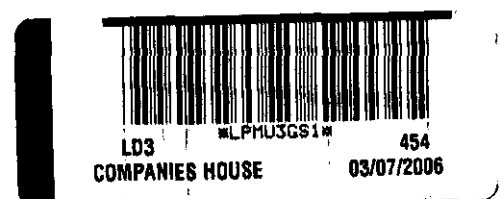


# **Diageo Scotland Limited**

## **Financial statements 30 June 2005**

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 2005.

### **Activities**

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

### **Financial**

The results for the year ended 30 June 2005 are shown on page 7.

The directors recommend that an ordinary dividend of £267,400,000 (2004 - £nil) be paid. The loss for the year transferred from reserves is £21 million (2004 - £92 million profit transferred to reserves).

### **Directors**

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

S M Bunn  
C D Coase (appointed 7 April 2005)  
M C Flynn (appointed 7 April 2005)  
R J Joy  
M J Lester  
R Rajagopal (resigned 7 April 2005)  
P S Walsh

P S Walsh resigned as a director of the company on 9 March 2006. B H Donaghey, P M Heade, N Makos and C R R Marsh were appointed as directors on 26 May 2006.

### **Directors' emoluments**

None of the directors received any remuneration during the year in respect of their services as directors of the company (2004 - £nil).

### **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.

## Directors' report (continued)

### Directors' interests (continued)

The directors who held office at the end of the financial year had the following beneficial interests in the ordinary shares of 28 <sup>101</sup>/<sub>108</sub> p each in the ultimate parent company, Diageo plc:

#### (i) Ordinary shares and conditional rights to ordinary shares

	Ordinary shares		Conditional rights to ordinary shares				
	At beginning of year (or date of appointment)	At end of year	At beginning of year (or date of appointment)	Granted in year	Vested in year	Lapsed in year	At end of year
S M Bunn	1,088	128	-	-	-	-	-
C D Coase	14,207	14,207	-	-	-	-	-
M C Flynn	11,673	11,743	-	-	-	-	-
R J Joy	44,481	48,283	26,321	4,746	(7,819)	(465)	22,783
M J Lester	20,658	26,306	34,311	-	(3,521)	-	30,790

A number of directors were granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under certain long term incentive plans. Any conditional rights are shown in the table as ordinary share equivalents. 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

	Options over ordinary shares				
	At beginning of year (or date of appointment)	Granted in year	Exercised in year	Lapsed in year	At end of year
S M Bunn	46,319	15,434	(9,316)	-	52,437
C D Coase	141,269	-	-	-	141,269
M C Flynn	17,991	-	-	-	17,991
R J Joy	241,263	30,236	(88,992)	-	182,507
	(22,248 ADS and 152,271 ord. shares)		(22,248 ADS)		
M J Lester	150,846	23,758	(61,037)	-	113,567

## **Directors' report (continued)**

### **Directors' interests (continued)**

The directors held the above options under Diageo plc share option schemes at prices between 460p and 863p per ordinary share exercisable between 2005 and 2014. US grants were at prices between US\$25.21 and US\$29.38 per ADS. US options were granted over ADS's at dollar prices (one ADS is equivalent to four ordinary shares). Certain options granted in the Republic of Ireland were granted at a price of Euros 7.37 per ordinary share. 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 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 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.

Options granted for R J Joy are principally options granted under the SESOP, which are subject to performance conditions as detailed above.

At 30 June 2005 P S Walsh was also a director of the ultimate parent company, Diageo plc. Details of his beneficial interests in the ordinary 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 658p and 824p during the year. The mid-market share price on 30 June 2005 was 823p.

At 30 June 2005, all the directors had an interest in 21,465,587 shares and 8,233,337 shares subject to call options held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes. R J Joy had an additional interest in 6,279,065 shares held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes, and a further interest in 459,180 shares and 544,246 shares subject to call options, held by trusts to satisfy grants made under ex-Grandmet incentive plans.

### **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. 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. 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.

## **Directors' report (continued)**

### **Employee involvement (continued)**

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.

### **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 2005, in respect of the company, is 19 days (2004 - 18 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

23 June 2006

### **Statement of directors' responsibilities in relation to the financial statements**

The following statement, which should be read in conjunction with the independent auditor's report set out on page 6, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of 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 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 a 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**

We have audited the financial statements on pages 7 to 26.

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 auditors*

The directors are responsible for preparing the directors' report and, as described on page 5, 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 2005 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

29 June 2006

**Profit and loss account**

	<i>Notes</i>	<b>Year ended 30 June 2005</b>	<b>Year ended 30 June 2004</b>
		<b>£ million</b>	<b>£ million</b>
<b>Turnover</b>	<i>1</i>	<b>883</b>	<b>692</b>
Operating costs (including exceptional items of £2 million (2004 - £7 million))	<i>2-4</i>	<b>(684)</b>	<b>(577)</b>
		<hr/>	<hr/>
<b>Operating profit</b>		<b>199</b>	<b>115</b>
Disposal of fixed assets	<i>5</i>	-	(3)
Income from shares in group undertakings	<i>6</i>	<b>100</b>	<b>18</b>
Interest payable	<i>7</i>	-	(2)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>		<b>299</b>	<b>128</b>
Taxation on profit on ordinary activities	<i>8</i>	<b>(53)</b>	<b>(36)</b>
		<hr/>	<hr/>
<b>Profit on ordinary activities after taxation and for the financial year</b>		<b>246</b>	<b>92</b>
Dividends	<i>9</i>	<b>(267)</b>	-
		<hr/>	<hr/>
<b>Amounts transferred (from)/to reserves</b>		<b>(21)</b>	<b>92</b>
		<hr/>	<hr/>

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.

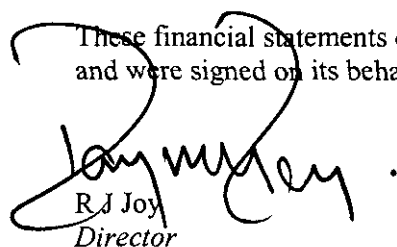
All results arise from continuing operations.



# Balance sheet

	Notes	30 June 2005 £ million	30 June 2004 £ million
<b>Fixed assets</b>			
Intangible assets	10	95	-
Tangible assets	11	217	258
Investments	12	290	401
		<u>602</u>	<u>659</u>
<b>Current assets</b>			
Stocks	13	1,173	1,155
Debtors: due within one year	14	2,596	2,399
Cash at bank and in hand	15	2	1
		<u>3,771</u>	<u>3,555</u>
<b>Creditors: due within one year</b>	16	<u>(3,316)</u>	<u>(3,137)</u>
<b>Net current assets</b>		<u>455</u>	<u>418</u>
<b>Total assets less current liabilities</b>		<u>1,057</u>	<u>1,077</u>
<b>Provisions for liabilities and charges</b>	17	<u>(50)</u>	<u>(49)</u>
<b>Net assets</b>		<u>1,007</u>	<u>1,028</u>
<b>Capital and reserves</b>			
Called up share capital	18	182	182
Profit and loss account	19	825	846
<b>Equity shareholders' funds</b>		<u>1,007</u>	<u>1,028</u>

These financial statements on pages 7 to 26 were approved by the board of directors on 23 June 2006 and were signed on its behalf by:

  
R.J. Joy  
Director

## **Accounting policies**

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

### **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 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.

### **Intangible assets**

When the cost of an acquisition exceeds the fair values attributable to the company's share of the net assets acquired, the difference is treated as purchased goodwill. Goodwill arising on acquisitions subsequent to 1 July 1998 is capitalised but prior to that date it was eliminated against reserves, and this goodwill has not been restated.

Acquired brands and other intangible assets which are controlled through custody or legal rights and could be sold separately from the rest of the business are capitalised, where fair value can be reliably measured.

Where capitalised goodwill and intangible assets are regarded as having limited useful economic lives, their cost is amortised on a straight-line basis over those lives (up to 20 years). Where goodwill and intangible assets are regarded as having indefinite useful economic lives, they are not amortised. Assets with indefinite lives are reviewed for impairment annually and other assets are reviewed for impairment wherever events or circumstances indicate that the carrying amount may not be recoverable. Impairment reviews, comparing the discounted estimated future operating cash flows with the net carrying value of brands or goodwill, are carried out to ensure that goodwill and intangible assets are not carried at above their recoverable amounts. Amortisation and any impairment write downs are charged to the profit and loss account.

## **Accounting policies (continued)**

### **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 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.

### **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 impairment in value where such impairment 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 foreign 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 foreign currency contract.

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

## **Accounting policies (continued)**

### **Turnover**

Turnover represents the net invoice value of goods and services including excise duties and royalties receivable, but excluding value added tax.

Turnover for goods is recognised at the fair value of the right to consideration. The point at which ownership transfers 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 the Diageo UK pension plan. With effect from 1 July 2003, the Diageo group has adopted FRS 17 - *Retirement benefits* in its consolidated financial statements.

FRS 17 replaces the use of actuarial values for assessing pension costs 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, the expected return on assets and the interest on the liabilities. Differences between expected and actual return on assets, and the impact on the liabilities of changes in assumptions, are reflected in the statement of total recognised gains and losses.

It is not possible to allocate the assets and liabilities of the pension plan between individual companies and therefore the company accounts for it as a defined contribution scheme. The assets and liabilities of the Diageo UK pension plan 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 in the notes to the financial statements or on the face of the profit and loss account.

### **Deferred taxation**

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

## Notes to the financial statements

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

#### Geographical analysis of turnover

The turnover and profit on ordinary activities before taxation are attributable to one class of business, that of the production of scotch whisky and its onward sale to fellow group undertakings and third parties.

Turnover originated from the United Kingdom and the geographical analysis of turnover by destination is given below:

	Year ended 30 June 2005 £ million	Year ended 30 June 2004 £ million
Europe	789	563
North America	47	60
Asia Pacific	43	49
Rest of world	4	20
	<hr/>	<hr/>
	883	692
	<hr/>	<hr/>

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 fellow group undertakings included in turnover amounted to £713 million (2004 - £476 million).

The method of classification of certain intercompany transactions within turnover and operating costs was revised during the year. Should the same treatment be applied to the prior year comparatives the effect would be to increase turnover by £133 million (to £825 million). Operating costs would increase by the same amount with no impact on profit.

## Notes to the financial statements (continued)

### 2. Operating costs

	Year ended 30 June 2005 £ million	Year ended 30 June 2004 £ million
Decrease/(increase) in stocks of finished goods and work in progress	(18)	(18)
Other operating income (a)	(31)	(112)
Raw materials and consumables	551	497
Advertising, marketing and promotion costs	29	33
Other external charges (b)	50	35
Staff costs (note 3)	67	100
Depreciation and other amounts written off fixed assets	34	35
Exceptional items (c)	2	7
	<hr/>	<hr/>
	684	577
	<hr/>	<hr/>

(a) **Other operating income includes:** intercompany management income of £13 million (2004 - £ 82 million); foreign exchange gain of £7 million (2004 - £15 million loss); profit on disposal of assets of £6 million (2004 - £nil).

(b) **Other external charges include:** operating lease rentals for land and buildings of £2 million (2004 - £1 million); operating lease rentals for plant and machinery of £nil (2004 - £1 million); other lease rentals of £1 million (2004 - £1 million).

(c) **Exceptional items include:** restructuring costs of £1 million (2004 - £nil)

Fees in respect of services provided by the auditor were: statutory audit £160,240 (2004 - £259,000); other non-audit work £124,000 (2004 - £99,000).

The method of classification of certain intercompany transactions within turnover and operating costs was revised during the year. Should the same treatment be applied to the prior year comparatives the effect would be to increase operating costs by £133 million (to £710million). Turnover would increase by the same amount with no impact on profit.

## Notes to the financial statements (continued)

### 3. Staff costs

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

	Year ended 30 June 2005	Year ended 30 June 2004
Full time	2,363	2,219
Part time	7	321
	<hr/>	<hr/>
	2,370	2,540
	<hr/>	<hr/>

The aggregate remuneration of all employees comprised:

	Year ended 30 June 2005 £ million	Year ended 30 June 2004 £ million
Wages and salaries	48	87
Employer's social security costs	5	8
Employer's pension costs	1	1
Other employment costs	13	4
	<hr/>	<hr/>
	67	100
	<hr/>	<hr/>

## Notes to the financial statements (continued)

### 3. Staff costs (continued)

#### Retirement benefits

The employees of the company are members of the Diageo UK pension plan which is a defined benefit scheme. With effect from 1 July 2003, the Diageo group has adopted FRS 17 - *Retirement benefits* in its consolidated financial statements.

It is not possible to allocate the assets and liabilities of the pension plan between individual companies and therefore the company accounts for the pension plan as a defined contribution scheme. The assets and liabilities of the Diageo UK pension plan are recognised in the Diageo plc consolidated financial statements. The disclosures below represent the Diageo UK pension fund. However the balances indicated are not all attributable to the company.

(a) The following weighted average assumptions were used to determine the UK group's deficit in the pension plan at 30 June in the relevant year:

	Year ended 30 June 2005 %	Year ended 30 June 2004 %
Rate of inflation	2.5	3.0
Rate of general increase in salaries	3.9	4.4
Rate of increase to pensions in payment	2.6	3.3
Rate of increase to deferred pensions	2.5	3.0
Discount rate for plan liabilities	4.9	5.7

For the years ended 30 June 2005 and 2004 there were, in addition to the above percentages, age related promotional increases.



## Notes to the financial statements (continued)

### 3. Staff costs (continued)

#### Retirement benefits (continued)

(b) The market values of the assets of the UK defined benefit pension plan were as follows:

	30 June 2005 £ million	30 June 2004 £ million
Equities	2,259	1,978
Bonds	128	105
Property	323	343
Other	82	75
	<hr/>	<hr/>
	2,792	2,501
Present value of pension plan liabilities	(3,560)	(3,294)
	<hr/>	<hr/>
Deficit in the UK pension plan	(768)	(793)
Related deferred tax assets	230	238
	<hr/>	<hr/>
Net pension plan liabilities	(538)	(555)
	<hr/>	<hr/>

(c) Movement in deficit during the years ended 30 June 2005 and 2004:

	30 June 2005 £ million	30 June 2004 £ million
Deficit at beginning of year	(793)	(1,073)
Current service cost	(62)	(66)
Past service cost	(2)	(2)
Curtailment/settlement cost	12	10
Net credit/(cost) to other finance income	11	(11)
Cash contributions	103	3
Actuarial (loss) /gain	(37)	346
	<hr/>	<hr/>
Deficit at 30 June 2005	(768)	(793)
	<hr/>	<hr/>

### 4. Directors' emoluments

None of the directors received any remuneration during the financial year in respect of their services as directors of the company (2004 - £nil).

Details of the directors' share interests and any share options exercised during the year are included within the directors' report on pages 1 to 3.

**Notes to the financial statements (continued)**

**5. Disposal of fixed assets**

	<b>Year ended 30 June 2005 £ million</b>	<b>Year ended 30 June 2004 £ million</b>
Losses on the sale of:		
Property	-	1
Other fixed assets	-	2
	<hr/>	<hr/>
	-	3
	<hr/>	<hr/>

The tax charge on these items amounted to £nil (2004 - £nil).

**6. Income from fixed asset investments**

	<b>Year ended 30 June 2005 £ million</b>	<b>Year ended 30 June 2004 £ million</b>
Income from shares in group undertakings	100	18
	<hr/>	<hr/>

**7. Interest payable**

	<b>Year ended 30 June 2005 £ million</b>	<b>Year ended 30 June 2004 £ million</b>
Loans from Diageo Finance plc	-	(2)
	<hr/>	<hr/>

Notes to the financial statements (continued)

8. Taxation

	Year ended 30 June 2005 £ million	Year ended 30 June 2004 £ million
<b>(i) Analysis of taxation (charge)/credit for the year</b>		
<b>Current tax</b>		
UK corporation tax	(24)	-
Overseas corporation tax	1	-
Payment for group relief received	(1)	(32)
Adjustment in respect of prior years	(18)	-
	<hr/>	<hr/>
Total current tax	(42)	(32)
<b>Deferred tax</b>		
UK	3	3
Adjustment in respect of prior years	(14)	(7)
	<hr/>	<hr/>
Total deferred tax	(11)	(4)
	<hr/>	<hr/>
Taxation on profit on ordinary activities	(53)	(36)
	<hr/>	<hr/>
<b>(ii) Factors affecting current tax charge for the year</b>		
Profit on ordinary activities before taxation	299	128
	<hr/>	<hr/>
Taxation on profit on ordinary activities at UK corporation tax rate of 30% (2004 - 30%)	(90)	(39)
Expenses not deductible for tax purposes	-	(3)
Items not chargeable for tax purposes	29	13
Group relief received for nil consideration	56	-
Adjustment in respect of prior years	(32)	-
Other permanent differences	(3)	-
Other timing differences	(3)	(3)
Overseas taxation	1	-
	<hr/>	<hr/>
Current ordinary tax charge for the year	(42)	(32)
	<hr/>	<hr/>

Notes to the financial statements (continued)

9. Dividends

	Year ended 30 June 2005 £ million	Year ended 30 June 2004 £ million
Equity shares:		
Final dividend proposed	267	-

10. Fixed assets – Intangible assets

	£ million
<b>Cost</b>	
At 30 June 2004	-
Additions	95
<b>At 30 June 2005</b>	<b>95</b>
<b>Amortisation</b>	
At 30 June 2004	-
Provided during the year	-
<b>At 30 June 2005</b>	<b>-</b>
<b>Net book value</b>	
<b>At 30 June 2005</b>	<b>95</b>
At 30 June 2004	-

During the period the company acquired the world-wide rights to the Captain Morgan brand (excluding rights in Canada and the USA).

Notes to the financial statements (continued)

11. 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
<b>Cost</b>					
At 30 June 2004	93	225	112	16	446
Additions	2	5	2	11	20
Disposals	-	(57)	(4)	(2)	(63)
Transfers	1	18	(5)	(14)	-
<b>At 30 June 2005</b>	<b>96</b>	<b>191</b>	<b>105</b>	<b>11</b>	<b>403</b>
<b>Depreciation</b>					
At 30 June 2004	25	115	48	-	188
Provided during the year	3	24	7	-	34
Disposals	-	(31)	(5)	-	(36)
Transfers	-	4	(4)	-	-
<b>At 30 June 2005</b>	<b>28</b>	<b>112</b>	<b>46</b>	<b>-</b>	<b>186</b>
<b>Net book value</b>					
At 30 June 2005	<b>68</b>	<b>79</b>	<b>59</b>	<b>11</b>	<b>217</b>
At 30 June 2004	68	110	64	16	258

	30 June 2005 £ million	30 June 2004 £ million
Freehold	67	67
Long leasehold	1	1
	<b>68</b>	<b>68</b>

Included within the net book value of freehold properties is £4 million (2004 - £4 million) in respect of land on which no depreciation is charged.

## Notes to the financial statements (continued)

### 12. Fixed assets – investments

	Subsidiary undertakings £ million
<b>Cost</b>	
At 30 June 2004	492
Additions	51
Disposals	(162)
	<hr/>
<b>At 30 June 2005</b>	<b>381</b>
	<hr/>
<b>Provisions</b>	
At beginning and end of year	91
	<hr/>
<b>Net book value</b>	
<b>At 30 June 2005</b>	<b>290</b>
	<hr/>
At 30 June 2004	401
	<hr/>

On 1 July 2004 and 5 July 2004, the company was involved in a series of transactions whereby it surrendered its shares in Guinness UDV Canada IV Inc. and obtained a 100% interest in Captain Morgan (Bermuda) Limited. This entity was later liquidated during the current year.

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

	Country of incorporation	Principal activity	Percentage and class of shares held
Diageo Distilling Limited	Scotland	Distillers of scotch whisky	100% ordinary shares
Diageo Australia Limited	Australia	Bottlers and marketers of spirits	100% ordinary shares 100% redeemable participating preference shares
Diageo Hungary Trading Limited	Hungary	Import and distribution of spirits	100% ordinary shares

The investments in subsidiary 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)

### 12. Fixed assets – investments (continued)

Certain undertakings have been omitted from the list 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.

### 13. Stocks

	30 June 2005 £ million	30 June 2004 £ million
Raw materials and consumables	15	12
Work in progress	2	-
Maturing whisky	1,117	1,103
Finished goods and goods for resale	39	40
	<hr/>	<hr/>
	1,173	1,155
	<hr/>	<hr/>

### 14. Debtors

	30 June 2005 £ million	30 June 2004 £ million
Trade debtors	28	56
Amounts owed by fellow group undertakings	2,552	2,303
Other debtors	12	20
Other prepayments and accrued income	4	3
Corporation tax recoverable	-	17
	<hr/>	<hr/>
	2,596	2,399
	<hr/>	<hr/>

All amounts fall due within one year.

### 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.

Notes to the financial statements (continued)

16. Creditors - due within one year

	30 June 2005 £ million	30 June 2004 £ million
Overdrafts	8	2
Trade creditors	40	40
Amounts owed to fellow group undertakings	3,146	2,975
Other taxation including social security	1	8
Other creditors	23	12
Accruals and deferred income	73	100
Corporation tax	25	-
	<u>3,316</u>	<u>3,137</u>

17. Provisions for liabilities and charges

	Integration provision £ million	Restructuring provision £ million	Deferred taxation £ million	Total £ million
At 30 June 2004	12	7	30	49
Profit and loss account	(1)	(4)	11	6
Transfer to creditors	(3)	-	-	(3)
Utilised	(2)	-	-	(2)
At 30 June 2005	<u>6</u>	<u>3</u>	<u>41</u>	<u>50</u>

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

Restructuring provisions of £3 million are in respect of redundancy costs arising from the restructuring of the company's malt distillation and coopering sites. These provisions will predominantly be utilised within the next year.



## Notes to the financial statements (continued)

### 17. Provisions for liabilities and charges (continued)

#### Deferred taxation

	30 June 2005 £ million	30 June 2004 £ million
Accelerated depreciation	48	40
Other timing differences	(7)	(10)
	<hr/>	<hr/>
Deferred tax provision	41	30
	<hr/>	<hr/>

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.

### 18. Share capital

	30 June 2005 £ million	30 June 2004 £ million
<i>Authorised:</i>		
Equity - 400,000,000 ordinary shares of 50p each	200	200
	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>		
Equity - 363,169,546 ordinary shares of 50p each	182	182
	<hr/>	<hr/>

### 19. Reserves

	Profit and loss account £ million
At 30 June 2004	846
Retained loss for year	(21)
	<hr/>
At 30 June 2005	825
	<hr/>

## Notes to the financial statements (continued)

### 20. Reconciliation of movement in shareholders' funds

	30 June 2005 £ million	30 June 2004 £ million
Profit for the financial year	246	92
Ordinary dividends	(267)	-
<b>Net (reduction)/addition to shareholders' funds</b>	<b>(21)</b>	<b>92</b>
Shareholders' funds at beginning of year	1,028	936
<b>Shareholders' funds at end of year</b>	<b>1,007</b>	<b>1,028</b>

### 21. Commitments

At 30 June 2005 the company had minimum annual commitments under non-cancellable operating leases as follows:

	30 June 2005			30 June 2004		
	Land and buildings	Other	Total	Land and buildings	Other	Total
	£ million	£ million	£ million	£ million	£ million	£ million
<b>Annual payments under leases expiring:</b>						
After five years	1	-	1	1	-	1
From one to five years	-	1	1	-	1	1
	<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 £6 million (2004 - £4 million).

### 22. Contingent liabilities

Guarantees are in place amounting to £nil (2004 - £5 million) relating to duty payable to HM Customs and Excise on spirit in bonded warehouse and duty on imported spirits.

**Notes to the financial statements (continued)**

**23. Immediate and ultimate parent undertaking**

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

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