

Diageo Great Britain Limited
Financial statements
30 June 2005

Registered number 507652



Year ended 30 June 2005

Directors' report

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2005.

Activities

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

As noted in last year's report, on 15 April 2004 the company announced its intention to transfer the brewing of Guinness beer for the UK market to its St James's Gate brewery in Dublin. This resulted in the closure of the brewery at Park Royal in June 2005.

Financial

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

The directors do not recommend the payment of a dividend (2004 - £nil).

The profit for the year transferred to reserves is £423 million (2004 - £9 million loss transferred from reserves).

Directors

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

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

On 9 March 2006 P S Walsh resigned as a director of the company. T Knopp, N Makos, C R R Marsh, R J Moore and J G O'Hagan were appointed as directors on 26 May 2006.

Year ended 30 June 2005

Directors' report (continued)**Directors' interests**

No directors had any interest, beneficial or non-beneficial, in the share capital of the company or had a material interest during the year in any significant contract with the company or any subsidiary.

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

(i) Ordinary shares and conditional rights to ordinary shares

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

A number of the directors were granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under certain long term incentive plans. Any conditional rights are shown in the table as ordinary share equivalents. The conditional rights to ordinary shares are subject to share performance criteria of Diageo plc ordinary shares. The numbers disclosed in the above table represent the maximum number of conditional rights. Full details of the performance criteria are disclosed in the annual report of the ultimate holding company, Diageo plc.

(ii) Options

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

Year ended 30 June 2005**Directors' report (continued)****Directors' interests (continued)**

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

Options granted under one of the schemes, the Senior Executive Share Option Plan ('SESOP'), may not normally be exercised unless a performance condition is satisfied. The performance condition applicable to grants of options under the SESOP is linked to the increase in earnings per share and is initially applied over the three year period commencing on the date the options are granted. Full details of the performance condition are disclosed in the annual report of the ultimate holding company, Diageo plc.

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

At 30 June 2005, P S Walsh was also a director of the ultimate parent company, Diageo plc. Details of his beneficial interests in the ordinary shares of Diageo plc are shown in the Diageo plc annual report, copies of which can be obtained from 8 Henrietta Place, London W1G 0NB.

The mid-market share price of Diageo plc shares fluctuated between 658p and 824p during the year. The mid-market share price on 30 June 2005 was 823p.

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

Employee involvement

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

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

Year ended 30 June 2005

Directors' report (continued)

Employee involvement (continued)

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

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

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

Supplier payment policy

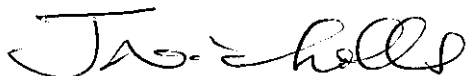
The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject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

The number of days' purchases included in creditors as at 30 June 2005, in respect of the company, is 52 days (2004 - 55 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.

Auditor

The company has taken advantage of Section 386(1) of the Companies Act 1985, as amended, to dispense with the obligation to appoint an auditor annually. The auditor, KPMG Audit Plc, is willing to continue in office and will be deemed to be reappointed on the expiry of its term in office in respect of the year ended 30 June 2005.

By order of the board



J Nicholls
Secretary
8 Henrietta Place, London W1G 0NB
23 June 2006

Year ended 30 June 2005

Statement of directors' responsibilities in relation to the financial statements

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

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss for the financial year.

The directors, in preparing these financial statements, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all applicable accounting standards have been followed and that it is appropriate to prepare the financial statements on a going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps that are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

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

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

23 June 2006

Year ended 30 June 2005

Profit and loss account

	<i>Notes</i>	Year ended 30 June 2005 £m	Year ended 30 June 2004 £m
Turnover	<i>1</i>	1,457	1,701
Operating costs (including exceptional items of £53 million (2004 - £19 million))	<i>2-4</i>	(1,514)	(1,626)
Operating (loss)/profit		<u>(57)</u>	<u>75</u>
Disposal of fixed assets	<i>5</i>	(1)	-
Income from shares in group undertakings	<i>6</i>	607	43
Income from shares in associated undertakings	<i>6</i>	5	6
Amounts written off investments	<i>11</i>	(1)	-
Net interest payable	<i>7</i>	(149)	(114)
Profit on ordinary activities before taxation		<u>404</u>	<u>10</u>
Taxation on profit on ordinary activities	<i>8</i>	19	(19)
Profit/(loss) on ordinary activities after taxation		<u>423</u>	<u>(9)</u>
Amounts transferred to/(from) reserves	<i>18</i>	<u>423</u>	<u>(9)</u>

There are no recognised gains and losses other than the result for the current year.

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.

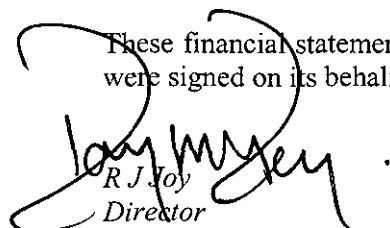
All results arise from continuing operations.

Year ended 30 June 2005

Balance sheet

	<i>Notes</i>	30 June 2005		30 June 2004	
		£m	£m	£m	£m
Fixed assets					
Intangible assets	9		8		8
Tangible assets	10		145		136
Investments	11		2,991		2,991
			<hr/>		<hr/>
			3,144		3,135
Current assets					
Stocks	12	36		47	
Debtors: due within one year	13	2,111		1,565	
Cash at bank and in hand		99		79	
		<hr/>		<hr/>	
		2,246		1,691	
Creditors: due within one year	15	(4,398)		(4,243)	
		<hr/>		<hr/>	
Net current liabilities			(2,152)		(2,552)
			<hr/>		<hr/>
Total assets less current liabilities			992		583
Provisions for liabilities and charges	16		(6)		(20)
			<hr/>		<hr/>
Net assets			986		563
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	17		278		278
Share premium account	18	73		73	
Profit and loss account	18	635		212	
		<hr/>		<hr/>	
Reserves attributable to equity shareholders			708		285
			<hr/>		<hr/>
Equity shareholders' funds			986		563
			<hr/>		<hr/>

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


R J Joy
Director

Year ended 30 June 2005**Accounting policies**

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

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996). The company is exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions (but not balances) with entities that are part of the Diageo plc group ("group undertakings") or investees of the Diageo plc group.

The company is exempt from the requirement to prepare group accounts under section 228 of the Companies Act 1985 as its results are included in the published consolidated financial statements of Diageo plc.

Going concern

The financial statements have been prepared on a going concern basis as a fellow group undertaking has agreed to provide financial support for the foreseeable future. The only liabilities at the balance sheet date are in respect of balances due.

Intangible assets

Distribution rights regarded as having limited useful economic lives are amortised on a straight-line basis over their lives (20 years).

Tangible fixed assets

Land and buildings are stated at cost less depreciation.

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

Freehold buildings	10 to 50 years
Plant and machinery	5 to 25 years
Fixtures and fittings	5 to 10 years
Computer software	up to 5 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.

Year ended 30 June 2005**Accounting policies (continued)****Fixed asset investments**

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

Leases

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

Stocks

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related foreign currency contract. Assets and liabilities in foreign currencies are translated into sterling at the financial year end exchange rates or, if hedged forward, at the rate of exchange under the related foreign currency contract.

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

Turnover

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

Turnover for goods is recognised at the fair value of the right to consideration. The point at which ownership transfers may be at the time of despatch, delivery or some other point depending upon individual customer terms. Provision is made for returns where appropriate. Turnover for goods is stated net of price discounts, allowances for customer loyalty and certain promotional activities and similar items.

Advertising

Advertising production costs are charged to the profit and loss account when the advertisement is first shown to the public.

Research and development

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

Year ended 30 June 2005

Accounting policies (continued)

Pensions and other post employment benefits

The employees of the company are members of the Diageo UK pension plan.

FRS 17 – *Retirement benefits* replaced the use of actuarial values for assets in a pension scheme in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the standard requires that the profit and loss account shows the relatively stable ongoing service cost, interest cost and expected return on assets. The liabilities and, where applicable, the assets of defined benefit schemes are recognised at fair value in the balance sheet.

Exceptional items

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

Deferred taxation

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

Year ended 30 June 2005

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 one class of business, that of the production, distribution, marketing and importing of beer, spirits and wines.

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

	Year ended 30 June 2005 £m	Year ended 30 June 2004 £m
UK	1,457	1,393
Europe	-	48
America	-	119
Africa	-	123
Rest of world	-	18
	<hr/> 1,457 <hr/>	<hr/> 1,701 <hr/>

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

The company continues to provide agency services to fellow group undertakings in relation to export sales of Guinness to other companies within the group. In the year ended 30 June 2004, transactions relating to this activity were shown gross within turnover and operating costs. In the year ended 30 June 2005 the income from these services was recognised within other operating income. Should this method of classification been applied to the prior year comparatives, turnover and operating costs would both decrease by £308 million with no impact on profit.

Year ended 30 June 2005

Notes to the financial statements (continued)

2. Operating costs

	Year ended 30 June 2005 £m	Year ended 30 June 2004 £m
Decrease in stocks of finished goods and work in progress	11	1
Raw materials and consumables	416	723
Excise duties	695	626
Advertising, marketing and promotion costs	85	60
Other operating income (a)	(31)	(8)
Other operating charges (b)	30	32
Other external charges (c)	89	84
Staff costs (note 3)	163	78
Depreciation and other amounts written off fixed assets (d) (note 10)	55	29
Amortisation of intangible assets (note 9)	1	1
	<hr/> 1,514	<hr/> 1,626

(a) **Other operating income includes:** intercompany management income of £4,710,000 (2004 - £8,409,000).

(b) **Other operating charges include:** royalty charges of £17,208,000 (2004 - £13,000,000); losses in respect of foreign exchange of £3,611,000 (2004 - £9,506,000).

(c) **Other external charges include:** operating lease rentals for plant and machinery of £3,503,000 (2004 - £3,483,000); for land and buildings of £6,294,000 (2004 - £1,404,000); other lease rentals of £6,344,000 (2004 - £43,000); exceptional restructuring costs of £24,249,000 (2004 - £19,454,000).

(d) **Depreciation and other amounts written off fixed assets include:** exceptional write-off of fixed assets of £29 million relating to the closure of the brewery at Park Royal (2004 - £nil).

Fees in respect of services provided by the auditor were: statutory audit £195,000 (2004 - £86,000); other non-audit work £334,000 (2004 - £246,000).

The company continues to provide agency services to fellow group undertakings in relation to export sales of Guinness to other companies within the group. In the year ended 30 June 2004, transactions relating to this activity were shown gross within turnover and operating costs. In the year ended 30 June 2005 the income from these services was recognised within other operating income. Should this method of classification been applied to the prior year comparatives, turnover and operating costs would both decrease by £308 million with no impact on profit.

Year ended 30 June 2005

Notes to the financial statements (continued)

3. Staff costs

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

	Year ended 30 June 2005	Year ended 30 June 2004
Full time	1,274	1,427
Part time	25	56
	<hr/>	<hr/>
	1,299	1,483
	<hr/>	<hr/>

The aggregate remuneration of all employees comprised:

	Year ended 30 June 2005 £m	Year ended 30 June 2004 £m
Wages and salaries	55	69
Employer's social security costs	7	8
Employer's pension costs	101	1
	<hr/>	<hr/>
	163	78
	<hr/>	<hr/>

Retirement benefits

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

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

Year ended 30 June 2005

Notes to the financial statements (continued)

3. Staff costs (continued)

Retirement benefits (continued)

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

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

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

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

Year ended 30 June 2005

Notes to the financial statements (continued)

3. Staff costs (continued)

Retirement benefits (continued)

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

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

4. Directors' emoluments

	Year ended 30 June 2005 £000	Year ended 30 June 2004 £000
Emoluments (excluding pension contributions)	389	60
	<hr/>	<hr/>

The highest paid director is a member of a defined benefit scheme under which his accrued annual pension at the year end was £128,010 (2004 - £116,954). The lump sum equivalent of the highest paid director's pension entitlement at the year end was £1,686,516 (2004 - £1,406,130).

The highest paid director made gains during the year of £364,246 (2004 - £nil) on the exercise of share options in Diageo plc.

All of the directors are members of the Diageo UK pension fund which is a defined benefit scheme.

Details of the directors' share interests and any share options exercised during the year are included within the directors' report on page 2.

Year ended 30 June 2005

Notes to the financial statements (continued)

5. Disposal of fixed assets

	Year ended 30 June 2005 £m	Year ended 30 June 2004 £m
Loss on the sale of fixed assets	1	-

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

6. Income from fixed asset investments

	Year ended 30 June 2005 £m	Year ended 30 June 2004 £m
Income from shares in group undertakings	607	43
Income from associated undertakings	5	6
	<u>612</u>	<u>49</u>

7. Net interest payable

	Year ended 30 June 2005 £m	Year ended 30 June 2004 £m
Interest payable:		
Loans from fellow group undertakings	(155)	(116)
All other loans	(1)	(1)
	<u>(156)</u>	<u>(117)</u>
Less interest receivable:		
Interest receivable on loans to fellow group undertakings	3	1
Other interest receivable	4	2
	<u>7</u>	<u>3</u>
Net interest payable	<u>(149)</u>	<u>(114)</u>

Year ended 30 June 2005

Notes to the financial statements (continued)

8. Taxation

	Year ended 30 June 2005 £m	Year ended 30 June 2004 £m
(i) Analysis of taxation credit/(charge) for the year		
Current tax		
UK corporation tax at 30% (2004 - 30%)	-	-
Adjustment in respect of prior years	(2)	(22)
	<hr/>	<hr/>
Total current tax	(2)	(22)
Deferred tax		
UK	23	(1)
Adjustment in respect of prior years	(2)	4
	<hr/>	<hr/>
Total deferred tax	21	3
	<hr/>	<hr/>
Taxation on profit on ordinary activities	19	(19)
	<hr/>	<hr/>
	Year ended 30 June 2005 £m	Year ended 30 June 2004 £m
(ii) Factors affecting current tax credit/(charge) for the year		
Profit on ordinary activities before taxation	404	10
	<hr/>	<hr/>
Taxation on profit on ordinary activities at UK corporation tax rate of 30% (2004 - 30%)	(121)	(3)
Accelerated capital allowances and other timing differences	(23)	2
Expenses not deductible for tax purposes	(5)	(10)
Items not chargeable for tax purposes	185	14
Group relief received for nil consideration	(36)	(3)
Adjustment in respect of prior years	(2)	(22)
	<hr/>	<hr/>
Current tax charge for the year	(2)	(22)
	<hr/>	<hr/>

Year ended 30 June 2005

Notes to the financial statements (continued)

9. Fixed assets – intangible assets

	Distribution rights £m
Cost	
At 30 June 2004	12
Exchange adjustments	1
	<hr/>
At 30 June 2005	13
	<hr/>
Amortisation	
At 30 June 2004	(4)
Provided during the year	(1)
	<hr/>
At 30 June 2005	(5)
	<hr/>
Net book value	
At 30 June 2005	8
	<hr/>
At 30 June 2004	8
	<hr/>

Year ended 30 June 2005

Notes to the financial statements (continued)

10. Fixed assets – tangible assets

	Land and buildings	Plant and machinery	Fixtures and fittings	Assets in course of construction	Total
	£m	£m	£m	£m	£m
Cost					
At 30 June 2004	49	251	66	6	372
Additions	7	9	42	9	67
Disposals	(26)	(95)	(28)	-	(149)
Transfers	5	(1)	2	(6)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2005	35	164	82	9	290
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At 30 June 2004	(17)	(178)	(41)	-	(236)
Provided during the year	(1)	(17)	(8)	-	(26)
Exceptional write down	(12)	(17)	-	-	(29)
Disposals	26	95	25	-	146
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2005	(4)	(117)	(24)	-	(145)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 30 June 2005	31	47	58	9	145
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2004	32	73	25	6	136
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Included within the net book value of freehold properties is £7.8 million (2004 - £7.8 million) in respect of land on which no depreciation is charged.

Year ended 30 June 2005

Notes to the financial statements (continued)

11. Fixed assets – investments

	Subsidiary undertakings £m	Associated undertakings £m	Other investments £m	Total £m
Cost				
At 30 June 2004	4,475	27	5	4,507
Additions	-	1	-	1
Transfers	1	(1)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2005	4,476	27	5	4,508
	<hr/>	<hr/>	<hr/>	<hr/>
Provisions				
At 30 June 2004	(1,512)	-	(4)	(1,516)
Provided during the year	(1)	-	-	(1)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2005	(1,513)	-	(4)	(1,517)
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 30 June 2005	2,963	27	1	2,991
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2004	2,963	27	1	2,991
	<hr/>	<hr/>	<hr/>	<hr/>

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	94.3% of ordinary shares
Justerini & Brooks, Limited	England	100% of ordinary shares and 100% of 8% cumulative preference shares
Diageo United Kingdom Limited	England	100% of ordinary shares
S & B Production Limited	Northern Ireland	100% of ordinary shares
Associated undertakings		
Lothian Distillers Limited	Scotland	100% of ordinary B shares (two classes – A&B, 50% of total share capital)

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

Year ended 30 June 2005

Notes to the financial statements (continued)

11. Fixed assets – investments (continued)

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 (and associated) 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 £31 million (2004 - £34 million).

12. Stocks

	30 June 2005 £m	30 June 2004 £m
Raw materials and consumables	1	2
Work in progress	2	1
Finished goods and goods for resale	33	44
	<hr/> 36	<hr/> 47
	<hr/>	<hr/>

13. Debtors

	30 June 2005 £m	30 June 2004 £m
Trade debtors	113	90
Factored debt	82	67
Amounts owed by fellow group undertakings	1,867	1,373
Amounts owed by associated undertakings	-	2
Other debtors	1	6
Other prepayments and accrued income	4	4
Deferred taxation (note 14)	44	23
	<hr/> 2,111	<hr/> 1,565
	<hr/>	<hr/>

All amounts fall due within one year.

Year ended 30 June 2005

Notes to the financial statements (continued)

14. Deferred taxation

	30 June 2005 £m	30 June 2004 £m
Accelerated capital allowances	15	12
Other timing differences	6	11
Pension	23	-
	<hr/>	<hr/>
Deferred tax asset	44	23
	<hr/>	<hr/>

Deferred tax on pension contributions relates to the contributions made during the course of the year for which the tax benefit is recognised over a period of four years.

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 (2004 - £nil).

15. Creditors due within one year

	30 June 2005 £m	30 June 2004 £m
Trade creditors	58	25
Amounts owed to fellow group undertakings	4,078	3,978
Amounts owed to associated undertakings	9	10
Other taxation including social security	35	28
Other creditors	43	46
Accruals and deferred income	175	156
	<hr/>	<hr/>
	4,398	4,243
	<hr/>	<hr/>

Year ended 30 June 2005

Notes to the financial statements (continued)

16. Provisions for liabilities and charges

	Restructuring provisions £m	Other provisions £m	Total £m
At 30 June 2004	12	8	20
Profit and loss account	-	2	2
Utilised	(8)	-	(8)
Released	(1)	(7)	(8)
	<hr/>	<hr/>	<hr/>
At 30 June 2005	3	3	6
	<hr/>	<hr/>	<hr/>

Restructuring provisions relate to costs in respect of restructuring of some of the company's brewing and packaging facilities. Other provisions include annual PAYE Settlement Agreement liabilities.

Provisions will predominantly be utilised within the next few years.

17. Share capital

	30 June 2005 £m	30 June 2004 £m
<i>Authorised:</i>		
Equity - 1,132,366,000 ordinary shares of 25p each	283	283
	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>		
Equity - 1,113,082,750 ordinary shares of 25p each	278	278
	<hr/>	<hr/>

18. Reserves

	Share premium account £m	Profit and loss account £m	Total £m
At 30 June 2004	73	212	285
Retained profit for the year	-	423	423
	<hr/>	<hr/>	<hr/>
At 30 June 2005	73	635	708
	<hr/>	<hr/>	<hr/>

Year ended 30 June 2005

Notes to the financial statements (continued)

19. Reconciliation of movement in shareholders' funds

	30 June 2005 £m	30 June 2004 £m
Shareholders' funds at beginning of year	563	572
Profit/(loss) on ordinary activities after taxation	423	(9)
Shareholders' funds at end of year	986	563

20. Commitments

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

	30 June 2005			30 June 2004		
	Land & buildings	Other	Total	Land & buildings	Other	Total
	£m	£m	£m	£m	£m	£m
Annual payments under leases expiring:						
After five years	5	-	5	1	-	1
From one to five years	1	3	4	-	3	3
Within one year	-	1	1	-	1	1
	6	4	10	1	4	5

Capital expenditure commitments not provided for in these financial statements are estimated at £5.8 million (2004 - £8 million).

21. Post balance sheet events

Under an agreement dated 25 August 2005, the company agreed to purchase the entire share capital of Old Bushmills Distillery Company Limited, owner of Bushmills Irish whiskey, for consideration of approximately £200 million, from Diageo plc, which had acquired the holding from Pernod Ricard SA, resulting in an increase in the company's investments in subsidiary undertakings.

Year ended 30 June 2005

Notes to the financial statements (continued)

22. Immediate and ultimate parent undertaking

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

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