

**Diageo Scotland Limited**  
**Annual report and financial statements**  
**30 June 2022**

Registered number: SC000750

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**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

<b>CONTENTS</b>	<b>PAGE(S)</b>
STRATEGIC REPORT	2 - 8
DIRECTORS' REPORT	9 - 14
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS	15
INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF DIAGEO SCOTLAND LIMITED	16 - 19
INCOME STATEMENT	20
STATEMENT OF COMPREHENSIVE INCOME	21
BALANCE SHEET	22
STATEMENT OF CHANGES IN EQUITY	23
NOTES TO THE FINANCIAL STATEMENTS	24 - 54

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **STRATEGIC REPORT**

The directors present their strategic report for the year ended 30 June 2022.

### **Principal Activities**

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

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

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

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

### **Business review**

*Development and performance of the business of the company during the financial year and position of the company as at 30 June 2022*

For the year ended 30 June 2022, the development, performance and principal activities of the company were primarily dependent on the requirements of the Diageo subsidiaries with whom it trades.

With an effective date of 30 June 2022 the intellectual property of some recently acquired UK brand owner entities were transferred to Diageo Scotland Limited in order to reduce the complexity and simplify legal entity structure in the region. As a result of these transactions between the company, Chase Distillery Limited, Copper Dog Whisky Limited and Tipplesworth Limited £93 million worth intangible asset with indefinite useful life was recognised in the company's accounts for the year ended 30 June 2022.

### *Financial and other key performance indicators*

The principal key performance indicators used by the company's management to analyse the development, performance and position of the company's business are generally the same as those disclosed in the consolidated financial statements of Diageo plc. The directors consider key performance indicators to measure the performance of the company, such as net sales and operating profit. In F22 the company's performance was mainly driven by stronger sales in Global Travel Business after lifting the COVID-19 restrictions and the higher demand for Scotch around the world which drove higher revenue from Diageo Brands B.V compared to the previous financial year. Other financial performance indicators (including contribution to the free cash flow initiatives of the group) and non-financial performance indicators used to measure the company's performance are the same as those disclosed in Diageo plc's 2022 Annual Report on pages 32, 33 and 34.

The company's principal key performance indicators are analysed below for the year ended 30 June 2022.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **STRATEGIC REPORT (continued)**

### **Business review (continued)**

#### *Principal risks and uncertainties facing the company as at 30 June 2022*

The principal risks identified by the group are disclosed on page 42 to 45 of Diageo plc's 2022 Annual Report. The most relevant of the group risks to this entity are the ones we have selected and articulated below, together with specific considerations relating to the company's operations and environment. If any of these risks occur, the company's business, financial condition and operational results could suffer. As the company forms part of the group's investment holding and financing structure, the financial risk management measures used by management to analyse the development, performance and position of the company's business are mainly similar to those facing the group as a whole. The directors consider that the following risks might impact the performance and the solvency or liquidity of the company through its investments and /or intercompany financing structure.

#### Pandemic and business interruption

A significant interruption to business due to external events, such as a public health threat, pandemic, war or natural hazard, could restrict access to Diageo's products, that would negatively affect the operations and brands, or pose a threat to the safety of employees; any of which could have a negative impact on the group's commercial and financial performance.

To mitigate these challenges the group operates global crisis management and business continuity management programmes, to enhance the capability to react effectively to a crisis and minimise damage and disruption.

The directors believe that the risk mitigation actions taken by the group in relation to the recent Covid-19 pandemic and associated business interruption have been agile and effective and that the group will maintain adequate liquidity and be strongly positioned for further growth and a resilient and sustainable business. Further information on the group's risk management measures in relation to Covid-19 are disclosed on page 43 of Diageo plc's 2022 Annual Report.

#### Geopolitical and macroeconomic volatility

Failure to react quickly enough to changing economic and/or political conditions, e.g., inflationary pressures, currency instability, global trade tensions, heightened political protectionism, changes to customs duties and tariffs, and/or eroded consumer confidence, may impact on the freedom to operate in a market and could adversely impact financial performance. The global recovery from Covid-19 is continuing, but momentum has slowed and there is a risk of imbalanced recovery across geographies. The Russian invasion of Ukraine has caused significant volatility in the region and beyond.

The group monitors key business drivers and performance, to prepare for rapid changes in the external environment and there is an enhanced group-level strategic analysis and scenario planning to strengthen market strategies and risk management.

The group has continued to improve long-term forecasting and planning capabilities, to better assess and respond to long-term opportunities and risks. The group has introduced a new strategic planning and performance function with a stronger governance model for financial and non-financial decision-making, which will enable closer monitoring of external volatility/risk and multi-country investment strategy with a central hedging and currency monitoring to manage volatility.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **STRATEGIC REPORT (continued)**

### **Business review (continued)**

*Principal risks and uncertainties facing the company as at 30 June 2022 (continued)*

#### **Cyber and IT resilience**

Cyber-attacks are becoming more prevalent, and there is an increased dependency on third-party IT services and solutions. As geopolitical tensions are growing, there is a rise in more sophisticated cyber threats affecting all organisations, therefore the risk of a cyber-attack is heightened.

The group has strong enterprise-wide cyber risk management processes and policies and next generation security technologies to tackle advanced attacks. There is an IT disaster recovery and business continuity testing across the key systems. The group continue to enhance and deploy next-generation security technologies to tackle advanced attacks.

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

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

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

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

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **STRATEGIC REPORT (continued)**

### **Business review (continued)**

*Principal risks and uncertainties facing the company as at 30 June 2022 (continued)*

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

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

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

The company mitigates the risk with highly diversified portfolio of brands to ensure coverage of consumer occasions, trends and price points and continuous focus on innovation through global brand extensions and new-to-world products.

The social distancing measures deployed in response to the Covid-19 pandemic have had a significant impact on where and how people purchase and consume alcohol. In particular, the on-trade has faced significant disruption globally leading to higher consumption in the home which has been coupled with a shift to on-line purchasing. These trends are likely to continue to some degree after social restrictions are eased. The company will continuously assess consumer trends and shifting behaviours and are well positioned to remain agile and continue to flex commercial strategies.

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

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **STRATEGIC REPORT (continued)**

### **Business review (continued)**

*Principal risks and uncertainties facing the company as at 30 June 2022 (continued)*

#### **Diageo UK pension funds**

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

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

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

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

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

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

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

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

The company's operations, financial results and reputation may be adversely affected by the theft, loss and misappropriation of the company's most important digital assets. Cyber attacks or incidents could result in financial loss, operational disruption and reputational damage. The company could also be adversely affected by non-compliance with statutory data protection legislation. In order to mitigate the enterprise-wide cyber risk, appropriate management processes and policies have been implemented. Information Security committee was appointed to govern, track and report risk and compliance activities. The company extended the comprehensive IT controls framework to manufacturing facilities and applied rigorous approach to third party risk management. Next generation security technologies were deployed to tackle advanced attacks and use of machine learning and threat intelligence are applied to detect and block sophisticated threats. Risk awareness of employees is enhanced through mandatory global e-learning and regular phishing exercises for all employees. Cyber strategy is reviewed continuously to tackle risks related to Covid-19 and remote working.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **STRATEGIC REPORT (continued)**

### **Business review (continued)**

#### *Financial risk management*

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

#### Currency risk

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

#### Liquidity risk

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

#### Credit risk

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

#### *Statement on Section 172 of the Companies Act 2006*

Section 172 of the Companies Act 2006 requires the directors to promote the success of the company for the benefit of the members as a whole, having regard to the interests of stakeholders in their decision-making. In making decisions, the Directors consider what is most likely to promote the success of the company for its shareholders in the long term, as well as the interests of the group's stakeholders. The Directors understand the importance of taking into account the views of stakeholders and the impact of the company's activities on local communities, the environment, including climate change, and the group's reputation.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **STRATEGIC REPORT (continued)**

### **Business review (continued)**

#### *Statement on Section 172 of the Companies Act 2006 (continued)*

The Company is a member of the group of companies (the "Group") whose ultimate holding company is Diageo plc ("Diageo"). In accordance with the requirements of UK company law, Diageo has included in its 2022 Annual Report on page 7 a statement as to how the directors of Diageo have had regard to the matters set out in Section 172 of the Companies Act 2006.

In order to ensure consistency in how the Group operates with regard to its wider stakeholders, the Group has adopted an internal Code of Business Conduct alongside a comprehensive framework of global policies and standards that are designed to ensure, amongst other things, that all companies throughout the Group, including the Company, have regard to its wider stakeholders in a consistent manner.

The Company has therefore had regard to the matters set out in Section 172 of the Act in a manner that is consistent with the approach adopted by Diageo, while at the same time ensuring the directors of the Company are fulfilling their duties.

#### *Main activities of the Board*

The activities of the Board during the year include:

- Approval of the financial statements and dividend for the year ended 30 June 2021.
- Review of reports in relation to the Company's performance, tax status, risk management processes including its risk footprint, workforce and employee engagement survey results and activities, Health and Safety procedures, and material legal and regulatory matters

By order of the Board

*Richard Adam*

R D Adam  
Director

11 Lochside Place  
Edinburgh  
Scotland  
EH12 9HA

16 December 2022

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **DIRECTORS' REPORT**

The directors are pleased to submit their annual report, together with the audited financial statements, for the year ended 30 June 2022.

The company is incorporated and domiciled as a private company limited by shares in Scotland, United Kingdom. The registered address of the company is 11 Lochside Place, Edinburgh, Scotland, EH12 9HA.

### **Going concern**

The company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the strategic report. 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 directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the company 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 a period of at least 12 months from the date the financial statements are approved and signed. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### **Financial**

The result for the year ended 30 June 2022 is shown on page 20.

The profit for the year transferred to reserves was £767 million (2021 - £540 million) and other comprehensive income for the year was £27 million (2021 - £10 million other comprehensive income).

Dividends paid during the year ended 30 June 2022 were £300 million (2021 - £60 million).

### **Proposed dividend**

The directors have proposed a final ordinary dividend in respect of the year ended 30 June 2022 of £485 million. This has not been included as a liability as it was not approved before the balance sheet date.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **DIRECTORS' REPORT (continued)**

### **Directors**

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

R D Adam

J M C Edmunds

Y Elliott (resigned 14 September 2021)

S L Fennessy (resigned 8 September 2021)

Gy Geiszl (appointed 9 August 2021)

A D Gill (appointed 20 September 2022)

D Keresztesi (appointed 26 September 2022 and resigned 9 November 2022)

A Mair (appointed 31 March 2022)

L Milburn (appointed 14 September 2021 and resigned 20 September 2022)

H Patel (resigned 29 March 2022)

N Szokolczai (resigned 26 September 2022)

C Valle Diaz (resigned 30 June 2022)

A Wahi (appointed 26 September 2022)

### **Directors' remuneration**

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

### **Employee involvement**

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

Employee engagement is a key element of the company's people strategy. Diageo's values are embedded in the business and guide how all employees operate and behave. Pulse surveys provide insight into what employees are thinking and feeling about the business and enable Diageo to assess how the business is tracking against its goal to have highly engaged and inclusive teams that consistently bring Diageo's values to life.

The company is committed to active inclusion and diversity practices. The company is also committed to attracting and retaining talented people, by investing in the growth and development of its people, which contributes directly to the performance and results of the business. We want all our employees to feel valued and to make a meaningful contribution to the company's purpose and ambition. In addition, and where practical, the company encourages flexible ways of working to enable employees to balance work and life priorities.

The company's reward systems continue to recognise employees' contribution to the success of the business and to promote employee engagement. The company is also committed to the safety and wellbeing of employees at work as a priority. It promotes positive drinking behaviours amongst all its people.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **DIRECTORS' REPORT (continued)**

### **Employee involvement (continued)**

We are committed to open and continuous dialogue with employees to inform and engage them in the company's strategy and business goals as well as harnessing their ideas on improving broad areas of business performance. By driving a progressive culture, policies and practices, the company aims to differentiate itself as a leading employer and shape broader positive societal change.

Each senior manager is responsible for communicating and engaging with their people. Diageo also has an intranet web site from which employees with access to a computer can obtain timely and accurate news and information, and join online conversations that are relevant to their role, location and interests.

### **Employment policies**

A key strategic imperative of the company is to attract, retain and grow a pool of diverse, talented employees. Diageo recognises that a diversity of skills and experiences in its workplace and communities will provide a competitive advantage. To enable this the company has various global employment policies and standards, covering such issues as resourcing, data protection, human rights, health, safety and wellbeing. These policies and standards seek to ensure that the company treats current or prospective employees justly, solely according to their abilities to meet the requirements and standards of their role and in a fair and consistent way. This includes giving full and fair consideration to applications from prospective employees who are disabled, having regard to their aptitudes and abilities, and not discriminating against employees under any circumstances (including in relation to applications, training, career development and promotion) on the grounds of any disability.

### **Employee Engagement Statement**

Our people are our most important asset and our inclusive and diverse culture is core to our purpose of 'Celebrating life, every day, everywhere', and essential to our future growth. We invest to grow and develop our people and aim to create an environment that enables everyone to thrive. We want to nurture great, diverse talent, with a range of backgrounds, skills and capabilities, while making a positive contribution to society. Diversity of thought fuels growth and innovation in our organisation and brings us closer to our consumer base. Understanding our employees' views on the way they experience life at Diageo, from what works well, to where we can improve, makes good business sense. These insights help to shape our culture and make Diageo an attractive place to work, enabling us to recruit and retain the best talent.

The Board recognises the importance of effective engagement with the Company's employees and wider workforce, including contractors and temporary staff and is committed to creating opportunities for growth and to a continuous learning culture. Consistent with Group's approach towards workforce engagement, the Company has adopted a variety of engagement methods that are designed to ensure that there is an on-going dialogue with its employees and workforce. These engagement methods include participation in Group-wide employee engagement surveys, a consistent approach to talent and performance management, extensive online learning and development material, information and up-to-date employee communication channels, meetings with employee and workforce forums, community groups, employee interest groups, pulse surveys and town hall meetings. Decisions taken by Directors and by the Company's executive management team are informed by the interests of its employees and workforce, as guided by these engagement methods.

Further information on engagement with employees is outlined under 'Employee Involvement' in the directors' report on page 10.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **DIRECTORS' REPORT (continued)**

### **Business Relationship Statement**

In order to ensure consistency in how the Group operates, the Company has adopted an internal Code of Business Conduct alongside a comprehensive framework of global policies and standards that are designed to ensure, amongst other things, that all companies throughout the Group, including the Company, have regard to its wider stakeholders, including those in a business relationship with the Company, in a consistent manner. Decisions taken by Directors, and by the Company's executive management team, are informed by the interests of its wider stakeholders, including suppliers, customers and others in a business relationship with the Company, as guided by, amongst other things, the Code of Business Conduct and framework of policies and standards, as well as reviews, reports and proposals presented to the Board or executive management team for approval.

All supplier related activity is managed in line with the Group's Partnering with Suppliers Standard which is adhered to by the Company. The Company ensures that by working with suppliers, we not only deliver high-quality products marketed responsibly, but improve our collective impact, ensuring sustainable supply chains, reducing our environmental impact and making positive contributions to society.

The Board considers that it is important that the Group remains a trusted partner for suppliers, with the relationship enhanced through fair contract and payment terms and through compliance with the Group's Partnering with Suppliers Standard. Other methods used by the Company to ensure that it responds to the needs of its suppliers include direct resolution processes, access to a confidential, independent whistleblowing helpline and website, regional supplier awards, supplier financing, supplier performance measurement and reviews with two-way feedback, standards assessments through independent bodies.

In relation to the Company's customers and indirectly its consumers, the Board believes that the business of the Company can only be sustained by a deep understanding of its customer base, both large and small, on-trade and off-trade, digital and e-commerce, their behaviours and motivations. The Board aims to ensure the Company nurtures mutually beneficial relationships that deliver joint value and the best outcome for all its customers and indirectly its consumers. Consistent with the Group's processes, the Company uses a variety of ways to ensure that these business relationships are maintained including through a broad portfolio of choices across categories and price points, best practice sales analytics and technology to support distributors and retail, ongoing dialogue and account management support, physical and virtual sales calls, development of joint business plans, regular business updates, training, webinars and unique offerings such as the Diageo Bar Academy, and the provision of responsible advertising tools and materials in compliance with the Diageo Marketing Code.

More details on how Diageo has cultivated its relationships with suppliers, customers and other stakeholders, please see pages 92, 93 and 94 of its 2022 Annual Report.

### **Corporate Governance Statement**

The Company is a subsidiary of Diageo, a UK premium listed company that is subject to the UK Corporate Governance Code 2018 (the "Code"). In accordance with the UK Listing Rules, Diageo has issued a detailed corporate governance report describing how Diageo has applied the Code's main principles and highlighting non-compliance with any of the Code's provisions. That corporate governance report is available on Diageo's website (<http://www.diageo.com>).

Given that Diageo applies the Code throughout the Group, its corporate governance report also describes corporate governance at subsidiary level. The Code is applicable to the Company in its capacity as a subsidiary of Diageo and as a member of the Group.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **DIRECTORS' REPORT (continued)**

### **Corporate Governance Statement (continued)**

As regards the application of the Code by the Company, it should be noted that the Code contains to a substantial extent principles and provisions that are concerned with the listed parent company only. These relevant principles and provisions of the Code are applied by Diageo on the above mentioned comply-or-explain basis. They relate, for instance, to the role of the Diageo board in engaging with shareholders; processes for board appointments, succession and evaluation; director remuneration; and the role of the board's audit committee. Given the nature of the Company, as a wholly owned subsidiary with no external shareholders, these elements of the Code are not applicable and so were not applied by the Company.

Other parts of the Code can be seen to apply to the Group as a whole. For instance, the Code's focus on promoting long-term sustainable success and contributing to society and the Code's requirement that workforce policies and practices are consistent with the company's values.

Diageo has adopted an internal Code of Business Conduct alongside a comprehensive framework of global policies and standards that are designed to ensure that all companies throughout the Group adhere to those elements of the Code which are of relevance to the Group as a whole. The directors of the Company operate in line with these central standards and is responsible for their application within the Company.

In addition, the Company has adopted a set of subsidiary governance principles designed to enhance the robustness of its corporate governance procedures and practices. These principles include a formal delegation of authority to the Company's executive management team in respect of the day-to-day management of the Company's business and execution of its strategy. It is the practice of the Company to ensure that the Board includes members of the executive management team as well as other senior executives of the Group.

### **Directors' indemnity**

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

### **Internal control and risk management over financial reporting**

The company operates under the financial reporting processes and controls of the group. Diageo plc's internal control and risk management systems including its financial reporting process of Diageo plc, which include those of the company, are discussed in the group's Annual Report 2022 on page 97 at [www.diageo.com](http://www.diageo.com), which does not form part of this report.

### **Financial risk management**

Details of financial risk management are disclosed in the Strategic report on page 6.

### **Independent auditors**

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

**DIRECTORS' REPORT (continued)**

**Disclosure of information to the 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 auditors are 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 auditors are aware of that information.

On behalf of the Board

*Richard Adam*

R D Adam  
*Director*

11 Lochside Place  
Edinburgh  
Scotland  
EH12 9HA

16 December 2022

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

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

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

In preparing the financial statements, the directors are required to:

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

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

**R D Adam**  
*Director*

11 Lochside Place  
Edinburgh  
Scotland  
EH12 9HA

16 December 2022

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

# Independent auditors' report to the members of Diageo Scotland Limited

## Report on the audit of the financial statements

### Opinion

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

- give a true and fair view of the state of the company's affairs as at 30 June 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2022; the income statement, the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

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

### Independence

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

### Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Review and evaluation of management's cash flow forecasts and confirming the mathematical accuracy of underlying calculations;
- Evaluating the key assumptions included in management's cash flow forecasts including future trading performance, costs, financing and working capital assumptions; and
- Consideration of the Company's liquidity and availability of financing to support the going concern basis of accounting.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

# **Independent auditors' report to the members of Diageo Scotland Limited (continued)**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## **Reporting on other information**

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

## **Strategic report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 30 June 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

# Independent auditors' report to the members of Diageo Scotland Limited (continued)

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

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

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

### Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to anti-bribery legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK Tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manual journal entries aimed at increasing revenue within the financial statements. Audit procedures performed by the engagement team included:

- discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- review of records of discussion among key personnel;
- evaluation of management's internal controls designed to prevent and detect irregularities; and
- review and attestation of manual journal entries with particular focus on unusual account combinations within revenue.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

# Independent auditors' report to the members of Diageo Scotland Limited (continued)

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

## **Use of this report**

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

## Other required reporting

### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



Kenneth Wilson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow  
19 December 2022

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **INCOME STATEMENT**

	Note	Year ended 30 June 2022 £ million	Year ended 30 June 2021 £ million
Turnover	2	2,315	1,814
Cost of sales	3	<u>(1,160)</u>	<u>(874)</u>
<b>Gross profit</b>		<b>1,155</b>	<b>940</b>
Marketing expense	3	(71)	(52)
Other operating expenses	3	<u>(115)</u>	<u>(98)</u>
<b>Operating profit</b>		<b>969</b>	<b>790</b>
Income from shares in group undertakings	6	23	3
Amounts written off investments	7	—	(1)
Net finance charges	8	<u>(61)</u>	<u>(93)</u>
<b>Profit before taxation on ordinary activities</b>		<b>931</b>	<b>699</b>
Taxation on profit on ordinary activities	9	<u>(164)</u>	<u>(159)</u>
<b>Profit for the financial year</b>		<b><u>767</u></b>	<b><u>540</u></b>

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **STATEMENT OF COMPREHENSIVE INCOME**

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
<b>Profit for the financial year</b>	<b>767</b>	<b>540</b>
<b>Other comprehensive income</b>		
<b>Items that may be recycled subsequently to the income statement</b>		
Effective portion of changes in fair value of cash flow hedges		
- Transaction exposure hedging	(6)	10
- Recycled to income statement - transaction exposure hedging	2	(6)
- Commodity price risk hedging	37	9
Tax credit on effective portion of changes in fair value of cash flow hedges	(6)	(3)
<b>Other comprehensive income for the year, net of tax</b>	<b>27</b>	<b>10</b>
<b>Total comprehensive income for the year</b>	<b>794</b>	<b>550</b>

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **BALANCE SHEET**

		30 June 2022	30 June 2021
	Notes	£ million	£ million
<b>Non-current assets</b>			
Intangible assets	10	231	105
Property, plant and equipment	11	1,643	1,580
Investments	13	26	20
		<u>1,900</u>	<u>1,705</u>
<b>Current assets</b>			
Inventories	14	3,456	3,405
Trade and other receivables	15	688	415
Cash and cash equivalents		1	—
Other financial assets	16	43	8
		<u>4,188</u>	<u>3,828</u>
<b>Total assets</b>		<u>6,088</u>	<u>5,533</u>
<b>Current liabilities</b>			
Trade and other payables	18	(1,907)	(1,841)
Provisions	19	(3)	(6)
Corporate tax payable		(7)	(17)
Other financial liabilities	16	(28)	(21)
		<u>(1,945)</u>	<u>(1,885)</u>
<b>Non-current liabilities</b>			
Trade and other payables	18	(280)	(282)
Provisions	19	(4)	(4)
Deferred tax liabilities	20	(202)	(190)
Other financial liabilities	16	(47)	(58)
		<u>(533)</u>	<u>(534)</u>
<b>Total liabilities</b>		<u>(2,478)</u>	<u>(2,419)</u>
<b>Net assets</b>		<u>3,610</u>	<u>3,114</u>
<b>Equity</b>			
Called up share capital	21	182	182
Other reserves		30	3
Retained earnings		3,398	2,929
<b>Total equity</b>		<u>3,610</u>	<u>3,114</u>

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

The accounting policies and other notes on pages 24 to 54 form part of the financial statements.

These financial statements on pages 20 to 54 were approved by the Board of directors on 16 December 2022 and were signed on its behalf by:

*Richard Adam*

R D Adam  
Director

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **STATEMENT OF CHANGES IN EQUITY**

### **Attributable to shareholders of the company**

	<b>Called up share capital £ million</b>	<b>Hedging reserve £ million</b>	<b>Retained earnings £ million</b>	<b>Total £ million</b>
<b>Balance at 30 June 2020</b>	182	(7)	2,447	2,622
Profit for the financial year and the total	—	10	540	550
Tax on share-based incentive plans	—	—	2	2
Dividends to shareholders	—	—	(60)	(60)
<b>Balance at 30 June 2021</b>	182	3	2,929	3,114
Profit for the financial year and the total	—	27	767	794
Tax on share-based incentive plans	—	—	2	2
Dividends to shareholders	—	—	(300)	(300)
<b>Balance at 30 June 2022</b>	<b>182</b>	<b>30</b>	<b>3,398</b>	<b>3,610</b>

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. ACCOUNTING POLICIES**

#### **Basis of preparation**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

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

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

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

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

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

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 79(a)(iv) (comparative information requirements);
  - 111 (cash flow statement information);
  - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- The following paragraphs of IAS 8, 'Accounting policies, changes in accounting estimates and errors':
  - 30 (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
  - 31 (disclosures relating to the new IFRS).

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. ACCOUNTING POLICIES (continued)**

#### **Basis of preparation (continued)**

- Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets' (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives, and management's approach to determining these amounts).
- The following paragraphs of IAS 24 'Related party disclosures':
  - 17 (key management compensation);
  - 18A (key management services provided by a separate management entity).
- The requirements of IFRS 7 Financial Instruments: Disclosures, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
  - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- Paragraphs 110, 113(a), 114, 115, 118, 119(a) to 119(c), 120 to 127, and 129 of IFRS 15 'Revenue from contracts with customers' (disclosures on contract with customers, on significant judgements, and changes in the judgements, and on assets recognised from the costs to obtain or fulfil a contract with a customer).

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

The company does not amortise distribution rights and brands in accordance with the requirements of IFRS as applied under FRS 101 as the directors believe that it is appropriate that the intangible asset is treated as having an indefinite life for accounting purposes. Instead an annual impairment test is performed and any impairment that is identified is recognised in the income statement. The non-amortisation of distribution rights conflicts with paragraph 22 of Schedule 1 to 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), which requires intangible assets to be written off over its useful economic life. As such, the non-amortisation of distribution rights is a departure, for the overriding purpose of giving a true and fair view, from the requirement of paragraph 22 of Schedule 1 to the Regulations.

It is not possible to quantify the effect of the departure from the Companies Act, because a finite life for the indefinite-lived intangible assets has not been identified. However in theory, the effect of amortizing over a useful life of 25 years would be a charge of £7.2 million (2021: £3.6 million) against operating profit, and a reduction of £7.2 million in the carrying value of distribution rights in the balance sheet.

These financial statements are separate financial statements.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. ACCOUNTING POLICIES (continued)**

#### **New accounting standards and interpretations**

The following amendment to the accounting standards, issued by the IASB and endorsed by the UK and EU, has been adopted by the group and therefore by the company from 1 July 2021 with no impact on the company's results, financial position or disclosures:

- Amendments to IFRS 16 - Covid-19 - Related Rent Concessions beyond 30 June 2021;

The following amendment issued by the IASB and endorsed by the UK and EU, has been adopted by the company:

- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (phase 2)

The following standard issued by the IASB has been endorsed by the UK and the EU and has not been adopted by the company:

- IFRS 17 – Insurance contracts (effective from the year ending 30 June 2024) is ultimately intended to replace IFRS 4.

There are a number of other amendments and clarifications to IFRSs, effective in future years, which are not expected to significantly impact the company's results or financial position.

#### **Functional and presentational currency**

These financial statements are presented in sterling (£), which is the company's functional currency.

All financial information presented in sterling has been rounded to the nearest million unless otherwise stated.

#### **Turnover**

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

#### **Advertising**

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

#### **Finance income/costs**

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. ACCOUNTING POLICIES (continued)**

#### **Research and development**

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

#### **Share based payments**

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

#### **Pensions and other post-employment benefits**

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

It is not possible to allocate the assets and liabilities of the pension plans on a consistent and reasonable basis between individual companies and therefore the company accounts for the plans as defined contribution schemes. Contributions payable in respect of the pension plans in respect of current and former employees are charged to operating profit as incurred. The assets and liabilities of the pension plans are reported by the sponsoring employer, Diageo plc.

#### **Foreign currencies**

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. ACCOUNTING POLICIES (continued)**

#### **Intangible assets**

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

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

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

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

#### **Property, plant and equipment**

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

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

Land and buildings	10 to 70 years
Plant and equipment	5 to 50 years
Casks and containers	10 to 50 years

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

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

#### **Leases**

Where the company is the lessee, all leases are recognised on the balance sheet as right of use assets and depreciated on a straight-line basis with the charge recognised in cost of sales. The liability, recognised as part of net borrowings, is measured at a discounted value and any interest is charged to finance charges.

The company recognises services associated with a lease as other operating expenses. Payments associated with leases where the value of the asset when it is new is lower than \$5,000 (leases of low value assets) and leases with a lease term of twelve months or less (short term leases) are recognised as other operating expenses.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. ACCOUNTING POLICIES (continued)**

#### **Leases (continued)**

A judgement in calculating the lease liability at initial recognition includes determining the lease term where extension or termination options exist. In such instances any economic incentive to retain or end a lease are considered and extension periods are only included when it is considered reasonably certain that an option to extend a lease will be exercised.

For the years ended 30 June 2019 and 2018, where the company had substantially all the risks and rewards of ownership of an asset subject to a lease, the lease was treated as a finance lease. Assets held under finance leases were recognised as assets of the company at their fair value at the inception of the lease. The corresponding liability to the lessor was included in other financial liabilities on the balance sheet. Lease payments were apportioned between interest expense and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Other leases were treated as operating leases, with payments and receipts taken to the income statement on a straight-line basis over the life of the lease.

#### **Investment in subsidiaries and associates**

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

#### **Inventories**

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

#### **Financial assets and liabilities**

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

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. ACCOUNTING POLICIES (continued)**

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

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

#### **Derivative financial instruments**

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

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

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

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

#### **Provisions**

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. ACCOUNTING POLICIES (continued)**

#### **Taxation**

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

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

#### **Dividends**

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

#### **Judgements in applying accounting policies and key sources of estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

- **Intangible assets:** Assessment of the recoverable amount of an intangible asset, the useful economic life of an asset, or that an asset has an indefinite life, requires management estimate and judgement. Impairment review is carried out to ensure that the distribution right is not carried at above its recoverable amount. The tests are dependent on management's estimates and judgements, in particular in relation to the forecasting of future cash flows, the discount rates applied to those cash flows and the expected long-term growth rates. Such estimates and judgements are subject to change as a result of changing economic conditions and actual cash flows may differ from forecasts.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. ACCOUNTING POLICIES (continued)**

#### **Judgements in applying accounting policies and key sources of estimation uncertainty (continued)**

- Investment in subsidiaries and associates: A critical accounting judgement is the assessment that recoverable amount of the company's investment is greater than the carrying amount. Impairment reviews are carried out to ensure that the value of the investments in subsidiaries are not carried at above their recoverable amounts. The tests are dependent on management's estimates in respect of the forecasting of future cash flows, the discount rates applicable to the future cash flows and expected growth rates. Such estimates and judgements are subject to change as a result of changing economic conditions and actual cash flows may differ from forecasts.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **2. TURNOVER**

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

#### **Geographical analysis of turnover**

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
United Kingdom	202	210
Europe	1,717	1,285
North America	98	84
Asia Pacific	253	198
Rest of world	45	37
	<b>2,315</b>	<b>1,814</b>

Diageo Brands B.V. acts as a commissioner for Diageo Scotland, and majority of sales reported in the Europe region are in fact realised via this trading chain; it is not the location of the final customers of products manufactured and sold from Diageo Scotland Limited.

#### **Analysis of turnover by class of business**

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
Production and maturation of Scotch whisky and other spirits	1,465	1,211
Marketing and selling of spirits	839	593
Royalties	11	10
	<b>2,315</b>	<b>1,814</b>

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

Sales to fellow group undertakings included in turnover amounted to £1,874 million (2021 - £1,576 million).

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **3. OPERATING COSTS**

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
Cost of sales	<b>1,160</b>	<b>874</b>
Marketing expenses	<b>71</b>	<b>52</b>
Other operating expenses	<b>115</b>	<b>98</b>
	<b>1,346</b>	<b>1,024</b>
Comprising:		
(Decrease)/Increase in inventories of finished goods and work in progress	<b>4</b>	<b>(3)</b>
Raw materials and consumables cost	<b>779</b>	<b>492</b>
Marketing expenses	<b>71</b>	<b>52</b>
Other operating costs (a)	<b>170</b>	<b>174</b>
Staff costs	<b>219</b>	<b>204</b>
Depreciation and amortisation	<b>95</b>	<b>90</b>
Net foreign exchange losses	<b>8</b>	<b>15</b>
	<b>1,346</b>	<b>1,024</b>

(a) Other operating costs include facilities costs of £30 million (2021 - £35 million), maintenance and repairs of £36 million (2021 - £31 million), temporary and contract staff costs of £18 million (2021 - £12 million), computer system costs of £3 million (2021 - £4 million), other lease rentals of £2 million (2021 - £2 million) and a provision release for bad and doubtful debts of £1 million (2021 - £2 million provision charge for bad and doubtful debts).

(b) Fees in respect of services provided by the auditors were: audit services £124,736 (2021 - £108,250); other non-audit work £nil (2021 - £nil).

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **4. EMPLOYEES**

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

	<b>Year ended 30 June 2022</b>	<b>Year ended 30 June 2021</b>
Production	2,540	2,671
Corporate and administration	120	210
Selling and distribution	67	63
	<u>2,727</u>	<u>2,944</u>

The monthly average number of employees of the company, including part time employees, for the year was 3,139 (2021 – 3,086).

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
Aggregate remuneration		
Wages and salaries	166	153
Employer's social security	18	14
Employer's pension	31	33
Redundancy payments	1	3
Share based payments	2	1
Other employment costs	1	—
	<u>219</u>	<u>204</u>

#### **Retirement benefits**

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

It is not possible to allocate the assets and liabilities of the pension plans on a consistent and reasonable basis between individual companies and therefore the company accounts for the plans as defined contribution schemes. Contributions payable in respect of defined contribution plans for current and former employees are charged to operating profit as incurred. The company made cash contributions of £31 million to the schemes in respect of its employees in the year ended 30 June 2022 (2021 - £33 million). As there is no contractual agreement for allocating the surplus or deficit in the pension funds to participating entities, it is recognised fully by the sponsoring employer, Diageo plc.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **4. EMPLOYEES (continued)**

#### **Directors' remuneration**

	<b>Year ended 30 June 2022 £'000</b>	<b>Year ended 30 June 2021 £'000</b>
Directors' remuneration (excluding pension contributions)	<b>298</b>	<b>162</b>
Amounts receivable under long term incentive schemes	<b>42</b>	<b>29</b>
	<b>340</b>	<b>191</b>

The aggregate remuneration of the highest paid director employed by the company, was £174,110 (2021 - £161,778). The highest paid director is a member of a defined benefit pension scheme, under which the director's accrued annual pension at the year-end was £170,273 (2021 - £3,663).

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

	<b>Year ended 30 June 2022</b>	<b>Year ended 30 June 2021</b>
The number of directors who exercised share options	<b>2</b>	<b>1</b>
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes	<b>2</b>	<b>1</b>
The number of directors in respect of whose retirement benefits were accrued for under defined benefit pension	<b>2</b>	<b>1</b>

### **5. EMPLOYEE SHARE COMPENSATION**

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

Further details of the assumptions used for the valuation and the accounting for share options schemes are disclosed in Diageo plc's Annual Report for the year ended 30 June 2022 (see note 17 of Diageo plc's 2022 Annual Report).

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **6. INCOME FROM SHARES IN GROUP UNDERTAKINGS**

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
<b>Income from shares in subsidiary and associate undertakings</b>		
United Distillers France	21	—
Diageo Suisse S.A.	1	1
Zepf Technologies UK Limited	1	2
	<u>23</u>	<u>3</u>

### **7. AMOUNTS WRITTEN OFF INVESTMENTS**

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
<b>Provision against joint venture undertaking</b>		
Diageo Southern African Markets (Pty) Ltd	—	(1)

During the year ended 30 June 2021, Diageo Southern African Markets (Pty) Ltd repaid £322,000 as capital repayment resulting in a decrease of the net assets of Diageo Southern African Markets (Pty) Ltd. An impairment of £544,000 was charged to provisions against joint venture undertaking in respect of the company's shares owned in Diageo Southern African Markets (Pty) Ltd.

### **8. NET FINANCE CHARGES**

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
Interest charge to fellow group undertakings	60	87
Interest charge on finance leases	1	6
	<u>61</u>	<u>93</u>

Interest charge to fellow group undertakings includes £59 million (2021 - £87 million) in respect of the option premium paid to Lakeside MWS Limited Liability Partnership (see note 14).

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **9. TAXATION ON ORDINARY ACTIVITIES**

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
<b>(a) Analysis of taxation charge for the year</b>		
<b>Current tax</b>		
UK corporation tax	(152)	(105)
Overseas corporation tax	(2)	(1)
Adjustments in respect of prior years	(4)	(1)
<b>Total current tax</b>	<b>(158)</b>	<b>(107)</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(4)	(6)
Adjustments in respect of prior years	(1)	—
Effect of changes in tax rate	(1)	(46)
<b>Taxation on profit on ordinary activities</b>	<b>(164)</b>	<b>(159)</b>

### **(b) Tax credit included in equity**

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
Current tax	2	1
Deferred tax	—	1
	<b>2</b>	<b>2</b>

### **(c) Tax charge included in other comprehensive income**

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
Deferred tax	(6)	(3)

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **9. TAXATION ON ORDINARY ACTIVITIES (continued)**

#### **(d) Factors affecting total tax charge for the year**

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
Profit before taxation on ordinary activities	<b>931</b>	<b>699</b>
Taxation on profit on ordinary activities at UK corporation tax rate of 19% (2021 - 19%)	<b>(177)</b>	<b>(133)</b>
Adjustments in respect of prior periods	<b>(5)</b>	<b>(1)</b>
Changes in tax rates	<b>(1)</b>	<b>(46)</b>
Transfer pricing adjustments	<b>8</b>	<b>4</b>
Expenses not deductible	<b>(1)</b>	<b>(1)</b>
Overseas tax suffered	<b>(1)</b>	<b>(1)</b>
Share options	<b>—</b>	<b>—</b>
Group relief received	<b>12</b>	<b>21</b>
Other	<b>1</b>	<b>(2)</b>
<b>Total tax charge for the year</b>	<b>(164)</b>	<b>(159)</b>

The UK corporation tax rate for the year ended 30 June 2022 is 19% which has been effective since 1 April 2017. Legislation increasing the corporation tax rate to 25% with effect from 1 April 2023 was substantively enacted on 24 May 2021. Deferred taxes at 30 June 2022 have been measured using this enacted tax rate and reflected in these financial statements.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **10. INTANGIBLE ASSETS**

	<b>Distribution rights £ million</b>	<b>Brands £ million</b>	<b>Goodwill £ million</b>	<b>Computer software £ million</b>	<b>Other intangible £ million</b>	<b>Total £ million</b>
<b>30 June 2021</b>						
1 July 2021	95	—	—	12	13	120
Additions	—	85	8	1	44	138
Disposals	—	—	—	—	(12)	(12)
Transfers	—	—	—	5	—	5
<b>30 June 2022</b>	<b>95</b>	<b>85</b>	<b>8</b>	<b>18</b>	<b>45</b>	<b>251</b>
<b>Amortisation</b>						
30 June 2021	—	—	—	(12)	(3)	(15)
Amortisation	—	—	—	(1)	(4)	(5)
<b>30 June 2022</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(13)</b>	<b>(7)</b>	<b>(20)</b>
<b>Carrying amount</b>						
<b>30 June 2022</b>	<b>95</b>	<b>85</b>	<b>8</b>	<b>5</b>	<b>38</b>	<b>231</b>
<b>30 June 2021</b>	<b>95</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>10</b>	<b>105</b>

Distribution rights comprise the cost of the worldwide distribution rights to the Captain Morgan brand (£95 million, excluding Canada and the United States of America). There are not believed to be any legal, regulatory or contractual provisions that limit the useful life of this distribution right. Accordingly, the directors believe that it is appropriate that the intangible asset is treated as having an indefinite life for accounting purposes. Additionally, Diageo Scotland acquired two brands during F22, Copper Dog (£25 million) and Chase (£60 million) which resulted in an increase in Brands. This was a transfer between entities under common control.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **10. INTANGIBLE ASSETS (continued)**

#### **Impairment testing**

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

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

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

		2022		2021	
Pre-tax		Long term		Pre-tax	Long term
discount rate		growth rate		discount rate	growth rate
%		%		%	%
7		2		6	2

#### **Sensitivity to change in key assumptions**

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

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **11. PROPERTY, PLANT AND EQUIPMENT**

	<b>Land and buildings £ million</b>	<b>Plant and equipment £ million</b>	<b>Casks and containers £ million</b>	<b>Assets in course of construction £ million</b>	<b>Total £ million</b>
<b>Cost</b>					
At 30 June 2021	626	977	635	197	2,435
Additions	31	11	35	88	165
Disposals	—	—	(9)	—	(9)
Write-off	(1)	(6)	—	—	(7)
Transfers	64	67	2	(138)	(5)
<b>At 30 June 2022</b>	<b>720</b>	<b>1,049</b>	<b>663</b>	<b>147</b>	<b>2,579</b>
<b>Depreciation</b>					
At 1 July 2021	(181)	(471)	(203)	—	(855)
Depreciation charge	(24)	(54)	(19)	—	(97)
Disposals	—	—	9	—	9
Write-off	1	6	—	—	7
Transfers	—	—	—	—	—
<b>At 30 June 2022</b>	<b>(204)</b>	<b>(519)</b>	<b>(213)</b>	<b>—</b>	<b>(936)</b>
<b>Net book value</b>					
At 30 June 2022	<b>516</b>	<b>530</b>	<b>450</b>	<b>147</b>	<b>1,643</b>
At 30 June 2021	<b>445</b>	<b>506</b>	<b>432</b>	<b>197</b>	<b>1,580</b>

The net book value of land and buildings comprises freeholds of £444 million (2021 – £397 million) and long leaseholds of £1 million (2021 – £1 million). Depreciation was not charged on £15 million (2021 – £15 million) of land.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **12. LEASES**

#### **(a) Movements of leases**

	<b>Land and buildings £ million</b>	<b>Plant and equipment £ million</b>	<b>Assets in course of construction £ million</b>	<b>Total £ million</b>
<b>Movement of right-of-use assets</b>				
At 30 June 2021	14	64	28	106
Disposal	—	—	—	—
Depreciation	(3)	(6)	—	(9)
<b>At 30 June 2022</b>	<b>11</b>	<b>58</b>	<b>28</b>	<b>97</b>

	<b>Land and buildings £ million</b>	<b>Plant and equipment £ million</b>	<b>Assets in course of construction £ million</b>	<b>Total £ million</b>
<b>Movement of lease liabilities</b>				
At 30 June 2021	(13)	(33)	(29)	(75)
Addition	—	—	—	—
Payments	2	15	—	17
Interest expense	—	(1)	—	(1)
<b>At 30 June 2022</b>	<b>(11)</b>	<b>(19)</b>	<b>(29)</b>	<b>(59)</b>
Current				(13)
Non-current				(46)

#### **(b) Amounts recognised in the statement of profit or loss**

Other operating expenses associated with leases of low value assets and short term leases were £2 million (2021 - £2 million).

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **13. INVESTMENTS**

#### *Shares in subsidiary and associate undertakings*

	<b>Subsidiaries and associates £ million</b>
<b>Cost</b>	
<b>At 1 July 2021 and 30 June 2022</b>	<b>248</b>
<b>Provisions</b>	
<b>At 30 June 2021</b>	<b>(228)</b>
<b>Provided</b>	<b>—</b>
<b>At 30 June 2022</b>	<b>(228)</b>
<b>Carrying amount</b>	
<b>At 30 June 2022</b>	<b>20</b>
<b>At 30 June 2021</b>	<b>20</b>

#### *Other investments*

Diageo Scotland Ltd provided £6 million convertible loan to Bacall Aluminium Ltd, to a UK third party. The loan has a special purpose to build an aluminium sheet plant in the UK by Bacall Aluminium Ltd where some part of the capacity of the plant will be secured for Diageo Scotland Ltd only.

During the year ended 30 June 2021, Diageo Southern African Markets (Pty) Ltd repaid £322,000 as capital repayment resulting in a decrease of the net assets of Diageo Southern African Markets (Pty) Ltd. An impairment of £544,000 was charged to provisions against joint venture undertaking in respect of the company's shares owned in Diageo Southern African Markets (Pty) Ltd.

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **13. INVESTMENTS (continued)**

<b>Name of investment</b>	<b>Note(s)</b>	<b>Registered office address</b>	<b>Proportion of ownership interest %*</b>	<b>Proportion of effective interest %**</b>
<b>Direct holdings</b>				
<i>Subsidiary undertakings</i>				
D.C.L. (Holdings) Australia Proprietary Limited	(i), (ii), (vi)	Level 1, 162 Blues Point Road, McMahons Point, NSW 2060, Australia	100 %	100 %
Diageo New Zealand Limited	(ii)	123 Carlton Gore Road, Level 2, Newmarket, Auckland, 1023, New Zealand	100 %	100 %
Diageo Scotland Investment Limited		16 Great Marlborough Street, London, W1F 7HS, United Kingdom	100 %	100 %
James Buchanan & Company Limited	(i)	16 Great Marlborough Street, London, W1F 7HS, United Kingdom	100 %	100 %
John Haig & Company Limited		11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom	100 %	100 %
John Walker and Sons Limited	(i)	16 Great Marlborough Street, London, W1F 7HS, United Kingdom	100 %	100 %
The Distillers Company (Biochemicals) Limited	(i)	16 Great Marlborough Street, London, W1F 7HS, United Kingdom	100 %	100 %
The Lochnagar Distillery Limited	(i)	11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom	100 %	100 %
United Distillers France Limited		16 Great Marlborough St, London, W1F 7HS, United Kingdom	100 %	100 %
William Sanderson & Son, Limited	(i)	11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom	100 %	100 %
Zepf Technologies UK Limited		11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom	100 %	100 %

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

\*\* Effective percentage of shares held by the company directly and indirectly

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **13. INVESTMENTS (continued)**

<b>Name of investment</b>	<b>Note(s)</b>	<b>Registered office address</b>	<b>Proportion of ownership interest %*</b>	<b>Proportion of effective interest %**</b>
<b>Direct holdings</b>				
<i>Associate undertakings</i>				
Diageo Suisse S.A.	(iii)	Place de la Gare 12, Lausanne, 1003 Switzerland	45.13 %	45.13 %
The Scotch Whisky Heritage Centre Limited		354 Castlehill, The Royal Mile, Edinburgh, EH1 2NE, United Kingdom	23 %	23 %
<b>Indirect holdings</b>				
<i>Subsidiary undertakings</i>				
Lakeside MWS Limited Liability Partnership	(v)	16 Great Marlborough Street, London, W1F 7HS, United Kingdom	—	—
Lochside MWS Limited Partnership	(v)	11 Lochside Place, Edinburgh, Scotland, EH12 9HA, United Kingdom	—	—
United Distillers France SAS		73, Rue de Provence, 75009 Paris, France	100 %	100 %
Jiangsu Diageo Spirits Co., Ltd.	(vii)	Room 1101, Building 3, No.68, Aoti Street, Jianye District, Nanjing City, China	100 %	50 %
<i>Associate undertakings</i>				
Ballindalloch Distillery LLP		Ballindalloch Castle, Ballindalloch, Banffshire AB37 9AX, Scotland, United Kingdom	33.33 %	33.33 %
<i>Joint venture</i>				
Diageo International Spirits Company Limited	(ii)	Room 06, 13A/F., South Tower, World Finance Centre, Harbour City, 17 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong	50 %	50 %

(i) Dormant company.

(ii) Ownership held in class of A shares.

(iii) Subsidiary at group level but an associate based on the effective percentage of shares held by the company.

- \* The percentage of shares held by the immediate shareholder(s) of the subsidiary
- \*\* Effective percentage of shares held by the company directly and indirectly

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **13. INVESTMENTS (continued)**

(iv) Subsidiary at group level but a joint venture on the effective percentage of shares held by the company.

(v) No percentage is disclosed as Lochside MWS Limited Liability Partnership and Lakeside MWS Limited Liability Partnership are partnerships.

(vi) The company was dissolved on 7 September 2021.

(vii) The company was dissolved on 21 January 2022.

The investments in subsidiaries, associates and jointly controlled entities are held at cost less, where appropriate, provision for impairment in value.

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

### **14. INVENTORIES**

	30 June 2022 £ million	30 June 2021 £ million
Raw materials and consumables	63	48
Work in progress	2	1
Maturing inventories	3,361	3,329
Finished goods and goods for resale	30	27
	<u>3,456</u>	<u>3,405</u>

Maturing inventories include whisky. £2,959 million (2021 - £2,972 million) of inventories are expected to be utilised after more than one year.

Inventories are disclosed net of provisions of £5 million (2021 - £5 million) for obsolescence.

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

The company entered into an agreement with Lakeside MWS Limited Liability Partnership ("Lakeside"), a fellow subsidiary undertaking, and sold maturing spirit aged up to three years to Lakeside at cost and charges inventory holding costs to Lakeside. The company was granted a call option to enable it to repurchase the maturing spirit at any time from Lakeside at original sale price plus inventory holding cost and a put option to require Lakeside to purchase inventory from the company. As consideration for these options the company pays an annual premium. As at 30 June 2022, Lakeside owned the legal title over £560 million (2021 - £564 million) of maturing spirit while the beneficial title remains with the company. As the risks and rewards of ownership of the inventory remained with the company, the maturing spirit continues to be shown in its financial statements. For accounting purposes the amount the company received for the inventory is recognised as a liability to a fellow group undertaking on the balance sheet (see note 18) and the premium it pays for the options provided is presented as an interest charge within net finance charges (see note 8).

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **15. TRADE AND OTHER RECEIVABLES**

	<b>30 June 2022</b>	<b>30 June 2021</b>
	<b>£ million</b>	<b>£ million</b>
Trade receivables	75	39
Amounts owed by other fellow group undertakings	486	267
VAT recoverable and other prepaid taxes	64	53
Other receivables	11	9
Prepayments and accrued income	52	47
	<b>688</b>	<b>415</b>

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

Trade and other receivables are disclosed net of provision of £8 million (2021 - £7 million) for bad and doubtful debts.

### **16. OTHER FINANCIAL ASSETS/(LIABILITIES)**

<b>2022</b>	<b>Current assets £ million</b>	<b>Current liabilities £ million</b>	<b>Non-current liabilities £ million</b>
<b>Intra-group derivative assets/(liabilities)</b>			
Not designated in a hedge relationship	5	(11)	—
Designated in cash flow hedge	38	(4)	(1)
	<b>43</b>	<b>(15)</b>	<b>(1)</b>
<b>Non-derivative liabilities</b>			
Financial lease liabilities	—	(13)	(46)
	<b>43</b>	<b>(28)</b>	<b>(47)</b>

<b>2021</b>	<b>Current assets £ million</b>	<b>Current liabilities £ million</b>	<b>Non-current liabilities £ million</b>
<b>Intra-group derivative assets/(liabilities)</b>			
Not designated in a hedge relationship	4	(3)	—
Designated in cash flow hedge	4	(1)	—
	<b>8</b>	<b>(4)</b>	<b>—</b>
<b>Non-derivative liabilities</b>			
Financial lease liabilities	—	(17)	(58)
	<b>8</b>	<b>(21)</b>	<b>(58)</b>

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **16. OTHER FINANCIAL ASSETS/(LIABILITIES) (continued)**

*Finance lease liabilities are payable as follows:*

	<b>30 June 2022</b>		<b>30 June 2021</b>	
	<b>Future minimum lease payments</b>	<b>Future finance charges</b>	<b>Present value of minimum lease payments</b>	<b>Present value of minimum lease payments</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
Less than one year	14	(1)	13	(1)
Between one and five years	16	(2)	14	(2)
More than five years	36	(4)	32	(4)
	<b>66</b>	<b>(7)</b>	<b>59</b>	<b>(7)</b>

Finance lease liabilities include an obligation of £28 million (2021 - £29 million) in respect of Johnnie Walker Princes Street and £11 million (2021 - £11 million) for the Edinburgh Park office.

### **17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

#### **(a) Currency risk**

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

#### *Transaction exposure hedging*

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

#### **(b) Commodity price risk**

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

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

#### **(c) Fair value measurements**

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

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

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

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

	<b>30 June 2022</b>	<b>30 June 2021</b>
	<b>£ million</b>	<b>£ million</b>
Derivative assets	43	8
Derivative liabilities	(15)	(4)
<b>Valuation techniques based on observable market input (level 2)</b>	<b>28</b>	<b>4</b>

There were no transfers between levels during the two years ended 30 June 2022 and 30 June 2021.

#### **(d) Results of hedging instruments**

A £2 million loss has been transferred out from other comprehensive income to other operating income (2021 – £6 million gain).

Based on year end interest and foreign exchange rates in respect of cash flow hedges at 30 June 2022, the company expects to recognize in the income statement a loss of £1 million in the year ending 30 June 2023 and expects no significant gain or loss in the year ending 30 June 2024.

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **18. TRADE AND OTHER PAYABLES**

	<b>30 June 2022</b>		<b>30 June 2021</b>	
	<b>Amounts falling due within one year</b>	<b>Amounts falling due after one year</b>	<b>Amounts falling due within one year</b>	<b>Amounts falling due after one year</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
Amounts owed to fellow group undertakings	1,011	—	1,099	—
Trade payables	442	—	344	—
Tax and social security excluding income tax	10	—	8	—
Loan payable to fellow group undertakings	280	280	282	282
Other payables	3	—	3	—
Accruals and deferred income	161	—	105	—
	<u>1,907</u>	<u>280</u>	<u>1,841</u>	<u>282</u>

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

Loan payable to fellow group undertaking represents the amount the company received for the inventory sold to Lakeside, but the inventory has not been derecognised as the risks and rewards of ownership have not been transferred from the company. Amounts due within one year of £280 million (2021 - £282 million) reflect the directors' expectation, based on historical experience of how much of the maturing whisky inventory subject to the call option will be exercised by the company within one year.

### **19. PROVISIONS**

	<b>Restructuring £ million</b>	<b>Onerous contracts £ million</b>	<b>Other £ million</b>	<b>Total £ million</b>
At 30 June 2021	1	—	9	10
Provided during the year	—	—	4	4
Utilised during the year	(1)	—	(6)	(7)
<b>At 30 June 2022</b>	<u><b>—</b></u>	<u><b>—</b></u>	<u><b>7</b></u>	<u><b>7</b></u>
Current liabilities				(3)
Non-current liabilities				(4)

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **20. DEFERRED TAX ASSETS AND LIABILITIES**

Net deferred tax liabilities are as follows:

	<b>Property, plant and equipment £ million</b>	<b>Other temporary differences £ million</b>	<b>Total £ million</b>
At 30 June 2020	(98)	(38)	(136)
Recognised in income statement	(40)	(12)	(52)
Recognised in equity	—	1	1
Recognised in other comprehensive income	—	(3)	(3)
At 30 June 2021	(138)	(52)	(190)
Recognised in income statement	(7)	1	(6)
Recognised in equity	—	—	—
Recognised in other comprehensive income	—	(6)	(6)
At 30 June 2022	<u>(145)</u>	<u>(57)</u>	<u>(202)</u>

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

#### **Unrecognised deferred tax assets**

Deferred tax assets have been recognised to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Where this is not the case, deferred tax assets have not been recognised. The total value of unrecognised deferred tax assets as at 30 June 2022 is £2,797,293 (2021 - £861,148). The detailed breakdown of the timing of unrecognised deferred tax assets are as follows:

	<b>30 June 2022</b>		<b>30 June 2021</b>	
<b>£s</b>	<b>Gross amount</b>	<b>Tax effect</b>	<b>Gross amount</b>	<b>Tax effect</b>
Tax losses expiring:				
- Within 10 years	—	—	—	—
- More than 10 years	—	—	—	—
- Available indefinitely	11,189,170	2,797,293	3,444,590	861,148
<b>Total</b>	<u>11,189,170</u>	<u>2,797,293</u>	<u>3,444,590</u>	<u>861,148</u>

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **21. CALLED UP SHARE CAPITAL**

#### **(a) Called up share capital**

	<b>30 June 2022</b>
	<b>£ million</b>
<i>Allotted, called up and fully paid</i>	
363,169,546 (2021 - 363,169,546) ordinary shares of 50p each	<u><u>182</u></u>

### **22. COMMITMENTS**

#### **Capital commitments**

Commitments for expenditure on property, plant and equipment not provided for in these financial statements are estimated at £47 million (2021 - £37 million).

#### **Other purchase commitments**

At 30 June 2022 the company had purchase commitments totalling £769 million (2021 - £617 million), the majority of which were in respect of dry goods and raw material purchases.

### **23. RELATED PARTY TRANSACTIONS**

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

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

The following transactions were carried out with related parties:

#### **(a) Sales of goods and services**

	<b>Year ended</b>	<b>Year ended</b>
	<b>30 June 2022</b>	<b>30 June 2021</b>
	<b>£ million</b>	<b>£ million</b>
Subsidiaries not wholly owned by the Diageo group	<u><u>3</u></u>	<u><u>2</u></u>

**Diageo Scotland Limited**  
**Registered number: SC000750**  
**Year ended: 30 June 2022**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **23. RELATED PARTY TRANSACTIONS (continued)**

#### **(b) Purchases of goods and services**

	<b>Year ended 30 June 2022 £ million</b>	<b>Year ended 30 June 2021 £ million</b>
Subsidiaries not wholly owned by the Diageo group	5	4
Associates not wholly owned by the Diageo group	—	—
Joint ventures not wholly owned by the Diageo group	34	29
Joint operations not wholly owned by the Diageo group	—	—
	<b>39</b>	<b>33</b>

At 30 June 2022, inventories include purchases of £33 million from group undertakings not wholly owned by the Diageo group (2021 - £23 million).

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

	<b>30 June 2022 £ million</b>	<b>30 June 2021 £ million</b>
<b>Trade payables due to related parties:</b>		
Associates not wholly owned by the Diageo group	2	—
Joint ventures not wholly owned by the Diageo group	—	3
Joint operations not wholly owned by the Diageo group	—	—
	<b>2</b>	<b>3</b>

#### **(d) Loans from related parties**

At 30 June 2022, other payables included a secured loan owed to a fellow group undertaking of £560 million (2021 - £564 million) in respect of a loan payable to Lakeside.

### **24. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING**

The immediate parent undertaking of the company is Diageo Great Britain Limited, a company incorporated and registered in England, United Kingdom.

The ultimate parent undertaking of the company is Diageo plc which is the ultimate controlling party of the group. The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Diageo plc. Diageo plc is incorporated and registered in England, United Kingdom. The consolidated financial statements of Diageo plc can be obtained from the registered office at Diageo, 16 Great Marlborough Street, London, W1F 7HS, United Kingdom.