

DIAGEO SCOTLAND LIMITED
(formerly Guinness United Distillers & Vintners Scotland Limited)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

30 June 2003

Registered Number: : SC000750



DIRECTORS' REPORT

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2003.

Activities

The company's principal activity is the production of scotch whisky and its onward sale to fellow group undertakings and third parties.

Change of name

The name of the company was changed from Guinness United Distillers & Vintners Scotland Limited to Diageo Scotland Limited on 1 July 2002.

Financial

The results for the year ended 30 June 2003 are shown on page 8.

The directors do not recommend the payment of a dividend for the year ended 30 June 2003 (2002: £nil).

The profit for the year transferred to reserves is £51 million (2002: loss for year transferred from reserves £46 million).

Directors

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

P S Binning

S M Bunn

M J Lester (appointed on 31 January 2003)

P S Walsh

R J Moore (resigned on 31 January 2003)

R H Myddelton (resigned on 31 March 2003)

A Williams (resigned on 18 April 2003)

P S Binning resigned as a director on 3 October 2003. R Rajagopal and R Joy were appointed as directors of the company on 3 October 2003 and 20 April 2004 respectively.

Directors' emoluments

The emoluments of the directors are detailed in note 4 of these financial statements.

DIRECTORS' REPORT (continued)

Directors' interests

No directors had any interest, beneficial or non-beneficial, in the share capital of the company or had a material interest during the year in any significant contract with the company or any subsidiary.

The directors who held office at the end of the financial year had the following beneficial interests in the ordinary shares of 28¹⁰¹/₁₀₈p each in the ultimate parent company, Diageo plc:

(i) Ordinary shares and conditional rights to ordinary shares

	<u>Ordinary shares</u>		<u>Conditional rights to ordinary shares</u>				
	At beginning of year (or date of appointment)	At end of year	At beginning of year (or date of appointment)	Granted in period	Vested in period	Lapsed in period	At end of year
P S Binning	25,693	39,146	79,405	16,518	(16,971)	(1,911)	77,041
S M Bunn	2,853	3,351	-	-	-	-	-
M J Lester	15,459	15,803	10,563	-	-	-	10,563

A number of directors were granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under certain long term incentive plans. The conditional rights to ordinary shares are subject to share performance criteria of Diageo plc ordinary shares. The numbers disclosed in the above table represent the maximum number of conditional rights. Full details of the performance criteria are disclosed in the annual report of the ultimate holding company, Diageo plc.

(ii) Options

	At beginning of year (or date of appointment)	Granted in period	Exercised in period	At end of year
P S Binning	163,705	60,679	(1,513)	222,871
S M Bunn	20,786	11,866	(1,909)	30,743
M J Lester	116,587	-	-	116,587

DIRECTORS' REPORT (continued)

Directors' interests (continued)

The directors held the above options under Diageo plc share option schemes at prices between 447p and 863p per ordinary share exercisable between 2003 and 2012. The options are granted at market value on the date the option is granted and the option price is payable when the option is exercised.

Options granted under one of the option schemes, the Senior Executive Share Option Plan ('SESOP') may not normally be exercised unless a performance condition is satisfied. The performance condition applicable to grants of options to date under the SESOP is linked to the increase in earnings per share and is initially applied over the three year period commencing on the date the options are granted. Full details of the performance condition are disclosed in the annual report of the ultimate holding company, Diageo plc.

At 30 June 2003, P S Walsh was also a director of the ultimate parent company, Diageo plc. Details of his beneficial interests in the shares of Diageo plc are shown in the Diageo plc annual report, copies of which can be obtained from 8 Henrietta Place, London, W1G 0NB.

The mid-market share price of Diageo plc shares fluctuated between 582p and 851p during the year. The mid-market share price on 30 June 2003 was 647p.

At 30 June 2003 all the directors had an interest in 20,744,545 shares and 6,605,055 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes, and P S Binning had an additional interest in 6,177,180 shares held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes.

Employee involvement

Diageo's goal is to be an 'Employer of Choice' offering an energising work environment, personal growth and recognition and attractive rewards for the performance contribution its people make to the group. 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 Diageo's values as an organisation.

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

Diageo is committed to the safety and wellbeing of employees at work. It promotes responsible drinking behaviours among all its people. Diageo 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. The group has an intranet web site from which employees with access to a computer can obtain timely and accurate news and information.

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

DIRECTORS' REPORT (continued)

Supplier payment policy

The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

The number of days' purchases included in creditors as at 30 June 2003, in respect of the company, is 19 days.

Auditor

The auditor, KPMG Audit Plc, is willing to continue in office and a resolution for its re-appointment as auditor of the company will be submitted to the Annual General Meeting.

By order of the board



J Nicholls
Secretary

Edinburgh Park
5 Lochside Way
Edinburgh EH12 9DT

14 June 2004

**DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS**

The following statement, which should be read in conjunction with the independent auditor's report set out on page 7, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and the auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for the financial year.

The directors, in preparing these financial statements, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all applicable accounting standards have been followed, and that it is appropriate to prepare the financial statements on the going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps that 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 SCOTLAND LIMITED (formerly Guinness United Distillers & Vintners Scotland Limited)

We have audited the financial statements on pages 8 to 21.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors are responsible for preparing the directors' report and, as described on page 6, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Glasgow

15 June 2004

PROFIT AND LOSS ACCOUNT

		Year ended 30 June 2003 £ million	Year ended 30 June 2002 £ million
Turnover	1	635	550
Operating costs (including exceptional items of £12 million (2002: £7 million))	2	(573)	(565)
		<hr/>	<hr/>
Operating profit / (loss)		62	(15)
Income from shares in group undertakings		-	33
Amounts provided against investments in subsidiary undertakings	8	(4)	-
Interest payable (net)	5	-	(53)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation		58	(35)
Taxation on profit/(loss) on ordinary activities	6	(7)	(11)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities after taxation for the financial year transferred to/(from) reserves	15	51	(46)
		<hr/>	<hr/>

The notes on pages 10 to 21 form part of these financial statements.

There are no recognised gains and losses other than the profit 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 material difference between the profit for the year shown in the profit and loss account and the profit for the relevant years restated on an historical basis.

All results arise from continuing operations.

BALANCE SHEET

		30 June 2003		30 June 2002	
		£ million	£ million	£ million	£ million
Fixed assets					
Tangible assets	7		261		254
Investments	8		291		295
			<hr/>		<hr/>
			552		549
Current assets					
Stocks	9	1,141		1,111	
Debtors – due within one year	10	3,053		4,946	
Cash at bank and in hand	11	1		27	
		<hr/>		<hr/>	
		4,195		6,084	
Creditors – due within one year	12	(3,769)		(5,714)	
		<hr/>		<hr/>	
Net current assets			426		370
			<hr/>		<hr/>
Total assets less current liabilities			978		919
Provisions for liabilities and charges	13		(42)		(34)
			<hr/>		<hr/>
Net assets			936		885
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	14	182		182	
Profit and loss account	15	754		703	
		<hr/>		<hr/>	
Total equity shareholders' funds	16		936		885
			<hr/>		<hr/>

The notes on pages 10 to 21 form part of these financial statements.

These financial statements were approved by the board of directors on 14 June 2004 and were signed on its behalf by:

R Joy, Director

ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared 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 also exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions (but not balances) with entities that are part of the Diageo plc group ("group undertakings") or investees of the Diageo plc group.

The company is exempt from the requirement to prepare group accounts under section 228 of the Companies Act 1985 as its results are included in the published consolidated financial statements of Diageo plc.

New accounting standard

The financial statements comply with the following new Financial Reporting Standard issued by the UK Accounting Standards Board.

FRS 17 – Retirement benefits. This standard replaces the use of actuarial values for assets in a pension scheme in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the standard requires that the profit and loss account shows the relatively stable ongoing service cost, interest cost and expected return on assets. Fluctuations in market values and changes in actuarial assumptions are reflected in the statement of total recognised gains and losses. The employees of the company are members of the Diageo UK pension fund. The assets and liabilities of the Diageo UK pension fund cannot be separately identified or attributed to Diageo Scotland Limited. The Diageo group has continued to account for pensions and other post employment benefits in accordance with SSAP 24 but has complied with the transitional disclosure requirements of FRS 17. The disclosures required by FRS 17 for the Diageo UK pension fund are included in the consolidated financial statements of Diageo plc which are publicly available. The company will adopt this statement in its primary financial statements from 1 July 2003.

Tangible fixed assets

Land and buildings are stated at cost less depreciation.

Freehold land is not depreciated. 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:

Freehold buildings	50 years
Casks and containers	15 to 20 years
Production and service plant	10 to 25 years
Office machinery	5 years
Computers and associated equipment	4 years
Motor vehicles	4 years

Reviews of tangible fixed assets 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.

Profit or loss on the sale of a property is the difference between the disposal proceeds and the net book value.

ACCOUNTING POLICIES (continued)

Fixed asset investments

Income from fixed asset investments is credited to the profit and loss account when it is declared by the paying company. Investments are stated individually at cost less, where appropriate, provision for diminution in value where such diminution is expected by the directors to be permanent.

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 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.

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 forward currency contract. Assets and liabilities in foreign currencies are translated into sterling at the financial year end exchange rates or, if hedged forward, at the rate of exchange under the related forward currency contract.

All exchange gains and losses are taken to the profit and loss account.

Turnover

Turnover represents the net invoice value of goods and services including excise duties, rents and royalties receivable, but excluding value added tax. Turnover for goods is recognised at the point at which ownership transfers which may be at the time of despatch, delivery or some other point depending upon individual customer terms. Provision is made for returns where appropriate. Turnover for goods is stated net of price discounts, allowances for customer loyalty and certain promotional activities and similar items.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Pensions and other post employment benefits

The employees of the company are members of a group scheme managed by Diageo plc. The cost of providing pensions and other post employment benefits is charged against profits on a systematic basis, with pension surpluses and deficits allocated over the expected average remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to pension or other plans are treated as assets or liabilities in the balance sheet. Deferred taxation is accounted for on these assets and liabilities. Particulars of the valuations of the group schemes and disclosures required by FRS 17 are contained in the financial statements of Diageo plc.

Deferred taxation

Full provision for deferred tax is made for timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation, using current tax rates. The group does not discount these balances. No deferred tax is provided in respect of any future remittance of earnings of foreign subsidiaries where no commitment has been made to remit such earnings.

NOTES TO THE FINANCIAL STATEMENTS

1. Geographical analysis of turnover

	Year ended 30 June 2003 £ million	Year ended 30 June 2002 £ million
Europe	542	490
North America	19	13
Asia Pacific	53	26
Rest of World	21	21
	<u>635</u>	<u>550</u>

This analysis of turnover is based on the location of customers. 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 and service fees from other group companies included in turnover amounted to £460 million (2002: £402 million).

2. Operating costs

	Year ended 30 June 2003 £ million	Year ended 30 June 2002 £ million
(Increase) in stocks of finished goods and maturing whisky	(30)	(1)
Raw materials and consumables	459	365
Advertising, marketing and promotion	30	35
Other external charges (note a)	35	91
Staff costs (note 3)	93	91
Depreciation and other amounts written off tangible fixed assets (note b)	25	16
Other operating income (note c)	(39)	(32)
	<u>573</u>	<u>565</u>

- (a) **Other external charges include:** operating lease rentals for land and buildings of £1 million (2002: £1 million); operating lease rentals for plant and machinery of £1 million (2002: £nil); other rental costs of £3 million (2002: £2 million); exceptional costs in respect of the integration of the spirits, wine and beer businesses to create a premium drink segment of £12 million (2002: £7 million); research and development expenditure of £12 million (2002: £8 million); foreign exchange loss on transactions of £9 million (2002: £27 million). There are various other items offset against this total.
- (b) **Depreciation and other amounts:** Depreciation of £25 million (2002: £22 million) included within operating costs represents the depreciation charge in respect of tangible fixed assets of £32 million (2002: £22 million) less cask depreciation of £7 million (2002: £6 million) which has been included within stocks in the balance sheet. Depreciation of £5 million (2002: £4 million) has been released from stocks during the year and is included in raw materials and consumables on the sale of the stock.
- (c) **Other operating income includes:** intercompany management income of £29 million (2002: £13 million).
- (d) **Fees in respect of services provided by the auditors were:** statutory audit of £271,000 (2002: £177,000) and other non-audit work of £1,342,000 (2002: £1,095,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Staff costs

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

	Year ended 30 June 2003 Number	Year ended 30 June 2002 Number
Full time	2,317	2,402
Part time	181	183
	<u>2,498</u>	<u>2,585</u>

The aggregate remuneration of all employees comprised:

	Year ended 30 June 2003 £ million	Year ended 30 June 2002 £ million
Wages and salaries	86	83
Employer's social security costs	7	8
	<u>93</u>	<u>91</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Directors' emoluments

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Emoluments (excluding pension contributions)	-	429

During the year ended 30 June 2003 directors' emoluments were paid on behalf of the company by a fellow group undertaking and not recharged to the company.

Details of the directors' share interests in the ordinary shares of Diageo plc are included in the directors' report on pages 3 and 4.

5. Interest payable (net)

	Year ended 30 June 2003 £ million	Year ended 30 June 2002 £ million
Loans from group undertakings	(1)	(90)
	(1)	(90)
Less: Loans to group undertakings	1	36
Other interest receivable	-	1
	-	(53)

On 1 July 2002 a loan of £2,942 million from a fellow group undertaking became interest free.

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Tax on profit/(loss) on ordinary activities

	Year ended 30 June 2003 £ million	Year ended 30 June 2002 £ million
(i) Analysis of taxation charge for the year		
Current tax		
Adjustment in respect of prior year	(1)	(11)
Deferred tax		
Credit for the year	(18)	(1)
Adjustment in respect of prior year	26	23
Tax charge for year	<u>7</u>	<u>11</u>
(ii) Factors affecting the tax charge for the year		
Profit/(loss) on ordinary activities before taxation	<u>58</u>	<u>(35)</u>
Taxation on profit/(loss) on ordinary activities at UK corporation tax rate of 30% (2002: 30%)	17	(11)
Group relief (received)/surrendered for nil consideration	(42)	13
Items not deductible/(chargeable) for tax purposes	7	(3)
Adjustment in respect of prior year	(1)	(11)
Other timing differences	18	1
Current tax credit for year	<u>(1)</u>	<u>(11)</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Fixed assets – tangible assets

	Land and buildings £ million	Plant and machinery £ million	Casks, containers and vehicles £ million	Assets in course of construction £ million	Total £ million
Cost:					
At 30 June 2002	92	209	114	21	436
Additions	2	28	6	6	42
Disposals	-	(20)	-	-	(20)
Transfers	(4)	25	-	(21)	-
At 30 June 2003	90	242	120	6	458
Depreciation:					
At 30 June 2002	20	112	50	-	182
Provided during the year	3	24	5	-	32
Disposals	-	(17)	-	-	(17)
At 30 June 2003	23	119	55	-	197
Net book value:					
At 30 June 2003	67	123	65	6	261
At 30 June 2002	72	97	64	21	254

The net book value of land and buildings comprises:

	30 June 2003 £ million	30 June 2002 £ million
Freehold	64	69
Long leasehold	3	3
	67	72

Included in the net book value of freehold properties is £4 million (2002: £4 million) in respect of land on which no depreciation is charged.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Fixed assets – investments

	Subsidiary undertakings £ million
Cost:	
At beginning and end of year	382
Provisions:	
At 30 June 2002	87
Provided during the year	4
At 30 June 2003	91
Net book value:	
At 30 June 2003	291
At 30 June 2002	295

The principal subsidiary undertakings and the percentage of equity owned are as follows:

Subsidiary undertakings	Country of registration	Principal activity	Percentage of equity owned
Diageo Distilling Limited (formerly Guinness United Distillers & Vintners Distilling Limited)	Scotland	Distillers of scotch whisky	100%
Diageo Australia Limited (formerly Guinness United Distillers & Vintners Australia Limited)	Australia	Bottlers and marketers of spirits	100%

The investments in subsidiary undertakings are held at cost less provisions for diminutions 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.

Certain undertakings have been omitted from the lists above as they are either dormant or not material. A full list of subsidiary and associated undertakings will be annexed to the company's annual return.

9. Stocks

	30 June 2003 £ million	30 June 2002 £ million
Raw materials and consumables	16	16
Maturing whisky	1,093	1,069
Finished goods and goods for resale	32	26
	<u>1,141</u>	<u>1,111</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Debtors – due within one year

	30 June 2003	30 June 2002
	£ million	£ million
Trade debtors	47	44
Amounts owed by group undertakings	2,952	4,815
Other debtors	32	25
Other prepayments and accrued income	5	10
Corporation tax recoverable	17	52
	<u>3,053</u>	<u>4,946</u>

11. Cash at bank and in hand

The company has entered into a joint and several guarantee with certain other Diageo plc UK subsidiary 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. The amount disclosed as cash represents the net of unrepresented and uncleared cheques.

12. Creditors – amounts falling due within one year

	30 June 2003	30 June 2002
	£ million	£ million
Overdrafts	2	-
Trade creditors	37	37
Amounts owed to ultimate parent undertaking	2,549	1,895
Amounts owed to group undertakings	1,044	3,650
Other taxation including social security	8	7
Other creditors	12	17
Accruals and deferred income	117	108
	<u>3,769</u>	<u>5,714</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Provisions for liabilities and charges

	Integration provisions £ million	Deferred taxation £ million	Total £ million
At 30 June 2002	16	18	34
Profit and loss account	4	8	12
Utilised	(4)	-	(4)
At 30 June 2003	<u>16</u>	<u>26</u>	<u>42</u>

The integration provision relates to costs in respect of the integration of the spirits, wine and beer businesses to create a premium drink segment.

Deferred taxation

	30 June 2003 £ million	30 June 2002 £ million
At 30 June 2002	18	(4)
Profit and loss charge for the year	8	22
At 30 June 2003	<u>26</u>	<u>18</u>

The elements of deferred taxation are as follows:

	30 June 2003 £ million	30 June 2002 £ million
Accelerated capital allowances	43	47
Other timing differences	(17)	(29)
	<u>26</u>	<u>18</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Share capital

	30 June 2003 £ million	30 June 2002 £ million
Authorised:		
Equity – 400,000,000 ordinary shares of 50p each	200	200
	<hr/>	<hr/>
Allotted, called up and fully paid:		
Equity – 363,169,546 ordinary shares of 50p each	182	182
	<hr/>	<hr/>

15. Reserves

	Profit and loss account £ million
At 30 June 2002	703
Retained profit for the year	51
	<hr/>
At 30 June 2003	754
	<hr/>

16. Movement in shareholders' funds

	Year ended 30 June 2003 £ million	Year ended 30 June 2002 £ million
Profit / (loss) for the financial year	51	(46)
Ordinary dividends	-	-
	<hr/>	<hr/>
Net increase / (decrease) in shareholders' funds	51	(46)
Shareholders' funds at beginning of the year	885	931
	<hr/>	<hr/>
Shareholders' funds at end of the year	936	885
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Commitments

At 30 June 2003, the company had minimum annual commitments under non-cancellable operating leases as follows:

	30 June 2003			30 June 2002		
	Land and buildings £million	Other £million	Total £million	Land and buildings £million	Other £million	Total £million
Annual payments under leases expiring:						
After five years	1	-	1	1	-	1
From one to five years	-	1	1	-	1	1
Within one year	-	-	-	-	-	-
	<u>1</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>2</u>

Capital expenditure commitments not provided for in these financial statements are estimated at £4 million (2002: £14 million).

18. Contingent liabilities

Guarantees are in place amounting to £5 million (2002: £5 million) relating to duty payable to HM Customs and Excise on spirit in bonded warehouse and duty on imported spirits.

19. Immediate and ultimate parent undertaking

The immediate parent undertaking of the company is Diageo Great Britain Limited (formerly named Guinness United Distillers & Vintners Limited), a company incorporated in the United Kingdom and registered in England.

The ultimate parent undertaking of the company is Diageo plc, a company incorporated in the United Kingdom and registered in England. The consolidated financial statements of Diageo plc for the year ended 30 June 2003, can be obtained from the registered office at 8 Henrietta Place, London W1G 0NB.