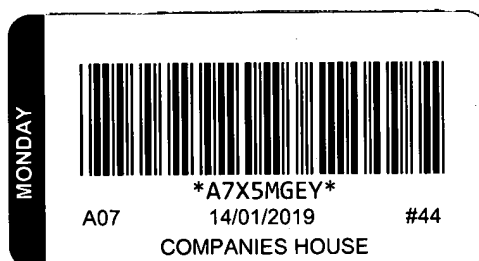


Diageo Great Britain Limited
Annual Report and Financial Statements
30 June 2018

Registered number: 00507652



Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

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Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

Strategic report

The directors present their strategic report for the year ended 30 June 2018.

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.

The company provides fellow Diageo Group ('the group') companies with global procurement services for which it receives fees. The company also acts as a holding company for a number of trading entities of the group that distribute and market spirits and beer.

In addition to its principal activities, the company acts as an intermediary entity for centrally managed recharges within 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 2018

The United Kingdom's economy continues to experience low levels of growth, with increasing inflation driven by a weakening pound, leading to a decrease in consumer spending power. Despite this, and the uncertainty of the terms of the United Kingdom's exit from the European Union, the company achieved a 0.8ppts gain in market share of total beverage alcohol in Great Britain. Turnover increased to £1,582 million (2017 - £1,463 million) due to the strong performance of Tanqueray, Gordon's, Baileys and Guinness. Gordon's benefited from the successful launch of its Pink variant. Guinness related turnover increased by 8% and gained market share in the beer category, driven by Guinness Draught and Hop House13 Lager. The reserve brands also continued to deliver outstanding growth with a 17% increase in volume.

Although operating profit increased due to the growth in business, there was a slight drop in operating profit of £11 million, as a consequence of lower intercompany management charges. The profit before tax increased to £1,076 million (2017 - £225 million) by £851 million driven by the dividend received in the amount of £968 million (2017 - £107 million) during the financial year.

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 2018 Annual Report on pages 8 and 9.

Diageo Great Britain Limited
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Strategic report (continued)

Business review (continued)

Financial and other key performance indicators (continued)

The company's principal key performance indicators are analysed below for the year ended 30 June 2018.

Net sales increased to £734 million (2017 - £694 million) by £40 million as a result of strong performance of Tanqueray, Gordon's and Guinness. Cost of sales increased in line with turnover. Operating profit decreased by 9% to £108 million mainly due to a £20 million reduction in the provision of inter group procurement services.

Dividends received increased to £968 million (2017 - £107 million) due largely to the dividend received from Justerini & Brooks Limited, a subsidiary of the company, of £860 million (2017 - £nil).

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

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.

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

The company's business may be adversely impacted by unfavourable economic conditions

The company's business is dependent on general economic conditions in the United Kingdom and in other important markets. A significant deterioration in such conditions, including as a result of reduced consumer spending levels due to economic slowdowns or recessions, the imposition of tariffs or other trade restrictions, inflationary pressures, disruptions to credit markets, and/or the failure of a significant customer, could have a material adverse effect on the company's business and operational results. In addition, the United Kingdom's withdrawal process from the European Union has resulted in political and economic uncertainty and complexity, which could negatively impact economic conditions in the United Kingdom and in Europe more generally.

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. Within a number of categories, consolidation or realignment is still possible. Increased competition and unanticipated actions by competitors or customers could lead to downward pressure on prices and/or a decline in the company's market share in any of these categories, which would 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 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, vacation or leisure activity patterns, weather effects and a downturn in economic conditions, which may reduce consumers' willingness to purchase premium branded products.

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Strategic report (continued)

Business review (continued)

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

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'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 the Diageo UK pension funds. These funds may be affected by, among 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 (note 22).

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 after tax income.

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.

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 adversely affected by non-compliance with statutory data protection legislation.

Diageo Great Britain Limited
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Strategic report (continued)

Business review (continued)

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 will affect the company's transactions. To manage the currency risk the company uses certain financial instruments.

Liquidity risk

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

By order of the board



G Zeisler
Director
Lakeside Drive
Park Royal
London
NW10 7HQ

18 December 2018

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

Directors' report

The directors are pleased to submit their annual report, together with the audited financial statements for the year ended 30 June 2018.

The company is incorporated and domiciled as a private limited company in the United Kingdom. The registered address is 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 5. The company is expected to continue to generate profit for its own account and to remain in a positive net asset position for the foreseeable future. The company participates in the group's centralised treasury arrangements. The company is not reliant on external third party financing. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the company to continue as a going concern. On the basis of their assessment, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Financial

The results for the year ended 30 June 2018 are shown on page 13.

The profit for the year transferred to reserves was £1,038 million (2017 - £200 million) and other comprehensive income for the year was £nil (2017 - £nil).

Dividends paid during the year ended 30 June 2018 were £1,060 million (2017 - £nil).

Proposed dividend

The directors have proposed a final ordinary dividend in respect of the year ended 30 June 2018 of £200 million. This has not been included as a liability as it was not approved before the balance sheet date.

Directors

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

G P Crickmore

D Heginbottom

G Zeisler

J J Nicholls (resigned 9 March 2018)

E M Peachey (resigned 23 May 2018)

J M C Edmunds (appointed 8 March 2018)

K L Haynes (appointed 23 May 2018)

The following directors resigned after the year end:

S J Bolton (resigned 28 September 2018)

D F Harlock (resigned 1 August 2018)

The following directors were appointed after the year end:

S L Fennessy (appointed 28 September 2018)

H Patel (appointed 28 September 2018)

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Directors' report (continued)

Directors (continued)

The following director was both appointed and resigned after the year end:
 K E Major (appointed 1 August 2018 and resigned 24 September 2018)

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. A values survey, which includes a measure of employee engagement, is conducted with employees every year. This survey provides an annual insight into what employees are thinking and feeling about the business. The employee values survey allows the company to assess how the business is tracking against the long term goals of engaging employees and consistently bringing Diageo's values to life.

The company is a multi-cultural community operating in an increasingly diverse business world and is committed to active equality and diversity practices. The company offers people with disability the same opportunities for employment, training and career progression as other employees. Employees who become disabled and unable to continue in their existing jobs are given the opportunity to be retrained for suitable alternative employment. It is also committed to attracting and retaining talented people. The company invests in the growth and development of its people, which contributes directly to the performance and results of the business. Where practical, the company encourages flexible ways of working to enable employees to take some control over the balance between work and home life. The company's reward systems recognise the contribution employees make to the success and reflect the value of the role they are performing.

The company is committed to the safety and wellbeing of employees at work. It promotes responsible drinking behaviours among all its people. The company is committed to open and continuous dialogue with its employees as a way to inform and engage them in the company's strategy and business goals as well as harnessing the ideas employees will have on improving broad areas of business performance.

Each senior manager is responsible for supporting the Diageo Executive and senior leadership community in delivering against these communication and employee engagement goals. Diageo has an intranet web site from which employees with access to a computer can obtain timely and accurate news and information.

Secretary

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

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

Diageo Great Britain Limited
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Directors' report (continued)

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

High Court ruling on gender equalisation of pension benefit schemes

The method of calculation for guaranteed minimum pensions in the Diageo Pension Scheme in the United Kingdom, where members opted out of the state pension scheme, was different for males and females which resulted in a potential equality issue. In October 2018 the High Court determined that all companies with a UK defined benefit pension plan that existed before 1997 should amend these schemes to equalise the pension benefits for males and females for guaranteed minimum pensions. At the time of signing these accounts the impact of this ruling is being assessed and it is not possible to provide an estimate of the impact on the net liabilities of the scheme.

Acquisition of Copper Dog Whisky Limited

On 28 September 2018, the company acquired the remaining 70% of Copper Dog Whisky Limited (CDWL) for a consideration of £6.5 million, subject to certain subsequent adjustments, including further earn-out payments, that depend on CDWL achieving agreed volume targets.

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 2018 on pages 66 to 67 at www.diageo.com, which does not form part of this report.

Auditors

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

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

Directors' report (continued)

Disclosure of information to the auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are 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 auditors are aware of that information.

By order of the board



G Zeisler
Director
Lakeside Drive
Park Royal
London
NW10 7HQ

18 December 2018

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of 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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2018; the statement of comprehensive income, the statement of changes in equity for the year 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 when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 10, 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.



Christopher Richmond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 December 2018

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

Statement of comprehensive income

		Year ended 30 June 2018 £million	Year ended 30 June 2017 £million
	<i>Notes</i>		
Turnover	2	1,582	1,463
Excise duties	3	(848)	(769)
Net sales		734	694
Cost of sales	3	(436)	(401)
Gross profit		298	293
Marketing expenses	3	(87)	(85)
Other operating expenses	3-5	(103)	(89)
Operating profit		108	119
Income from shares in subsidiaries and joint ventures	6	968	107
Net finance charges	7	-	(1)
Profit before taxation on ordinary activities		1,076	225
Taxation on profit on ordinary activities	8	(38)	(25)
Profit for the financial year and total comprehensive income for the year		1,038	200

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 2018

Balance sheet

		30 June 2018	30 June 2017
		£million	£million
	<i>Notes</i>		
Non-current assets			
Intangible assets	9	82	94
Property, plant and equipment	10	77	79
Investments in subsidiaries	11	2,557	2,557
Investments in associates and joint ventures	11	30	30
Deferred tax assets	12	32	60
		2,778	2,820
Current assets			
Inventories	13	49	45
Trade and other receivables	14	610	583
Cash and cash equivalents		-	-
		659	628
Total assets			3,448
Current liabilities			
Trade and other payables	16	(440)	(427)
Provisions	17	(4)	(3)
Other financial liabilities	15	(1)	(1)
		(445)	(431)
Non-current liabilities			
Provisions	17	(4)	(5)
		(4)	(5)
Total liabilities		(449)	(436)
Net assets		2,988	3,012
Equity			
Called up share capital	18	278	278
Share premium		73	73
Retained earnings		2,637	2,661
Total equity		2,988	3,012

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

The accounting policies and other notes on pages 16 to 47 form part of the financial statements.

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

Balance sheet (continued)

These financial statements on pages 12 to 47 were approved by the board of directors on 18 December 2018 and were signed on its behalf by:

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end.

G Zeisler
Director

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

Statement of changes in equity

Attributable of shareholders of the company

	Called up share capital £million	Share premium £million	Retained earnings £million	Total equity £million
Balance at 30 June 2016	278	73	2,458	2,809
Profit for the financial year and total comprehensvie income for the year	-	-	200	200
Tax on share-based incentive plans	-	-	3	3
Balance at 30 June 2017	278	73	2,661	3,012
Adoption of IFRS 15 (note 1)	-	-	(5)	(5)
Profit for the financial year and total comprehensvie income for the year	-	-	1,038	1,038
Tax on share-based incentive plans	-	-	3	3
Dividends to shareholders	-	-	(1,060)	(1,060)
Balance at 30 June 2018	278	73	2,637	2,988

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

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

Notes to the financial statements

1. Accounting policies

Basis of preparation

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

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

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

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

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

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

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

- IFRS 2 Share-based Payments in respect of group settled share based payments;
- The disclosures required by IFRS 7 Financial Instruments Disclosures;
- The disclosures required by IFRS 13 Fair Value Measurement;
- Certain disclosures required by IAS 36 Impairment of Assets in respect of the impairment of goodwill and indefinite life intangible assets.

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

These financial statements are separate financial statements.

Diageo Great Britain Limited
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Year ended 30 June 2018

Notes to the financial statements (continued)

1. Accounting policies (continued)

New accounting policies

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

- **IFRS 9 – Financial instruments replaces IAS 39** (Financial instruments - Recognition and measurement) and addresses the classification and measurement of financial instruments, introduces new principles for hedge accounting and a new forward-looking impairment model for financial assets. All classes of financial assets and financial liabilities had as at 1 July 2017 the same carrying values under IFRS 9 as they had under IAS 39. The new impairment model under IFRS 9 requires the recognition of allowances for doubtful debt based on expected credit losses (ECL), rather than incurred credit losses as under IAS 39. The adoption of the ECL approach did not result in any additional impairment loss for trade and other receivables as at 1 July 2017.
- **IFRS 15 – Revenue from contracts with customers** provides enhanced detail on the principle of recognising revenue to reflect the concept that revenue should be recognised when the control of goods or services is transferred to the customer at a value that the company is expected to receive. It replaces the separate models for goods, services and construction contracts under previous IFRS (IAS 11, IAS 18 and related interpretations) which was based on the concept of the transfer of risks and rewards. It also provides further guidance on the initial measurement of sales on contracts which have discounts, rebates and consignment inventories by identifying separate performance obligations that may apply.

During the year ended 30 June 2017 the company carried out a detailed review of the recognition criteria for revenue applying the requirements of IFRS 15 to ensure that the same principles were being applied consistently across the group. This review in particular examined promotional and marketing support payments made to customers post the initial sale of product, the timing of the recognition of sales made where a third party manufactures or modifies a product on behalf of the company and consignment inventories. Certain changes in the company's accounting policy in respect of turnover resulted from the application of IFRS 15, principally in respect of variable consideration receivable where the criteria applied for deducting future promotional payments from the revenue initially recognised are more stringent than under the former accounting policy. The revised accounting policy establishes that revenue is recognised to the extent that it is highly probable that a reversal in the amount of revenue initially recognised will not occur, where the uncertainty associated with the variable consideration is subsequently settled. This means that the company, under the revised accounting policy, deducts from the initial revenue recognised any future promotional payments to direct and indirect customers unless it is highly probable that they will not be incurred.

The company has adopted the modified retrospective transition method, recognising the cumulative effect of initially applying IFRS15 as an adjustment to the balance of retained earnings as at 1 July 2017. As a result retained earnings at 1 July 2017 has been debited by £5 million. For the year ended 30 June 2018, as a result of applying the new accounting policy, turnover decreased by £11 million and operating profit increased by £1 million.

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

Notes to the financial statements (continued)

1. Accounting policies (continued)

Functional and presentational currency

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

All financial information presented in sterling has been rounded to the nearest million unless otherwise stated.

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.

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 is recognised on a straight-line basis over the vesting period of the award. The fair value is measured on the binomial or 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.

Diageo Great Britain Limited
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Notes to the financial statements (continued)

1. Accounting policies (continued)

Pensions

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.

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.

Diageo Great Britain Limited
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Notes to the financial statements (continued)

1. Accounting policies (continued)

Property, plant and equipment

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

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.

Leases

Where the company has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Other leases are treated as operating leases, with payments and receipts taken to the statement of comprehensive income on a straight-line basis over the life of the lease.

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 and reflected in an allowance against the carrying value. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost 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.

Diageo Great Britain Limited
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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. Allowance for expected credit losses are made based on the risk of non-payment taking into account ageing, previous experience, economic conditions and forward looking data. Such allowance are measured as either 12-months expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

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

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.

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

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

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

Dividends received and paid

The interim dividend is included in the financial statements in the year in which 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.

Diageo Great Britain Limited
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Notes to the financial statements (continued)

1. Accounting policies (continued)

Judgements in applying accounting policies and key sources of estimation uncertainty

The directors make estimates and assumptions concerning the future of the company. The resulting accounting estimates will, by definition, seldom equate to actual results. The company's directors are of the opinion that there are no estimates and assumptions that have a significant risk of casting material adjustment to the carrying value of the assets and liabilities for the company within the next financial year due to the nature of the business.

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

- Investment in subsidiaries, associates and joint ventures: A critical accounting judgement, 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 assumptions 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.
- Taxation: The evaluation of deferred tax assets recoverability requires judgements to be made regarding the availability of future taxable income. The directors believe that the company will generate sufficient future taxable income.

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

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 2018 £ million	Year ended 30 June 2017 £ million
United Kingdom	1,534	1,403
Rest of Europe	45	57
North America	1	1
Africa	2	2
	<u>1,582</u>	<u>1,463</u>

Analysis of turnover by class of business

	Year ended 30 June 2018 £ million	Year ended 30 June 2017 £ million
Marketing and selling of spirits	1,188	1,085
Marketing and selling of beer	344	315
Marketing and selling of wine	-	2
Packaging of beer	47	58
Royalties	3	3
	<u>1,582</u>	<u>1,463</u>

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 £61 million (2017 - £71 million).

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Year ended 30 June 2018

Notes to the financial statements (continued)

3. Operating costs

	Year ended 30 June 2018 £ million	Year ended 30 June 2017 £ million
Excise duties	848	769
Cost of sales	436	401
Marketing expenses	87	85
Other operating expenses	103	89
	<u>1,474</u>	<u>1,344</u>
Comprising:		
Excise duties	848	769
Increase in inventories of finished goods and work in progress	(4)	(7)
Raw materials and consumables	419	387
Marketing expenses	87	85
Other external charges (a)	101	95
Staff costs (see note 4)	55	57
Depreciation, amortisation and impairment	48	51
Net foreign exchange loss	2	8
Other operating income (b)	(82)	(101)
	<u>1,474</u>	<u>1,344</u>

(a) Other external charges includes operating lease rentals for plant and equipment of £3 million (2017 - £2 million), operating lease rentals for land and buildings of £8 million (2017 - £8 million), and intercompany royalty charges of £29 million (2017 - £29 million).

(b) Other operating income includes intercompany management income of £82 million (2017 - £101 million), of which £43 million (2017 - £63 million) is in respect of the recharge of procurement costs to other fellow group companies.

Fees in respect of services provided by the auditors were: audit fees of £99,500 in respect of current year audit services (2017 - £95,000); other non-audit fees of £20,000 (2017 - £110,012), which includes fees in respect of services provided to other fellow group undertakings paid for by the company.

Diageo Great Britain Limited
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Year ended 30 June 2018

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 2018	Year ended 30 June 2017
Production	147	145
Selling and distribution	512	550
Corporate and administration	579	585
	1,238	1,280

The monthly average number of employees of the company, including part time employees, for the year was 1,269 (2017 - 1,321).

	Year ended 30 June 2018 £ million	Year ended 30 June 2017 £ million
Aggregate remuneration		
Wages and salaries	26	28
Employer's social security costs	4	4
Employer's pension costs	18	19
Share based payments	6	5
Other employment costs	1	1
	55	57

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 £18 million to the schemes in respect of its employees in the year ended 30 June 2018 (2017 - £19 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.

Diageo Great Britain Limited
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Year ended 30 June 2018

Notes to the financial statements (continued)

4. Employees (continued)

Directors' remuneration

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Directors' remuneration (excluding pension contributions)	261	312
Amounts receivable under long term incentive schemes	42	34
	303	346

The aggregate remuneration of the highest paid director was £245,780 (2017 - £345,608). The highest paid director is a member of a defined benefit pension scheme, under which his accrued annual pension at the year-end was £57,352 (2017 - £54,495). In the current year the highest paid director also exercised his share option. Other directors were paid by fellow group undertakings.

	Year ended 30 June 2018	Year ended 30 June 2017
The number of directors who exercised share options was	1	1
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	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 equity settled and cash settled share plans, all of which are operated by the group, to grant options and share awards to its directors and employees.

Executive share awards are made under the Diageo 2014 Long Term Incentive plan (DLTIP) from September 2014 onwards. Prior to that, awards were made under the Diageo plc 2009 Executive Long Term Incentive Plan (DELTIP), the 2008 Performance Share Plan (PSP), the 2008 Senior Executive Share Option Plan (SESOP) and the 2009 Discretionary Incentive Plan (DIP).

Diageo Great Britain Limited
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Notes to the financial statements (continued)

5. Employee share compensation (continued)

Share awards normally vest and are released on the third anniversary of the grant date. Participants do not make a payment to receive the award at grant. Executive Directors are required to hold any vested shares awarded from 2014 for a further two-year period. Share options may normally be exercised between three and ten years after the grant date.

Performance shares under the DLTIP (previously PSP) are subject to the achievement of three equally weighted performance tests: 1) compound annual growth in profit before exceptional items over three years; 2) compound annual growth in organic net sales over three years; 3) cumulative free cash flow over a three-year period, measured at constant exchange rates. Performance share options under the DLTIP (previously SESOP) are subject to the achievement of two equally weighted performance tests: 1) a comparison of Diageo's three-year TSR with a peer group; 2) compound annual growth in profit before exceptional items over three years. Performance measures and targets are set annually by the Remuneration Committee. The vesting range is 20% or 25% (for Executive Directors and for other participants respectively) for achieving minimum performance targets, up to 100% for achieving the maximum target level. Retesting of the performance condition is not permitted. For performance shares under the DLTIP (previously PSP) dividends are accrued on awards and are given to participants to the extent that the awards actually vest at the end of the performance period.

Dividends are normally paid out in the form of shares. For the two years ended 30 June 2018, the calculation of the fair value of each share award used the Monte Carlo pricing model.

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 2018 (see note 17 of Diageo plc's 2018 Annual Report).

The company recognised a share based payment expense for the year ended 30 June 2018 of £6 million (2017 - £5 million).

Diageo Great Britain Limited
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Year ended 30 June 2018

Notes to the financial statements (continued)

6. Income from shares in subsidiaries and joint ventures

	Year ended 30 June 2018 £ million	Year ended 30 June 2017 £ million
Dividend income from shares in group undertakings:		
Justerini & Brooks Limited	860	-
Diageo Scotland Limited	100	100
UDV Kenya Limited	6	5
	<u>966</u>	<u>105</u>
Dividend income from joint venture undertakings:		
Lothian Distillers Limited	2	2
	<u>968</u>	<u>107</u>

7. Net finance charges

	Year ended 30 June 2018 £ million	Year ended 30 June 2017 £ million
Net interest		
Interest income from fellow group undertakings	2	2
Total interest income	<u>2</u>	<u>2</u>
Interest charge to fellow group undertakings	(1)	(2)
Interest charge on all other borrowings	(1)	(1)
Total interest charges	<u>(2)</u>	<u>(3)</u>
Net finance charges	<u>-</u>	<u>(1)</u>

Diageo Great Britain Limited
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Notes to the financial statements (continued)

8. Taxation

	Year ended 30 June 2018 £ million	Year ended 30 June 2017 £ million
(a) Analysis of taxation charge for the year		
Current tax		
UK corporation tax	(2)	(2)
Overseas taxes	(7)	(4)
Total current tax	(9)	(6)
Deferred tax		
Origination and reversal of temporary differences	(7)	(9)
Adjustments in respect of prior years	(22)	(1)
Change in tax rates	-	(9)
Total deferred tax	(29)	(19)
Taxation on profit on ordinary activities	(38)	(25)
(b) Tax credit included in equity		
Current tax	2	2
Deferred tax	1	1
Total tax credit included in equity	3	3
(c) Factors affecting total tax charge for the year		
Profit on ordinary activities before taxation	1,076	225
Taxation on profit on ordinary activities at UK corporation tax rate of 19% (2017 – 19.75 %)	(205)	(45)
Expenses not deductible for tax purposes	(1)	(1)
Dividend income not taxed	184	21
Group relief received for £nil consideration	15	11
Overseas taxes suffered	(7)	(3)
Share options	(2)	2
Adjustments in respect of prior years	(22)	(1)
Changes in tax rates	-	(9)
Total tax charge for the year	(38)	(25)

Diageo Great Britain Limited
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Year ended 30 June 2018

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 2018. A further reduction to 17% (effective from 1 April 2020) was enacted in September 2016. Deferred taxes at 30 June 2018 have been measured using these enacted tax rates (17%).

In its annual report for the year ended 30 June 2017, Diageo plc, the ultimate parent of the company, reported that discussions were being held with the tax authorities to seek clarity on Diageo's transfer pricing and related issues, and that a preliminary assessment for diverted profits tax had been issued. Diageo agreed in June 2018 with the tax authorities that diverted profits tax does not apply and at the same time has reached resolution on the transfer pricing issues being discussed. The adjustment in respect of prior years included in the tables above reflect the changes to the utilisation of losses and allowances between the company and other UK group companies as a result of this settlement with the tax authorities.

9. Intangible assets

	Distribution rights £ million	Computer software £ million	Under construction £ million	Total £ million
Cost				
At 30 June 2017	12	270	10	292
Additions	-	7	17	24
Disposals	-	(4)	-	(4)
Transfers	-	10	(10)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2018	12	283	17	312
	<hr/>	<hr/>	<hr/>	<hr/>
Amortisation				
At 30 June 2017	(12)	(186)	-	(198)
Amortisation	-	(32)	-	(32)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2018	(12)	(218)	-	(230)
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount				
At 30 June 2018	-	65	17	82
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2017	-	84	10	94
	<hr/>	<hr/>	<hr/>	<hr/>

Amortisation of computer software is recognised in other operating expenses in the statement of comprehensive income.

Diageo Great Britain Limited
Registered number: 00507652
Year ended 30 June 2018

Notes to the financial statements (continued)

9. Intangible assets (continued)

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

Included in the total net book value of computer software is £2 million (2017 - £1 million) in respect of assets held under finance leases. Amortisation for the year on computer software held under finance lease is £1 million (2017 - £1 million).

10. Property, plant and equipment

	Land and buildings £ million	Plant and equipment £ million	Computer hardware £ million	Fixtures and fittings £ million	Casks and containers £ million	Under con- struction £ million	Total £ million
Cost							
At 30 June 2017	38	94	37	3	46	9	227
Additions	1	5	-	-	-	10	16
Write-off	-	(3)	-	-	-	-	(3)
Transfers	-	6	3	-	5	(14)	-
At 30 June 2018	39	102	40	3	51	5	240
Depreciation							
At 30 June 2017	(21)	(65)	(20)	(2)	(40)	-	(148)
Depreciation	(2)	(8)	(5)	-	(1)	-	(16)
Write-off	-	1	-	-	-	-	1
At 30 June 2018	(23)	(72)	(25)	(2)	(41)	-	(163)
Net book value							
At 30 June 2018	16	30	15	1	10	5	77
At 30 June 2017	17	29	17	1	6	9	79
					30 June 2018	30 June 2017	
					£ million	£ million	
Freehold					10	10	
Long leasehold					6	7	
					16	17	

Included in the total net book value of computer hardware is £1 million (2017 - £2 million) in respect of assets held under finance leases. Depreciation for the year on computer hardware held under finance leases is £1 million (2017 - £1 million).

Diageo Great Britain Limited
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Notes to financial statements (continued)

11. Investments

	30 June 2018	30 June 2017
	£ million	£ million
Investments in subsidiaries (i)	2,494	2,494
Loan to fellow group undertaking (ii)	63	63
	2,557	2,557
Investments in associates and joint ventures (i)	30	30
	2,587	2,587

(i) Shares in subsidiaries, associates and joint ventures

	Subsidiaries	Associates	Joint	Total
	£ million	£ million	ventures	£ million
			£ million	
Cost				
At 30 June 2018 and 30 June 2017	4,004	4	26	4,034
Provisions				
At 30 June 2018 and 30 June 2017	(1,510)	-	-	(1,510)
Carrying amount				
At 30 June 2018 and 30 June 2017	2,494	4	26	2,524

Diageo Great Britain Limited
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Notes to the financial statements (continued)

11. Investments (continued)

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

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

Name of investment	Notes	Registered office address	Proportion of ownership interest %
Direct holdings			
<i>Subsidiaries</i>			
Cellarers (Wines) Limited		Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%
Diageo Balkans Limited		Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%
Diageo Scotland Limited		Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100%
Diageo South Africa (Pty) Limited		Building 3, Maxwell Office Park, Magwa Crescent West, Waterfall City, Midrand, 2090, South Africa	51%
Diageo United Kingdom Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%
Horizon Developments Limited	(i)	3 Themistokli Dervi Ave, Julia House, 1066, Nicosia, Cyprus	100%
Justerini & Brooks, Limited		61 St. James's Street, London, SW1A 1LZ, United Kingdom	100%
Lochside MWS Limited Partnership	(v)	Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	
Otford Estates Limited		Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%

Diageo Great Britain Limited
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Notes to the financial statements (continued)

11. Investments (continued)

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

Direct holdings (continued)	Notes	Registered office address	Proportion of ownership interest %
<i>Subsidiaries (continued)</i>			
S & B Production Limited		3rd Floor Capital House, 3 Upper Queen Street, Belfast, United Kingdom	100%
The Pierre Smirnoff Company Limited	(ii)	801 Main Avenue - Norwalk, CT 06851, United States	75%
UDV Kenya Limited		Tusker House, Ruaraka, PO BOX 30161, 00100 Nairobi GPO, Kenya	53.68%
W. & A. Gilbey Limited	(i, vi)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%
<i>Associate undertaking</i>			
Copper Dog Whisky Limited	(ix)	Forsyth House, Lomond Court Castle Business Park, Stirling, FK9 4TU, United Kingdom	30%
<i>Joint ventures</i>			
Lothian Distillers Limited		9 Wheatfield Road, Edinburgh, EH11 2PX, United Kingdom	50%
Diageo Angola Limitada		Rua Fernao de Sousa, Condominio Bengo, Letter A, 11.s floor, Fraction A37, neighbourhood Vila Alice, Municipality of Luanda, Province of Luanda, Angola	50%
Indirect holdings			
<i>Subsidiaries</i>			
Arthur Bell & Sons limited		Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100%

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Notes to the financial statements (continued)

11. Investments (continued)

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

Indirect holdings <i>Subsidiaries (continued)</i>	Notes	Registered office address	Proportion of ownership interest %
Brandhouse Beverages (Pty) Limited	(i)	Building 3, Maxwell Office Park, Magwa Crescent West, Waterfall City, Midrand, 2090	51%
D.C.L (Holdings) Australia Proprietary Limited	(i, ii)	Level 1, 162 Blues Point Road, McMahons Point, NSW 2060, Australia	100%
Diageo Distilling Limited	(i)	Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100%
Diageo (IH) Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%
Diageo New Zealand Limited	(ii)	Level 2, 123 Carlton Gore Road, Newmarket, Auckland, New Zealand 1023	100%
Diageo Scotland Investment Limited		Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%
Diageo South Africa Empowerment Trust		17 Greenhills Road, Elandsfontein, Germiston, 1601	51%
Harp Distributors Limited	(i, vii)	Tusker House, Ruaraka, PO BOX 30161, 00100 Nairobi GPO, Kenya	53.68%
James Buchanan & Company Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%

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Notes to the financial statements (continued)

11. Investments (continued)

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

Indirect holdings (continued) <i>Subsidiaries (continued)</i>	Notes	Registered office address	Proportion of ownership interest %
John Haig & Company Limited		Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100%
John Walker and Sons Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%
Kenya Distillers Limited	(i, vii)	Tusker House, Ruaraka, PO BOX 30161, 00100 Nairobi GPO, Kenya	53.68%
Kenya Liquor Distributors Limited	(i, vii)	Tusker House, Ruaraka, PO BOX 30161, 00100 Nairobi GPO, Kenya	53.68%
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%
Newshelf 1167 Proprietary Limited	(iii)	Gallagher House, Gallagher Estate, Richards Drive, Midrand 1685, South Africa	51%
National Sorghum Breweries Properties Proprietary Limited	(i)	Gallagher House, Gallagher Estate, Richards Drive, Midrand 1685, South Africa	51%
Reldann Investments No. 12 Proprietary Limited	(i)	Gallagher House, Gallagher Estate, Richards Drive, Midrand 1685, South Africa	51%
The Distillers Company (Biochemicals) Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%

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Notes to the financial statements (continued)

11. Investments (continued)

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

Indirect holdings (continued) <i>Subsidiaries (continued)</i>	Notes	Registered office address	Proportion of ownership interest %
Trelawny Estates Limited		7th Floor, Scotiabank Centre, Duke Street, Kingston, Jamaica	100%
United Distillers France Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%
United Distillers & Vintners Philippines Inc		15 th Floor, W-fifth Building, 5 th Avenue, Bonifacio Global City, Taguing City, Philippines	99.99%
United Distillers France SAS		73, Rue de Provence 75009 Paris, France	100%
United Distillers Investments Limited	(i)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%
United National Breweries (SA) Proprietary Limited	(i)	Gallagher House, Gallagher Estate, Richards Drive, Midrand 1685, South Africa	51%
United Distillers UK plc	(i)	Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100%
William Sanderson and Son Limited	(i)	Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100%
Winchester House Property Company Limited	(i, vi)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	100%
Zepf Technologies UK Limited		Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom	100%

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Notes to the financial statements (continued)

11. Investments (continued)

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

Indirect holdings (continued)	Notes	Registered office address	Proportion of ownership interest %
<i>Associates</i>			
Diageo Suisse SA		Rue du Grand-Pre 2 b CH-1007 Lausanne, Switzerland	45.13%
The Scotch Whisky Heritage Centre Limited	(iv)	354 Castlehill, The Royal Mile, Edinburgh, EH1 2NE, United Kingdom	22.38%
Ballindalloch Distillery LLP		Ballindalloch Castle, Ballindalloch, Banffshire AB37 9AX, United Kingdom	33.33%
Clarendon Distillers Limited		2nd Floor, 2-6 Grenada Crescent; Kingston 5	27%
Grand Metropolitan Capital Company Limited	(viii)	Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom	16.64%
Grand Metropolitan (Cayman Islands) Limited	(i, viii)	Second Floor, Century Yard, P O Box 448GT, Cricket Square Grand Cayman, Cayman Islands	16.64%
<i>Joint ventures</i>			
North British Distillery Company Limited		9 Wheatfield Road, Edinburgh, EH11 2PX, United Kingdom	50%
Diageo Southern Africa Markets (Pty) Ltd		Building 3, Maxwell Office Park, Magwa Crescent West, Waterfall City, Midrand, 2090	50%

- (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 Limited Partnership and Lakeside MWS Limited Liability Partnership as they are partnerships.
- (vi) In process of being struck off
- (vii) In liquidation

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Notes to the financial statements (continued)

11. Investments (continued)

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

- (viii) In the opinion of the directors, significant influence is exercised over Grand Metropolitan Capital Company Limited and Grand Metropolitan (Cayman Islands) Limited.
- (ix) On 28 September 2018, the company acquired the remaining 70% of Copper Dog Whisky Limited (CDWL).

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 2018	30 June 2017
	£ million	£ 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 a 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.

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Notes to the financial statements (continued)

12. 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 2016	72	6	78
Recognised in the statement of comprehensive income	(18)	(1)	(19)
Recognised in equity	-	1	1
At 30 June 2017	<u>54</u>	<u>6</u>	<u>60</u>
Recognised in the statement of comprehensive income	(25)	(4)	(29)
Recognised in equity	-	1	1
At 30 June 2018	<u><u>29</u></u>	<u><u>3</u></u>	<u><u>32</u></u>

13. Inventories

	30 June 2018 £ million	30 June 2017 £ million
Raw materials and consumables	3	3
Finished goods and goods for resale	46	42
	<u>49</u>	<u>45</u>

Inventories are disclosed net of provisions of £3 million (2017 - £4 million) for obsolescence.

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Notes to the financial statements (continued)

14. Trade and other receivables

	30 June 2018	30 June 2017
	£ million	£ million
Amounts owed by fellow group undertakings	485	453
Trade receivables	103	101
Other receivables	3	4
Prepayments and accrued income	19	25
	<u>610</u>	<u>583</u>

All amounts fall due within one year.

Amounts owed by Diageo Finance plc of £402 million (2017 - £313 million) are interest bearing, unsecured and repayable on demand. Other amounts owed by fellow group undertakings are interest free, unsecured and repayable on demand.

The company has no overdue trade and other receivables, therefore no provision was recognised in respect of doubtful debts (2017 - £nil).

15. Other financial liabilities

Finance lease liabilities are payable as follows:

	30 June 2018		30 June 2017	
	Future minimum lease payments £ million	Future finance charges £ million	Future minimum lease payments £ million	Future finance charges £ million
Less than one year	1	-	1	-
	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>

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Notes to the financial statements (continued)

16. Trade and other payables

	30 June 2018 £ million	30 June 2017 £ million
Trade payables	125	131
Amounts owed to fellow group undertakings	113	57
Amounts owed to joint ventures	6	6
Tax and social security excluding income tax	76	94
Accruals and deferred income	112	127
Other payables	8	12
	440	427

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

17. Provisions

	Restructuring £ million	Onerous contract £ million	Other £ million	Total £ million
At 30 June 2017	3	1	4	8
Provisions charged during the year	2	1	2	5
Provisions utilised during the year	(2)	(1)	(2)	(5)
At 30 June 2018	3	1	4	8
Current liabilities	3	-	1	4
Non-current liabilities	-	1	3	4
	3	1	4	8

Restructuring provision include the reorganisation of global functions and are expected to be utilised by 30 June 2019. Other provisions comprise amounts of £4 million (2017 – £3 million) for legal claims.

18. Share capital

	30 June 2018 £ million
<i>Allotted, called up and fully paid:</i>	
1,113,082,750 (2017 - 1,113,082,750) ordinary shares of 25p each	278

Diageo Great Britain Limited
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Notes to the financial statements (continued)

19. Commitments

Capital expenditure commitments not provided for in these financial statements are estimated at £3 million (2017 - £1 million).

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

	Land and buildings £ million	Plant and machinery £ million	Other £ million	Total £ million
Payments falling due:				
Within one year	8	2	2	12
Between one and two years	8	1	1	10
Between two and three years	8	1	-	9
Between three and four years	8	1	-	9
Between four and five years	2	1	-	3
After five years	7	-	-	7
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2018	41	6	3	50
	<hr/>	<hr/>	<hr/>	<hr/>

	Land and buildings £ million	Plant and machinery £ million	Other £ million	Total £ million
Payments falling due:				
Within one year	7	3	2	12
Between one and two years	8	2	1	11
Between two and three years	8	1	1	10
Between three and four years	8	1	-	9
Between four and five years	8	1	-	9
After five years	9	1	-	10
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2017	48	9	4	61
	<hr/>	<hr/>	<hr/>	<hr/>

At 30 June 2018, the company had other purchase commitments of £136 million (2017 - £104 million).

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Notes to the financial statements (continued)

20. 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 2018 £ million	Year ended 30 June 2017 £ million
Subsidiaries not wholly owned by the group	<u>1</u>	<u>1</u>

(b) Purchases of goods and services

	Year ended 30 June 2018 £ million	Year ended 30 June 2017 £ million
Subsidiaries not wholly owned by the group	<u>5</u>	<u>1</u>

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

	As at 30 June 2018 £ million	As at 30 June 2017 £ million
Trade receivables due from related parties:		
Subsidiaries not wholly owned by the group	5	5
Joint operations owned by the group	-	1
	<u>5</u>	<u>6</u>
Trade payables due to related parties:		
Subsidiaries not wholly owned by the group	1	1
	<u>1</u>	<u>1</u>

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Notes to the financial statements (continued)

20. Related party transactions (continued)

(d) Loans in respect of related parties

At 30 June 2018, amounts owed by fellow group companies includes £63 million (2017 - £63 million) in respect of loans provided to Lochside MWS Limited Partnership and £6 million (2017 - £6 million) in respect of loans payable to North British Distillery Company Limited not wholly owned by the group. In the year ended 30 June 2018, the company was entitled to a profit distribution of £419,082 (2017 - £490,703) which is coming from Lochside MWS Limited Partnership (note 11).

(e) Profit on ordinary activities includes dividend income from a joint venture undertaking of £2 million (2017 - £2 million).

21. Financial 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.

22. Post balance sheet events

High Court ruling on gender equalisation of pension benefit schemes

The method of calculation for guaranteed minimum pensions in the Diageo Pension Scheme in the United Kingdom, where members opted out of the state pension scheme, was different for males and females which resulted in a potential equality issue. In October 2018 the High Court determined that all companies with a UK defined benefit pension plan that existed before 1997 should amend these schemes to equalise the pension benefits for males and females for guaranteed minimum pensions. At the time of signing these accounts the impact of this ruling is being assessed and it is not possible to provide an estimate of the impact on the net liabilities of the scheme.

Acquisition of Copper Dog Whisky Limited

On 28 September 2018, the company acquired the remaining 70% of Copper Dog Whisky Limited (CDWL) for a consideration of £6.5 million, subject to certain subsequent adjustments, including further earn-out payments, that depend on CDWL achieving agreed volume targets.

23. 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. 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.