

Diageo Finance plc
Financial statements
30 June 2005

Registered number: 213393



Directors' report

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

Activities

The company forms part of the Diageo group's treasury operations which manage the Diageo group's funding, liquidity and exposure to treasury and foreign exchange risks. Further information on the risk management policies of the Diageo group are included in the annual report of Diageo plc (see note 17 to these financial statements). The results of the company and the development of its business are, therefore, influenced to a considerable extent by group financing requirements. The directors foresee no changes in the company's activities.

Financial

The results for the year ended 30 June 2005 are shown on page 6. An interim dividend of £1,000 million was paid during the year (2004 - £nil). The directors recommend the payment of a final dividend of £1,005 million for the year (2004 - £nil). The loss for the year transferred from reserves is £1,346 million (2004 - profit of £648 million transferred to reserves).

Directors

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

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

R J Joy was appointed a director of the company on 11 October 2005.

Directors' emoluments

None of the directors received any remuneration during the year in respect of their services as directors of the company (2004 - £nil).

Directors' interests

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

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

Directors' report (continued)

Directors' interests (continued)

(i) Ordinary shares and conditional rights to ordinary shares

| | Ordinary shares | | Conditional rights to ordinary shares | | | | |
|------------|---|----------------|---|-----------------|----------------|----------------|----------------|
| | At beginning of year (or date of appointment) | At end of year | At beginning of year (or date of appointment) | Granted in year | Vested in year | Lapsed in year | At end of year |
| S M Bunn | 1,088 | 128 | - | - | - | - | - |
| C D Coase | 14,207 | 14,207 | - | - | - | - | - |
| M J Lester | 20,658 | 26,306 | 34,311 | - | (3,521) | - | 30,790 |

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

(ii) Options

| | Options over ordinary shares | | | | |
|------------|---|-----------------|-------------------|----------------|----------------|
| | At beginning of year (or date of appointment) | Granted in year | Exercised in year | Lapsed in year | At end of year |
| S M Bunn | 46,319 | 15,434 | (9,316) | - | 52,437 |
| C D Coase | 141,269 | - | - | - | 141,269 |
| M J Lester | 150,846 | 23,758 | (61,037) | - | 113,567 |

The directors held the above options under Diageo plc share option schemes at prices between 460p and 863p per ordinary share exercisable between 2005 and 2014. Certain options granted in the Republic of Ireland were granted at a price of Euros 7.37 per ordinary share. The options are granted at market value on the date the option is granted and the option price is payable when the option is exercised.

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

At 30 June 2005 all the directors had an interest in 21,465,587 shares and 8,233,337 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes.

Directors' report (continued)

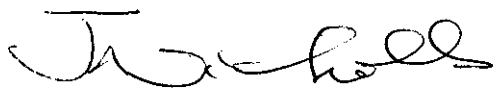
Supplier Payment Policy

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

Auditor

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

By order of the board



J Nicholls
8 Henrietta Place,
London W1G 0NB
16 December 2005

Statement of directors' responsibilities in relation to the financial statements

The following statement, which should be read in conjunction with the independent auditor's report set out on page 5 is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

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

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

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

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

Independent auditor's report to the members of Diageo Finance plc

We have audited the financial statements on pages 6 to 19.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

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

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

Opinion

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

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

16 December 2005

Profit and loss account

| | <i>Notes</i> | Year ended 30 June 2005 £'m | Year ended 30 June 2004 £'m |
|--|--------------|--|--|
| Interest receivable | <i>1</i> | 2,120 | 1,895 |
| Interest payable | <i>2</i> | (1,445) | (1,264) |
| Net interest receivable | | <u>675</u> | <u>631</u> |
| Other operating (expense)/income | <i>4</i> | (7) | 17 |
| Profit on ordinary activities before taxation | | <u>668</u> | <u>648</u> |
| Taxation on profit on ordinary activities | <i>6</i> | (9) | - |
| Profit on ordinary activities after taxation | | <u>659</u> | <u>648</u> |
| Dividends | <i>7</i> | (2,005) | - |
| Amounts transferred (from)/to reserves | <i>14</i> | <u><u>(1,346)</u></u> | <u><u>648</u></u> |

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

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

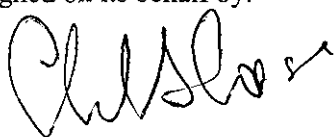
All results arise from continuing operations.

Balance sheet

| | <i>Notes</i> | 30 June 2005 | | 30 June 2004 | |
|---------------------------------------|--------------|---------------------|----------|---------------------|----------|
| | | £'m | £'m | £'m | £'m |
| Current assets | | | | | |
| Debtors: due within one year | 8 | 37,819 | | 42,145 | |
| Cash and bank deposits | 9 | 111 | | 18 | |
| | | <hr/> | | <hr/> | |
| | | | 37,930 | | 42,163 |
| Creditors: due within one year | | | | | |
| Borrowings | 11 | (165) | | (342) | |
| Other creditors | 12 | (33,243) | | (35,955) | |
| | | <hr/> | | <hr/> | |
| | | | (33,408) | | (36,297) |
| Net current assets | | | | | |
| | | | 4,522 | | 5,866 |
| Creditors: due after one year | | | | | |
| Borrowings | 11 | | (203) | | (201) |
| Net Assets | | | | | |
| | | | 4,319 | | 5,665 |
| Capital and reserves | | | | | |
| Called up share capital | 13 | | 3,660 | | 3,660 |
| Profit and loss account | 14 | | 659 | | 2,005 |
| Equity shareholders' funds | | | | | |
| | | | 4,319 | | 5,665 |

These financial statements on pages 6 to 19 were approved by the board of directors on 16 December 2005 and were signed on its behalf by:

C D Coase
 Director



Accounting policies

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

Basis of preparation

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

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

The company is exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions (but not balances) with entities that are part of the Diageo plc group ("group undertakings") or investees of the Diageo plc group.

Foreign currencies

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

Exchange gains and losses are taken to the profit and loss account.

Financial instruments

The company participates in the Diageo group's hedging of foreign exchange exposures arising on Diageo group's transactions and the underlying net assets of Diageo group's foreign subsidiaries by using forward contracts, currency swaps, cross currency interest rate swaps and currency options in this respect.

Foreign exchange contracts and options used for managing transactional and translational exposure are generally matched with offsetting positions with other Diageo group undertakings. Foreign exchange gains or losses resulting from any unmatched residual positions are taken to the profit and loss account.

The company participates in the Diageo group's interest rate management and uses for example, interest rate swaps, forward starting swaps, forward rate agreements and bought and sold options in the management of the interest rate exposure arising on the Diageo group's borrowings.

Instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as a hedge at the inception of the contract. Hedge accounting is applied to swaps and other hedging instruments with interest recognised on an accruals basis with no adjustments made to reflect fluctuations in market values.

Accounting policies (continued)

Financial instruments (continued)

If the underlying transaction to a hedge ceases to exist, the hedge is terminated and the profits and losses on termination are recognised in the profit and loss account immediately. If the hedge transaction is terminated, the profits and losses on termination are held in the balance sheet and amortised over the life of the original underlying transactions. Finance costs associated with the debt issuances are charged to the profit and loss account over the life of the issue.

Deferred taxation

Full provision is made for timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations using current tax rates. The company does not discount these balances.

Notes to the financial statements

1. Interest receivable

| | Year ended 30 June 2005 | Year ended 30 June 2004 |
|--------------------------------|----------------------------|----------------------------|
| | £'m | £'m |
| Loans to group undertakings | 1,935 | 1,680 |
| Income from swaps and deposits | 185 | 215 |
| | <u>2,120</u> | <u>1,895</u> |

2. Interest payable

| | Year ended 30 June 2005 | Year ended 30 June 2004 |
|-------------------------------|----------------------------|----------------------------|
| | £'m | £'m |
| Bank loans and overdrafts | (8) | (5) |
| Loans from group undertakings | (1,287) | (1,101) |
| Other loans | (150) | (158) |
| | <u>(1,445)</u> | <u>(1,264)</u> |

3. Operations

During the financial year the company was engaged in treasury management for Diageo plc and its subsidiary undertakings. The company's operations are based in the United Kingdom. It raises the external funds it requires principally using the London and New York financial markets.

4. Other operating income

(a) Other operating income includes a foreign exchange loss for the year ended 30 June 2005 of £16m, (2004 - gain of £9m), transaction hedging gain of £8m (2004 - gain of £11m) and other income of £1m (2004 - expense of £3m).

(b) Fees in respect of services provided by the auditors were: Statutory audit £16,000 (2004 - £21,757); and other non-audit work £nil (2004 - £nil).

5. Directors and employees

The company did not employ any staff during either the current or prior year.

None of the directors received any remuneration during the financial year in respect of their services as directors of the company (2004 - £nil). Details of the directors' share interests and any share options exercised during the year are included within the directors' report on pages 1 and 2.

Notes to the financial statements (continued)

6. Taxation

| | Year ended 30 June 2005 £'m | Year ended 30 June 2004 £'m |
|---|-----------------------------------|-----------------------------------|
| Factors affecting current tax charge for the year | | |
| Profit on ordinary activities before taxation | 668 | 648 |
| Taxation on profit on ordinary activities at UK corporation tax rate of 30% (2004 - 30 %) | (200) | (194) |
| Group relief received for nil consideration | 200 | 194 |
| Adjustment for prior year | (9) | - |
| Current ordinary tax charge for the year | (9) | - |

7. Dividends

| | Year ended 30 June 2005 £'m | Year ended 30 June 2004 £'m |
|-------------------------|-----------------------------------|-----------------------------------|
| Equity shares: | | |
| Interim dividend paid | 1,000 | - |
| Final dividend declared | 1,005 | - |
| | 2,005 | - |

8. Debtors

| | 30 June 2005 £'m | 30 June 2004 £'m |
|---|---------------------|---------------------|
| Amounts owed by fellow group undertakings | 37,756 | 42,078 |
| Corporation tax | - | 5 |
| Other debtors | 63 | 62 |
| | 37,819 | 42,145 |

9. Cash

The company has entered into a joint and several guarantee with certain Diageo plc UK group undertakings such that any balance on the company's bank accounts within the cash pool may be offset against the bank balances or overdrafts of those companies included in the cash pool.

Cash at bank as at 30 June 2005 was £102m (2004 - £15m) and £9m under Money Market deposits (2004 - £3m).

10. Fair value of financial instruments

(i) Fair Values

The estimated fair values of borrowings and associated derivative financial instruments and other financial liabilities at 30 June 2005 are set out below. The fair values of quoted borrowings are based on period end mid-market quoted prices. The fair values of other borrowings and derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end. These are based on values obtained from third parties.

Diageo Finance plc acts as the main financing vehicle for the Diageo group and therefore has long term financing relationships with many of the companies in the Diageo group. These financing relationships will continue for the foreseeable future. For the purposes of financial statement classification, amounts owed to or from group undertakings that do not have a specified repayment date are regarded as short term and consequently are considered to have a fair value which is not materially different to the book value.

| | 30 June 2005 | | 30 June 2004 | |
|--|----------------------------|-----------------------------|----------------------------|-----------------------------|
| | Net Carrying Amount £'m | Estimated fair value £'m | Net Carrying Amount £'m | Estimated fair value £'m |
| Primary financial instruments: | | | | |
| External borrowings: | | | | |
| - due within one year | (165) | (165) | (342) | (348) |
| - due after one year | (203) | (213) | (201) | (201) |
| Amounts owed to group undertakings | (32,197) | (32,197) | (35,930) | (35,930) |
| Derivatives - interest rate contracts: | | | | |
| Interest rate swaps with group undertakings: | | | | |
| - positive values | 14 | 15 | - | - |
| - negative values | (1) | (21) | (2) | (22) |
| Interest rate swaps with third parties: | | | | |
| - positive values | 4 | 24 | 27 | 54 |
| - negative values | (17) | (24) | (2) | (13) |
| Other interest contracts | (1) | - | (1) | - |
| Derivatives - foreign exchange contracts: | | | | |
| Transaction | | | | |
| - positive values | - | 70 | - | 132 |
| - negative values | - | (71) | - | (129) |
| Balance sheet translation | | | | |
| - positive values | 159 | 160 | 48 | 48 |
| - negative values | (120) | (115) | (31) | (29) |

Notes to the financial statements (continued)

10. Fair value of financial instruments (continued)

The difference between net carrying amount and estimated fair value reflects the unrealised gains or losses inherent in the instrument based on valuations at 30 June 2005. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

(ii) Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The table below shows the extent to which the company has unrecognised gains and losses on financial instruments, and deferred gains and losses in respect of financial instruments and terminated financial instruments used as hedges, at the beginning and end of the year.

| | Unrecognised | | | Deferred | | |
|---|--------------|---------------|--------------|--------------|---------------|--------------|
| | Gains £'m | Losses £'m | Total £'m | Gains £'m | Losses £'m | Total £'m |
| <i>Gains & losses on hedges:</i> | | | | | | |
| As at 30 June 2004: | 162 | (160) | 2 | - | (2) | (2) |
| Arising in prior years recognised during 2005 | 122 | (83) | 39 | - | - | - |
| As at 30 June 2005 | 97 | (98) | - | 1 | - | 1 |
| <i>Of which gains/(losses) expected to be recognised in the year ended:</i> | | | | | | |
| -30 June 2006 | 51 | (47) | 4 | 1 | - | 1 |
| -30 June 2007 or later | 46 | (51) | (4) | - | - | - |

11. Borrowings, facilities and financial liabilities

Financial instruments comprise net borrowings, including borrowings from group undertakings, together with other instruments deemed to be financial instruments under FRS 13 including long term debtors and other long term creditors. Disclosures dealt with in this note exclude short term debtors and creditors where permitted by FRS 13, but include short term borrowings to and from group undertakings.

(i) External borrowings

| | Currency | Year end interest rate % | 30 June 2005 £'m | 30 June 2004 £'m |
|-----------------------|-----------------|--------------------------------|---------------------|---------------------|
| Guaranteed bond 2005 | Sterling | 9.00 | - | (200) |
| Medium term note 2006 | Euro | 2.24 | (203) | (201) |
| Bank overdrafts | Various | Various | (165) | (142) |
| | | | <u>(368)</u> | <u>(543)</u> |

The interest rates shown above are contracted on the underlying borrowings before taking into account any interest rate protection. The above loans are stated net of unamortised finance costs of £nil (2004 - £nil). None of the borrowings are secured on assets of the Diageo group.

There are no financial covenants on the above short term and long term borrowings.

Notes to the financial statements (continued)

11. Borrowings, facilities and financial liabilities (continued)

(ii) Maturity of financial liabilities

| 30 June 2005 | Overdrafts | Other loans | Total external liabilities | Amounts owed to group undertakings | Total |
|---------------------------------------|------------|-------------|----------------------------|------------------------------------|----------|
| | £'m | £'m | £'m | £'m | £'m |
| <i>Analysis by year of repayment:</i> | | | | | |
| From two to five years | - | - | - | - | - |
| From one to two years | - | (203) | (203) | - | (203) |
| Due after one year | - | (203) | (203) | - | (203) |
| Due within one year | (165) | - | (165) | (32,197) | (32,362) |
| | (165) | (203) | (368) | (32,197) | (32,565) |
| 30 June 2004 | Overdrafts | Other loans | Total external liabilities | Amounts owed to group undertakings | Total |
| | £'m | £'m | £'m | £'m | £'m |
| <i>Analysis by year of repayment:</i> | | | | | |
| From two to five years | - | (201) | (201) | - | (201) |
| From one to two years | - | - | - | - | - |
| Due after one year | - | (201) | (201) | - | (201) |
| Due within one year | (142) | (200) | (342) | (35,930) | (36,272) |
| | (142) | (401) | (543) | (35,930) | (36,473) |

Financial liabilities are net of interest rate swaps and foreign currency swaps.

Notes to the financial statements (continued)

11. Borrowings, facilities and financial liabilities (continued)

At 30 June 2005, after taking account of interest rate swaps and cross currency interest rate swaps and forward agreements, the currency and interest rate profile of the financial liabilities and assets of the company were as follows:

| 30 June 2005 | Floating Rate | Fixed Rate | Interest free | Impact of foreign currency swaps | Total | Weighted average fixed rate | Fixed rate weighted average time to maturity | Interest free weighted average time to maturity |
|--|-----------------|--------------|----------------|----------------------------------|-----------------|-----------------------------|--|---|
| | £'m | £'m | £'m | £'m | £'m | % | Years | Years |
| <i>Financial liabilities:</i> | | | | | | | | |
| US dollar | (3,886) | - | (262) | 586 | (3,562) | - | - | 1.0 |
| Euro | (4,111) | (226) | (443) | (535) | (5,315) | 4.4 | 1.2 | - |
| Sterling | (20,217) | (300) | (2,914) | 454 | (22,977) | 5.5 | 1.0 | 1.0 |
| Other | (392) | - | (44) | (243) | (679) | - | - | - |
| | <u>(28,606)</u> | <u>(526)</u> | <u>(3,663)</u> | <u>262</u> | <u>(32,533)</u> | <u>5.0</u> | <u>1.1</u> | <u>1.0</u> |
| <i>Financial Assets:</i> | | | | | | | | |
| US dollar | 2,675 | - | 770 | - | 3,445 | - | - | 1.0 |
| Euro | 1,976 | 460 | 2,863 | - | 5,299 | 3.8 | 1.0 | - |
| Sterling | 27,777 | 300 | 383 | - | 28,460 | 5.5 | 1.0 | 1.0 |
| Other | 315 | - | 348 | - | 663 | - | - | - |
| | <u>32,743</u> | <u>760</u> | <u>4,364</u> | <u>-</u> | <u>37,867</u> | <u>4.5</u> | <u>1.0</u> | <u>1.0</u> |
| <i>Net financial assets/ (liabilities)</i> | <u>4,137</u> | <u>234</u> | <u>701</u> | <u>262</u> | <u>5,334</u> | <u>3.1</u> | <u>1.0</u> | <u>1.0</u> |

Notes to the financial statements (continued)

11. Borrowings, facilities and financial liabilities (continued)

At 30 June 2004, after taking account of interest rate swaps and cross currency interest rate swaps and forward agreements, the currency and interest rate profile of the financial liabilities and assets of the company were as follows:

| 30 June 2004 | Floating Rate | Fixed Rate | Interest free | Impact of foreign currency swaps | Total | Weighted average fixed rate | Fixed rate weighted average time to maturity | Interest free weighted average time to maturity |
|--|---------------|------------|----------------|----------------------------------|--------------|-----------------------------|--|---|
| | £'m | £'m | £'m | £'m | £'m | % | Years | Years |
| Financial liabilities: | | | | | | | | |
| US dollar | (4,904) | - | (44) | (366) | (5,314) | - | - | 1.0 |
| Euro | (4,583) | (359) | (44) | (251) | (5,237) | 4.8 | 1.5 | 1.0 |
| Sterling | (15,287) | (300) | (11,199) | 1,217 | (25,569) | 5.5 | 1.0 | 1.0 |
| Other | (72) | - | (40) | (235) | (347) | - | - | - |
| | (24,846) | (659) | (11,327) | 365 | (36,467) | 5.1 | 1.3 | 1.0 |
| Financial Assets: | | | | | | | | |
| US dollar | 134 | 8 | 5,113 | - | 5,255 | 6.0 | 1.1 | 1.0 |
| Euro | 2,376 | 456 | 2,427 | - | 5,259 | 3.8 | 1.0 | 1.0 |
| Sterling | 29,955 | 300 | 1,060 | - | 31,315 | 5.5 | 1.0 | 1.0 |
| Other | 263 | - | 12 | - | 275 | - | - | - |
| | 32,728 | 764 | 8,612 | - | 42,104 | 4.9 | 1.0 | 1.0 |
| Net financial Assets/ (liabilities) | 7,882 | 105 | (2,715) | 365 | 5,637 | 5.0 | 1.2 | 1.0 |

Interest bearing financial liabilities comprise bonds, medium term notes, bank overdrafts and borrowings from group undertakings. Floating rate financial liabilities comprise borrowings from group undertakings and bear interest based on short term interbank rates (predominately 1 month, 3 month, and 6 month LIBOR). Financial assets comprise cash, term deposits and amounts due from group undertakings.

The foreign currency swaps in the table on the previous page adjust the currency basis of Diageo plc group borrowings as part of that group's policy to hedge its exposure to fluctuations on translation into sterling of its foreign currency net assets. The foreign currency swaps are short term in nature and therefore have a floating rate interest basis. They are shown after taking account of fixing interest swaps which transfer £226m (2004 - £359m) of euro floating rate interest liabilities arising from foreign currency swaps into euro fixed rate liabilities.

Notes to the financial statements (continued)

11. Borrowings, facilities and financial liabilities (continued)

The company had along with other Diageo plc financing companies available undrawn committed bank facilities of the Diageo group with third parties as follows:

| <i>Expiring:</i> | 30 June 2005 | 30 June 2004 |
|------------------------|--------------|--------------|
| | £'m | £'m |
| Within one year | 631 | 1,044 |
| In more than two years | 1,157 | 714 |
| | <hr/> | <hr/> |
| | 1,788 | 1,758 |
| | <hr/> <hr/> | <hr/> <hr/> |

Commitment fees are paid on the undrawn portion of these facilities. Borrowing under these facilities will be at prevailing LIBOR rates plus an agreed margin, which is dependent on the period of the drawdown. These facilities can be used for the general corporate purposes and together with cash and cash equivalents to support Diageo group's commercial paper programmes.

These facilities are subject to a single financial covenant for the Diageo group, being minimum interest cover ratio of two times (defined as the ratio of operating profit before exceptional items aggregated with share of profits in associates to net interest). They are also subject to pari passu ranking and negative pledge covenants.

Any non-compliance with covenants underlying Diageo group's financing arrangements could, if not waived, constitute an event of default with respect to any such arrangements, and any non compliance with covenants may, in particular circumstances, lead to an acceleration of maturity on certain notes and the inability to access committed facilities. Diageo group was in full compliance with its financial covenants throughout the year and prior year.

A large number of major international financial institutions are counterparties to the interest rate swaps, forward exchange contracts and deposits. Counterparties for such transactions entered into during the year have a long term credit rating of A or better. Credit risks facing the company are monitored together with those of certain other entities within the Diageo group of companies. Policy limits the extent of credit exposure with particular counterparties. The notional amounts of financial instruments used in interest rate and foreign exchange management do not represent the credit risk arising through the use of these instruments. The immediate credit risk of these instruments is generally estimated by the fair value of contracts with a positive value.

Notes to the financial statements (continued)

12. Creditors: due within one year

| | 30 June 2005 | 30 June 2004 |
|---|-------------------------------|-------------------------------|
| | Due within one year £'m | Due within one year £'m |
| Amounts owed to fellow group undertakings | (32,197) | (35,930) |
| Dividends payable | (1,005) | - |
| Accruals and deferred income | (37) | (25) |
| Corporation tax | (4) | - |
| | <u>(33,243)</u> | <u>(35,955)</u> |

13. Share capital

| | 30 June 2005 £'m | 30 June 2004 £m |
|---|---------------------|--------------------|
| <i>Authorised:</i> | | |
| Equity - 74,300,000,000 ordinary shares of 5p each | 3,715 | 3,715 |
| Non equity - 1,950,000,000 unclassified shares of £1 each | 1,950 | 1,950 |
| | <u>5,665</u> | <u>5,665</u> |
| <i>Allotted, called up and fully paid:</i> | | |
| Equity - 73,200,000,000 ordinary shares of 5p each | 3,660 | 3,660 |
| | <u>3,660</u> | <u>3,660</u> |

14. Reserves

| | 30 June 2005 £'m | 30 June 2004 £'m |
|---------------------------------|---------------------|---------------------|
| <i>Profit and Loss Account:</i> | | |
| Balance brought forward | 2,005 | 1,357 |
| Retained (loss)/profit for year | (1,346) | 648 |
| | <u>659</u> | <u>2,005</u> |
| Balance carried forward | <u>659</u> | <u>2,005</u> |

Notes to the financial statements (continued)

15. Reconciliation of movement in shareholders' funds

| | 30 June 2005 £'m | 30 June 2004 £'m |
|--|---------------------|---------------------|
| Profit on ordinary activities after taxation | 659 | 648 |
| Ordinary dividends | (2,005) | - |
| | <hr/> | <hr/> |
| Net (reduction in)/ addition to shareholders' funds | (1,346) | 648 |
| Shareholders' funds at beginning of year | 5,665 | 5,017 |
| | <hr/> | <hr/> |
| Shareholders' funds at end of year | 4,319 | 5,665 |
| | <hr/> <hr/> | <hr/> <hr/> |

16. Contingent Liabilities

The company enters into various forward dated transactions to manage the Diageo group's interest and exchange exposures.

On 13 December 2002 the company entered into a 5 year US\$850,000,000 credit facility agreement following the sale of the Burger King Corporation by the Diageo Group. Under the terms of this agreement the company, together with other group companies, on a joint and several basis has guaranteed in full, i.e. up to a maximum of US\$850,000,000, the payment obligations of the Burger King Corporation and its subsidiaries to the original lending financial institutions. On 13 July 2005 Burger King refinanced these external borrowings on a stand-alone basis releasing the company of its obligations under the guarantee.

17. Immediate and ultimate parent undertaking

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