Diageo Great Britain Limited

Financial statements
30 June 2015

Registered number: 507652

Strategic report

The directors present their strategic report for the year ended 30 June 2015.

Activities

The principal activities of the company are the packaging of beer and the distribution, marketing, importing and selling of beer, spirits and wines.

The company is also the brand owner of Guinness in the United Kingdom and was granted exclusive rights to manufacture, bottle, package, distribute, market and sell Smirnoff and Jeremiah Weed in the United Kingdom.

From 1 July 2012 the company entered into a new service agreement with fellow group companies which benefited from global procurement services provided by the company.

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

The last twelve months have seen Diageo Great Britain continue to grow with turnover increasing by 2%, mainly driven by the growth in the core spirits portfolio. Spirits growth was driven by Smirnoff, Gordon's, Bells and Captain Morgan. Innovation contributed to the increase in turnover with the successful launch of Captain Morgan White Rum, Pimms Cider, Guinness West Indies and Dublin Porters, Pimms & Gordon's Frozen Pouches. Guinness was also back in growth driven by the 'The Brewers Project'. Momentum continued in the Reserve business driven by Cîroc, Tanqueray Ten, Bulleit, and Haig Club.

Financial and other key performance indicators

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

Turnover increased by £31 million from £1,609 million in the year ended 30 June 2014 to £1,640 million in the year ended 30 June 2015, mainly driven by increased sales of spirit and wine portfolio.

Operating costs decreased by £4 million from £1,516 million in the year ended 30 June 2014 to £1,512 million in the year ended 30 June 2015 with the decrease primarily driven by an increased intercompany management fee income partly offset by the increased raw material costs.

In the year ended 30 June 2015, the company sold 100% of its shares owned in The Old Bushmills Distillery Company Limited resulting in a gain of £268 million. Dividends received decreased by £205 million as no distribution was received from Diageo Scotland Limited.

Strategic report (continued)

Principal risks and uncertainties facing the company as at 30 June 2015

The company believes the following to be the principal risks and uncertainties it has to face. If any of these risks occur, the company's business, financial condition and results of operations could suffer.

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

<u>The company's business may be adversely impacted by unfavourable economic conditions</u>

The company's business is dependent on general economic conditions in Great Britain. A significant deterioration in the conditions, including a reduction in consumer spending levels, customer destocking or a failure of a customer, could have a material adverse effect on the company's business and results of operations.

<u>The company faces competition that may reduce its market share and margins</u>

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.

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

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.

In addition, 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.

Strategic report (continued)

Principal risks and uncertainties facing the company as at 30 June 2015 (continued)

<u>The company's operations and financial results may be adversely affected by movements in the value of the pension funds</u>

Many of the 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, these contributions are accounted for as a cost to the profit and loss account and may adversely affect the company's financial results.

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

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.

<u>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</u>

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.

Financial risk management

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

<u>Currency risk</u>

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

The group's policy is to hedge up to 24 months forecasted transactional foreign currency risk in the three major currency pairs (US dollar/sterling, euro/sterling and euro/US dollar) targeting 75% coverage of the current financial year when the annual plan is approved, and up to 18 months for other currency pairs.

Strategic report (continued)

Financial risk management (continued)

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

11 December 2015

Directors' report

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2015.

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 1 to 4. The company is expected to continue to generate profit for its own account and to remain in positive net asset position for the foreseeable future. The company participates in the group's centralised treasury arrangements and the parent and fellow group undertakings are expected to provide financial support for the foreseeable future. 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 Diageo group 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 2015 are shown on page 10.

The profit for the year transferred to reserves is £425 million (2014 - £320 million).

No dividend was paid during the year (2014 - £nil).

Directors

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

P B Armstrong	(resigned 31 December 2014)
S J Bolton	
G P Crickmore	
D Heginbottom	
N Mákos	(resigned 1 August 2014)
J J Nicholls	
E M Peachey	
P D Tunnacliffe	

On 5 November 2015, G Zeisler was appointed as a director of the company.

Directors' remuneration

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

Directors' report (continued)

Employee involvement

It is an important goal to the company to offer a fulfilling 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. The company'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 the company's values to life.

The company is a multi-cultural business 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.

The company has entered into collective bargaining agreements and believes that its employee relations are satisfactory.

Secretary

On 5 November 2015, V Cooper was appointed as joint Company Secretary.

Post balance sheet events

On 13 October 2015, the ultimate holding company, Diageo plc, announced that it has agreed to sell its major wine interests - including the Blossom Hill brand - to Treasury Wine Estates. The transaction, which is subject to regulatory approval, is expected to be completed in the financial year ending 30 June 2016 and will result in gain.

Directors' report (continued)

Auditor

Following an audit tender conducted during the year, PricewaterhouseCoopers LLP were selected as auditor for the Diageo group. Accordingly, it is intended that PricewaterhouseCoopers LLP will be appointed to replace KPMG LLP as auditor for the year ending 30 June 2016.

Disclosure of information to 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

G Zeisler
Director
Lakeside Drive
Park Royal
London
NW10 7HQ

11 December 2015

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Diageo Great Britain Limited

We have audited the financial statements of Diageo Great Britain Limited for the year ended 30 June 2015 set out on page 10 to 34. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

KWightman

Karen Wightman (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

Date: 16 December 2015

Profit and loss account

	Notes	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
Turnover	*1*	**1,640**	1,609
Operating costs (including exceptional costs of £nil (2014 - £9 million)	*2-4*	**(1,512)**	(1,516)
Operating profit		**128**	93
Disposal of fixed asset	*5*	**268**	4
Income from shares in group and associate undertakings	*6*	**27**	232
Net interest payable	*7*	**(1)**	(2)
Profit on ordinary activities before taxation		**422**	327
Taxation on profit on ordinary activities	*8*	**3**	(7)
Profit for the financial year		**425**	320

The accounting policies and other notes on pages 12 to 34 form part of the financial statements.

There are no recognised gains and losses other than the result for the year and consequently a statement of total recognised gains and losses has not been presented as part of the financial statements.

There is no difference between the results for the years shown in the profit and loss account and the results for the relevant years restated on an historical cost basis.

All results arise from continuing operations.

Diageo Great Britain Limited
Registered number: 507652
Year ended 30 June 2015

Balance sheet

	Notes	30 June 2015	30 June 2015	30 June 2014	30 June 2014
		£ million	**£ million**	**£ million**	**£ million**
Fixed assets					
Intangible assets	*9*		**-**		-
Tangible assets	*10*		**215**		228
Investments	*11*		**2,583**		2,777
			2,798		3,005
Current assets					
Stocks	*12*	**43**		35	
Debtors	*13*	**1,156**		511	
Cash at bank and in hand	*15*	**3**		9	
		1,202		555	
Creditors: amounts falling due within one year	*16*	**(1,158)**		(1,140)	
Net current assets/(liabilities)			**44**		(585)
Total assets less current liabilities			**2,842**		2,420
Creditors: amounts falling due after more than one year	*16*		**(4)**		(2)
Provisions for liabilities	*17*		**(6)**		(11)
Net assets			**2,832**		2,407
Capital and reserves					
Called up share capital	*18*		**278**		278
Share premium account	*19*	**73**		73	
Profit and loss account	*19*	**2,481**		2,056	
			2,554		2,129
Shareholders' funds	*20*		**2,832**		2,407

The accounting policies and other notes on pages 12 to 34 form part of the financial statements.

These financial statements on pages 10 to 34 were approved by the board of directors on 11 December 2015 and were signed on its behalf by:

G Zeisler
Director

Accounting policies

Future changes to accounting policies

The Financial Reporting Council recently issued *FRS 100 – Application of Financial Reporting Requirements, FRS 101 – Reduced Disclosure Framework and FRS 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland* which will be first effective for the company for the year ending 30 June 2016. FRS 100 sets out the overall financial reporting framework whereas FRS 101 applies to the company financial statements allowing them to apply the same accounting policies as the IFRS group accounts but with less disclosure. FRS 102 will replace the current UK GAAP standards with an IFRS based new standard and include a set of disclosure exemptions for qualifying entities formerly preparing UK GAAP financial standards. The company will adopt FRS 101, for its financial statements, for the year ending 30 June 2016. The company is currently considering the impact of the adoption of FRS101 on the company's net profit and shareholders' funds. The principal changes that may result are likely to arise in respect of the accounting for financial instruments and deferred tax.

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements are prepared on a going concern basis under the historical cost convention and in accordance with applicable UK accounting standards.

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. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No. 1 (Revised 1996).

The company is exempt under the terms of Financial Reporting Standard No. 8 from disclosing related party transactions (but not balances) with entities that are wholly owned by a member of the Diageo plc group ("group undertakings").

The company is exempt from the requirement to prepare consolidated accounts under section 400 of the Companies Act 2006 as its results are included in the published consolidated financial statements of Diageo plc. These financial statements present information about the company as an individual undertaking and not about its group.

Turnover

Turnover comprises income from the sale of goods and royalties receivable. Income from the sale of goods includes excise and other duties which the company pays as principal but excludes amounts collected on behalf of third parties, such as value added tax. Turnover is recognised depending upon individual customer terms at the time of dispatch, delivery or some other specific point when the risk of loss transfers. Provision is made for returns where appropriate. Turnover is stated net of price discounts, allowances for customer loyalty and certain promotional activities and similar items. Royalties are accrued as earned.

Accounting policies (continued)

Advertising

Advertising costs, point of sale materials and sponsorship payments are charged to the profit and loss account, when the company has a right of access to the goods or services acquired.

Research and development

Research and development expenditure is written off in the year in which it is 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 equity-settled. Amounts recharged by the parent in respect of the cost of providing the options 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 on the Monte Carlo model, 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 due to share prices not achieving the threshold for vesting.

Pensions and other post employment benefits

Many of the current and former 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 them as defined contribution schemes. The assets and liabilities of the Diageo UK pension plans are recognised in the Diageo plc consolidated financial statements.

Exceptional items

Exceptional items are those that, in management's judgement, need to be disclosed by virtue of their size or incidence. Such items are included within the profit and loss account caption to which they relate and are separately disclosed either on the face of the profit and loss account or in the notes to the financial statements.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction, or if hedged forward, at the rate of exchange under the related foreign currency contract. Assets and liabilities denominated in foreign currencies are translated into sterling at the financial year end exchange rates. Exchange gains and losses are taken to the profit and loss account.

Intangible assets

Distribution rights regarded as having limited useful economic lives are amortised on a straight-line basis over their lives (20 years).

Accounting policies (continued)

Tangible fixed assets

Buildings are stated at cost less depreciation.

Leaseholds are depreciated over the unexpired period of the lease. Other tangible fixed assets are depreciated on a straight-line basis to estimated residual values over their expected useful lives within the following ranges:

Buildings	10 to 50 years
Plant and machinery	5 to 25 years
Computers and software	up to 13 years
Casks and kegs	5 to 23 years

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

Reviews are carried out if there is some indication that impairment may have occurred, to ensure that fixed assets are not carried at above their recoverable amounts.

Capitalisation of interest costs

Interest costs attributable to the acquisition or construction of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are added to the cost of that asset. All other interest costs are recognised as charges in the profit and loss account for the period in which they are incurred.

Fixed asset investments

Investments are stated individually at cost less, where appropriate, provision for impairment in value where such impairment is expected by the directors to be permanent.

Leases

Assets held under finance leases are recognised as assets of the company at their fair value at the inception of the lease. The corresponding liability to the lessor is included in creditors. Lease payments are 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 are treated as operating leases, with payments and receipts taken to the profit and loss account on a straight-line basis over the life of the lease.

Stocks

Stocks 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.

Accounting policies (continued)

Trade debtors

Trade debtors are amounts due from customers for goods sold or services performed in the ordinary course of business.

Debtors are carried at original invoice amount less any provision for discounts and doubtful debts.

The company sells certain of its trade debtors 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.

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.

Taxation

Current tax, including UK corporation tax and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted at the balance sheet date. Except as otherwise required by FRS 19, deferred tax is provided in full on timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more tax, or a right to pay less tax, in the future. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Any interest or penalties on tax liabilities are provided in the tax charge. Any interest or penalties on tax liabilities are provided in the tax charge.

Dividends received

Dividends received are included in the financial statements in the year in which they are receivable.

Notes to the financial statements

1. Analysis of turnover and profit on ordinary activities before taxation

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

Geographical analysis of turnover

All turnover originates in the United Kingdom and the geographical analysis of turnover by destination is given below:

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
United Kingdom	**1,587**	1,558
Rest of Europe	**50**	50
Africa	**3**	1
	1,640	1,609

Analysis of turnover by class of business

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
Distribution, marketing, importing and selling of beer, spirits and wines	**1,588**	1,560
Packaging of beer	**48**	48
Royalties	**4**	1
	1,640	1,609

The directors have taken advantage of the exemption from full disclosure of segmental information required by Statement of Standard Accounting Practice No. 25 as the company is a wholly owned subsidiary. Segmental disclosures are provided in the accounts of the ultimate parent company, Diageo plc.

Sales to fellow group undertakings included in turnover amounted to £67 million (2014 - £56 million).

Notes to the financial statements (continued)

2. Operating costs

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
(Increase)/decrease in stocks of finished goods and work in progress	**(7)**	3
Raw materials and consumables	**492**	442
Excise duties	**857**	859
Advertising, marketing and promotion costs	**67**	72
Other external charges (b)	**85**	76
Staff costs (note 3) (c)	**62**	78
Depreciation and other amounts written off fixed assets	**56**	48
Other operating income (a)	**(100)**	(62)
	1,512	1,516

(a) **Other operating income** includes intercompany management income of £93 million (2014 - £59 million), of which £45 million (2014 - £20 million) is in respect of the recharge of procurement costs to other group companies and a gain in respect of foreign exchange of £7 million (2014 - £3 million).

(b) **Other external charges** include intercompany royalty charges of £34 million (2014 - £33 million), operating lease rentals for plant and machinery of £3 million (2014 - £3 million) and land and buildings of £7 million (2014 - £7 million).

Fees in respect of audit services provided by the auditor are £150,816 (2014 - £175,199). The auditor's remuneration was settled on behalf of the company by a fellow group undertaking. Amounts receivable by the auditor in respect of other (non-audit) services have not been disclosed as the information is required to be disclosed on a consolidated basis in the consolidated financial statements of Diageo plc.

(c) **Staff costs** include exceptional costs of £nil (2014 - £9 million) in respect of restructuring expenses.

Notes to the financial statements (continued)

3. Staff costs

The average number of employees, including directors, during the year was:

	Year ended 30 June 2015	Year ended 30 June 2014
Production	**142**	148
Selling and distribution	**620**	634
Corporate and administration	**591**	693
	1,353	1,475

The aggregate remuneration of all employees comprised:

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
Wages and salaries	**37**	38
Employer's social security costs	**5**	5
Employer's pension costs	**20**	25
Share based payments	**-**	1
Other employment costs	**-**	9
	62	78

The staff costs disclosed is net of reimbursements received from other group undertakings for work carried out by the company's employees in respect of these other group undertakings. The average number of employees represents the total headcount employed by the company. As a consequence the cost per employee is not directly comparable with the staff numbers disclosed.

Retirement benefits

The majority of the employees of the company are members of the Diageo UK pension plans, which are defined benefit schemes. It is not possible to allocate the assets and liabilities of the pension plans on a consistent and reasonable basis between individual companies in the Diageo group and therefore the company accounts for its obligations as if they were defined contribution schemes.

Notes to the financial statements (continued)

3. Staff costs (continued)

Share based payments

For the year ended 30 June 2015, the charge to the company for share based payments is based on the actual fair value charge attributable to the benefit of the company's employees and the assumptions used by the Diageo group to calculate the fair value charge. The annual fair value charge for the equity settled executive share award plans for the year ended 30 June 2015 amounted to £nil (2014 - £1 million). The assumptions used for principal awards made during the years ended 30 June 2015 and 30 June 2014 were as follows:

	30 June 2015	**30 June 2014**
Weighted average assumptions		
Risk free interest rate	1.4 %	1.0 %
Expected life of the options	37 months	36 months
Dividend yield	3.1 %	2.7 %
Weighted average share price	1821 p	1969 p
Weighted average fair value of options/awards granted in the year	653 p	1109 p

The calculation of the fair value of each share award used the Monte Carlo pricing model.

The risk free interest rate is based on the UK treasury coupon strips in effect at the time of the grant, for the expected life of the option. The expected life of the options represents the period of time that options granted are outstanding. The group uses historical data to estimate option exercise and employee termination within the valuation model.

4. Directors' remuneration

	Year ended 30 June 2015 £000	**Year ended 30 June 2014 £000**
Directors' remuneration (excluding pension contributions)	**191**	**638**

The aggregate remuneration of the highest paid director at 30 June 2014 was £307,000. In 2014 the highest paid director was a member of a defined benefit scheme under which his accrued pension at 30 June 2014 was £87,168.

Some of the directors were paid by fellow group undertakings. All of the directors paid by the company are members of the Diageo UK pension plans and are entitled to receive share based payments.

Notes to the financial statements (continued)

4. Director's remuneration (continued)

	Year ended 30 June 2015	Year ended 30 June 2014
The number of directors who exercised share options	1	3
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes	1	3

5. Disposal of fixed asset

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
Gain on sale of fixed asset	**268**	4

On 27 February 2015, the company sold 100% of its shares owned in The Old Bushmills Distillery Company Limited to a third party resulting in a gain of £268 million. In the year ended 30 June 2014, the company realised a gain on the sale of a leasehold property of £4 million.

Substantial shareholding tax exemption applies to the sale of Bushmills therefore the gain of £268 million on the transaction is not taxable.

6. Income from shares in group and associate undertakings

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
Dividend income from shares in group undertakings:		
Diageo Scotland Limited	-	200
The Old Bushmills Distillery Company Limited	**14**	15
Justerini & Brooks Limited	**5**	5
UDV Kenya Limited	**5**	7
	24	227
Dividend income from associate undertaking		
Lothian Distillers Limited	**3**	5
	27	232

Notes to the financial statements (continued)

7. Net interest payable

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
Interest payable on:		
Factoring of receivables	**(2)**	(2)
Interest payable to fellow group undertakings	**(2)**	(2)
	(4)	(4)
Less:		
Interest receivable on loans to fellow group undertakings	**3**	2
	(1)	(2)

8. Taxation

(i) Analysis of taxation charge for the year	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
Current tax		
Overseas corporation tax	**(4)**	(6)
Total current tax	**(4)**	(6)
Deferred tax		
Origination of timing differences	**7**	6
Adjustment for change in rate of corporation tax	**-**	(10)
Adjustment in respect of prior years	**-**	3
Total deferred tax	**7**	(1)
Taxation on profit on ordinary activities	**3**	(7)

Notes to the financial statements (continued)

8. Taxation (continued)

(ii) Factors affecting current tax charge for the year	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
Profit on ordinary activities before taxation	**422**	327
Taxation on profit on ordinary activities at UK corporation tax rate of 20.75% (2014 - 22.5%)	**(88)**	(74)
Accelerated capital allowances and other timing differences	**(7)**	(2)
Expenses not deductible for tax purposes	**(1)**	(3)
Items not chargeable for tax purposes	**61**	53
Group relief receivable for nil consideration	**34**	24
Differences in effective overseas tax rates	**(3)**	(4)
Current tax charge for the year	**(4)**	(6)

(iii) Factors which may affect future tax charges

The UK tax rate reduced from 21% to 20% on 1 April 2015 (substantively enacted on 2 July 2013). In November 2015 further reductions were substantively enacted, to 19% (to be effective from 1 April 2017), and to 18% (to be effective from 1 April 2020). The net deferred tax asset (note 14) will reduce as a consequence of these rate changes.

9. Fixed assets – intangible assets

	Distribution rights £ million
Cost	
At 30 June 2014 and 30 June 2015	**12**
Amortisation	
At 30 June 2014 and 30 June 2015	**(12)**
Net book value	
At 30 June 2014 and 30 June 2015	**-**

Notes to the financial statements (continued)

10. Fixed assets – tangible assets

	Buildings £ million	Plant and machinery £ million	Computers and software £ million	Casks and kegs £ million	Assets in course of construction £ million	Total £ million
Cost						
At 30 June 2014	31	85	336	43	36	531
Additions	-	9	5	-	33	47
Disposals	-	-	(3)	-	-	(3)
Write-off	-	(4)	(84)	-	-	(88)
Transfers	3	2	35	-	(40)	-
At 30 June 2015	**34**	**92**	**289**	**43**	**29**	**487**
Depreciation						
At 30 June 2014	(16)	(61)	(188)	(38)	-	(303)
Charge for the year	(2)	(6)	(47)	(1)	-	(56)
Write-off	-	4	83	-	-	87
At 30 June 2015	**(18)**	**(63)**	**(152)**	**(39)**	**-**	**(272)**
Net book value						
At 30 June 2015	**16**	**29**	**137**	**4**	**29**	**215**
At 30 June 2014	15	24	148	5	36	228

Included in the net book value of computers and software is £7 million in respect of assets held under finance leases (2014 - £10 million); depreciation for the year on these assets was £1 million (2014 - £2 million).

Notes to the financial statements (continued)

11. Fixed assets – investments

	30 June 2015 £ million	30 June 2014 £ million
Shares in group undertakings and other investments (i)	**2,520**	2,714
Loan to fellow group undertaking (ii)	**63**	63
	2,583	2,777

(i) Shares in group undertakings and other investments

	Subsidiary undertakings £ million	Associate undertakings £ million	Total £ million
Cost			
At 30 June 2014	4,198	26	4,224
Disposal	(194)	-	(194)
At 30 June 2015	**4,004**	**26**	**4,030**
Provisions			
At 30 June 2014 and 30 June 2015	(1,510)	-	(1,510)
Net book value			
At 30 June 2015	**2,494**	**26**	**2,520**
At 30 June 2014	2,688	26	2,714

On 27 February 2015, the company sold 100% of its shares owned in The Old Bushmills Distillery Company Limited to a third party resulting in a gain of £268 million.

Notes to the financial statements (continued)

11. Fixed assets – investments (continued)

(i) Shares in group undertakings and other investments (continued)

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

	Country of incorporation	Principal activity	Percentage of shares owned
Direct holdings:			
Subsidiary undertakings			
Cellarers (Wines) Limited	England	Agency company	100%
Diageo Balkans Limited	England	Marketing and brand management services in Romania	100%
Diageo Scotland Limited	Scotland	Production, marketing and distribution of premium drinks	100%
Diageo South Africa (Pty) Limited	South Africa	Production, marketing and distribution of premium drinks	50%
Diageo United Kingdom Limited	England	Trademark owner	100%
Horizon Developments Limited	Cyprus	Dormant	100%
Justerini & Brooks, Limited	England	Marketing and distribution of fine wines	100%
Lochside MWS Limited Partnership	Scotland	Holding company	
Otford Estates Limited	England	Holding company	100%
S & B Production Limited	Northern Ireland	Production and distribution of beer	100%
The Pierre Smirnoff Company Limited	USA	Trademark owner	100% of class A shares
UDV Kenya Limited	Kenya	Production and distribution premium drinks	53.68%
W. & A. Gilbey, Limited	England	Trademark owner	100%
Joint ventures			
Lothian Distillers Limited	Scotland	Holding company	50%
Diageo Angola Limitada	Angola	Marketing services	50%
Indirect holdings:			
Subsidiary undertakings			
Arthur Bell & Sons Limited	Scotland	Holding company	100%
Diageo (IH) Limited	England	Holding company	100%
Myers Rum Company (Jamaica) Limited	Jamaica	Dormant	100%

Notes to the financial statements (continued)

11. Fixed assets – investments (continued)

	Country of incorporation	Principal activity	Percentage of shares owned
Indirect holdings (continued):			
Subsidiary undertakings			
Trelawny Estates Limited	Jamaica	Holding company	100%
DCL (Holdings) Australia Pty Limited	Australia	Holding company	100%
Diageo Distilling Limited	Scotland	Dormant	100%
Diageo New Zealand Limited	New Zealand	Administration	100%
Diageo Scotland Investment Limited	England	Holding company	100%
Gilbeys East Africa Limited (in liquidation)	Kenya	n/a	53.63%
Harp Distributors Limited (in liquidation)	Kenya	n/a	53.63%
International Distillers Kenya Limited (in liquidation)	Kenya	n/a	53.63%
James Buchanan & Company Limited	England	Armorial bearings holder	100%
John Haig & Company Limited	Scotland	Armorial bearings holder	100%
John Walker & Sons Limited	England	Royal warrant holder	100%
Kenya Distillers Limited (in liquidation)	Kenya	n/a	53.14%
Kenya Liquor Distributors Limited (in liquidation)	Kenya	n/a	53.68%
Lakeside MWS Limited Liability Partnership	England	Acquisition, holding, management and disposal of maturing whisky stock	
The Distillers Company (Biochemicals) Limited	England	Dormant	100%
United Distillers & Vintners Philippines Inc	Philippines	Distribution of premium drinks	100%
United Distillers France Limited	England	Dormant	100%
United Distillers France SAS	France	Holding company	100%
United Distillers Investments Limited	England	Dormant	100%
United Distillers UK plc	Scotland	Dormant	100%
William Sanderson & Son Limited	Scotland	Corporate Coat of Arms holder	100%
Winchester House Property Company Limited	England	Dormant	100%
Zepf Technologies UK Limited	Scotland	Service provider	100%

Notes to the financial statements (continued)

11. Fixed assets – investments (continued)

	Country of incorporation	Principal activity	Percentage of shares owned*
Indirect holdings (continued):			
Associate undertakings			
Claredon Distillers Limited	Jamaica	Production and distribution of Jamaican rum	27%
Diageo Suisse S.A.	Switzerland	Marketing and distribution of premium drinks	45.13%
Diageo Southern Africa Markets (Pty) Limited	South Africa	Marketing and distribution of premium drinks	50%
Grand Metropolitan Capital Company Limited	England	Investment holding company	16.64%
Grand Metropolitan (Cayman Islands) Limited	Cayman Islands	Dormant	16.64%
The Scotch Whisky Heritage Centre Limited	Scotland	Operation of hospitality venue	22.38%
Joint ventures			
Brandhouse Beverages (Pty) Limited*	South Africa	Distribution and marketing of premium drinks	25.5%
North British Distillery Company Limited	Scotland	Production and distribution of premium drinks	50%

* On 28 July 2015 the ultimate holding company has agreed to acquire the remaining shares which it does not already own in Brandhouse Beverages (Pty) Limited from Heineken NV. The transaction is expected to be completed before the end of the calendar year.

The investments in subsidiary and associate undertakings 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 subsidiary undertakings are worth at least the amount at which they are stated in the financial statements.

Notes to the financial statements (continued)

11. Fixed assets – investments (continued)

(ii) Loan to fellow group undertaking

	30 June 2015 £ million	30 June 2014 £ million
Amount owed by fellow group undertaking	**63**	63

In June 2010, the company established Lochside MWS Limited Partnership ('Lochside') as a sole general partner, 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 a fellow group undertaking and the profit distribution received is presented as interest receivable (note 22).

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 an 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.

The registered address of Lochside is Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, Scotland. Lochside is controlled by the group and included in the consolidated financial statements of Diageo plc which are publicly available.

12. Stocks

	30 June 2015 £ million	30 June 2014 £ million
Raw materials and consumables	**3**	2
Finished goods and goods for resale	**40**	33
	43	35

Stocks are disclosed net of provisions of £2 million (2014 - £3 million) for obsolescence.

Notes to the financial statements (continued)

13. Debtors

	30 June 2015 £ million	30 June 2014 £ million
Trade debtors	**39**	24
Amounts owed by fellow group undertakings	**1,017**	407
Other debtors	**2**	3
Deferred taxation (note 14)	**73**	66
Other prepayments and accrued income	**25**	11
	1,156	511

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

Amounts owed by Diageo Finance plc of £834 million (2014 - £214 million) are interest bearing, other amounts owed by fellow group undertakings are interest free.

The deferred taxation asset of £73 million (2014 - £66 million), falls due after one year. All other amounts fall due within one year.

14. Deferred taxation

	30 June 2015 £ million	30 June 2014 £ million
Accelerated capital allowances	**65**	54
Tax losses	**3**	3
Other timing differences	**5**	9
Deferred tax asset	73	66

Deferred taxation assets have been recognised to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Notes to the financial statements (continued)

15. Cash

The company has entered into a joint and several guarantee with certain other Diageo plc UK group undertakings such that any balance on the company's bank accounts within the cashpool may be offset against the bank balances or overdrafts of those companies included in the cashpool.

16. Creditors

	30 June 2015	**30 June 2014**
	£ million	**£ million**
Net obligations under finance leases	**2**	4
Trade creditors	**85**	93
Amounts owed to fellow group undertakings	**771**	774
Amounts owed to associate undertaking	**6**	6
Other taxation including social security	**144**	131
Other creditors	**4**	6
Accruals and deferred income	**146**	126
	1,158	1,140

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

Net obligations under finance leases:

	30 June 2015	**30 June 2014**
	£ million	**£ million**
Gross obligations due:		
From one to five years	**4**	2
Within one year	**2**	4
	6	6
Less: future finance charges	**-**	-
	6	6

Notes to the financial statements (continued)

17. Provisions for liabilities

	Restructuring provisions £ million
At 30 June 2014	11
Provided during the year	2
Utilised during the year	(4)
Released during the year	(3)
At 30 June 2015	**6**

On 30 January 2014, Diageo announced its plan to restructure the organisation and deliver further operating efficiencies. This is in line with the principles implemented by the operating model review announced in 2011 and includes reorganisation of teams in the markets working with regions and global functions. Closing restructuring provisions are expected to be mainly utilised by 30 June 2016.

18. Share capital

	30 June 2015 £ million	30 June 2014 £ million
Allotted, called up and fully paid:		
1,113,082,750 (2014 - 1,113,082,750) ordinary shares of 25p each	**278**	278

19. Reserves

	Share premium account £ million	Profit and loss account £ million	Total £ million
At 30 June 2014	73	2,056	2,129
Profit for the financial year	-	425	425
At 30 June 2015	**73**	**2,481**	**2,554**

Notes to the financial statements (continued)

20. Reconciliation of movement in shareholders' funds

	30 June 2015 £ million	30 June 2014 £ million
Profit for the financial year	**425**	320
Net addition to shareholders' funds	**425**	320
Shareholders' funds at the beginning of the year	**2,407**	2,087
Shareholders' funds at the end of the year	**2,832**	2,407

21. Commitments

At 30 June 2015, the company had minimum annual commitments under non-cancellable operating leases as follows:

	30 June 2015			30 June 2014		
	Land and buildings £ million	Other £ million	Total £ million	Land and buildings £ million	Other £ million	Total £ million
Annual payments under leases expiring:						
After five years	6	1	7	6	1	7
From one to five years	-	1	1	1	2	3
Within one year	1	1	2	-	1	1
	7	3	10	7	4	11

Capital expenditure commitments not provided for in these financial statements are estimated at £8 million (2014 - £15 million).

At 30 June 2015, the company had other purchase commitments of £152 million (2014 - £206 million).

Notes to the financial statements (continued)

22. Related party transactions

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

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

(a) Profit on ordinary activities includes dividend income from an associate undertaking of £3 million (2014 - £6 million).

(b) At 30 June 2015, amounts owed to fellow group companies includes £63 million (2014 - £63 million) in respect of a loan provided to a fellow group undertaking not wholly owned by the Diageo group. In the year ended 30 June 2015, the company was entitled to a profit distribution of £382,000 (2014 - £431,000).

(c) At 30 June 2015, amounts owed by fellow group undertakings include £12 million (2014 - £9 million) in respect of amounts owed by group undertakings not wholly owned by the Diageo group.

(d) At 30 June 2015, amounts owed to fellow group undertakings include £1 million (2014 - £1 million) in respect of amounts owed to group undertakings not wholly owned by the Diageo group.

(e) At 30 June 2015, creditors include £6 million (2014 - £6 million) in respect of amounts owed to an associate undertaking.

(f) At 30 June 2015, sales include £3 million in respect of amounts owed by group undertakings not wholly owned by the Diageo group (2014 - £1 million) and operating costs include purchases of £13 million from group undertakings not wholly owned by the Diageo group (2014 - £2 million).

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 activity are not disclosed separately in the company's profit and loss account.

23. Contingent liability

On 31 October 2012, the company and Diageo Scotland Limited, a wholly owned subsidiary undertaking, jointly entered into a 10 year agreement with Ardargh Glass Limited and Ardargh Packaging Holdings Limited for the supply of glass in Europe, effective from January 2014. 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.

Notes to the financial statements (continued)

24. Post balance sheet events

On 13 October 2015, the ultimate holding company, Diageo plc, announced that it has agreed to sell its major wine interests, – including the Blossom Hill brand – to Treasury Wine Estates. The transaction, which is subject to regulatory approval, is expected to be completed by the end of the financial year ending 30 June 2016 and will result in a gain.

25. 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, a company incorporated and registered in England. The consolidated financial statements of Diageo plc can be obtained from the registered office at Lakeside Drive, Park Royal, London, NW10 7HQ.