Diageo Distilling Limited

Financial statements
30 June 2011

Registered number: SC009211

Directors' report

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2011.

Activities

The company's principal activities during the year were the distillation of malt and grain whisky and white spirits, the warehousing of malt and grain spirit and the provision of engineering services. The majority of the company's products and services were sold to other group companies.

The spirit production activities of the Diageo group in Scotland were consolidated into a single legal entity on 30 June 2011, which resulted in the transfer of the company's distilling, warehousing and engineering activities to Diageo Scotland Limited, the company's immediate parent undertaking.

The company plans to undertake a reduction in capital to £2 and distribute its reserves by way of dividend to its immediate parent undertaking in the next financial year.

Business review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2011

The development and performance of the principal activities of the company were, for the year ended 30 June 2011, entirely dependent on the respective demands of the Diageo subsidiaries with whom it traded.

On 1 July 2009 the company announced the restructuring of its operations in Scotland. The plan, including the consolidation of distilling activities and the closure of a distillery and a cooperage site was completed by 30 June 2011.

On 30 June 2011, the company sold its production activities, including the related assets and liabilities to its immediate parent undertaking for a consideration of £355,641,000. Neither a profit nor a loss was realised on the transaction.

Financial and other key performance indicators

The principal key performance indicators that are used by the company's management to analyse the development, performance and position of the company's business are turnover and operating profit.

For the year ended 30 June 2011 turnover decreased by £4,072,000 from £260,465,000 to £256,393,000. The decrease in turnover primarily arose due to the closure of a distillery as a result of the restructuring of production facilities in Scotland. The operating loss increased by £15,806,000 from a loss of £16,230,000 to a loss of £32,036,000. The loss arose as a result of the recharge from Diageo plc to the company in respect of the contribution made to the UK pension scheme of £39,582,000 (2010 - £21,247,000) to partly fund the scheme's deficit. Operating profit excluding the exceptional pension charge increased by 50% from £5,017,000 to £7,546,000.

At 30 June 2011 the net assets of the company comprise of amounts owed by the immediate parent undertaking which include the purchase price consideration of £355,641,000 receivable for production activities sold.

Directors' report (continued)

Business review (continued)

Principal risks and uncertainties facing the company as at 30 June 2011

Following the transfer of the activities, including any unrecorded assets or liabilities, of the company to its immediate parent undertaking the risks and uncertainties applicable to the company are no longer relevant.

Financial risk management

At 30 June 2011the company's net assets comprised an interest free loan receivable from its immediate parent undertaking. The intention in the year ending 30 June 2012 is to declare a dividend payable to the company's immediate parent undertaking and offset this against the amount due from Diageo Scotland Limited.

Going concern

The company's business activities are set out in the business review section of the directors' report on pages 1 to 2. 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. 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 2011 are shown on page 7.

The directors do not recommend the payment of a dividend (2010 - £nil). The loss for the year transferred from reserves is £38,321,000 (2010 – loss of £6,174,000 transferred from reserves).

Directors

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

R J Bee	
S J Bolton	(appointed 01 April 2011)
C D Coase	(resigned 31 March 2011)
G P Crickmore	
B H Donaghey	
D Heginbottom	(appointed 16 June 2011)
B Higgs	
N Mákos	
J J Nicholls	(appointed 16 June 2011)
A M Smith	
P D Tunnacliffe	

On 29 November 2011 S W J Lorimer and on 16 December 2011 J A I Franco were appointed as directors and on 26 October 2011 R J Bee resigned as a director of the company.

Directors' report (continued)

Directors' remuneration

Details of the directors' emoluments are shown in note 5 of these 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. 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 Diageo's values to life.

The company is a multi-cultural community 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. Diageo'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 a collective bargaining agreement 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.

Directors' report (continued)

Supplier payment policy (continued)

The number of days' purchases included in creditors as at 30 June 2011, in respect of the company, is nil, as there are no creditor balances due to the transfer of the production activities on 30 June 2011 (2010 - 68 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.

Secretary

On 2 February 2012 J J Nicholls resigned as secretary of the company and C Kynaston was appointed in his place.

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 2011.

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

Edinburgh Park
5 Lochside Way
Edinburgh EH12 9DT

12 March 2012

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 Distilling Limited

We have audited the financial statements of Diageo Distilling Limited for the year ended 30 June 2011, set out on pages 7 to 24. 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 5, 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, and express an opinion on, the financial statements in accordance with applicable 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/private.cfm

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 2011 and of its loss 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.

Hugh Harvie, Senior Statutory Auditor
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Date: 14 March 2012

Profit and loss account

	Notes	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Turnover	*2*	**256,393**	260,465
Operating costs (including exceptional costs of £39,582,000 (2010 - £21,247,000) in respect of pension contribution)	*3-5*	**(288,429)**	(276,695)
Operating loss		**(32,036)**	(16,230)
Disposal of fixed assets	*6*	**1,301**	(605)
Net interest payable	*7*	**(5,138)**	(3,797)
Loss on ordinary activities before taxation		**(35,873)**	(20,632)
Taxation on loss on ordinary activities	*8*	**(2,448)**	14,458
Loss for the financial year	*19*	**(38,321)**	(6,174)

As the trade and operations of the company were disposed of on 30 June 2011, the results for the year have been classified as discontinued.

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.

All results arise from discontinued operations.

Note of historical cost profits and losses

	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Loss on ordinary activities before taxation	**(35,873)**	(20,632)
Revaluation reserve realised on disposal of tangible fixed assets	**41,737**	81
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**1,777**	4,574
Historical cost profit/(loss) on ordinary activities before taxation	**7,641**	(15,977)
Historical cost profit/(loss) for the financial year	**5,193**	(1,519)

Balance sheet

	Notes	30 June 2011 £'000	30 June 2011 £'000	30 June 2010 £'000	30 June 2010 £'000
Fixed assets					
Tangible assets	*9*		-		387,121
Investments	*10*		-		-
			-		387,121
Current assets					
Stocks	*11*	-		41,058	
Debtors	*12*	**453,908**		198,660	
Cash at bank	*14*	-		739	
		453,908		240,457	
Creditors: due within one year	*15*	-		(121,871)	
Net current assets			**453,908**		118,586
Total assets less current liabilities			**453,908**		505,707
Creditors: due after one year	*16*		-		(13,520)
Net assets			**453,908**		492,187
Capital and reserves					
Called up share capital	*17*		**217,216**		217,216
Revaluation reserve	*18*		-		43,514
Profit and loss account	*18*		**236,692**		231,457
Shareholders' funds	*19*		**453,908**		492,187

These financial statements on pages 7 to 24 were approved by the board of directors on 12 March 2012 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, modified by the revaluation of certain land and buildings, and in accordance with applicable UK law and 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").

Turnover

Turnover comprises revenue from the sale of goods. 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.

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

Many of the current and former employees of the company are members of the Diageo UK pension plans, which are defined benefit schemes.

Accounting policies (continued)

Pensions and other post employment benefits (continued)

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. 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 in the notes to the financial statements or on the face of the profit and loss account.

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, if hedged forward, at the rate of exchange under the related foreign currency contract. Exchange gains and losses are taken to the profit and loss account.

Tangible fixed assets

Land and buildings are stated at cost or at professional valuation less depreciation. Plant and machinery and freehold land and buildings were revalued as at 31 December 1986 and 31 December 1992, respectively.

Freehold land is not depreciated. Leaseholds are depreciated over the unexpired period of the lease. Other tangible fixed assets are depreciated on a straight-line basis to estimated residual values over their expected useful lives within the following ranges:

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

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 five years.

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

Profit or loss on the sale of a property is the difference between the disposal proceeds and the net book value, including any revaluation of the asset. Any amount in the revaluation reserve relating to assets which are disposed of is transferred to the profit and loss account reserve in the year of disposal and is not included in the profit for the year.

Accounting policies (continued)

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

Where the company has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Other leases are treated as operating leases, with payments and receipts taken to the profit and loss account on a straight-line basis over the life of the lease.

Interest costs

Interest costs attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are recognised as charges in the profit and loss account for the period in which they are incurred.

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.

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. Sale of production activities

On 30 June 2011, the company sold its distilling, warehousing and engineering activities to Diageo Scotland Limited for a consideration of £355,641,000.

The sale was a result of a reconstruction of the production activities within the group without any change in the shareholding structure of the impacted entities, therefore certain accounting principles for group reconstruction allowed by merger accounting were applied. This means that the company sold the assets and liabilities at their carrying values on the transfer date, hence neither a profit nor a loss was realised on the transaction. The turnover and operating costs attributable to the production activities incurred until the transfer date are disclosed as discontinued operations in the profit and loss account of the company, while all profits/losses incurring after the transfer date will be disclosed in the acquirer's statutory accounts.

The net book value of assets and liabilities sold on 30 June 2011 were as follows:

	£'000
Fixed assets – tangible assets	406,732
Stocks	37,305
Debtors	10,473
Creditors – due within one year	(83,022)
Creditors – due after one year	(12,864)
Provisions	(2,983)
Total net assets	355,641

According to the purchase agreement Diageo Scotland Limited is obliged to indemnify the company after the transfer date for any liabilities or losses resulting from any act or circumstance arising out of or in connection with the production activities or assets transferred.

2. Analysis of turnover and loss on ordinary activities before taxation

The turnover and loss on ordinary activities before taxation were attributable to the discontinued activities of the distillation of malt and grain whisky and neutral spirit, the warehousing of maturing malt and grain spirit and the provision of engineering services, all of which is carried out in the United Kingdom. Where excess capacity existed, the warehousing and engineering services were offered externally at cost plus a mark-up.

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.

Notes to the financial statements (continued)

3. Operating costs

	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Raw materials and consumables	**122,539**	122,476
Staff costs (note 4)	**54,748**	69,626
Other operating income (a)	**(1,914)**	(33,644)
Other external charges (b)	**51,323**	51,273
Depreciation and impairment of tangible fixed assets	**22,151**	45,717
Exceptional pension contributions (d)	**39,582**	21,247
	288,429	276,695

(a) **Other operating income** includes a restructuring provision release of £801,000 (2010 -£nil) and an intercompany recharge of £46,000 (2010 - £33,629,000) for the net restructuring costs incurred during the year.

(b) **Other external charges** include operating lease rentals of £581,000 (2010 - £532,000), intercompany management charges of £15,195,000 (2010 - £16,012,000) and foreign exchange loss of £79,000 (2010 - £42,000).

Fees in respect of audit services provided by the auditor are £15,000 (2010 - £15,000). Amounts receivable by the auditor in respect of other (non-audit) services have not been disclosed as the information is required to be disclosed on a consolidated basis in the consolidated financial statements of Diageo plc.

(c) **Exceptional restructuring costs**

On 1 July 2009, the company announced the restructuring of its operations in Scotland. The plan, including the consolidation of distilling activities and the closure of a distillery and a cooperage site was completed during the year.

In the year ended 30 June 2011, there were exceptional operating costs of £1,182,000 (2010 - £32,975,000) of which £367,000 related to accelerated depreciation and is included in depreciation, £1,616,000 is within other external charges and £801,000 is within other operating income.

As part of the restructuring the company disposed of plant and machinery and land and buildings, resulting in a gain of £1,136,000 (2010 – loss of £654,000) disclosed as a gain on disposal of fixed assets (note 6).

The company recharged the net restructuring cost incurred of £46,000 (2010 – £33,629,000) to Diageo Scotland Limited disclosed within other operating income.

Notes to the financial statements (continued)

3. Operating costs (continued)

(d) Exceptional pension contributions

In the year ended 30 June 2011 the company incurred a cost of £39,582,000 (2010 - £21,247,000) due to Diageo plc in respect of the UK Diageo Pension Scheme (the UK Scheme). On 1 July 2010, Diageo plc announced that agreement has been reached with the trustee of the UK Scheme with respect to a 10 year funding plan. As part of this agreement, a further contribution to fund the UK Scheme was made in July 2010. 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 its obligations 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 group companies.

4. Staff costs

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

	Year ended 30 June 2011	Year ended 30 June 2010
Production	**1,261**	1,308

The aggregate remuneration of all employees comprised:

	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Wages and salaries	**40,099**	56,655
Employer's social security	**3,510**	3,520
Employer's pension costs	**11,139**	9,451
	54,748	69,626

Aggregate remuneration includes exceptional restructuring costs of £nil (2010- £11 million).

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 its obligations as if they were defined contribution schemes.

Notes to the financial statements (continued)

4. Staff costs (continued)

Retirement benefits (continued)

The company made a cash contribution of £11,139,000 to the schemes in respect of its former and current employees in the year ended 30 June 2011 (2010 - £9,451,000) excluding the contribution made to fund the deficit of the pension funds that is disclosed as exceptional pension contributions.

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 2011. The amounts referred to in Diageo plc's annual report are not all attributable to the company.

5. Directors' remuneration

	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Directors' remuneration (excluding pension contributions)	**167**	332
Executive share schemes	**14**	16
	181	348

The aggregate remuneration and amounts receivable under long term incentive schemes of the highest paid director was £167,000 (2010 - £178,000). The highest paid director is a member of a defined benefit scheme under which his accrued annual pension at the year-end was £66,000 (2010 - £57,000).

The lump sum equivalent of the highest paid director's pension entitlement at the year-end was £1,176,000 (2010 - £939,000).

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.

6. Disposal of fixed assets

	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Profit/(loss) on the sale of property, plant and machinery	**1,301**	(605)

Included within the profit/(loss) on fixed assets disposals are plant and machinery and land and buildings disposed as part of the restructuring resulting in a gain of £1,136,000 (2010 – loss of £654,000).

The deferred tax charges on these items were £102,000 (2010 – £169,000).

Notes to the financial statements (continued)

7. Net interest payable

	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Interest (payable)/receivable on loans to fellow group undertakings	(195)	151
Other interest payable	(4,943)	(3,948)
	(5,138)	(3,797)

8. Taxation

(i) Analysis of taxation (charge)/credit for the year	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Deferred tax		
Current year	(2,403)	13,551
Adjustment in respect of prior years	(1)	907
Effect of changes in tax rates	(44)	-
Total deferred tax	(2,448)	14,458
Taxation (charge)/credit on loss on ordinary activities	(2,448)	14,458

(ii) Factors affecting current tax charge for the year	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Loss on ordinary activities before taxation	(35,872)	(20,632)
Taxation on loss on ordinary activities at UK corporation tax rate of 27.5% (2010 – 28%)	9,865	5,777
Expenses not deductible and income not taxable for tax purposes	303	128
Group relief (surrenderable) / receivable for nil consideration	(7,495)	11,798
Depreciation in excess of capital allowances and other timing differences	(564)	(13,505)
Non-qualifying depreciation	(2,109)	(4,198)
Current ordinary tax charge for the year	-	-

Notes to the financial statements (continued)

8. Taxation (continued)

The company has £44,327 capital losses carried forward (2010 - £44,327). The company has not recognized these losses as their recoverability is uncertain.

9. Fixed assets – tangible assets

	Land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Assets in course of construction £'000	Total £'000
Cost					
At 30 June 2010	279,238	400,447	8,639	55,787	744,111
Additions	1,923	2,663	1	37,322	41,909
Disposals	(285,447)	(424,787)	(8,949)	(66,837)	(786,020)
Transfers	4,286	21,677	309	(26,272)	-
At 30 June 2011	-	-	-	-	-
Depreciation					
At 30 June 2010	(110,009)	(240,419)	(6,562)	-	(356,990)
Provided during the year	(7,414)	(14,018)	(351)	-	(21,783)
Exceptional accelerated depreciation	(256)	(112)	-	-	(368)
Disposals	117,679	254,548	6,914	-	379,141
Transfers	-	1	(1)	-	-
At 30 June 2011	-	-	-	-	-
Net book value					
At 30 June 2011	-	-	-	-	-
At 30 June 2010	169,229	160,028	2,077	55,787	387,121

Included within the depreciation charge for the year is £368,000 (2010 - £20,575,000) accelerated depreciation, in respect of assets impacted by the restructuring of production activities of the company.

Disposals include assets transferred from the company to Diageo Scotland Limited on 30 June 2011 as a result of the consolidation of the spirit production activities in Scotland. The net book value of the assets sold were land and buildings of £171,704,000, plant and machinery of £169,891,000 and assets in course of construction of £65,037,000.

Notes to the financial statements (continued)

9. Fixed assets – tangible assets (continued)

The total cost or valuation for land and buildings, and plant and machinery and fixtures and fittings comprises:

	Land and buildings		Plant and machinery, fixtures and fittings	
	30 June 2011	30 June 2010	**30 June 2011**	30 June 2010
	£'000	£'000	**£'000**	£'000
At 1992 professional valuation	-	192,271	-	-
At 1986 professional valuation	-	-	-	66,504
At cost	-	86,967	-	342,582
	-	279,238	-	409,086

The 1992 valuations were made on an open market existing use basis except for specialised properties which were valued on a depreciated replacement cost basis.

Historical cost figures for land and buildings and plant and machinery (i.e. the original cost to the company of all land and buildings and plant and machinery) and the related depreciation were:

	Land and buildings		Plant and machinery	
	30 June 2011	30 June 2010	**30 June 2011**	30 June 2010
	£'000	£'000	**£'000**	£'000
Historical cost	-	197,761	-	368,449
Aggregated depreciation based on historical cost	-	(62,590)	-	(217,877)
Historical net book value	-	135,171	-	150,572

Notes to the financial statements (continued)

10. Fixed assets – investments

	Other investments £'000
Cost	
At 30 June 2010	98
Disposals	(98)
At 30 June 2011	-
Provisions	
At 30 June 2010	(98)
Disposals	98
At 30 June 2011	-
Net book value	
At 30 June 2011 and 30 June 2010	-

As a result of the consolidation of the spirit production activities in Scotland, the company's investments were transferred to Diageo Scotland Limited on 30 June 2011.

11. Stocks

	30 June 2011 £'000	30 June 2010 £'000
Raw materials and consumables	-	39,667
Finished goods and goods for resale	-	1,391
	-	41,058

As a result of the consolidation of the spirit production activities in Scotland, the company's stocks including raw materials of £35,896,000 and finished goods of £1,408,000 were transferred to Diageo Scotland Limited on 30 June 2011.

Notes to the financial statements (continued)

12. Debtors

	30 June 2011 **£'000**	30 June 2010 £'000
Trade debtors	-	324
Amounts owed by fellow group undertakings	**453,908**	186,575
Other debtors	-	431
Other prepayments and accrued income	-	8,882
Deferred taxation (note 13)	-	2,448
	453,908	198,660

As a result of the consolidation of the spirit production activities in Scotland, the company's debtors - including trade debtors of £258,000, amounts owed by fellow group undertakings of £486,000, other debtors of £557,000 and other prepayments and accrued income of £9,172,000 - were transferred to Diageo Scotland Limited on 30 June 2011.

Amounts owed by fellow group undertakings as at 30 June 2011 represents a loan balance due from Diageo Scotland Limited, which is unsecured, interest free and repayable on demand.

Included in deferred taxation is an asset of £nil (2010 - £181,285), which falls due after one year. All other amounts fall due within one year.

13. Deferred taxation

	Deferred taxation £'000
At 30 June 2010	2,448
Profit and loss account	(2,448)
At 30 June 2011	-

The elements of deferred taxation are as follows:

	30 June 2011 **£'000**	30 June 2010 £'000
Accelerated capital allowances	-	(2,642)
Other timing differences	-	5,090
Deferred tax asset	-	2,448

Notes to the financial statements (continued)

13. Deferred taxation (continued)

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. Deferred taxation assets, where realisation does not meet the more likely than not criterion, have not been recognised. The maximum potential deferred tax asset which is not recognised in the balance sheet amounts to £nil (2010 - £nil).

14. Cash at bank

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 2011 includes bank accounts outside the cashpool amounting to £nil (2010 - £739,000). Due to the consolidation of the spirit production activities in Scotland, the company's cash at bank balances were transferred to Diageo Scotland Limited on 30 June 2011.

15. Creditors: due within one year

	30 June 2011 £'000	30 June 2010 £'000
Trade creditors	-	54,676
Amounts owed to fellow group undertakings	-	52,092
Other taxation including social security	-	95
Net obligation under finance leases	-	610
Accruals and deferred income	-	3,898
Other creditors	-	10,500
	-	121,871

As a result of the consolidation of the spirit production activities in Scotland, the company's liabilities due within one year, including trade creditors of £61,483,000, amounts owed to fellow group undertakings of £15,305,000, net obligation under finance leases of £1,208,000, accruals and deferred income of £3,845,000 and other creditors of £1,181,000, were transferred to Diageo Scotland Limited on 30 June 2011.

16. Creditors: due after one year

	30 June 2011 £'000	30 June 2010 £'000
Net obligations under finance leases	-	13,520

Notes to the financial statements (continued)

16. Creditors: due after one year (continued)

Net obligations under finance leases:

	30 June 2011 £'000	30 June 2010 £'000
Gross obligations due:		
After five years	-	14,409
From one to five years	-	6,464
Within one year	-	1,616
	-	22,489
Less: future finance charges	-	(8,359)
	-	14,130

As a result of the consolidation of the spirit production activities in Scotland, the company's finance lease liabilities of £12,864,000 were transferred to Diageo Scotland Limited on 30 June 2011.

17. Share capital

	30 June 2011 £'000	30 June 2010 £'000
Allotted, called up and fully paid:		
217,215,530 ordinary shares of £1 each	**217,216**	217,216

18. Reserves

	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
At 30 June 2010	43,514	231,457	274,971
Loss for the financial year	-	(38,321)	(38,321)
Share based payments	-	42	42
Transfer from revaluation reserve	(43,514)	43,514	-
At 30 June 2011	-	**236,692**	**236,692**

The transfer from revaluation reserve to the profit and loss account of £43,514,000 (2010 - £4,655,000) represents the difference between the historical cost depreciation charge and the actual depreciation charge on the tangible fixed assets of £1,777,000 and the realisation of the revaluation reserve on the disposal of the tangible fixed assets of £41,737,000 for the year ended 30 June 2011.

Notes to the financial statements (continued)

19. Reconciliation of movement in shareholder's funds

	30 June 2011 £'000	30 June 2010 £'000
Loss for the financial year	**(38,321)**	(6,174)
Share based payments	**42**	1,996
Net reduction in shareholders' funds	**(38,279)**	(4,178)
Shareholders' funds at the beginning of the year	**492,187**	496,365
Shareholders' funds at the end of the year	**453,908**	492,187

20. Immediate and ultimate parent undertaking

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

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.