(1)	509
Current liabilities			
Other financial liabilities	(1)	(9)	(10)
Non-current liabilities			
Other financial liabilities	—	(25)	(25)
Provision	(17)	10	(7)

As a result of the adoption of IFRS 16 the total assets increased by £24 million (£25 million right of use asset and £1 million reversed prepaid rental fee) from £3,368 million to £3,392 million and the total liabilities increased by £24 million (£34 million lease liability and £10 million release of onerous contract provision in respect of one of the leased properties) from £433 million to £457 on 1 July 2019. The leases (previously classified as operating leases) which have been recognised at adoption are principally in respect of distillery buildings, plant and machinery, cars and distribution vehicles.
There is no impact on deferred tax balances.

The adoption of IFRS 16 had no impact on operating profit, finance income/charges, profit before tax and taxation.

A reconciliation of differences between the operating lease commitments at 1 July 2019, is as follows:

	£ million Total
Operating lease commitments at 30 June 2019	(42)
Leases expiring within a year of 1 July 2019	1
Low value assets	4
Impact of discounting	3
Total additional lease liabilities recognised on adoption of IFRS 16	(34)
Finance lease liabilities at 30 June 2019	—
Total lease liabilities at 1 July 2019	(34)
Total lease liabilities at 1 July 2019 – current	(9)
Total lease liabilities at 1 July 2019 - non-current	(25)

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. LEASES (continued)

(b) Movements of leases

	Land and buildings £ million	Plant and equipment £ million	Cars £ million	Total £ million
Movement of right-of-use assets				
At 30 June 2019 (i)	—	1	—	1
IFRS 16 transition	14	2	3	19
IFRS 16 transition - I/Co	6	—	—	6
Addition	—	—	—	—
Remeasurement	(1)	—	—	(1)
Depreciation (ii)	(7)	(1)	(2)	(10)
At 30 June 2020	**12**	**2**	**1**	**15**

(i) In the year ended 30 June 2019, only leases that met the criteria of finance leases under IAS 17 – Leases were capitalised and included in property, plant and equipment.
(ii) In the year ended 30 June 2019 depreciation on assets held under finance leases was £nil million.

	Land and buildings £ million	Plant and equipment £ million	Cars £ million	Total £ million
Movement of lease liabilities				
At 30 June 2019	—	—	—	—
IFRS 16 transition	(23)	(2)	(3)	(28)
IFRS 16 transition - I/Co	(6)	—	—	(6)
Addition	—		(1)	(1)
Payments	7	1	2	10
Remeasurement	1	—	—	1
Interest expense	—	—	—	—
At 30 June 2020	**(21)**	**(1)**	**(2)**	**(24)**
Current				(9)
Non-current				(15)

In the year ended 30 June 2019, the group only recognised lease liabilities in relation to leases that were classified as finance leases under IAS 17 – Leases.

(c) Amounts recognised in the statement of profit or loss

Other operating expenses associated with leases of low value assets and short term leases were £2 million in the year ended 30 June 2020.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS

	30 June 2020 £ million	30 June 2019 £ million
Investments in subsidiaries (i)	**4,013**	2,513
Loan to fellow group undertaking (ii)	**63**	63
	4,076	2,576
Investments in associates and joint ventures (i)	**27**	27
	4,103	2,603

(i) Shares in subsidiaries, associates and joint ventures

	Subsidiaries £ million	Joint ventures £ million	Total £ million
Cost			
At 30 June 2019	4,018	27	4,045
Disposals	(1)	—	(1)
At 30 June 2020	**4,017**	**27**	**4,044**
Provision			
At 30 June 2019	(1,505)	—	(1,505)
Disposals	1	—	1
Reversal of provision for impairment	1,500	—	1,500
At 30 June 2020	**(4)**	**—**	**(4)**
Carrying amount			
At 30 June 2020	**4,013**	**27**	**4,040**
At 30 June 2019	2,513	27	2,540

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS (continued)

(i) Shares in subsidiaries, associates and joint ventures (continued)

Subsidiaries

In 1999, the company acquired 100% shareholding in Diageo Scotland Limited ('DSL') (formerly: United Distillers & Vintners (ER) Limited) for £3,450 million. In 2001 DSL recognised a significant drop in net assets, turnover and profit and it was anticipated that the company's profitability would not improve in the foreseeable future. Consequently, the company recognised an impairment in respect of its investment in DSL in the amount of £1,500 million, so the carrying amount decreased to £1,950 million.

The company reviewed DSL historical business performance and assessed the future cash flows of DSL during the year. DSL profitability is expected to increase following a group restructuring, therefore the indicators that resulted the previous impairment cease to exist. The company therefore reversed the previous impairment of £1,500 million, as the fair value of the investment has substantially improved, and exceeds the acquisition value of £3,450 million.

On 17 December 2019 Otford Estates Limited (a wholly owned subsidiary of the company) was dissolved, therefore the cost of the investment and the provision of £1 million were written off resulting in neither a gain nor a loss to the company.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS (continued)

(i) Shares in subsidiaries, associates and joint ventures (continued)

Name of investment Direct holdings	Notes	Registered office address	Proportion of ownership interest%*	Proportion of effective interest%**
Subsidiaries				
Cellarers (Wines) Limited		Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
Copper Dog Whisky Limited		Edinburgh Park, 5 Lochside Way, Edinburgh EH12 9DT, United Kingdom	100 %	100 %
Diageo Balkans Limited		Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
Diageo Scotland Limited		Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100 %	100 %
Diageo South Africa (Pty) Limited		Building 3, Maxwell Office Park, Magwa Crescent West, Waterfall City, Midrand, 2090, South Africa	51 %	51 %
Horizon Developments Limited	(i)	3 Themistokli Dervi Ave, Julia House, 1066, Nicosia, Cyprus	100 %	100 %
Justerini & Brooks, Limited		61 St. James's Street, London, SW1A 1LZ, United Kingdom	100 %	100 %
Lochside MWS Limited Partnership	(v)	Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	—	—
S & B Production Limited		3rd Floor Capital House, 3 Upper Queen Street, Belfast, United Kingdom	100 %	100 %
UDV Kenya Limited		Tusker House, Ruaraka, PO Box 30161, 00100 Nairobi GPO, Kenya	53.68 %	53.68 %

* The percentage of shares held owned by the immediate shareholder(s) of the subsidiary

**Effective percentage of shares held owned by the company

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS (continued)

(i) Shares in subsidiaries, associates and joint ventures (continued)

Name of investment Direct holdings	Notes	Registered office address	Proportion of ownership interest%*	Proportion of effective interest%**
Joint ventures				
Diageo Angola Limitada	(viii)	Rua Fernao de Sousa, Condominio Bengo, Letter A, 11.s floor, Fraction A37, neighbourhood Vila Alice, Municipality of Luanda, Province of Luanda, Angola	50 %	50 %
Lothian Distillers Limited		9 Wheatfield Road, Edinburgh, EH11 2PX, United Kingdom	50 %	50 %
Associate				
Pulpex Limited		Central Working, Eccleston Yards, 25 Eccleston Place, SW1W 9NF, United Kingdom	49.5 %	49.5 %

Name of investment Indirect holdings	Notes	Registered office address	Proportion of ownership interest%*	Proportion of effective interest%**
Subsidiaries				
Arthur Bell & Sons Limited	(i)	Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100 %	100 %
D.C.L (Holdings) Australia Proprietary Limited	(i) (ii)	Level 1, 162 Blues Point Road, McMahons Point, NSW 2060, Australia	100 %	100 %
Diageo (IH) Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
Diageo New Zealand Limited	(ii)	Level 2, 123 Carlton Gore Road, Newmarket, Auckland, New Zealand 1023	100 %	100 %
Diageo Scotland Investment Limited		Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
Diageo South Africa Empowerment Trust		17 Greenhills Road, Elandsfontein, Germiston, 1601, South Africa	100 %	51 %

* The percentage of shares held owned by the immediate shareholder(s) of the subsidiary

**Effective percentage of shares held owned by the company

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS (continued)

(i) Shares in subsidiaries, associates and joint ventures (continued)

Name of investment Indirect holdings (continued)	Notes	Registered office address	Proportion of ownership interest%*	Proportion of effective interest%**
Subsidiaries (continued)				
Diageo Southern Africa Markets (Pty) Ltd	(viii)	Building 3, Maxwell Office Park, Magwa Crescent West, Waterfall City, Midrand, 2090, South Africa	50 %	50 %
Grand Metropolitan Capital Company Limited	(viii)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	50 %	50 %
Grand Metropolitan (Cayman Islands) Limited	(viii)	Elgin Court, Elgin Avenue, Grand Cayman, Cayman Islands	100 %	50 %
James Buchanan & Company Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
John Haig & Company Limited		Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100 %	100 %
John Walker and Sons Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
Lakeside MWS Limited Liability Partnership	(v)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	—	—
Myers Rum Company (Jamaica) Limited	(i)	Lot 14, Gilbert Drive, Lakeside Park, Discovery Bay, St. Ann, Jamaica	100 %	100 %
The Lochnagar Distillery Limited	(i)	Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100 %	100 %
The Distillers Company (Biochemicals) Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
Trelawny Estates Limited		7th Floor, Scotiabank Centre, Duke Street, Kingston, Jamaica	100 %	100 %
United Distillers & Vintners Philippines Inc	(i), (xi)	Unit 1, 17th Floor, Ore Central 9th Avenue corner 31st Street Bonifacio Global City, Taguig City, 1634 Philippines	99.99 %	99.99 %
United Distillers France Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100 %	100 %
United Distillers France SAS		73, Rue de Provence 75009 Paris, France	100 %	100 %
William Sanderson and Son Limited	(i)	Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100 %	100 %
Zepf Technologies UK Limited		Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100 %	100 %

* The percentage of shares held owned by the immediate shareholder(s) of the subsidiary

**Effective percentage of shares held owned by the company

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS (continued)

(i) Shares in subsidiaries, associates and joint ventures (continued)

Name of investment Indirect holdings (continued)	Notes	Registered office address	Proportion of ownership interest%*	Proportion of effective interest%**
Joint ventures				
The North British Distillery Company Limited		9 Wheatfield Road, Edinburgh, EH11 2PX, United Kingdom	99.99 %	50 %
Joint operations				
Jiangsu Diageo Spirits Co., Ltd.	(x)	Room 1101, Building 3, No.68, Aoti Street, Jianye District, Nanjing City, China	100 %	50 %
Diageo International Spirits Company Limited	(x)	31/F Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong kong	100 %	50 %
Associates				
Ballindalloch Distillery LLP		Ballindalloch Castle, Ballindalloch, Banffshire AB37 9AX, United Kingdom	33.33 %	33.33 %
Diageo Suisse SA	(ix)	Rue du Grand-Pre 2 b CH-1007 Lausanne, Switzerland	45.13 %	45.13 %
The Scotch Whisky Heritage Centre Limited		354 Castlehill, The Royal Mile, Edinburgh, EH1 2NE, United Kingdom	29 %	29 %

(i) Dormant company.
(ii) Ownership held in class of A shares.
(iii) Ownership held in class of A shares and B shares.
(iv) Ownership held in preference shares.
(v) No percentage is disclosed as Lochside MWS and Lakeside MWS Limited Liability Partnership are partnerships.
(vi) Companies controlled by the group based on management's assessment.
(vii) The company's name was changed from Diageo Distilling Limited to The Lochnagar Distillery Limited.
(viii) Subsidiary at group level but a joint venture on the effective percentage of shares held by the company.
(ix) Subsidiary at group level but an associate based on the effective percentage of shares held by the company.
(x) Diageo shares joint control over these entities under shareholder's agreements, and Diageo's rights to profit, assets and liabilities of the companies are dependent on the performance of the group's brands rather the effective equity ownership of the companies.
(xi) Dissolved.

* The percentage of shares held owned by the immediate shareholder(s) of the subsidiary
**Effective percentage of shares held owned by the company

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS (continued)

(i) Shares in subsidiaries, associates and joint ventures (continued)

The investments in subsidiaries, associates and joint ventures are held at cost less, where appropriate, provision for impairment in value.

In the opinion of the directors, the investment in and amounts due from the company's subsidiaries, associates and joint ventures are worth at least the amount at which they are stated in the financial statements.

(ii) Loan to fellow group undertaking

	30 June 2020 £ million	30 June 2019 £ million
Amount owed by fellow group undertaking	**63**	63

In June 2010, the company, as a sole general partner, established Lochside MWS Limited Partnership ('Lochside') together with the UK Diageo Pension Scheme ('UK Scheme') and another fellow group undertaking (limited partners). The company made a capital contribution to Lochside of £63 million and is entitled to a profit distribution from Lochside each year allocated in line with the Partnership Agreement of Lochside. As the distributions represent a contractual right for the company to receive cash from Lochside, the capital contribution is shown as a loan to fellow group undertaking and the profit distribution received is presented as finance income (note 20(d)).

Under this structure, the company entered into an agreement with the fellow partners of the arrangement to grant the UK Scheme a put option to require the company to acquire all of the UK Scheme's interest in Lochside. The UK Scheme granted the company a call option to require the UK Scheme to transfer all of the interests in Lochside to the company. The company together with the other fellow group undertaking granted the UK scheme a call option to require the company and the other fellow group undertaking to transfer all of their respective interests to the UK Scheme.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. 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 £ million	Other temporary differences £ million	Total £ million
At 30 June 2018	29	3	32
Recognised in statement of comprehensive income	(2)	(1)	(3)
Recognised in equity	—	—	—
At 30 June 2019	27	2	29
Recognised in statement of comprehensive income	1	1	2
Recognised in equity	—	(2)	(2)
At 30 June 2020	**28**	**1**	**29**

Diageo has launched the 'Raising the Bar' programme to support pubs and bars to welcome customers back and recover following the Covid-19 pandemic including a commitment of £28 million by the company over a period of up to two years from 1 July 2020, to support qualifying outlets in the United Kingdom. Due to current uncertainty on the precise nature of the spend, it cannot be determined whether the amounts will be deductible for tax purposes in future periods. As a result, no deferred tax asset has been recognised in respect of the provision at the year ended 30 June 2020.

	30 June 2020 £ million	30 June 2019 £ million
Other temporary differences	5	—
	5	—

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. INVENTORIES

	30 June 2020 £ million	30 June 2019 £ million
Spare parts and consumables	**3**	3
Finished goods and goods for resale	**52**	57
	55	60

Inventories are disclosed net of provisions of £7 million (2019 - £3 million) for obsolescence.

15. TRADE AND OTHER RECEIVABLES

	30 June 2020 £ million	30 June 2019 £ million
Amounts owed by fellow group undertakings	**266**	404
Trade receivables	**101**	82
Prepayments and accrued income	**24**	21
Other receivables	**6**	3
	397	510

All amounts fall due within one year.

Amounts owed by Diageo Finance plc of £229 million (2019 - £356 million) are interest bearing, unsecured and repayable on demand. Other amounts owed by fellow group undertakings are interest free, unsecured and repayable on demand.

Trade receivables are disclosed net of provisions of £3 million (2019 - £nil) for bad and doubtful debts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. OTHER FINANCIAL LIABILITIES

Commodity price risk

Commodity price risk is managed either through long-term purchase contracts with suppliers or, where appropriate, derivative contracts. The group policy is to maintain the Value at Risk of commodity price risk arisen from commodity exposures below 75 bps of forecast gross margin in any given financial year. Where derivative contracts are used the commodity price risk exposure is hedged up to 24 months of forecast volume through exchange-traded and over-the-counter contracts (futures, forwards and swaps) and cash flow hedge accounting is applied.

	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million
2020			
Intra-group derivative assets/(liabilities)			
Not designated in a hedge relationship	—	(1)	—
	—	(1)	—
Non-derivative liabilities			
Lease liabilities	—	(9)	(15)
	—	(9)	(15)
	—	**(10)**	**(15)**

	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million
2019			
Intra-group derivative assets/(liabilities)			
Not designated in a hedge relationship	—	(1)	—
	—	(1)	—
Non-derivative liabilities			
Lease liabilities	—	—	—
	—	—	—
	—	**(1)**	**—**

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. OTHER FINANCIAL LIABILITIES (continued)

			30 June 2020			30 June 2019
	Future minimum lease payments £ million	Future finance charges £ million	Present value of minimum lease payments £ million	Future minimum lease payments £ million	Future finance charges £ million	Present value of minimum lease payments £ million
Less than one year	9	—	9	—	—	—
Between one and five years	10	—	10	—	—	—
More than five years	5	—	5	—	—	—
	24	—	24	—	—	—

17. TRADE AND OTHER PAYABLES

		30 June 2020		30 June 2019
	Amounts falling due within one year £ million	Amounts falling due after one year £ million	Amounts falling due within one year £ million	Amounts falling due after one year £ million
Trade payables	**105**	—	131	—
Amounts owed to fellow group undertakings	**79**	—	98	—
Amounts owed to joint ventures	**6**	—	6	—
Tax and social security excluding income tax	**137**	—	55	—
Accruals and deferred income	**64**	—	105	—
Other payables	**3**	**27**	9	10
	394	**27**	404	10

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

Included as other payables falling due after one year is £27 million (2019 - £10 million) in respect of the contingent consideration payable on the acquisition of Copper Dog Whisky Limited.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. PROVISIONS

	Restructuring £ million	Onerous contract £ million	Other £ million	Total £ million
At 30 June 2019	1	15	2	18
Impact of IFRS16	—	(10)	—	(10)
Released during the year	—	(2)	—	(2)
Charged during the year	8	—	32	40
Utilised during the year	(6)	—	(2)	(8)
Transfer	—	(3)	3	—
At 30 June 2020	**3**	**—**	**35**	**38**
Current liabilities	3	—	32	35
Non-current liabilities	—	—	3	3
	3	**—**	**35**	**38**

The largest item in other provisions at 30 June 2020 is £28 million in respect of 'Raising the Bar' programme. In June 2020 Diageo group launched this two years global programme to support pubs and bars to welcome customers back and recover following the Covid-19 pandemic.

Onerous contract provision incurred in respect of one of the leased properties, as a consequence the onerous lease provision is derecognised and an equal amount is deducted from the carrying value of the relevant right-of-use asset.

19. SHARE CAPITAL

	30 June 2020 £ million
Allotted, called up and fully paid:	
1,113,082,750 (2019 - 1,113,082,750) ordinary shares of 25p each	**278**

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. COMMITMENTS

Capital expenditure commitments not provided for in these financial statements are estimated at £41 million (2019 - £4 million).
At 30 June 2020, the company had other purchase commitments of £86 million (2019 - £117 million).

21. RELATED PARTY TRANSACTIONS

Transactions between the company and its related parties are made on terms equivalent to those that prevail in arm's length transactions.

The company provides services to and act as an agent for a number of not wholly owned fellow group undertakings. The costs and income (excluding agents' fees) in respect of agency activities are not disclosed separately in the company's statement of comprehensive income.

The following transactions were carried out with related parties:

(a) Sales of goods and services

	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million
Subsidiaries not wholly owned by the Diageo group	1	1

(b) Purchases of goods and services

	Year ended 30 June 2020 £ million	Year ended 30 June 2019 £ million
Subsidiaries not wholly owned by the Diageo group	4	3

(c) Year-end balances arising from sales/purchases of goods and services

	30 June 2020 £ million	30 June 2019 £ million
Trade receivables due from related parties:		
Subsidiaries not wholly owned by the Diageo group	2	2

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. RELATED PARTY TRANSACTIONS (continued)

(d) Loans in respect of related parties

At 30 June 2020, amounts owed by fellow group companies includes £63 million (2019 - £63 million) in respect of loans provided to Lochside MWS Limited Partnership and £6 million (2019 - £6 million) in respect of loans payable to North British Distillery Company Limited not wholly owned by the group.

(e) Profit on ordinary activities includes dividend income from a joint venture undertaking of £2 million (2019 - £2 million).

22. FINANCE GUARANTEE CONTRACT

Effective from January 2014 the company and Diageo Scotland Limited, a wholly owned subsidiary undertaking, jointly entered into a 10-year agreement with Ardagh Glass Limited and Ardagh Packaging Holdings Limited for the supply of glass in Europe. Diageo Scotland Limited and the company are jointly and severally liable to the supplier in respect of any liabilities of Diageo Scotland Limited in the agreement.

23. POST BALANCE SHEET EVENTS

On 20 September 2020, the Board approved to acquire 20% shareholding in Leaf Arbor Limited, with an option to acquire the remaining 80% shareholding in due course.

On 26 October 2020, it was announced, that the company agreed to acquire 100% shareholding in Chase Distillery with a portfolio including seven gins, four vodkas and an elderflower liqueur. The acquisition is expected to close in early 2021 subject to regulatory clearances.

24. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking of the company is Grand Metropolitan 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 group. The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Diageo plc. 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.