

Diageo Great Britain Limited

Financial statements 30 June 2010

Registered number 507652



Directors' report

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2010

Activities

The principal activities of the company are the packaging, distribution, marketing, importing and selling of beer, spirits and wines. The directors foresee no material change to the activities of the company.

Business review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2010

Although the UK economy is no longer in recession, the outlook remains uncertain. Despite the decline in consumption of alcohol in the United Kingdom, the company delivered growth in turnover. This growth was mainly driven by Smirnoff, Bell's, Pimm's, Baileys and wines. Guinness had a strong performance during the year and although both volume and turnover decreased slightly it increased its market share.

In the year ended 30 June 2010, an income of £364 million was received from group and associated undertakings driven by the dividend of £200 million from Justerini & Brooks, Limited and by £160 million from Diageo United Kingdom Limited.

In the year ended 30 June 2010, there was an impairment charge of £74 million in respect of the company's wholly owned subsidiary undertaking, Diageo United Kingdom Limited.

The principal reasons for the reduction in the net interest payables on loans from fellow group undertakings from £95 million to £11 million were the decline of the one month sterling LIBOR interest rate from an average of 3.2% for the year ended 30 June 2009 to an average of 0.5% for the year ended 30 June 2010 and the lower average balance of these loans.

As part of the restructuring programme the company reorganised its logistics activity in the United Kingdom and outsourced the warehousing function to a third party supplier.

On 1 July 2010 the company entered into a licence agreement with Diageo Chateau & Estate Wines Company, a fellow subsidiary company, where the company was granted the rights of manufacturing, bottling, packaging, distribution, marketing, and sale of Blossom Hill wines worldwide excluding the United States.

The Responsible Drinking campaign continued to play an important role in the company's performance agenda throughout the year.

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 turnover and operating profit.

Turnover increased by £102 million from £1,520 million in the year ended 30 June 2009 to £1,622 million in the year ended 30 June 2010. This growth was driven by strong spirits and wine performance and the company gained share of beer in the on trade and spirits, wine and beer in the off trade. Smirnoff produced a

Directors' report (continued)

Business review (continued)

strong performance during the year growing net sales by 2% and gaining share in the off trade Pimm's and Baileys performed strongly with both brands gaining share in the on trade and off trade Bell's suffered a slight decrease in net sales, however, increased market share in the off trade strongly Operating costs increased by £185 million from £1,401 million in the year ended 30 June 2009 to £1,586 million in the year ended 30 June 2010 driven by an increase in excise duties of £72 million to £811 million for the year ended 30 June 2010 following a duty increase in March 2010 and an intercompany recharge of £33 million in respect of the contribution made by Diageo plc to the UK pension scheme to partly fund the UK Diageo Pension Scheme's deficit These factors also impacted operating profit which decreased by £83 million from £119 million in the year ended 30 June 2009 to £36 million in the year ended 30 June 2010

Principal risks and uncertainties facing the company as at 30 June 2010

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

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

The company's business may be adversely impacted by unfavourable economic conditions

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

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

The company faces substantial competition from several international companies as well as local and regional companies in the United Kingdom The company competes with drinks companies across a wide range of consumer drinking occasions Within a number of categories, consolidation or realignment is still possible Increased competition and unanticipated actions by competitors or customers could lead to downward pressure on prices and/or a decline in the company's market share in any of these categories, which would adversely affect the company's results and hinder its growth potential

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

Any significant changes in consumer preferences and failure to anticipate and react to such changes could result in reduced demand for the company's products and erosion of its competitive and financial position

Directors' report (continued)

Business review (continued)

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

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

The majority of the 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 deterioration in the value of fund assets or changes in discount rates or inflation rates, the company may need to make additional significant contributions to the pension funds in the future. As these pension plans are treated as defined contribution schemes, these contributions 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 after tax income.

Financial risk management

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 exchange rate risk due to exchange rate movements, which will affect the company's transactions.

For currencies in which there is an active market, group treasury seeks to hedge between 60% and 100% of forecast transactional foreign exchange rate risk, for up to a maximum of 21 months forward, using forward foreign currency exchange contracts.

Liquidity risk

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

Credit risk

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

Directors' report (continued)

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 directors' report on pages 1 to 3. The company is expected to continue to generate profit for its own account and to remain in positive net asset position for the foreseeable future. The company participates in the group's centralised treasury arrangements and so the parent and fellow group undertakings are expected to provide financial support for the foreseeable future and so the company is not reliant on external third party financing. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Diageo group to continue as a going concern. On the basis of their assessment, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future with the support from the group undertakings. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Financial

The results for the year ended 30 June 2010 are shown on page 9.

A dividend of £62 million (2009 - £48 million) was paid during the year.

The profit for the year transferred to reserves is £327 million (2009 - £107 million).

Directors

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

A A Abigail	(resigned 1 October 2009)
G Andrews	(appointed 16 March 2010)
P B Armstrong	(appointed 16 March 2010)
N J Arthur	(resigned 15 March 2010)
C D Coase	
G P Crickmore	
G D Kryder	(appointed 16 March 2010)
N Makos	
J G O'Hagan	(resigned 15 March 2010)
A M Smith	
P D Tunnacliffe	

Directors' remuneration

Details of the directors' remunerations are detailed in note 4 of these financial statements.

Directors' report (continued)

Employee involvement

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

Employee engagement is a key element of the company's people strategy. The company's values are embedded in the business and guide how all employees operate and behave. A values survey, which includes a measure of employee engagement, is conducted with employees every year. This survey provides an annual insight into what employees are thinking and feeling about the business. The employee values survey allows the company to assess how the business is tracking against the long term goals of engaging employees and consistently bringing the company's values to life.

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

The company is committed to the safety and wellbeing of employees at work. It promotes responsible drinking behaviours among all its people. The company is committed to open and continuous dialogue with its employees as a way to inform and engage them in the company's strategy and business goals as well as harnessing the ideas employees will have on improving broad areas of business performance.

Each senior manager is responsible for supporting the Diageo Executive and senior leadership community in delivering against these communication and employee engagement goals. The company has an intranet web site from which employees with access to a computer can obtain timely and accurate news and information.

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

Supplier payment policy

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

The number of days' purchases included in creditors as at 30 June 2010, in respect of the company, is 67 days (2009 - 66 days). Some of the company's invoices for goods and services are settled by a fellow group undertaking acting as an agent for the company.

Directors' report (continued)

Post balance sheet events

Pension deficit funding

On 1 July 2010 Diageo plc announced that agreement has been reached with the trustee of the UK Diageo Pension Scheme (the UK Scheme) with respect to a 10 year funding plan. As part of this agreement, in July 2010 Diageo plc made a further contribution to fund the deficit of the UK Scheme. The company will contribute £61 million of this deficit funding, which has been allocated based on the number of members of the UK Scheme employed or formerly employed by the company. The cost will be charged to the income statement in the year ending 30 June 2011.

Liquidation of subsidiary undertaking

A wholly owned subsidiary of the company, Barbeques Galore (UK) Limited was put into members voluntary liquidation on 14 October 2010, resulting in neither a gain nor a loss to the company.

Capital reduction and dividend declaration of subsidiary undertakings

On 22 November 2010 Diageo United Kingdom Limited, a wholly owned subsidiary, reduced its share capital to 2 ordinary shares of £1 each, cancelled its share premium account and declared a dividend of £50 million. As a result, the company wrote down its investment in Diageo United Kingdom Limited to £2, resulting in neither a gain nor a loss.

On 22 November 2010 Gilbeys Limited, a wholly owned subsidiary, reduced its share capital to 8 ordinary shares of 25p each, cancelled its share premium account and on 6 December 2010 declared a dividend of £321 million. As a result, the company wrote down its investment in Gilbeys Limited to £2, resulting in a net gain of £28 million.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor, KPMG Audit Plc, is willing to continue in office and will be deemed to be reappointed on the expiry of its term in office in respect of the year ended 30 June 2010.

Disclosure of information to auditors

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


N Mákos
Director

Lakeside Drive
Park Royal
London
NW10 7HQ

17 March 2011

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

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

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

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

In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

We have audited the financial statements of Diageo Great Britain Limited for the year ended 30 June 2010, which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2010 and of the profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

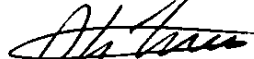
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Darren Turner, Senior Statutory Auditor

For and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
KPMG Audit Plc
15 Canada Square
London
E14 5GL

17 March 2011

Profit and loss account

	<i>Notes</i>	Year ended 30 June 2010 £ million	Year ended 30 June 2009 £ million
Turnover	<i>1</i>	1,622	1,520
Operating costs (including exceptional costs of £33 million (2009 - £nil) in respect of pension contribution)	<i>2-4</i>	(1,586)	(1,401)
Operating profit		36	119
Income from shares in group and associated undertakings	<i>5</i>	364	106
Provision against subsidiary undertakings	<i>10</i>	(74)	(40)
Net interest payable	<i>6</i>	(11)	(95)
Profit on ordinary activities before taxation		315	90
Taxation on profit on ordinary activities	<i>7</i>	12	17
Profit for the financial year	<i>18</i>	327	107

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

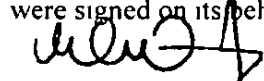
There is no difference between the results for the years shown in the profit and loss account and the results for the relevant years restated on an historical cost basis

All results arise from continuing operations

Balance sheet

	<i>Notes</i>	30 June 2010	30 June 2009
		£ million	£ million
Fixed assets			
Intangible assets	8	-	-
Tangible assets	9	165	141
Investments	10	3,062	3,135
		<u>3,227</u>	<u>3,276</u>
Current assets			
Stocks	11	34	26
Debtors	12	392	340
Cash at bank and in hand	14	24	35
		<u>450</u>	<u>401</u>
Creditors due within one year	15	<u>(2,705)</u>	<u>(2,963)</u>
Net current liabilities		<u>(2,255)</u>	<u>(2,562)</u>
Total assets less current liabilities		<u>972</u>	<u>714</u>
Provisions for liabilities and charges	16	<u>(4)</u>	<u>(15)</u>
Net assets		<u>968</u>	<u>699</u>
Capital and reserves			
Called up share capital	17	278	278
Share premium account	18	73	73
Profit and loss account	18	617	348
		<u>690</u>	<u>421</u>
Shareholders' funds	19	<u>968</u>	<u>699</u>

These financial statements on pages 9 to 29 were approved by the board of directors on 17 March 2011 and were signed on its behalf by



N Mákos
Director

Accounting policies

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

Basis of preparation

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

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996)

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

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

Going concern

The financial statements have been prepared on a going concern basis as the parent group undertaking has agreed to provide financial support for the foreseeable future.

Turnover

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

Advertising

The company has changed its accounting policy and charges advertising expenditure, such as advertising costs, points of sale materials and sponsorship payments to the profit and loss account when it has a right of access to the goods or services acquired, as opposed to charging such costs to the profit and loss account when the advertisement is first shown to the public.

The impact of this change in accounting policy would have reduced operating profit, by increasing marketing expenditure, for the year ended 30 June 2009 by £7 million. In addition, the adoption of the amendment would have decreased stocks at 30 June 2009 by £2 million, debtors included in current assets at 30 June 2009 by £5 million, increased deferred tax asset at 30 June 2009 by £2 million and decreased reserves as at 30 June 2009 by £5 million.

As the impact of applying the amended accounting policy was considered to be insignificant, the figures for the year ended 30 June 2009 were not restated.

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) Where the ultimate parent's shares or options over that company's shares are granted to a subsidiary undertaking's employees, an expense is recorded in the profit and loss account, with a corresponding credit to reserves This charge is 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 on the binomial or 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 majority of the employees of the company are members of the Diageo UK pension plans, which are defined benefit schemes

It is not possible to allocate the assets and liabilities of the pension plans on a consistent and reasonable basis between individual companies and therefore the company accounts for them as defined contribution schemes The assets and liabilities of the Diageo UK pension plans are recognised in the Diageo plc consolidated financial statements

Exceptional items

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

Foreign currencies

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

Intangible assets

Distribution rights regarded as having limited useful economic lives are amortised on a straight-line basis over their lives (20 years) Amortisation and any impairment write-downs are charged to the profit and loss account

Accounting policies (continued)

Tangible fixed assets

Buildings are stated at cost less depreciation

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

Industrial and other buildings	10 to 50 years
Plant and machinery	5 to 25 years
Fixtures and fittings	5 to 10 years
Computer software	up to 5 years
Casks and kegs	5 to 20 years

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

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

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

Fixed asset investments

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

Leases

The company is involved in lease agreements, which are treated as operating leases, with payments and receipts taken to the profit and loss account on a straight line basis over the life of the lease.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, and an appropriate proportion of production and other overheads.

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.

Accounting policies (continued)

Capital grants

Capital grants are treated as deferred income, and are credited to the profit and loss account on the same basis as the related tangible fixed assets are depreciated

Taxation

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

Notes to the financial statements

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

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

Geographical analysis of turnover

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

	Year ended 30 June 2010 £ million	Year ended 30 June 2009 £ million
United Kingdom	1,570	1,464
Rest of Europe	52	56
	<u>1,622</u>	<u>1,520</u>

Analysis of turnover by class of business

	Year ended 30 June 2010 £ million	Year ended 30 June 2009 £ million
Distribution, marketing, importing and selling of beer, spirits and wines	1,559	1,457
Packaging of beer	63	63
	<u>1,622</u>	<u>1,520</u>

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

Sales to fellow group undertakings included in turnover amounted to £67 million (2009 - £69 million)

Notes to the financial statements (continued)

2. Operating costs

	Year ended 30 June 2010 £ million	Year ended 30 June 2009 £ million
(Decrease)/increase in stocks of finished goods and work in progress	(8)	4
Raw materials and consumables	508	464
Excise duties	811	739
Advertising, marketing and promotion costs	81	76
Other external charges (b)	96	64
Staff costs (note 3)	63	70
Depreciation and other amounts written off fixed assets	37	31
Other operating income (a)	(35)	(47)
Exceptional item (c)	33	-
	<u>1,586</u>	<u>1,401</u>

(a) **Other operating income** includes intercompany management income of £23 million (2009 - £18 million)

(b) **Other external charges** include intercompany royalty charges of £21 million (2009 - £19 million), intercompany factoring charges of £4 million (2009 - £6 million), losses in respect of foreign exchange of £8 million (2009 - £9 million), write off other receivables of £5 million (2009 - £nil), operating lease rentals for plant and machinery of £2 million (2009 - £3 million) and for land and buildings of £4 million (2009 - £5 million)

Fees in respect of services provided by the auditor were statutory audit - £165,185 (2009 - £165,185), other non-audit work - £nil (2009 - £nil)

(c) **Exceptional item** comprises a cost of £33 million (2009 - £nil) due to Diageo plc in respect of UK Diageo Pension Scheme (the UK Scheme) Based on the valuation of the UK Scheme at 30 June 2010 Diageo plc made a contribution to fund the deficit Part of this payment was allocated to the company based on the number of members of the UK Scheme employed or formerly employed by the company The UK Scheme is a defined benefit scheme, however, the company accounts for it as a defined contribution scheme as it is not possible to allocate the assets and liabilities of the pension scheme on a consistent and reasonable basis between the individual companies

Notes to the financial statements (continued)

3. Staff costs

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

	Year ended 30 June 2010	Year ended 30 June 2009
Production	205	224
Selling and distribution	596	672
Corporate and administration	826	837
	<u>1,627</u>	<u>1,733</u>

The aggregate remuneration of all employees comprised

	Year ended 30 June 2010 £ million	Year ended 30 June 2009 £ million
Wages and salaries	38	40
Employer's social security costs	4	5
Employer's pension costs	15	16
Share based payments	4	2
Other employment costs	2	7
	<u>63</u>	<u>70</u>

The aggregate of staff costs disclosed is net of reimbursements received from other group undertakings. Staff numbers represent the total headcount employed by the company. As a consequence the cost per employee is not directly comparable with the staff numbers disclosed.

Retirement benefits

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

It is not possible to allocate the assets and liabilities of the pension plans between individual companies consistently and reasonably and therefore the company accounts for it as a defined contribution scheme. The company made cash contributions of £15 million to the scheme in respect of its employees in the year ended 30 June 2010 (2009 - £16 million) excluding the contribution made to fund the deficit of the pension schemes that was disclosed as exceptional operating cost.

The assets and liabilities of the Diageo UK pension plans and related disclosures are contained in Diageo plc's annual report for the year ended 30 June 2010. However, the amounts referred to are not all attributable to the company.

Notes to the financial statements (continued)

3. Staff costs (continued)

Share based payments

For the two years ended 30 June 2010, the charge for the company for share based payments is based on the salary costs of the company and the assumptions used by the Diageo group to calculate the fair value charge. The assumptions used for the options and awards made during the years ended 30 June 2010 and 30 June 2009 were as follows

	Executive share option plans	Savings plans	Executive share award plans
2010			
Weighted average assumptions			
Risk free interest rate	2.8%	2.2%	2.2%
Expected life of the options	60 months	47 months	36 months
Expected volatility	18%	20%	-
Dividend yield	3.6%	3.6%	3.6%
Weighted average share price	977p	960p	977p
Weighted average fair value of options/awards granted in the year	135p	215p	391p
	Executive share option plans	Savings plans	Executive share award plans
2009			
Weighted average assumptions			
Risk free interest rate	4.2%	4.0%	3.6%
Expected life of the options	60 months	48 months	36 months
Expected volatility	14%	16%	-
Dividend yield	4.2%	4.2%	4.2%
Weighted average share price	970p	838p	902p
Weighted average fair value of options/awards granted in the year	130p	115p	447p

The calculation of the fair value of each option and share award used the binomial (share option and savings plans) and Monte Carlo (share award plans) option pricing models

The risk free interest rate is based on the UK treasury coupon strips in effect at the time of the grant, for the expected life of the option. The expected life of the options represents the period of time that options granted to be outstanding. The group uses historical data to estimate option exercise and employee termination within the valuation model. Expected volatility is based on implied volatilities from traded options on the group's shares, historical volatility of the group's shares and other factors.

Further details of the valuation and accounting for share options schemes and policies are contained in Diageo plc's annual report for the year ended 30 June 2010 (see note 34 of Diageo plc's 2010 annual report).

Notes to the financial statements (continued)

4. Directors' remuneration

	Year ended 30 June 2010 £000	Year ended 30 June 2009 £000
Remuneration (excluding pension contributions)	732	836

The aggregate remuneration of the highest paid director was £143,000 (2009 - £342,000). The highest paid director is a member of a defined benefit scheme under which his accrued annual pension at the year-end was £27,324 (2009 - £152,849). The lump sum equivalent of the highest paid director's pension entitlement at the year-end was £327,559 (2009 - £2,775,414).

Some of the directors are paid by fellow group undertakings. Majority of the directors paid by the company are members of the Diageo UK pension plans.

The highest paid director made gains during the year of £27,014 (2009 - £nil) on the exercise of share options in Diageo plc.

5. Income from shares in group and associated undertakings

	Year ended 30 June 2010 £ million	Year ended 30 June 2009 £ million
Dividend income from shares in group undertakings		
Justerini & Brooks, Limited	200	42
Diageo United Kingdom Limited	160	-
Woodford & Co	-	38
Other	3	25
	<u>363</u>	<u>105</u>
Dividend income from associated undertaking		
Lothian Distillers Limited	1	1
	<u>364</u>	<u>106</u>

Dividend of £nil (2009 - £33 million) has been settled by receiving an amount due from fellow group undertakings.

Notes to the financial statements (continued)

6. Net interest payable

	Year ended 30 June 2010 £ million	Year ended 30 June 2009 £ million
Interest payable to fellow group undertakings	(11)	(102)
	<hr/>	<hr/>
	(11)	(102)
Less		
Interest receivable on loans to fellow group undertakings	-	6
Other interest receivable	-	1
	<hr/>	<hr/>
	-	7
	<hr/>	<hr/>
	(11)	(95)
	<hr/>	<hr/>

7. Taxation

	Year ended 30 June 2010 £ million	Year ended 30 June 2009 £ million
(i) Analysis of taxation credit for the year		
Current tax		
Foreign withholding tax paid	-	(1)
	<hr/>	<hr/>
Total current tax	-	(1)
Deferred tax		
Current year	16	8
Adjustment in respect of prior years	(4)	10
	<hr/>	<hr/>
Total deferred tax	12	18
	<hr/>	<hr/>
Taxation on profit on ordinary activities	12	17
	<hr/>	<hr/>

Notes to the financial statements (continued)

7. Taxation (continued)

	Year ended 30 June 2010 £ million	Year ended 30 June 2009 £ million
(ii) Factors affecting current tax charge for the year		
Profit on ordinary activities before taxation	315	90
	<hr/>	<hr/>
Taxation on profit on ordinary activities at UK corporation tax rate of 28% (2009 – 28%)	(88)	(25)
Accelerated capital allowances and other timing differences	(16)	(10)
Expenses not deductible for tax purposes	(22)	(17)
Items not chargeable for tax purposes	104	33
Group relief received for nil consideration	22	19
Overseas tax paid	-	(1)
	<hr/>	<hr/>
Current tax charge for the year	-	(1)
	<hr/>	<hr/>

8. Fixed assets – intangible assets

	Distribution rights £ million
Cost	
At the beginning and at the end of the year	12
Amortisation	
At the beginning and at the end of the year	(12)
	<hr/>
Net book value	
At the beginning and at the end of the year	-
	<hr/>

Notes to the financial statements (continued)

9. Fixed assets – tangible assets

	Buildings £ million	Plant and machinery £ million	Fixtures and fittings £ million	Casks and kegs £ million	Assets in course of construction £ million	Total £ million
Cost						
At 30 June 2009	23	136	135	-	23	317
Additions	-	5	-	-	56	61
Disposals	-	(6)	(13)	-	-	(19)
Transfers	-	(43)	16	43	(16)	-
At 30 June 2010	23	92	138	43	63	359
Depreciation						
At 30 June 2009	(8)	(92)	(76)	-	-	(176)
Provided during the year	(1)	(11)	(21)	(1)	-	(34)
Provision for impairment	-	(1)	(2)	-	-	(3)
Disposals	-	6	13	-	-	19
Transfers	-	33	-	(33)	-	-
At 30 June 2010	(9)	(65)	(86)	(34)	-	(194)
Net book value						
At 30 June 2010	14	27	52	9	63	165
At 30 June 2009	15	44	59	-	23	141

Included within transfers are casks and kegs of £43 million in respect of cost of assets and £33 million in respect of accumulated depreciation which have been reclassified from plant and machinery to a separate class to provide more relevant information for the users of the financial statements

Notes to the financial statements (continued)

10. Fixed assets – investments

	Subsidiary undertakings £ million	Associated undertaking £ million	Other investments £ million	Total £ million
Cost				
At 30 June 2009	4,659	26	5	4,690
Addition	2	-	-	2
Dissolution of subsidiary undertakings	(13)	-	-	(13)
At 30 June 2010	4,648	26	5	4,679
Provisions				
At 30 June 2009	(1,551)	-	(4)	(1,555)
Provided during the year	(74)	-	-	(74)
Dissolution of subsidiary undertakings	12	-	-	12
At 30 June 2010	(1,613)	-	(4)	(1,617)
Net book value				
At 30 June 2010	3,035	26	1	3,062
At 30 June 2009	3,108	26	1	3,135

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

	Country of incorporation	Class and percentage of shares held
Direct holdings:		
Subsidiary undertakings		
Diageo Scotland Limited	Scotland	100% of ordinary shares
Gilbeys Limited	England	100% of ordinary shares
Justerini & Brooks, Limited	England	100% of ordinary shares
Diageo United Kingdom Limited	England	100% of ordinary shares
S & B Production Limited	Northern Ireland	100% of ordinary shares
The Old Bushmills Distillery Company Limited	Northern Ireland	100% of ordinary A&B shares
Associated undertaking		
Lothian Distillers Limited	Scotland	100% of ordinary B shares (two classes – A&B, 50% of total voting share capital)

Notes to the financial statements (continued)

10. Fixed assets – investments (continued)

The majority of the above companies are principally involved in the production, distribution, marketing, exporting and importing of beer, spirits and wines

The investments in subsidiary and associated undertakings are held at cost less, where appropriate, provision for impairment in value

In the opinion of the directors, the investment in and amounts due from the company's subsidiary undertakings are worth at least the amount at which they are stated in the financial statements

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

The aggregate net book value of the investment in associated undertakings on an equity accounting basis is £22 million (2009 - £24 million)

Former subsidiary undertakings, H K S Properties Limited, Strathleven Bonded Warehouse Limited and The Interesting Drinks Co Limited were liquidated during the financial year, resulting in a gain of £50,000

Subsidiaries of the company, Glen Spey Limited, Ruchill & Ross Limited, Treat (UK) Venture Limited and William Hucks and Company Limited were put into members voluntary liquidation during the financial year, resulting in neither a gain nor a loss to the company

11. Stocks

	30 June 2010	30 June 2009
	£ million	£ million
Raw materials and consumables	2	2
Finished goods and goods for resale	32	24
	<hr/>	<hr/>
	34	26
	<hr/>	<hr/>

Stocks are disclosed net of provisions of £2 million (2009 - £2 million) for obsolescence

Notes to the financial statements (continued)

12. Debtors

	30 June 2010 £ million	30 June 2009 £ million
Trade debtors	169	133
Factored debt	67	66
Amounts owed by fellow group undertakings	93	102
Other debtors	5	1
Other prepayments and accrued income	20	12
Deferred taxation (note 13)	38	26
	<u>392</u>	<u>340</u>

Amounts owed by fellow group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand

Other prepayments and accrued income includes accrued income on services provided to fellow group undertakings of £14 million (2009 - £nil)

Included in deferred taxation is an asset of £35 million (2009 - £23 million), which falls due after one year. All other amounts fall due within one year

13. Deferred taxation

	30 June 2010 £ million	30 June 2009 £ million
Accelerated capital allowances	31	22
Other timing differences	7	4
	<u>38</u>	<u>26</u>

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

14. Cash

The company has entered into a joint and several guarantee with certain other Diageo plc UK group undertakings such that any balance on the company's bank accounts within the cashpool may be offset against the bank balances or overdrafts of those companies included in the cashpool. The amount shown in the balance sheet of 30 June 2010 includes bank accounts outside the cashpool amounting to £9 million (2009 - £5 million)

Notes to the financial statements (continued)

15. Creditors: due within one year

	30 June 2010 £ million	30 June 2009 £ million
Trade creditors	86	63
Amounts owed to fellow group undertakings	2,381	2,716
Amounts owed to associated undertaking	9	7
Other taxation including social security	61	43
Other creditors	4	6
Accruals and deferred income	164	128
	<u>2,705</u>	<u>2,963</u>

Amounts owed to fellow group undertakings are unsecured and repayable on demand

Amounts owed to Diageo Finance plc of £227 million (2009 - £413 million) are interest bearing, other amounts owed to fellow group undertakings and to the associated undertaking are interest free

16. Provisions for liabilities and charges

	Restructuring provisions £ million
At 30 June 2009	15
Utilised during the year	(14)
Provided during the year	3
	<u>4</u>
At 30 June 2010	4

The Diageo group is undergoing a restructuring programme, which involves rationalisation of operations around the world. The principal costs are employee terminations, incremental costs in respect of service contracts and information systems infrastructure charges in connection with the programme. It is expected that the provision will be substantially utilised in the year ending 30 June 2011.

17. Share capital

	30 June 2010 £ million	30 June 2009 £ million
<i>Allotted, called up and fully paid:</i>		
1,113,082,750 ordinary shares of 25p each	<u>278</u>	<u>278</u>

Notes to the financial statements (continued)

18. Reserves

	Share premium account £ million	Profit and loss account £ million	Total £ million
At 30 June 2009	73	348	421
Profit for the financial year	-	327	327
Dividends paid	-	(62)	(62)
Share based payments	-	4	4
At 30 June 2010	73	617	690

19. Reconciliation of movement in shareholders' funds

	30 June 2010 £ million	30 June 2009 £ million
Profit for the financial year	327	107
Dividends paid	(62)	(48)
Share based payments	4	2
Net addition to shareholders' funds	269	61
Shareholders' funds at the beginning of the year	699	638
Shareholders' funds at the end of the year	968	699

Notes to the financial statements (continued)

20. Commitments

At 30 June 2010 the company had minimum annual commitments under non-cancellable operating leases as follows

	30 June 2010			30 June 2009		
	Land and buildings £ million	Other £ million	Total £ million	Land and buildings £ million	Other £ million	Total £ million
Annual payments under leases expiring:						
After five years	6	1	7	5	1	6
From one to five years	-	3	3	-	3	3
Within one year	-	-	-	1	-	1
	<u>6</u>	<u>4</u>	<u>10</u>	<u>6</u>	<u>4</u>	<u>10</u>

Capital expenditure commitments not provided for in these financial statements are estimated at £16 million (2009 - £29 million)

21. Related party transactions

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

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

- (a) Company's profit for the financial year includes dividend income from associated undertaking of £1 million (2009 - £1 million)
- (b) At 30 June 2010, amounts owed by fellow group undertakings include £31 million (2009 - £30 million) in respect of amounts owed by group undertakings not wholly owned by the Diageo group and £4 million (2009 - £nil) in respect of amounts owed by joint ventures of the Diageo group
- (c) At 30 June 2010, creditors include £9 million (2009 - £7 million) in respect of amounts owed to associated undertaking

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 agent fee) in respect of agency activity are not disclosed in the company's profit and loss account

Notes to the financial statements (continued)

22. Post balance sheet events

Pension deficit funding

On 1 July 2010 Diageo plc announced that agreement has been reached with the trustee of the UK Diageo Pension Scheme (the UK Scheme) with respect to a 10 year funding plan. As part of this agreement, in July 2010 Diageo plc made a further contribution to fund the deficit of the UK Scheme. The company will contribute £61 million of this deficit funding, which has been allocated based on the number of members of the UK Scheme employed or formerly employed by the company. The cost will be charged to the income statement in the year ending 30 June 2011.

Liquidation of subsidiary undertaking

A wholly owned subsidiary of the company, Barbeques Galore (UK) Limited was put into members voluntary liquidation on 14 October 2010, resulting in neither a gain nor a loss to the company.

Capital reduction and dividend declaration of subsidiary undertakings

On 22 November 2010 Diageo United Kingdom Limited, a wholly owned subsidiary, reduced its share capital to 2 ordinary shares of £1 each, cancelled its share premium account and declared a dividend of £50 million. As a result, the company wrote down its investment in Diageo United Kingdom Limited to £2, resulting in neither a gain nor a loss.

On 22 November 2010 Gilbeys Limited, a wholly owned subsidiary, reduced its share capital to 8 ordinary shares of 25p each, cancelled its share premium account and on 6 December 2010 declared a dividend of £321 million. As a result, the company wrote down its investment in Gilbeys Limited to £2, resulting in a net gain of £28 million.

23. Immediate and ultimate parent undertaking

The immediate parent undertaking of the company is Grand Metropolitan Limited, a company incorporated and registered in England.

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