

Diageo Scotland Limited
Annual report and financial statements
30 June 2019

Registered number: SC000750



Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

CONTENTS

| | |
|---|---------|
| STRATEGIC REPORT | 2 - 6 |
| DIRECTORS' REPORT | 7 - 9 |
| STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS | 10 |
| INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIAGEO SCOTLAND LIMITED | 11 - 12 |
| INCOME STATEMENT | 13 |
| STATEMENT OF COMPREHENSIVE INCOME | 14 |
| BALANCE SHEET | 15 |
| STATEMENT OF CHANGES IN EQUITY | 16 |
| NOTES TO THE FINANCIAL STATEMENTS | 17 - 47 |

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

STRATEGIC REPORT

The directors present their strategic report for the year ended 30 June 2019.

Activities

The company's principal activities are the distillation, warehousing, maturation, bottling and packaging of Scotch whisky and other spirits and distribution to fellow group undertakings and third parties. The company performs manufacturing services on behalf of a number of Diageo brand owning companies.

In addition to production activities the company is also the brand owner of Bell's, Cardhu, the Classic Malt whiskies and other malt whiskies and owns the worldwide distribution rights for the Captain Morgan brand (excluding Canada and the United States of America).

The company manages and controls Diageo's Global Travel Business, and distributes, markets, imports and sells spirits and beer in travel retail outlets throughout the world.

In addition to the above activities, the company performs a number of support services for other group companies. These services are principally in respect of the Diageo Brand Technical Centre, which provides risk management, technical support, innovation and engineering services to Diageo brand owners.

Business review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2019

For the year ended 30 June 2019, the development, performance and principal activities of the company were dominantly dependent on the requirements of the Diageo subsidiaries with whom it trades.

The company entered into option agreements with Lakeside MWS Limited Liability Partnership ("Lakeside"), a fellow group undertaking, in 2010. Through this undertaking, the company was granted a put option to require Lakeside to purchase maturing spirit from the company and a call option to enable it to repurchase the maturing spirit from Lakeside at any point in time. During the year, the company paid a premium of £49 million (2018 - £50 million) as consideration for call and put options to repurchase and sell maturing spirit. This amount is included in finance charges.

Financial and other key performance indicators

The principal key performance indicators used by the company's management to analyse the development, performance and position of the company's business are generally the same as those disclosed in the consolidated financial statements of Diageo plc. The directors consider key performance indicators to measure the performance of the company, such as net sales and operating profit. Other financial performance indicators (including contribution to the free cash flow initiatives of the group) and non-financial performance indicators used to measure the company's performance are the same as those disclosed in Diageo plc's 2019 Annual Report on pages 12 and 13.

The company's principal key performance indicators are analysed below for the year ended 30 June 2019.

The principal reason for the 8 % increase in turnover of £120 million was driven by the successful launch of the "Game of Thrones Single Malt Scotch Whisky Collection" and "White Walker by Johnnie Walker". The limited editions contributed to a significant increase in Single Malts and Johnnie Walker turnover.

Maturing spirit inventories increased by £193 million from £2,991 million to £3,184 million in order to satisfy future anticipated demand.

STRATEGIC REPORT (continued)

Business review (continued)

Principal risks and uncertainties facing the company as at 30 June 2019

The company believes the following to be the principal risks and uncertainties it faces. If any of these risks occur, the company's business, financial condition and operational results could suffer. As the company forms part of the group's financial operations, the financial risk management measures used to analyse the development, performance and position of the company's business are similar to those used by the group as a whole and are managed by the group's treasury department.

The company's operating results may be adversely affected by disruption to production facilities and by the loss of maturing spirit and the quantity of maturing spirit laid down

The company would be affected if there were industrial actions or catastrophic failure of its major production facilities and warehouses. If there was a technical integrity failure, fire or explosion at one of the company's production facilities, it could result in damage to the facilities, plant or equipment, their surroundings or the environment, which could lead to a loss in production capacity, or could result in regulatory action, legal liability or damage to the company's reputation.

The company has a substantial inventory of aged product categories, principally Scotch whisky, which generally mature over 7 years but whose maturation period may be up to 30 years or more. The loss through contamination, fire or other natural disaster of all or a portion of the inventory of any one of those aged product categories could result in a significant reduction in supply of those products. Consequently, the company would not be able to meet consumer demand for those products as it arises. There can be no assurance that insurance proceeds would cover the replacement value of the company's maturing spirit or other assets, were such assets to be lost due to contamination, fire or natural disasters or destruction resulting from negligence or the acts of third parties. In addition, in relation to the company's own brands, there is an inherent risk of forecasting error in determining the quantity of maturing spirit to lay down in a given year for future consumption. This could lead to an inability to meet future demand or lead to a future surplus of inventories and consequent write down in value of maturing spirit. This risk is unaffected by the arrangement with Lakeside as the company remains the beneficial owner of the maturing spirit sold, and therefore continues to bear all the risks and rewards of ownership of that inventory.

Brexit

There continues to be uncertainty with respect to the process surrounding the United Kingdom's proposed exit from the European Union (EU) (Brexit), and in relation to the political environment, more generally, in the United Kingdom. The company continues to believe that, in the event of either a negotiated exit or no-deal scenario, the direct financial impact to the company will not be material. In the EU, it is expected that the vast majority of the finished case goods will continue to be trade tariff free, with no change to existing tariffs in either scenario. There remains uncertainty in relation to future trading arrangements between the United Kingdom and the rest of the world where the company currently relies on a number of existing EU Free Trade Agreements (FTAs) with third party countries. However, more recently, a number of countries have agreed to continue trading with the UK on the same terms in the event of a 'no deal' outcome. If the United Kingdom Government is unable to renew all of the existing FTAs, trading would revert to World Trade Organisation rules.

The company has mitigation plans in place to minimise any short-term disruption that could arise from a no-deal scenario. The company has further considered the principal impact to its supply chain of a no-deal scenario. This risk has been assessed as limited and the directors believe the company has appropriate inventory levels in place to mitigate this risk.

STRATEGIC REPORT (continued)

Business review (continued)

Principal risks and uncertainties facing the company as at 30 June 2019 (continued)

Brexit (continued)

The full implications of Brexit will not be understood until future tariffs, trade, regulatory, tax, and other free trade agreements to be entered into by the United Kingdom are established. Furthermore, there might be changes to laws and regulations post Brexit, in areas such as intellectual property rights, employment, environment, supply chain logistics, data protection, and health and safety.

A cross-functional working group is in place that meets on a regular basis to identify and assess the potential consequences of Brexit, with all major functions within the company's business represented. The company continues to monitor this area of risk very closely, as well as the broader environment risks, including a continued focus on identifying critical decision points to ensure any potential disruption is minimised, and on taking prudent actions to mitigate these risks wherever practical.

The company faces competition that may reduce its market share and margins

The company is dependent on the requirements of its fellow subsidiary undertakings throughout the world. These companies only require whisky when there is a demand from third party customers. The fellow subsidiary companies face substantial competition from several international companies as well as local and regional companies in the countries in which they operate. Increased competition and unanticipated actions by competitors or customers could lead to downward pressure on prices and/or a decline in the company's market share in any of these categories which would adversely affect the company's results and hinder its growth potential.

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

The brands which the company produces and distributes include some of the world's leading beverage alcohol brands. Maintaining the company's competitive position depends on its continued ability to offer products that have a strong appeal to consumers. Consumer preferences may shift due to a variety of factors including changes in demographic and social trends, public health regulations, holiday or leisure activity patterns, weather effects and a downturn in economic conditions, which may reduce consumers' willingness to purchase premium branded products. In addition, potential concerns about health effects due to negative publicity regarding alcohol consumption, negative dietary effects, regulatory action or any litigation or customer complaints against companies in the industry may have an adverse effect on the company's profitability.

Any significant changes in consumer preferences and failure to anticipate and react to such changes could result in reduced demand for the company's products and erosion of its competitive and financial position. Continued economic pressures could lead to consumer selection of products at lower price points, whether the company's or those of competitors, which may have an adverse effect on the company's profitability.

An increase in the cost of raw materials or energy could affect the company's profitability in relation to its own brands

Price changes could result in unexpected increases in the cost of raw materials, glass bottles and other packaging materials and the company's beverage products. The company could also be adversely affected by shortages of packaging materials. In addition, energy cost increases would result in higher transportation, freight and other operating costs. The company may not be able to increase its prices to offset these increased costs without suffering reduced volume, sales and operating profit. The company could experience significant increases in energy costs.

STRATEGIC REPORT (continued)

Business review (continued)

Principal risks and uncertainties facing the company as at 30 June 2019 (continued)

The company's operations and financial results may be adversely affected by movements in the value of the Diageo UK pension funds

Many current and former employees of the company are members of the Diageo UK pension funds. These funds may be affected by, among other things, the performance of assets owned by these plans, the underlying actuarial assumptions used to calculate the surplus or deficit in the plans, in particular the discount rate and long-term inflation rates used to calculate the liabilities of the pension funds, and any changes in applicable laws and regulations. If there are significant declines in financial markets and/or a deterioration in the value of fund assets or changes in discount rates or inflation rates, the company may need to make additional contributions to the pension funds in the future.

As these pension plans are treated as defined contribution schemes in the company's financial statements, these contributions are accounted for as a cost to the income statement and may adversely affect the company's financial results.

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

The company's operations are subject to extensive regulatory requirements, which include those in respect of production, product liability, distribution, marketing, promotion, labelling, advertising, labour, pensions, excise tax and environmental issues. Changes in laws, regulations or governmental policy could cause the company to incur material additional costs or liabilities that could adversely affect its business.

Changes in tax law (including tax rates), accounting policies and accounting standards could materially reduce the company's reported profit after tax.

A breach of data privacy laws or regulations could harm the trust and/or reputation of the company, its brands or people and could significantly restrict the company's ability to deliver its digital productivity and growth plans. It may also result in a financial penalty as well.

The company's operations, financial results and reputation may be adversely affected by the theft, loss and misappropriation of the company's most important digital assets

Cyber-attacks or incidents could result in financial loss, operational disruption and reputational damage. The company could also be adversely affected by non-compliance with statutory data protection legislation.

Financial risk management

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

Currency risk

The company publishes its financial statements in sterling and conducts some of its business in foreign currencies. As a result, it is subject to foreign currency risk due to exchange rate movements, which will affect the company's transactions. To manage the currency risk the company uses certain financial instruments. Where hedge accounting is applied, hedges are documented and tested for effectiveness on an ongoing basis.

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

STRATEGIC REPORT (continued)

Business review (continued)

Financial risk management (continued)

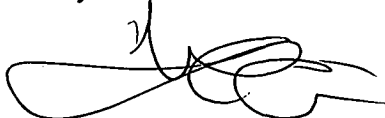
Liquidity risk

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

Credit risk

The company's credit risk is primarily attributable to fellow subsidiary undertakings. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The company sets credit limits for, and monitors, its credit exposure to its counterparties via their credit ratings (where applicable).

By order of the board



G Zeisler
Director
Edinburgh Park
5 Lochside Way
Edinburgh
EH12 9DT

16 December 2019

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

DIRECTORS' REPORT

The directors are pleased to submit their annual report, together with the audited financial statements, for the year ended 30 June 2019.

The company is incorporated and domiciled as a private limited company in the United Kingdom. The registered address of the company is Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT.

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the strategic report on pages 2 to 6. The company is expected to continue to generate profit for its own account and to remain in a positive net asset position for the foreseeable future. The company participates in the group's centralised treasury arrangements. The company is not reliant on external third-party financing. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. On the basis of their assessment, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Financial

The result for the year ended 30 June 2019 is shown on page 13.

The profit for the year transferred to reserves was £556 million (2018 - £141 million) and other comprehensive expense for the year was £10 million (2018 - £3 million).

Dividends paid during the year ended 30 June 2019 were £100 million (2018 - £100 million).

Proposed dividend

The directors have proposed a final ordinary dividend in respect of the year ended 30 June 2019 of £180 million. This has not been included as a liability as it was not approved before the balance sheet date.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

G P Crickmore

K J Miller

G Zeisler

J M C Edmunds

K E Major (appointed 1 August 2018 and resigned 24 September 2018)

Y Elliott (appointed 28 September 2018)

S L Fennessy (appointed 28 September 2018)

H Patel (appointed 28 September 2018)

E P Barp (appointed 15 January 2019 and resigned 8 October 2019)

P Belgeri (appointed 8 October 2019)

D Nayager (resigned 31 December 2018)

S J Bolton (resigned 28 September 2018)

D F Harlock (resigned 1 August 2018)

K L Haynes (resigned 10 September 2018)

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

DIRECTORS' REPORT (continued)

Directors' remuneration

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

Employee involvement

The company's goal is to offer an energising work environment, personal growth and recognition and attractive rewards for the performance contribution its people make to the company. Its employee policies are designed to support these goals and to do so in a manner that is fair and equitable to all employees. These policies take account of external legislation, internal codes of conduct, as well as the company's values as an organisation.

Employee engagement is a key element of the company's people strategy. Diageo's values are embedded in the business and guide how all employees operate and behave. An employee engagement survey ('Your Voice'), which measures employee engagement, is conducted every year. This survey provides an annual insight into what employees are thinking and feeling about the business. Your Voice allows the company to assess how the business is tracking against its goal to have highly engaged and inclusive teams that consistently bring Diageo's values to life.

The company is a multi-cultural community operating in an increasingly diverse business world and is committed to active inclusion and diversity practices. The company is also committed to attracting and retaining talented people, by investing in the growth and development of its people, which contributes directly to the performance and results of the business. We want all our employees to feel valued and to make a meaningful contribution to the company's purpose and ambition. In addition and where practical, the company encourages flexible ways of working to enable employees to balance work and life priorities. The company's reward systems continue to recognise employees' contribution to the success of the business and to promote employee engagement.

In April 2019, we equalised parental leave for our employees in the United Kingdom, offering both men and women 52 weeks leave, with the first 26 weeks fully paid. This policy applies regardless of gender, sexual orientation or whether our employees in the United Kingdom become parents via surrogacy or adoption.

The company is also committed to the safety and wellbeing of employees at work. It promotes positive drinking behaviours amongst all its people. We are committed to open and continuous dialogue with employees as a way to inform and engage them in the company's strategy and business goals as well as harnessing their ideas on improving broad areas of business performance. By driving a progressive culture, policies and practices, the company aims to differentiate itself as a leading employer and shape broader positive societal change.

Each senior manager is responsible for delivering against key communication and employee engagement goals. Diageo has an intranet web site from which employees with access to a computer can obtain timely and accurate news and information, and join online conversation groups that are relevant to their role, location and interests.

Directors' indemnity

The Articles of Association permit qualifying third-party indemnities for the directors as defined by Section 234 of the Companies Act 2006. No such indemnity was in force during the last financial year, nor is any currently in force.

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

DIRECTORS' REPORT (continued)

Internal control and risk management over financial reporting

The company operates under the financial reporting processes and controls of the Diageo group. Diageo plc's internal control and risk management systems, including its financial reporting process, which include those of the company, are discussed in the Group's Annual Report 2019 on page 75 at www.diageo.com, which does not form part of this report. Financial risk management is disclosed in the Strategic report.


Auditor

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

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

By order of the board



G Zeisler
Director
Edinburgh Park
5 Lochside Way
Edinburgh
EH12 9DT

16 December 2019

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

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

The directors are also responsible for safeguarding the assets of the company and, as a result for taking reasonable steps to prevent and detect fraud and other irregularities.

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

Independent auditors' report to the members of Diageo Scotland Limited

Report on the audit of the financial statements

Opinion

In our opinion, Diageo Scotland Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2019; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Financial Statements set out on page 10, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow

18 December 2019

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

INCOME STATEMENT

| | Notes | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|--|-------|--|--|
| Turnover | 2 | 1,719 | 1,599 |
| Cost of sales | 3 | <u>(1,077)</u> | <u>(989)</u> |
| Gross profit | | 642 | 610 |
| Marketing expense | 3 | (108) | (106) |
| Other operating expenses | 3 | <u>(64)</u> | <u>(80)</u> |
| Operating profit | | 470 | 424 |
| Gain on sale of property, plant and equipment | | 5 | — |
| Income from shares in group undertakings | 6 | 465 | — |
| Amounts written off investments | 7 | (217) | — |
| Net finance charges | 8 | <u>(54)</u> | <u>(58)</u> |
| Profit before taxation on ordinary activities | | 669 | 366 |
| Taxation on profit on ordinary activities | 9 | <u>(113)</u> | <u>(225)</u> |
| Profit for the financial year | | <u>556</u> | <u>141</u> |

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

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

STATEMENT OF COMPREHENSIVE INCOME

| | Notes | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|--|-------|--|--|
| Profit for the year | | <u>556</u> | <u>141</u> |
| Other comprehensive (expense) / income | | | |
| Items that may be recycled subsequently to the income statement | | | |
| Effective portion of changes in fair value of cash flow hedges | | | |
| - transaction exposure hedging | | (9) | (4) |
| - recycled to income statement - transaction exposure hedging | | 2 | — |
| - losses taken to equity – commodity price risk | | (4) | — |
| Tax credit on effective portion of changes in fair value of cash flow hedges | | 1 | 1 |
| | | <u> </u> | <u> </u> |
| Other comprehensive expense for the year, net of tax | | <u>(10)</u> | <u>(3)</u> |
| Total comprehensive income for the year | | <u><u>546</u></u> | <u><u>138</u></u> |

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

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Registered number: SC000750
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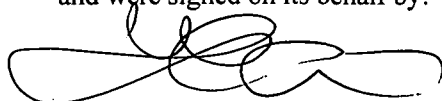
BALANCE SHEET

| | Notes | 30 June 2019 £ million | 30 June 2018 £ million |
|--------------------------------|-------|---------------------------|---------------------------|
| Non-current assets | | | |
| Intangible assets | 10 | 99 | 98 |
| Property, plant and equipment | 11 | 1,398 | 1,324 |
| Investments | 12 | 20 | 235 |
| | | <u>1,517</u> | <u>1,657</u> |
| Current assets | | | |
| Inventories | 13 | 3,258 | 3,045 |
| Trade and other receivables | 14 | 348 | 375 |
| Cash and cash equivalents | | 1 | — |
| Other financial assets | 15 | 3 | — |
| | | <u>3,610</u> | <u>3,420</u> |
| Total assets | | <u>5,127</u> | <u>5,077</u> |
| Current liabilities | | | |
| Trade and other payables | 17 | (1,965) | (2,368) |
| Provisions | 18 | (5) | (6) |
| Corporate tax payable | | (50) | (49) |
| Other financial liabilities | 15 | (31) | (18) |
| | | <u>(2,051)</u> | <u>(2,441)</u> |
| Non-current liabilities | | | |
| Trade and other payables | 17 | (324) | (323) |
| Deferred tax liabilities | 19 | (110) | (103) |
| Other financial liabilities | 15 | (72) | (88) |
| | | <u>(506)</u> | <u>(514)</u> |
| Total liabilities | | <u>(2,557)</u> | <u>(2,955)</u> |
| Net assets | | <u>2,570</u> | <u>2,122</u> |
| Equity | | | |
| Called up share capital | 20 | 182 | 182 |
| Other reserves | | (13) | (3) |
| Retained earnings | | 2,401 | 1,943 |
| Total equity | | <u>2,570</u> | <u>2,122</u> |

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

The accounting policies and other notes on pages 17 to 47 form part of the financial statements.

These financial statements on pages 13 to 47 were approved by the board of directors on 16 December 2019 and were signed on its behalf by:



G Zeisler
Director

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

STATEMENT OF CHANGES IN EQUITY

Attributable to shareholders of the company

| | Called up share capital £ million | Hedging reserve £ million | Retained earnings £ million | Total £ million |
|------------------------------------|--|---------------------------------|-----------------------------------|--------------------|
| Balance at 30 June 2017 | 182 | — | 1,900 | 2,082 |
| Profit for the financial year | — | — | 141 | 141 |
| Other comprehensive expense | — | (3) | — | (3) |
| Tax on share-based incentive plans | — | — | 2 | 2 |
| Dividends to shareholders | — | — | (100) | (100) |
| Balance at 30 June 2018 | 182 | (3) | 1,943 | 2,122 |
| Profit for the financial year | — | — | 556 | 556 |
| Other comprehensive expense | — | (10) | — | (10) |
| Tax on share-based incentive plans | — | — | 2 | 2 |
| Dividends to shareholders | — | — | (100) | (100) |
| Balance at 30 June 2019 | 182 | (13) | 2,401 | 2,570 |

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation

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

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

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

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

The preparation of financial statements in conformity with FRS 101 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' - comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - (iii) paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 111 (cash flow statement information);
 - 134-136 (capital management disclosures);
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements); and
 - 40A-D (requirements for a third statement of financial position).

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets' (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives, and management's approach to determining these amounts).
- The following paragraphs of IAS 24 'Related party disclosures':
 - Paragraph 17 of IAS 24, (key management compensation).
 - Paragraph 18A of IAS 24, 'Related party disclosures', related to key management services provided by a separate management entity.
- The requirements of IFRS 7 Financial Instruments: Disclosures, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

The company has taken advantage of the exemption by virtue of section 400 under Companies Act 2006, from the requirement to prepare consolidated financial statements, as it and its subsidiaries are included in the consolidated financial statements of its ultimate parent, Diageo plc.

These financial statements are separate financial statements.

New accounting policies

The following amendments to the accounting standards, issued by the IASB which have been endorsed by the EU, have been adopted by the group and therefore by the company from 1 July 2018 with no impact on the company's results, financial position or disclosures:

- Amendments to IAS 40 - Transfers of Investment Property;
- Amendments to IFRS 2 - Classification and Measurement of Share-based payment transactions;
- Amendments to IFRS 4 - Applying IFRS 9 with IFRS 4 Insurance contracts;
- Improvements to IFRS 1 - First-time Adoption of International Financial Reporting Standards: deletion of short-term exemptions for first-time adopters;
- Improvements to IAS 28 - Investments in Associates and Joint Ventures: Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice;
- IFRIC 23 Uncertainty over Income Tax Treatments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

New accounting policies (continued)

The following standard(s), issued by the IASB and endorsed by the EU, has not yet been adopted by the company:

- **IFRS 16 - Leases** (effective in the year ending 30 June 2020) sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. It eliminates the classification of leases as either operating leases or finance leases currently required under IAS 17 and introduces a single lessee accounting model where the lessee is required to recognise assets and liabilities for all material leases. All material leases will be recognised on the balance sheet as right of use assets and depreciated on a straight-line basis. The liability, recognised as part of net borrowings, will be measured at a discounted value and any interest will be charged to finance charges in the income statement. Therefore, the charge to the income statement for the operating lease payment will be replaced with depreciation on the right of use asset and the interest charge inherent in the lease.

IFRS 16 is expected not to have a material impact on the company's results but will result in additional amount disclosed as Right of use assets and Liabilities in the balance sheet.

Functional and presentational currency

These financial statements are presented in sterling (£), which is the company's functional currency. All financial information presented in sterling has been rounded to the nearest million unless otherwise stated.

Turnover

Turnover comprises revenue from the sale of goods, the provision of manufacturing services and royalties receivable and rents receivable. Revenue from the sale of goods includes excise and other duties which the company pays as principal but excludes duties and taxes collected on behalf of third parties, such as value added tax. Sales are recognised as or when performance obligations are satisfied by transferring control of a good or service to the customer. Generally, the transfer of control of goods occurs at the time of despatch but for in case of wholesale customers may be on delivery to customers. The company includes in sales the net consideration to which it expects to be entitled. Sales are recognised to the extent that it is highly probable that a significant reversal will not occur. Therefore, sales are stated net of expected price discounts, allowances for customer loyalty and certain promotional activities and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing. Royalties are accrued as earned.

Advertising

Advertising expenditure, such as advertising costs, points of sale materials and sponsorship payments, are charged to the statement of comprehensive income within marketing expenses when the company has the right of access to the goods or services acquired.

Finance income/costs

Finance income/costs are recognised in the statement of comprehensive income in the year in which they are earned/incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Research and development

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

Share based payments

The ultimate parent, Diageo plc, operates a number of share-based incentive schemes (awards of shares and options) and grants rights to its equity instruments to the company's employees. The company accounts for these share-based payments as cash-settled instruments. Amounts recharged by the parent in respect of the cost of providing the benefit are measured at the fair value of the share or share option at the date of grant and is recognised on a straight-line basis over the vesting period of the award. The fair value is measured using the Monte Carlo models, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

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 plans on a consistent and reasonable basis between individual companies and therefore the company accounts for the plans as defined contribution schemes. Contributions payable in respect of the pension plans in respect of current and former employees are charged to operating profit as incurred. The assets and liabilities of the pension plans are reported by the sponsoring employer, Diageo plc.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. If hedged forward, the impact of hedging is recognised, where permitted, under hedge accounting (see accounting policy for derivative financial instruments). Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the year end exchange rates and these foreign exchange differences are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets that are regarded as having limited useful economic lives are amortised on a straight-line basis over those lives and reviewed for impairment whenever events or circumstances indicate that carrying amount may not be recoverable. These assets are reviewed for impairment at least annually or when there is an indication that the assets may be impaired.

To ensure that assets are not carried at above their recoverable amounts, the impairment reviews compare the net carrying value with the recoverable amount, where the recoverable amount is the higher of value in use or fair value less cost to sell. Amortisation and any impairment write downs are charged to other operating expenses in the income statement.

Computer software is amortised on a straight-line basis to estimated residual value over its expected useful life. Residual values and useful lives are reviewed each year. Subject to these reviews, the estimated useful lives are up to 15 years.

Assessment of the estimated residual value of an intangible asset and the useful economic life of an asset, requires management judgement.

Property, plant and equipment

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

Freehold land is not depreciated. Leaseholds are depreciated over the unexpired period of the lease. Other property, plant and equipment are depreciated on a straight-line basis to estimated residual values over their expected useful lives, and these values and lives are reviewed each year. Subject to these reviews, the estimated useful lives fall within the following ranges:

| | |
|----------------------|----------------|
| Buildings | 10 to 70 years |
| Plant and equipment | 5 to 50 years |
| Casks and containers | 10 to 50 years |

Reviews are carried out if there is some indication that impairment may have occurred, to ensure that property, plant and equipment 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Investment in subsidiaries and associates

Investments in subsidiaries and associates are stated at historical cost less impairment provisions for any permanent decrease in value. The carrying amounts of the company's investments are reviewed at each reporting date to determine whether there is an indication of impairment. If such an indication exists, then the asset's recoverable amount is estimated. Losses are recognised in the income statement reflecting an impairment against the carrying value. Where an event results in the asset's recoverable amount being higher than the previously impaired carrying value, the original impairment may be reversed through the income statement in subsequent periods.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, and an appropriate proportion of production and other overheads, but not borrowing costs. Cost is calculated at the weighted average cost incurred in acquiring inventories. Maturing inventories which are retained for more than one year are classified as current assets, as they are expected to be realised in the normal operating cycle.

Financial assets and liabilities

Financial assets and liabilities are initially recorded at fair value including, where permitted by IFRS 9, any directly attributable transaction costs. For those financial assets that are not subsequently held at fair value, the company assesses whether there is evidence of impairment at each balance sheet date. The company classifies its financial assets and liabilities into the following categories: financial assets and liabilities at amortised cost, financial assets and liabilities at fair value through profit and loss and financial assets at fair value through other comprehensive income. Where financial assets or liabilities are eligible to be carried at either amortised cost or fair value the company does not apply the fair value option.

Trade and other receivables Amounts owed by other group companies are initially measured at fair value and are subsequently reported at amortised cost. Non-interest-bearing trade receivables are stated at their nominal value as they are due on demand. Allowance for expected credit losses are made based on the risk of non-payment taking into account ageing, previous experience, economic conditions and forward-looking data. Such allowance are measured as either 12-months expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

Cash and cash equivalents Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are disclosed within borrowings in current liabilities.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Derivative financial instruments

Derivative financial instruments are carried at fair value using a discounted cash flow technique based on market data applied consistently for similar type of instruments. Gains and losses on derivative that do not qualify for hedge accounting treatment are taken to the income statement as they arise.

The company designates and documents certain derivatives as hedging instruments against highly probable forecast transactions (cash flow hedges). The effectiveness of such hedges is assessed at inception and at least on a quarterly basis, using prospective and retrospective testing. Methods used for testing effectiveness include dollar offset, critical terms, regression analysis and hypothetical derivative method.

Cash flow hedges are used to hedge the foreign currency risk of highly probable future foreign currency cash flows, as well as the cash flow risk from changes in exchange. The effective portion of the gain or loss on the hedges is recognised in the other comprehensive income, while any ineffective part is recognised in the income statement. Amounts recorded in the other comprehensive income are recycled to the income statement in the same period in which the underlying foreign currency affects the income statement.

Derivative financial instruments are presented in the financial statements as 'Intra-group derivative assets/ (liabilities)' as these transactions are entered into by Diageo Finance plc, a fellow group undertaking, and subsequently passed to the company.

Provisions

Provisions are liabilities of uncertain timing or amount. A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis, where the effect is material to the original undiscounted provision. The carrying amounts of provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Taxation

Current tax is based on taxable profit for the year. Taxable profit is different from accounting profit due to temporary differences between accounting and tax treatments, and due to items that are never taxable or tax deductible. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, tax benefits are reviewed each year to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/ or litigation. Tax provisions are included in current liabilities. In prior years penalties and interest on tax liabilities were provided for in the tax charge.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Dividends paid and received

The interim dividend is included in the financial statements in the year in which it is approved by the directors, and the final dividend in the year in which it is approved by shareholders. Dividends received are included in the financial statements in the year in which they are receivable.

Judgements in applying accounting policies and key sources of estimation uncertainty

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

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

- **Intangible assets:** Assessment of the recoverable amount of an intangible asset, the useful economic life of an asset, or that an asset has an indefinite life, requires management estimate and judgement. Impairment review is carried out to ensure that the distribution right is not carried at above its recoverable amount. The tests are dependent on management's estimates and judgements, in particular in relation to the forecasting of future cash flows, the discount rates applied to those cash flows and the expected long-term growth rates. Such estimates and judgements are subject to change as a result of changing economic conditions and actual cash flows may differ from forecasts.
- **Investment in subsidiaries and associates:** The carrying value of the investments was assessed to ensure that the investments are worth at least the amount at which they are stated in the financial statements. The impairment review involves management judgement and estimates.
- **Taxation:** The evaluation of deferred tax assets recoverability requires judgements to be made regarding the availability of future taxable income. The directors believe that the company will generate sufficient future taxable income to justify recognition of the deferred tax assets.

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. TURNOVER

The turnover and profit on ordinary activities before taxation are attributable to the production, maturation and marketing of Scotch whisky and other spirits, and their onward sale to fellow group undertakings and third parties (including global travel distributors). Additionally, the company operates 13 malt whisky distillery visitor centres.

Geographical analysis of turnover

| | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|----------------|--|--|
| United Kingdom | 253 | 207 |
| Europe | 936 | 856 |
| North America | 150 | 178 |
| Asia Pacific | 310 | 293 |
| Rest of world | 70 | 65 |
| | <u>1,719</u> | <u>1,599</u> |

Analysis of turnover by class of business

| | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|--|--|--|
| Production and maturation of Scotch whisky and other spirits | 805 | 764 |
| Marketing and selling of spirits | 891 | 815 |
| Royalties | 6 | 6 |
| Visitor centres | 17 | 14 |
| | <u>1,719</u> | <u>1,599</u> |

Segmental information is provided in the consolidated financial statements of the ultimate parent company, Diageo plc.

Sales to fellow group undertakings included in turnover amounted to £1,142 million (2018 - £1,092 million).

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING COSTS

| | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|--|--|--|
| Cost of sales | 1,077 | 989 |
| Marketing expenses | 108 | 106 |
| Other operating expenses | 64 | 80 |
| | <u>1,249</u> | <u>1,175</u> |
| Comprising: | | |
| Increase in inventories of finished goods and work in progress | (142) | (138) |
| Raw materials and consumables | 843 | 757 |
| Marketing expenses | 108 | 106 |
| Other external charges (a) | 171 | 173 |
| Staff costs | 197 | 194 |
| Depreciation and amortisation | 80 | 78 |
| Net foreign exchange (gains)/ losses | (8) | 4 |
| Other operating costs | — | 1 |
| | <u>1,249</u> | <u>1,175</u> |

(a) Other external charges include facilities costs of £32 million (2018 - £32 million), maintenance and repairs of £29 million (2018 - £29 million), temporary and contract staff costs of £15 million (2018 - £12 million), computer system costs of £9 million (2018 - £12 million), operating lease rentals for land and buildings of £1 million (2018 - £1 million) and other lease rentals of £2 million (2018 - £3 million).

(b) Fees in respect of services provided by the auditors were: audit services £96,829 (2018 - £94,845); other non-audit work £nil (2018 - £251,340).

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. EMPLOYEES

The average number of employees on a full-time basis, including directors, during the year was:

| | Year ended 30 June 2019 | Year ended 30 June 2018 |
|------------------------------|------------------------------------|------------------------------------|
| Production | 2,858 | 2,895 |
| Corporate and administration | 185 | 211 |
| Selling and distribution | 83 | 130 |
| | <u>3,126</u> | <u>3,236</u> |

The average number of employees of the company, including part time employees, for the year was 3,184 (2018 – 3,319).

| | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|----------------------------------|--|--|
| Aggregate remuneration | | |
| Wages and salaries | 138 | 134 |
| Employer's social security costs | 15 | 15 |
| Employer's pension costs | 37 | 38 |
| Redundancy payments | 2 | 2 |
| Share based payments | 2 | 2 |
| Other employment costs | 3 | 3 |
| | <u>197</u> | <u>194</u> |

Retirement benefits

The employees of the company are members of the Diageo UK pension plans, which are defined benefit schemes.

It is not possible to allocate the assets and liabilities of the pension plans on a consistent and reasonable basis between individual companies and therefore the company accounts for the plans as defined contribution schemes. Contributions payable in respect of defined contribution plans for current and former employees are charged to operating profit as incurred. The company made cash contributions of £37 million to the schemes in respect of its employees in the year ended 30 June 2019 (2018 - £38 million). As there is no contractual agreement for allocating the surplus or deficit in the pension funds to participating entities, it is recognised fully by the sponsoring employer, Diageo plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. EMPLOYEES (continued)

Directors' remuneration

| | Year ended 30 June 2019 £'000 | Year ended 30 June 2018 £'000 |
|---|-------------------------------------|-------------------------------------|
| Directors' remuneration (excluding pension contributions) | 235 | 468 |
| Amounts receivable under long term incentive schemes | 27 | 24 |
| | <u>262</u> | <u>492</u> |

The aggregate remuneration of the highest paid director was £234,550 (2018 - £259,653). The amount that the highest paid director has accrued on the Diageo Lifestyle Plan at 30 June 2019 was £156,356 (2018 - £38,507).

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

| | Year ended 30 June 2019 | Year ended 30 June 2018 |
|---|----------------------------|----------------------------|
| The number of directors who exercised share options | 1 | 1 |
| The number of directors in respect of whose services shares were received or receivable under long term incentive schemes | 1 | 2 |
| The number of directors in respect of whose retirement benefits were accrued for under defined benefit pension schemes | 1 | 2 |

5. EMPLOYEE SHARE COMPENSATION

A number of the employees of the company participate in a number of equity settled and cash settled share plans, all of which are operated by the group, to grant options and share awards to its directors and employees.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. EMPLOYEE SHARE COMPENSATION (continued)

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

Performance shares under the DLTIP (previously PSP) are subject to the achievement of three equally weighted performance tests of the Diageo group: 1) compound annual growth in profit before exceptional items over three years; 2) compound annual growth in organic net sales over three years; 3) cumulative free cash flow over a three-year period, measured at constant exchange rates. Performance share options under the DLTIP (previously SESOP) are subject to the achievement of two equally weighted performance tests: 1) a comparison of Diageo's three-year TSR with a peer group (in the Group's Annual Report 2019 on page 92); 2) compound annual growth in profit before exceptional items over three years. Performance measures and targets are set annually by the Remuneration Committee. The vesting range is 20% or 25% (for Executive Directors and for other participants respectively) for achieving minimum performance targets and, up to 100% for achieving the maximum target level. Re-testing of the performance condition is not permitted.

For performance shares under the DLTIP (previously PSP) dividends are accrued on awards and are given to participants to the extent that the awards vest at the end of the performance period.

Dividends are normally paid out in the form of shares. For the two years ended 30 June 2019, the calculation of the fair value of each share award used the Monte Carlo pricing model.

Further details of the assumptions used for the valuation and the accounting for share options schemes are disclosed in Diageo plc's Annual Report for the year ended 30 June 2019 (see note 17 of Diageo plc's 2019 Annual Report).

The company recognised share-based payment expense for the year ended 30 June 2019 of £2 million (2018 - £2 million).

6. INCOME FROM SHARES IN GROUP UNDERTAKINGS

| | | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|--|-----|---|---|
| Income from shares in subsidiary and associate undertakings | | | |
| The Lochnagar Distillery Limited | (i) | 454 | — |
| United Distillers UK Limited | | 9 | — |
| Diageo Suisse S.A. | | 1 | — |
| Zepf Technologies UK Limited | | 1 | — |
| | | 465 | — |

(i) Formerly Diageo Distilling Limited

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. AMOUNTS WRITTEN OFF INVESTMENTS

| | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|---|--|--|
| Provision against subsidiary undertaking | | |
| The Lochnagar Distillery Limited | (i) <u>(217)</u> | <u>—</u> |

(i) Formerly Diageo Distilling Limited

During the year ended 30 June 2019, The Lochnagar Distillery Limited (a wholly owned subsidiary of the company, formerly Diageo Distilling Limited) paid an interim dividend to the company of £454 million resulting in a decrease of the net assets of The Lochnagar Distillery Limited. An impairment of £217 million was charged to provisions against subsidiary undertakings in respect of the company's shares owned in The Lochnagar Distillery Limited.

8. NET FINANCE CHARGES

| | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|--|--|--|
| Interest charge to fellow group undertakings | 49 | 52 |
| Interest charge on finance leases | <u>5</u> | <u>6</u> |
| | <u><u>54</u></u> | <u><u>58</u></u> |

Interest charge to fellow group undertakings includes £49 million (2018 - £50 million) in respect of the option premium paid to Lakeside (see note 13).

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

9. TAXATION

| | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|---|---|---|
| (a) Analysis of taxation charge for the year | | |
| Current tax | | |
| UK corporation tax | (114) | (99) |
| Overseas corporation tax | (1) | (1) |
| Adjustments in respect of prior years | 10 | (67) |
| Total current tax | <u>(105)</u> | <u>(167)</u> |
| Deferred tax | | |
| Origination and reversal of timing differences | (9) | (14) |
| Adjustments in respect of prior years | — | (45) |
| Effect of changes in tax rate | 1 | 1 |
| Taxation on profit on ordinary activities | <u>(113)</u> | <u>(225)</u> |

(b) Tax credit included in equity

| | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|--------------|---|---|
| Deferred tax | <u>2</u> | <u>2</u> |

(c) Tax credit included in equity

| | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|-------------|---|---|
| Current tax | <u>1</u> | <u>1</u> |

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. TAXATION (continued)

(d) Factors affecting total tax charge for the year

| | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|--|--|--|
| Profit before taxation on ordinary activities | 669 | 366 |
| Taxation on profit on ordinary activities at UK corporation tax rate of 19% (2018 - 19%) | (127) | (69) |
| Adjustments in respect of prior periods | 10 | (112) |
| Changes in tax rates | 1 | 1 |
| Transfer pricing adjustments | (41) | (40) |
| Amounts written off investments | (41) | — |
| Income from shares in group undertakings | 88 | — |
| Overseas tax suffered | (1) | (1) |
| Share options | — | (1) |
| Other | (2) | (3) |
| Total tax charge for the year | (113) | (225) |

The UK tax rate is 19% effective from 1 April 2017 which is applied for year ended 30 June 2019. A further reduction to 17% (effective from 1 April 2020) was enacted in September 2016. Deferred taxes at 30 June 2019 have been measured using these enacted tax rates (17%) and reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS

| | Distribution rights £ million | Computer software £ million | Other intangible £ million | Total £ million |
|------------------------|--|--|---|----------------------------|
| Cost | | | | |
| 30 June 2018 | 95 | 11 | — | 106 |
| Additions | — | — | 3 | 3 |
| 30 June 2019 | 95 | 11 | 3 | 109 |
| Amortisation | | | | |
| 30 June 2018 | — | (8) | — | (8) |
| Amortisation | — | (1) | (1) | (2) |
| 30 June 2019 | — | (9) | (1) | (10) |
| Carrying amount | | | | |
| 30 June 2019 | 95 | 2 | 2 | 99 |
| 30 June 2018 | 95 | 3 | — | 98 |

Distribution rights comprise the cost of the worldwide distribution rights to the Captain Morgan brand (excluding Canada and the United States of America). There are not believed to be any legal, regulatory or contractual provisions that limit the useful life of this distribution right. Accordingly, the directors believe that it is appropriate that the intangible asset is treated as having an indefinite life for accounting purposes.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS (continued)

Impairment testing

To ensure that the distribution rights with indefinite useful life are not carried at above the recoverable amount, impairment reviews are performed comparing the net carrying value with the recoverable amount using value in use calculations. This calculation is performed annually. The value in use calculations are based on terminal values calculated on the assumption that the cash flows continue in perpetuity at the long-term growth rate.

The discount rate used for the value in use calculations is the group's weighted average cost of capital. The long-term growth rates applied at the end of the forecast period are taken as the real gross domestic product (GDP) growth rate of the region plus its inflation rate, based on a five-year average.

The pre-tax discount rates and long-term growth rates for the principal market of the Captain Morgan brand used for impairment testing are as follows:

| Pre-tax discount rate | 2019 Long term growth rate | Pre-tax discount rate | 2018 Long term growth rate |
|--------------------------|----------------------------------|--------------------------|----------------------------------|
| | | | |
| | | | |
| % | % | % | % |
| 7 | 2 | 7 | 2 |

Sensitivity to change in key assumptions

Impairment testing is dependent on estimates and judgements; in particular in relation to the forecasting of future cash flows, the discount rates applied to those cash flows and the expected long-term growth rates.

For the Captain Morgan distribution right it has been concluded that no reasonable possible change in the key assumptions on which it has determined the recoverable amount would cause its carrying value to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings £ million | Plant and equipment £ million | Casks and containers £ million | Assets in course of construction £ million | Total £ million |
|------------------------|------------------------------------|-------------------------------------|--------------------------------------|---|--------------------|
| Cost | | | | | |
| At 30 June 2018 | 513 | 888 | 532 | 43 | 1,976 |
| Additions | 18 | 15 | 39 | 83 | 155 |
| Disposals | (5) | — | — | — | (5) |
| Write-off | — | (12) | — | — | (12) |
| Transfers | 15 | 31 | 2 | (48) | — |
| At 30 June 2019 | 541 | 922 | 573 | 78 | 2,114 |
| Depreciation | | | | | |
| At 30 June 2018 | (125) | (360) | (167) | — | (652) |
| Depreciation charge | (15) | (50) | (13) | — | (78) |
| Disposals | 3 | — | — | — | 3 |
| Write-off | — | 11 | — | — | 11 |
| At 30 June 2019 | (137) | (399) | (180) | — | (716) |
| Net book value | | | | | |
| At 30 June 2019 | 404 | 523 | 393 | 78 | 1,398 |
| At 30 June 2018 | 388 | 528 | 365 | 43 | 1,324 |

(a) The net book value of land and buildings comprises freeholds of £403 million (2018 – £387 million) and long leaseholds of £1 million (2018 – £1 million). Depreciation was not charged on £20 million (2018 – £16 million) of land.

(b) Included in the total net book value of property plant and equipment is £104 million (2018 - £109 million) within plant and machinery and £32 million (2018 - £32 million) within casks and containers and vehicles in respect of assets held under finance leases. Depreciation for the year on those assets within plant and machinery was £6 million (2018 - £6 million) and for casks and containers and vehicles was £1 million (2018 - £1 million).

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS

Shares in subsidiary and associate undertakings

| | Subsidiaries and associates £ million |
|------------------------|--|
| Cost | |
| At 30 June 2018 | 245 |
| Additions | 2 |
| At 30 June 2019 | 247 |
| Provisions | |
| At 30 June 2018 | (10) |
| Provided | (217) |
| At 30 June 2019 | (227) |
| Carrying amount | |
| At 30 June 2019 | 20 |
| At 30 June 2018 | 235 |

Additions

On 13 May 2019, the board approved a further subscription for 11,500 shares of £200 each in Diageo Scotland Investment Limited, and as a result the investment in the company has increased from £20,000 to £2,320,000.

Provisions

During the year ended 30 June 2019, The Lochnagar Distillery Limited (a wholly owned subsidiary of the company, formerly Diageo Distilling Limited) paid an interim dividend to the company of £454 million resulting in a decrease of the net assets of The Lochnagar Distillery Limited. An impairment of £217 million was charged to provisions against subsidiary undertakings in respect of the company's shares owned in The Lochnagar Distillery Limited.

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

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS (continued)

| Name of investment | Notes | Registered office address | Proportion of ownership interest %* | Proportion of effective interest %** |
|---|--------------|--|--|---|
| Direct holdings | | | | |
| <i>Subsidiary undertakings</i> | | | | |
| D.C.L. (Holdings) Australia Proprietary Limited | (i), (ii) | Level 1, 162 Blues Point Road, McMahon's Point, NSW 2060, Australia | 100% | 100% |
| Diageo New Zealand Limited | (ii) | 123 Carlton Gore Road, Level 2, Newmarket, Auckland, New Zealand 1023 | 100% | 100% |
| Diageo Scotland Investment Limited | | Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom | 100% | 100% |
| James Buchanan & Company Limited | (i) | Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom | 100% | 100% |
| John Haig & Company Limited | | Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom | 100% | 100% |
| John Walker and Sons Limited | (i) | Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom | 100% | 100% |
| The Distillers Company (Biochemicals) Limited | (i) | Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom | 100% | 100% |
| The Lochnagar Distillery Limited | (vi) | Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom | 100% | 100% |
| United Distillers & Vintners Philippines Inc | (i) | Unit 1, 17th Floor, Ore Central 9th Avenue corner 31st Street Bonifacio Global City, Taguig City, 1634 Philippines | 100% | 100% |
| United Distillers France Limited | (i) | Lakeside Drive, Park Royal, London, NW10 7HQ, United Kingdom | 100% | 100% |
| United Distillers UK Limited | (iv) | Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom | 100% | 100% |
| William Sanderson and Son Limited | (i) | Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom | 100% | 100% |
| Zepf Technologies UK Limited | | Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom | 100% | 100% |

* The percentage of shares held owned by the immediate shareholder(s) of the subsidiary

** Effective percentage of shares held owned by the company

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS (continued)

| Name of investment | Notes | Registered office address | Proportion of ownership interest %* | Proportion of effective interest %** |
|--|--------------|---|--|---|
| Direct holdings | | | | |
| <i>Associate undertakings</i> | | | | |
| Diageo Suisse S.A. | | Rue du Grand-Pre 2 b CH-1007 Lausanne, Switzerland | 45 % | 45 % |
| Diageo Southern Africa Markets (Pty) Ltd | | Building 3, Maxwell Office Park, Magwa Crescent West, Waterfall City, Midrand, 2090, South Africa | 50 % | 50 % |
| The Scotch Whisky Heritage Centre Limited | (iii) | 354 Castlehill, The Royal Mile, Edinburgh, EH1, 2NE United Kingdom | 22 % | 22 % |
| Indirect holdings | | | | |
| <i>Subsidiary undertakings</i> | | | | |
| United Distillers France SAS | | 17, rue de la Banque, 75002 Paris, France | 100 % | 100 % |
| Diageo International Spirits Company Limited | | 31/F Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong | 100 % | 100 % |
| Jiangsu Diageo Spirits Co., Ltd | | Room 1101, Building 3, No. 68, Aoti Street, Jianye District, Nanjing City, China | 100 % | 100 % |
| Lochside MWS Limited Partnership | (v) | Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT, United Kingdom | | |
| <i>Associate undertakings</i> | | | | |
| Ballindalloch Distillery LLP | | Ballindalloch Castle, Ballindalloch, Banffshire AB37 9AX, United Kingdom | 33 % | 33 % |

(i) Dormant company.

(ii) Ownership held in class of A shares.

(iii) Ownership held in preference shares.

(iv) The company was dissolved on 8 October 2019.

(v) No percentage is disclosed as Lochside MWS Limited Partnership is a partnership.

(vi) The company's name was changed from Diageo Distilling Limited to The Lochnagar Distillery Limited.

The investments in subsidiaries, associates and jointly controlled entities 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.

* The percentage of shares held owned by the immediate shareholder(s) of the subsidiary

** Effective percentage of shares held owned by the company

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. INVENTORIES

| | 30 June 2019 | 30 June 2018 |
|-------------------------------------|---------------------|---------------------|
| | £ million | £ million |
| Raw materials and consumables | 51 | 34 |
| Work in progress | 3 | 4 |
| Maturing inventories | 3,184 | 2,991 |
| Finished goods and goods for resale | 20 | 16 |
| | <u>3,258</u> | <u>3,045</u> |

Maturing inventories include whisky. £2,872 million (2018 - £2,699 million) of inventories are expected to be utilised after more than one year.

Inventories are disclosed net of provisions of £6 million (2018 - £6 million) for obsolescence.

In June 2010, the Diageo group established a Pension Funding Partnership in which the UK Scheme acquired a limited interest and, as a partner, is entitled to a distribution of the profits of the Pension Funding Partnership each year for 14 years.

The company entered into an agreement with Lakeside, a fellow subsidiary undertaking, and sold maturing spirit aged up to three years to Lakeside at cost and charges inventory holding costs to Lakeside. The company was granted a call option to enable it to repurchase the maturing spirit at any time from Lakeside at original sale price plus inventory holding cost and a put option to require Lakeside to purchase inventory from the company. As consideration for these options the company pays an annual premium. As at 30 June 2019, Lakeside owned the legal title over £648 million (2018 - £647 million) of maturing spirit while the beneficial title remains with the company. As the risks and rewards of ownership of the inventory remained with the company, the maturing spirit continues to be shown in its financial statements. For accounting purposes the amount the company received for the inventory is recognised as a liability to a fellow group undertaking on the balance sheet (see note 17) and the premium it pays for the options provided is presented as an interest charge within net finance charges (see note 8).

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. TRADE AND OTHER RECEIVABLES

| | 30 June 2019 £ million | 30 June 2018 £ million |
|---|---------------------------|---------------------------|
| Trade receivables | 75 | 74 |
| Amounts owed by other fellow group undertakings | 209 | 240 |
| Other receivables | 19 | 19 |
| Prepayments and accrued income | 45 | 42 |
| | <u>348</u> | <u>375</u> |

Amounts owed by fellow group undertakings are unsecured, interest-free and repayable on demand. All trade and other receivable balances fall due within one year.

15. OTHER FINANCIAL ASSETS/(LIABILITIES)

| | Current assets £ million | Current liabilities £ million | Non-current liabilities £ million |
|--|--------------------------------|-------------------------------------|---|
| 2019 | | | |
| Intra-group derivative assets/(liabilities) | | | |
| Not designated in a hedge relationship | 3 | (2) | — |
| Designated in cash flow hedge | — | (12) | (3) |
| | <u>3</u> | <u>(14)</u> | <u>(3)</u> |
| Non-derivative liabilities | | | |
| Financial lease liabilities | — | (17) | (69) |
| | <u>3</u> | <u>(31)</u> | <u>(72)</u> |

| | Current assets £ million | Current liabilities £ million | Non-current liabilities £ million |
|--|--------------------------------|-------------------------------------|---|
| 2018 | | | |
| Intra-group derivative assets/(liabilities) | | | |
| Designated in cash flow hedge | — | (2) | (2) |
| Non-derivative liabilities | | | |
| Financial lease liabilities | — | (16) | (86) |
| | <u>—</u> | <u>(18)</u> | <u>(88)</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. OTHER FINANCIAL ASSETS/(LIABILITIES) (continued)

Finance lease liabilities are payable as follows:

| | 30 June 2019 | | | 30 June 2018 | | |
|-------------------------------|---|---|---|---|---|---|
| | Future minimum lease payments £ million | Future finance charges £ million | Present value of lease payments £ million | Future minimum lease payments £ million | Future finance charges £ million | Present value of lease payments £ million |
| Less than one year | 22 | (5) | 17 | 21 | (5) | 16 |
| Between one and five years | 69 | (9) | 60 | 73 | (12) | 61 |
| More than five years | 9 | — | 9 | 26 | (1) | 25 |
| | 100 | (14) | 86 | 120 | (18) | 102 |

Finance lease liabilities include an obligation of £41 million (2018 - £49 million) in respect of the bio-energy plant at Cameronbridge.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Currency risk

The company presents its financial statements in sterling and conducts business in many currencies. As a result, it is subject to foreign currency risk due to exchange rate movements, which will affect the company's transactions. To manage the currency risk the company uses certain financial instruments. Where hedge accounting is applied, hedges are documented and tested for effectiveness on an ongoing basis.

Transaction exposure hedging

The group's policy is to hedge up to 24 months forecast transactional foreign currency risk on the net US dollar exposure of the group targeting 75% coverage for the current financial year and up to 18 months for other currency pairs.

(b) Commodity price risk

Commodity price risk is managed in line with the principles approved by the Board either through long-term purchase contracts with suppliers or, where appropriate, derivative contracts. The group policy is to maintain the Value at Risk of commodity price risk arisen from commodity exposures below 75 bps of forecast gross margin in any given financial year. Where derivative contracts are used, the commodity price risk exposure is hedged up to 24 months of forecast volume through exchange-traded and over-the-counter contracts (futures, forwards and swaps) and cash flow hedge accounting is applied.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Fair value measurements

Fair value measurements of financial instruments are presented through a three-level fair value hierarchy that prioritises the valuation techniques used in fair value calculations.

The group maintains policies and procedures to value instruments using the most relevant data available. If multiple inputs that fall into different levels of the hierarchy are used in the valuation of an instrument, the instrument is categorised on the basis of the most subjective input.

Foreign currency forwards are valued using discounted cash flow techniques. These techniques incorporate inputs at levels 1 and 2, such as foreign exchange rates and interest rates. These market inputs are used in the discounted cash flow calculation incorporating the instrument's term, notional amount and discount rate, and taking credit risk into account. As significant inputs to the valuation are observable in active markets, these instruments are categorised as level 2 in the hierarchy.

The company's financial assets and liabilities measured at fair value are categorised as follows:

| | 30 June 2019 | 30 June 2018 |
|--|--------------|--------------|
| | £ million | £ million |
| Derivative assets | 3 | — |
| Derivative liabilities | (17) | (4) |
| Valuation techniques based on observable market input (level 2) | (14) | (4) |

There were no transfers between levels during the two years ended 30 June 2019 and 30 June 2018.

(d) Results of hedging instruments

A £2 million loss has been recycled from other comprehensive income to other operating income (2018 – no gain or loss has been transferred out from other comprehensive income to other operating income).

Based on year end interest and foreign exchange rates in respect of cash flow hedges at 30 June 2019, the company expects to recognize in the income statement a loss of £11 million in 2020 and a loss of £3 million in 2021.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. TRADE AND OTHER PAYABLES

| | 30 June 2019 | | 30 June 2018 | |
|--|--|---|--|---|
| | Amounts falling due within one year | Amounts falling due after one year | Amounts falling due within one year | Amounts falling due after one year |
| | £ million | £ million | £ million | £ million |
| Amounts owed to fellow group undertakings | 1,227 | — | 1,656 | — |
| Trade payables | 319 | — | 278 | — |
| Tax and social security excluding income tax | 4 | — | 8 | — |
| Loan payable to fellow group undertakings | 324 | 324 | 324 | 323 |
| Other payables | 5 | — | 2 | — |
| Accruals and deferred income | 86 | — | 100 | — |
| | <u>1,965</u> | <u>324</u> | <u>2,368</u> | <u>323</u> |

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

Loan payable to fellow group undertaking represents the amount the company received for the inventory sold to Lakeside, but the inventory has not been derecognised as the risks and rewards of ownership have not been transferred from the company. Amounts due within one year of £324 million (2018 - £324 million) reflect the directors' expectation, based on historical experience of how much of the maturing whisky inventory subject to the call option will be exercised by the company within one year.

18. PROVISIONS

| | Restructuring £ million | Other £ million | Total £ million |
|--------------------------|----------------------------|--------------------|--------------------|
| At 30 June 2018 | 2 | 4 | 6 |
| Provided during the year | 1 | 1 | 2 |
| Utilised during the year | (1) | (2) | (3) |
| At 30 June 2019 | <u>2</u> | <u>3</u> | <u>5</u> |

All provisions are expected to be utilised by 30 June 2020. Other provisions are principally in respect of a subcontractor claim and redevelopment obligations.

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. DEFERRED TAX ASSETS AND LIABILITIES

Net deferred tax liabilities are as follows:

| | Property, plant and equipment £ million | Other temporary differences £ million | Total £ million |
|---|--|--|--------------------|
| At 30 June 2017 | (17) | (29) | (46) |
| Recognised in income statement | (55) | (3) | (58) |
| Recognised in other comprehensive expense | — | 1 | 1 |
| At 30 June 2018 | (72) | (31) | (103) |
| Recognised in income statement | (9) | 1 | (8) |
| Recognised in other comprehensive expense | — | 1 | 1 |
| At 30 June 2019 | (81) | (29) | (110) |

Other temporary differences are mainly in respect of costs capitalised in maturing inventories.

Unrecognised deferred tax assets

Deferred tax 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. Where this is not the case, deferred tax assets have not been recognised. The total value of unrecognised deferred tax assets as at 30 June 2019 is £275,000 (2018 - £348,000).

20. CALLED UP SHARE CAPITAL AND RESERVES

(a) Called up share capital

| | 30 June 2019 £ million |
|---|---------------------------|
| <i>Allotted, called up and fully paid</i> | |
| 363,169,546 ordinary shares of 50p each | <u>182</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. COMMITMENTS

Capital commitments

Commitments for expenditure on property, plant and equipment not provided for in these financial statements are estimated at £121 million (2018 - £32 million).

Operating lease commitments

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

| | Land and buildings £ million | Plant and machinery £ million | Other £ million | Total £ million |
|------------------------------|------------------------------------|-------------------------------------|--------------------|--------------------|
| Payments falling due: | | | | |
| Within one year | 1 | 1 | 1 | 3 |
| Between one and two years | 1 | 1 | — | 2 |
| Between two and three years | 1 | 1 | — | 2 |
| Between three and four years | 1 | — | — | 1 |
| Between four and five years | 1 | — | — | 1 |
| After five years | 2 | — | — | 2 |
| As at 30 June 2019 | 7 | 3 | 1 | 11 |

| | Land and buildings £ million | Plant and machinery £ million | Other £ million | Total £ million |
|------------------------------|------------------------------------|-------------------------------------|--------------------|--------------------|
| Payments falling due: | | | | |
| Within one year | 1 | 1 | 1 | 3 |
| Between one and two years | — | — | 1 | 1 |
| Between two and three years | — | — | — | — |
| Between three and four years | — | — | — | — |
| Between four and five years | — | — | — | — |
| After five years | 1 | — | — | 1 |
| As at 30 June 2018 | 2 | 1 | 2 | 5 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. COMMITMENTS (continued)

Other purchase commitments

At 30 June 2019 the company had purchase commitments totalling £387 million (2018 - £428 million), the majority of which were in respect of dry goods and raw material purchases.

22. RELATED PARTY TRANSACTIONS

Transactions between the company and its related parties are made on terms equivalent to those that prevail in arm's length transactions.

The company provides services to and act as an agent for a number of not wholly owned fellow group undertakings. The costs and income (excluding agents' fees) in respect of agency activities are not disclosed separately in the company's income statement.

The following transactions were carried out with related parties:

(a) Sales of goods and services

| | 30 June 2019 £ million | 30 June 2018 £ million |
|---|---------------------------|---------------------------|
| Subsidiaries not wholly owned by the Diageo group | <u>4</u> | <u>5</u> |

(b) Purchases of goods and services

| | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|---|---|---|
| Subsidiaries not wholly owned by the Diageo group | 1 | 1 |
| Associates not wholly owned by the Diageo group | 4 | 5 |
| Joint ventures not wholly owned by the Diageo group | 25 | 24 |
| Joint operations not wholly owned by the Diageo group | 10 | 1 |
| | <u>40</u> | <u>31</u> |

At 30 June 2019, inventories include purchases of £31 million from group undertakings not wholly owned by the Diageo group (2018 - £26 million).

Diageo Scotland Limited
Registered number: SC000750
Year ended: 30 June 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. RELATED PARTY TRANSACTIONS (continued)

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

| | Year ended 30 June 2019 £ million | Year ended 30 June 2018 £ million |
|---|---|---|
| Trade receivables due from related parties: | | |
| Subsidiaries not wholly owned by the Diageo group | <u>—</u> | <u>1</u> |
| Trade payables due to related parties: | | |
| Associates not wholly owned by the Diageo group | 1 | 1 |
| Joint ventures not wholly owned by the Diageo group | 1 | — |
| Joint operations not wholly owned by the Diageo group | <u>1</u> | <u>1</u> |
| | <u>3</u> | <u>2</u> |

(d) Loans from related parties

At 30 June 2019, other payables included a secured loan owed to a fellow group undertaking of £648 million (2018 - £647 million) in respect of a loan payable to Lakeside.

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 which is the ultimate controlling party of the Diageo group. Diageo plc is incorporated and registered in England. The consolidated financial statements of Diageo plc can be obtained from the registered office at Diageo, Lakeside Drive, Park Royal, London, NW10 7HQ.