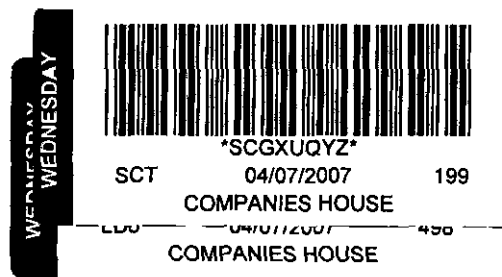


Diageo Scotland Limited

Financial statements 30 June 2006

Registered number SC00075



Directors' report

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2006

Activities

The company's principal activities are the production of Scotch whisky and other spirits and their onward sale to fellow group undertakings and third parties. The directors foresee no changes in the company's activities

Business Review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2006

The development and performance of the principal activities of the company were, for the year ended 30 June 2006, predominantly dependent on the respective demands of the Diageo subsidiaries with whom it trades

In support of the company's principal activities, the company performs a stock holding function. This is also provided to other Diageo group companies. Stock is purchased and charged to Diageo subsidiaries at cost plus foreign exchange charges. In addition, a financing charge is made for holding the stock

Principal risks and uncertainties facing the company as at 30 June 2006

The principal risks and uncertainties facing the company, as a member of the Diageo group, coincide with those facing the group as a whole. These are contained within the annual report of Diageo plc

In so far as the company is concerned, both the principal and support activities are predominantly with fellow members of the Diageo group. Therefore, the risk of non performance by counterparties to transactions with the company is considered remote

Financial and other key performance indicators

The directors do not consider that analysis using key performance indicators is necessary (or appropriate) for an understanding of the development, performance or position of the business of the company, or that there are any factors by reference to which any meaningful analysis of the development, performance or position of the business of the company can be carried out

The principal key performance indicators that are used to assess the performance of the Diageo group as a whole are described in the Operating and Financial Review contained within the annual report of Diageo plc

Notes

The information in this review has been prepared only for the purpose of complying with the requirements of section 417 of the Companies Act 2006. The information in this review does not constitute an offer to sell or an invitation to buy shares in the company (or any other company within the Diageo group) or constitute any other invitation or inducement to engage in investment activities. Any reader seeking information on the business and/or results of the Diageo group is directed to the annual

Directors' report (continued)

report of Diageo plc (the company's ultimate parent undertaking) Past performance cannot be relied upon as a guide to future performance

Financial

The results for the year ended 30 June 2006 are shown on page 8

A dividend of £267 million (2005 £nil) was paid during the year The profit for the year transferred to reserves is £303 million (2005 £162 million)

Directors

The directors who held office during the year were as follows

S M Bunn
C D Coase
B H Donaghey (appointed 26 May 2006)
M C Flynn
P M Heade (appointed 26 May 2006)
R J Joy
M J Lester
N Makos (appointed 26 May 2006)
C R R Marsh (appointed 26 May 2006)
P S Walsh (resigned 9 March 2006)

MJ Lester resigned as a director of the company on 31 August 2006

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 28 ¹⁰¹/₁₀₈ p each in the ultimate parent company, Diageo plc

Directors' report (continued)

Directors' interests (continued)

(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	128	132					
C D Coase	14,207	15,000		23,380			23,380
B H Donaghey	6,205	6,224					
M C Flynn	11,743	12,377					
P M Heade	2,263	2,273					
R J Joy	48,283	54,202	22,784	9,443	(3,296)	(4,797)	24,134
M J Lester	26,306	28,852	30,790	8,361	(3,521)		35,630
N Makos							
C R R Marsh	984	1,067					

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	52,,437	12,420	(19,033)		45,824
C D Coase	141,269	16,366	(18,550)		139,085
B H Donaghey	45,338				45,338
M C Flynn	17,991	3,037	(3,608)		17,420
P M Heade	15,899				15,899
R J Joy	182,507	20,553	(3,341)		199,719
M J Lester	113,567	17,693	(55,550)		75,710
N Makos	13,463				13,463
C R R Marsh	10,004				10,004

Directors' report (continued)

Directors' interests (continued)

The directors held the above options under Diageo plc share option schemes at prices between 518p and 815p per ordinary share exercisable between 2006 and 2015. Certain options granted in the Republic of Ireland were granted at a price of Euros 7.37 per ordinary share. Further options, under the Diageo International Sharesave plan, were granted at a price of Euros 7.45 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.

The mid market share price of Diageo plc shares fluctuated between 778p and 928p during the year. The mid market share price on 30 June 2006 was 917p.

At 30 June 2006, all the directors had an interest in 17,791,320 shares and 8,045,000 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes. R. J. Joy and M. J. Lester each had a further interest in 6,460,442 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. 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.

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.

Directors' report (continued)

Employee involvement (continued)

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.

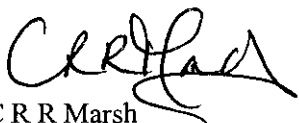
The number of days' purchases included in creditors as at 30 June 2006, in respect of the company, is 18 days (2005: 19 days).

Auditor

The company has taken advantage of Section 386(1) of the Companies Act 1985, as amended, to dispense with the obligation to appoint an auditor annually. The auditor, KPMG Audit Plc, is willing to continue in office and will be deemed to be reappointed on the expiry of its term in office in respect of the year ended 30 June 2006.

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



C R R Marsh
Director

Edinburgh Park
5 Lochside Way
Edinburgh EH12 9DT

28 June 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the 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)

The financial statements are required by law to 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. 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 Scotland Limited

We have audited the financial statements of Diageo Scotland Limited for the year ended 30 June 2006, which comprise the Profit and Loss account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition, we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

28 June 2007.

Profit and loss account

	<i>Notes</i>	Year ended 30 June 2006 £ million	Year ended 30 June 2005 £ million (Restated)
Turnover	<i>2</i>	727	725
Operating costs	<i>3 5</i>	(541)	(510)
		<hr/>	<hr/>
Operating profit		186	215
Income from shares in group undertakings	<i>6</i>	103	
Interest receivable and similar income	<i>7</i>	6	
		<hr/>	<hr/>
Profit on ordinary activities before taxation		295	215
Taxation on profit on ordinary activities	<i>8</i>	8	(53)
		<hr/>	<hr/>
Profit on ordinary activities after taxation and for the financial year		303	162
		<hr/>	<hr/>

Statement of total recognised gains and losses

	<i>Notes</i>	Year ended 30 June 2006 £ million	Year ended 30 June 2005 £ million (Restated)
Profit for the financial year and total recognised gains and losses for the year		303	162
Prior year adjustments	<i>1</i>	(20)	
		<hr/>	
Total recognised gains and losses recognised since last financial statements		283	162
		<hr/>	

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

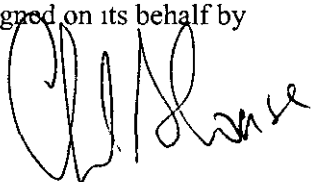
All results arise from continuing operations

Balance sheet

	Notes	30 June 2006 £ million	30 June 2005 £ million
Fixed assets			(Restated)
Intangible assets	10	95	95
Tangible assets	11	217	217
Investments	12	290	290
		<u>602</u>	<u>602</u>
Current assets			
Stocks	13	1,200	1,207
Debtors due within one year	14	2,657	2,647
Cash at bank and in hand	15	1	2
		<u>3,858</u>	<u>3,856</u>
Creditors due within one year	16	<u>(3,118)</u>	<u>(3,154)</u>
Net current assets		<u>740</u>	<u>702</u>
Total assets less current liabilities		<u>1,342</u>	<u>1,304</u>
Provisions for liabilities and charges	17	<u>(52)</u>	<u>(50)</u>
Net assets		<u>1,290</u>	<u>1,254</u>
Capital and reserves			
Called up share capital	18	182	182
Profit and loss account	19	1,108	1,072
Equity shareholders' funds		<u>1,290</u>	<u>1,254</u>

These financial statements on pages 8 to 27 were approved by the board of directors on 28 June 2007 and were signed on its behalf by

C D Coase
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 unless described otherwise within 'New accounting policies' below

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 and presented as an intangible fixed asset

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 plans which are defined benefit schemes.

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. New accounting policies

The company has adopted the following accounting standards in the year

FRS 21 – Events after the balance sheet date

Formerly, under UK GAAP, the proposed dividends on ordinary shares, as recommended by the directors, were deducted from shareholders' equity and shown as a liability in the balance sheet at the end of the period to which they related. Under FRS 21, proposed dividends are not considered to be a liability until the board approves them and dividends receivable are only recognised as income in the period in which the paying company declares them. Accordingly, the amounts transferred to reserves for the year ended 30 June 2005 and the net assets at 30 June 2005 have been restated. The net effect of the restatement is to increase shareholders' funds as at 30 June 2005 in respect of dividends payable in respect of the year then ended but not approved at that date (£267 million), offset by a reduction in the shareholders funds in respect of dividends receivable in respect of the year then ended but not declared by the paying company until after the balance sheet date (£100 million).

FRS 25 – Financial Instruments: Disclosure and Presentation

The company has adopted the presentational requirements of FRS 25 in these financial statements. The presentational requirements apply to the classification of financial instruments into financial assets, financial liabilities or equity instruments, the classification of related interest, dividend, gains and losses, and the circumstances around which financial assets and liabilities should be offset. The adoption of these requirements has not resulted in the restatement of the information in respect of the year ended 30 June 2005, nor has it impacted the results in respect of the year ended 30 June 2006. Note that the company has not adopted the disclosure requirements of FRS 25 in these financial statements.

FRS 28 – Corresponding amounts

FRS 28 sets out the requirements for the disclosure of corresponding amounts for items disclosed in a company's primary financial statements and the notes to the financial statements.

Prior year adjustments

As more fully described above, on the adoption of FRS 21, the company has derecognised dividends receivable of £100 million and dividends payable of £267 million as at 30 June 2005 (£nil and £nil respectively at 30 June 2004), increasing net assets at that date by £167 million.

The company has recognised two further prior year adjustments.

The first adjustment results from the failure to invoice certain costs for the production of whisky on behalf of a fellow subsidiary of Diageo plc for a period of 5 years, resulting in turnover relating to prior years being understated by £51 million (resulting in an equivalent understatement of inter company

receivables) It was separately identified that raw materials and consumables costs had been overstated by £34 million (resulting in an equivalent understatement of maturing stock) Of these errors, £11 million and £5 million relate to the year ended 30 June 2005 (in respect of turnover and raw materials and consumables respectively) with the remainder relating to years ended 30 June 2004 and earlier The previously reported profit for the year ended 30 June 2005 has been increased by £16 million as a result of these two corrections and the net assets at 30 June 2005 and 30 June 2004 have been increased by £80 million and £64 million (net of the impact of taxation of £5 million) respectively

The company has also revised the presentation of certain transactions in the financial statements, although these presentational amendments have no impact on retained profit of previous periods or the net assets at previous period ends During the year, the company has reconsidered its interpretation of Application Note G of FRS 5 "Reporting the substance of transactions Revenue recognition" (the "Application Note") in respect of the storage of stock on behalf of group companies where the agent or principal guidelines of the Application Note require a net presentation in the financial statements Having reviewed the underlying commercial arrangements, the presentation in the financial statements has been revised to that of the company acting as an agent The previously reported turnover and associated raw materials cost for the year ended 30 June 2005 have both been reduced by £107 million Additionally, the company has corrected the presentation of certain transactions made between business units of the company which were not previously eliminated in the preparation of the financial statements and resulted in turnover and cost of sales reported in respect of the year ended 30 June 2005 being over stated by £62 million There is no impact on previously reported operating profit, profit before tax or net assets as a result of these presentational changes

The aggregate effect of the above adjustments on the previously reported turnover and profit for the year ended 30 June 2005 is to reduce turnover from £883m to £725m and reduce a profit of £240m to a profit of £162m respectively The previously reported net assets for the years ended 30 June 2005 and 2004 have been increased from £1,007m and £1,028m respectively to net assets of £1,254m and £1,092m respectively

2. 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 2006 £ million	Year ended 30 June 2005 £ million (Restated)
Europe	549	580
North America	116	95
Asia Pacific	50	22
Rest of world	12	28
	<hr/>	<hr/>
	727	725
	<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 £565 million (2005 £528 million)

Notes to the financial statements (continued)

3. Operating costs

	Year ended 30 June 2006 £ million	Year ended 30 June 2005 £ million (Restated)
Decrease/(increase) in stocks of finished goods and work in progress	1	(18)
Other operating income (a)	(19)	(31)
Raw materials and consumables	342	377
Advertising, marketing and promotion costs	41	29
Other external charges (b)	62	50
Staff costs (note 4)	89	67
Depreciation and other amounts written off fixed assets	23	34
Restructuring costs	2	2
	<hr/>	<hr/>
	541	510
	<hr/>	<hr/>

(a) **Other operating income** includes intercompany management income of £12 million (2005 £13 million), foreign exchange gain of £3 million (2005 £7 million), profit on disposal of assets of £nil million (2005 £6 million)

(b) **Other external charges** include operating lease rentals for land and buildings of £1 million (2005 £2 million), operating lease rentals for plant and machinery of £nil (2005 £nil), other lease rentals of £1 million (2005 £1 million)

Fees in respect of services provided by the auditor were statutory audit £168,252 (2005 £160,240), other non audit work £nil (2005 £124,000)

Notes to the financial statements (continued)

4. Staff costs

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

	Year ended 30 June 2006	Year ended 30 June 2005
Full time	2,695	2,498
Part time	4	7
	<hr/>	<hr/>
	2,699	2,505
	<hr/>	<hr/>

The aggregate remuneration of all employees comprised

	Year ended 30 June 2006 £ million	Year ended 30 June 2005 £ million
Wages and salaries	64	55
Employer's social security costs	6	5
Employer's pension costs	14	1
Other employment costs	5	6
	<hr/>	<hr/>
	89	67
	<hr/>	<hr/>

Retirement benefits

The employees of the company are members of the Diageo UK pension plan, which is a defined benefit scheme

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 company made cash contributions of £14 million to the scheme in respect of its employees in the year ended 30 June 2006 (2005 – £1 million)

The assets and liabilities of the Diageo UK pension plan and related disclosures are contained in Diageo plc's annual report for the year ended 30 June 2006, however, the balances referred to are not all attributable to the company

Notes to the financial statements (continued)

5. Directors' emoluments

	Year ended 30 June 2006 £ 000	Year ended 30 June 2005 £ 000
Emoluments (excluding pension contributions)	371	279

The aggregate emoluments of the highest paid director were £263,127 (2005 £167,252). The highest paid director is a member of a defined benefit scheme, under which his accrued annual pension at the year end was £37,592 (2005 £37,592). The lump sum equivalent of the highest paid director's pension entitlement at the year end was £292,067 (2005 £254,475).

All of the directors are members of the Diageo UK pension funds, which are defined benefit schemes.

Details of the directors' share interests and any share options exercised during the year are included within the directors' report on pages 3 and 4.

6. Income from fixed asset investments

	Year ended 30 June 2006 £ million	Year ended 30 June 2005 £ million (Restated)
Income from shares in group undertakings	103	

7. Interest receivable and similar income

	Year ended 30 June 2006 £ million	Year ended 30 June 2005 £ million
Bank interest	6	

Notes to the financial statements (continued)

8. Taxation

	Year ended 30 June 2006 £ million	Year ended 30 June 2005 £ million
(i) Analysis of taxation (charge)/credit for the year		
Current tax		
UK corporation tax		(24)
Overseas corporation tax		1
Payment for group relief received	(2)	(1)
Adjustment in respect of prior years	16	(18)
	<hr/>	<hr/>
Total current tax credit/(charge)	14	(42)
Deferred tax		
UK		3
Adjustment in respect of prior years	(6)	(14)
	<hr/>	<hr/>
Total deferred tax	(6)	(11)
	<hr/>	<hr/>
Taxation on profit on ordinary activities	8	(53)
	<hr/>	<hr/>
	Year ended 30 June 2006 £ million	Year ended 30 June 2005 £ million (Restated)
(ii) Factors affecting current tax charge for the year		
Profit on ordinary activities before taxation	295	215
	<hr/>	<hr/>
Taxation on profit on ordinary activities at UK corporation tax rate of 30% (2004 30%)	(89)	(64)
Items not chargeable/(deductible) for tax purposes	31	
Group relief received for nil consideration	57	56
Adjustment in respect of prior years	16	(32)
Expenses not deductible for tax purposes	(1)	
Other timing differences		(3)
Overseas taxation		1
	<hr/>	<hr/>
Current ordinary tax credit/(charge) for the year	14	(42)
	<hr/>	<hr/>

Notes to the financial statements (continued)

9. Dividends

	Year ended 30 June 2006 £ million	Year ended 30 June 2005 £ million (Restated)
Equity shares		
Final dividend in respect of 2005 paid	267	

10. Fixed assets – Intangible assets

	£ million
Cost	
At 30 June 2005	95
Additions	
At 30 June 2006	95
Amortisation	
At 30 June 2005	
Provided during the year	
At 30 June 2006	
Net book value	
At 30 June 2006	95
At 30 June 2005	95

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
Cost					
At 30 June 2005	96	191	105	11	403
Additions	1	10	6	10	27
Disposals		(25)	(1)	(3)	(29)
Transfers		5	2	(7)	
At 30 June 2006	97	181	112	11	401
Depreciation					
At 30 June 2005	28	112	46		186
Provided during the year	3	13	7		23
Disposals		(25)			(25)
At 30 June 2006	31	100	53		184
Net book value					
At 30 June 2006	66	81	59	11	217
At 30 June 2005	68	79	59	11	217

	30 June 2006 £ million	30 June 2005 £ million
Freehold	65	67
Long leasehold	1	1
	66	68

Included within the net book value of freehold properties is £4 million (2005 £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
Cost	
At 30 June 2005	328
Additions	
Disposals	
At 30 June 2006	328
Provisions	
At beginning and end of year	38
Net book value	
At 30 June 2006	290
At 30 June 2005	290

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

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

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.

Notes to the financial statements (continued)

13. Stocks

	30 June 2006 £ million	30 June 2005 £ million (Restated)
Raw materials and consumables	9	15
Work in progress	2	2
Maturing whisky	1,162	1,151
Finished goods and goods for resale	27	39
	<hr/>	<hr/>
	1,200	1,207
	<hr/>	<hr/>

14. Debtors

	30 June 2006 £ million	30 June 2005 £ million (Restated)
Trade debtors	38	28
Amounts owed by fellow group undertakings	2,598	2,603
Other debtors	20	12
Other prepayments and accrued income	1	4
	<hr/>	<hr/>
	2,657	2,647
	<hr/>	<hr/>

Included in amounts owed by fellow group undertakings is a debtor for £51 million, which falls due after one year. All other 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 2006 £ million	30 June 2005 £ million (Restated)
Overdrafts	3	8
Trade creditors	38	40
Amounts owed to fellow group undertakings	3,001	2,979
Other taxation including social security	6	1
Other creditors	2	23
Accruals and deferred income	59	73
Corporation tax	9	30
	<hr/>	<hr/>
	3,118	3,154
	<hr/>	<hr/>

17. Provisions for liabilities and charges

	Restructuring provision £ million	Deferred taxation £ million	Total £ million
At 30 June 2005	9	41	50
Profit and loss account	(2)	5	3
Utilised	(1)		(1)
	<hr/>	<hr/>	<hr/>
At 30 June 2006	6	46	52
	<hr/>	<hr/>	<hr/>

Notes to the financial statements (continued)

17. Provisions for liabilities and charges (continued)

Deferred taxation

	30 June 2006 £ million	30 June 2005 £ million
Accelerated depreciation	48	48
Other timing differences	(2)	(7)
	<hr/>	<hr/>
Deferred tax provision	46	41
	<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 2006 £ million	30 June 2005 £ 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/>

Notes to the financial statements (continued)

19. Reserves

	Profit and loss account £ million
At 30 June 2005 (Restated)	1,072
Profit for the financial year	303
Dividends paid	(267)
	<hr/>
At 30 June 2006	1,108
	<hr/>

The profit and loss account balance at 30 June 2005 has been restated from £825 million reported in the company's financial statements for the year ended 30 June 2005 to reflect the reversal of dividends payable and receivable following the implementation of FRS 21 (increasing and reducing the balance in the profit and loss account by £267 million and £100 million respectively) and to reflect £80 million additional net increase relating to prior years, as explained in Note 1

20. Reconciliation of movement in shareholders' funds

	30 June 2006 £ million	30 June 2005 £ million (Restated)
Profit for the financial year	303	162
Dividends paid	(267)	
	<hr/>	<hr/>
Net addition to shareholders' funds	36	162
Shareholders' funds at beginning of year [originally £1,028m (2005 £936m) before prior year adjustments]	1,254	1,092
	<hr/>	<hr/>
Shareholders' funds at end of year	1,290	1,254
	<hr/>	<hr/>

Notes to the financial statements (continued)

21. Commitments

At 30 June 2006 the company had minimum annual commitments under non cancellable operating leases as follows

	30 June 2006			30 June 2005		
	Land and buildings	Other	Total	Land and buildings	Other	Total
	£ million	£ million	£ million	£ million	£ million	£ million
Annual payments under leases expiring:						
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 £4 million (2005 £6 million)

Subsequent to the year end the company has entered into revenue purchase commitments totaling £232 million

22. 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