Diageo Finance plc

Financial statements
30 June 2007

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 2007

Activities

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

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 22 of the 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 2007 are shown on page 5 A dividend of £264 million was paid during the year (2006 - £1,005 million)

The profit for the year transferred to reserves is £114 million (2006 – profit of £220 million)

Directors

The directors who held office during the year were as follows

S M Bunn	
C D Coase	
G P Crickmore	(appointed 28 June 2007)
M C Flynn	(appointed 3 October 2006)
R J Joy	(resigned 22 June 2007)
J Kyne	(appointed 28 June 2007)
M J Lester	(resigned 31 August 2006)
D A Mahlan	(appointed 27 April 2007)
C R R Marsh	(appointed 3 October 2006)
S C Moore	(appointed 28 June 2007)

C R R Marsh resigned as a director of the company on 30 September 2007

Directors' emoluments

None of the directors received any remuneration during the year in respect of their services as directors of the company (2006 - £nil)

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 auditor, KPMG Audit Plc, is willing to continue in office and a resolution for its re-appointment as auditor of the company will be submitted to the Annual General Meeting

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information

By order of the board

J Nicholls
Secretary
8 Henrietta Place,
London W1G 0NB

6 December 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

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

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

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

We have audited the financial statements of Diageo Finance plc for the year ended 30 June 2007 which comprise the Profit and Loss account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profits and Losses and the related notes These financial statements have been prepared under the accounting policies set out therein

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 auditor

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3 Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements In addition, we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
20 December 2007

Profit and loss account

	Notes	Year ended 30 June 2007 £'m	Year ended 30 June 2006 £'m
Interest receivable	1	**1,452**	1,629
Interest payable	2	**(1,379)**	(1,416)
Net interest receivable		**73**	213
Other operating income	3	**33**	2
Profit on ordinary activities before taxation		**106**	215
Taxation on profit on ordinary activities	5	**8**	5
Profit for the financial year		**114**	220

All results arise from continuing operations

Balance sheet

	Notes	30 June 2007 £'m	30 June 2007 £'m	30 June 2006 £'m	30 June 2006 £'m
Non-current assets					
Other financial assets	*7*		**26**		34
Deferred tax	*8*		**3**		3
			29		37
Current assets					
Debtors due within one year	*6*	**38,294**		42,247	
Other financial assets	*7*	**94**		1,619	
Cash and bank deposits	*9*	**150**		40	
		38,538		43,906	
Creditors due within one year					
Other financial liabilities	*7*	**(106)**		(1,637)	
Borrowings	*11*	**(254)**		(380)	
Other creditors	*12*	**(33,292)**		(37,362)	
		(33,652)		(39,379)	
Net current assets			**4,886**		4,527
Total assets less current liabilities			**4,915**		4,564
Creditors due after one year					
Other financial liabilities	*7*	**(24)**		(30)	
Borrowings	*11*	**(507)**		-	
			(531)		(30)
Net Assets			**4,384**		4,534
Capital and reserves					
Called up share capital	*13*		**3,660**		3,660
Reserves	*14*		**724**		874
Shareholders' funds	*15*		**4,384**		4,534

These financial statements on pages 5 to 20 were approved by the board of directors on 6 December 2007 and were signed on its behalf by

D A Mahlan
Director

Statement of total recognised gains and losses

	Notes	**Year ended 30 June 2007 £'m**	Year ended 30 June 2006 £'m
Effective portion of changes in fair value of interest rate cash flow hedges transferred to interest receivable and payable for the year	*14*	-	(7)
Profit for the year	*14*	**114**	220
Total recognised gains for the financial year	*14*	**114**	213
Total recognised gains since the last financial statements		**114**	213

Note of historical cost profits and losses

	Year ended 30 June 2007 £'m	Year ended 30 June 2006 £'m
Reported profit on ordinary activities before taxation	**106**	215
Market value gain on external derivative interest rate instruments	-	(1)
Market value gain on intra-group derivative interest rate instruments	**(1)**	(11)
Historical cost profit on ordinary activities before taxation	**105**	203
Historical cost profit for the year retained after taxation	**113**	208

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 except that derivative financial instruments are stated at their fair value The financial statements are 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

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

Dividends paid and received

The dividend is recorded in the financial statements in the period in which it is approved

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the financial year end exchange rates

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

Financial liabilities

Borrowings are initially recorded at cost (where cost is equal to fair value at inception), and are subsequently measured at amortised cost using the effective rate method The fair value adjustment for all loans designated as hedged items in a fair value hedge are shown separately as a net figure Any difference between the proceeds, net of transactions costs and the settlement or redemption of borrowings is recognised over the term of the borrowings using the effective interest rate method

Financial instruments

The company's accounting policies under UK GAAP namely *FRS 25 – Financial instruments disclosure and presentation*, *FRS 26 – Financial instruments measurement* and *FRS 29 – Financial instruments disclosure* are the same as the group's accounting policies under IFRS, namely *IAS 32 – Financial instruments disclosure and presentation* and *IAS 39 – Financial instruments recognition and measurement* These standards are effective from 1 July 2005 The company has taken the exemption not to provide all the financial instrument disclosures, as IFRS 7 disclosures are given in note 22 to the group financial statements

Accounting policies (continued)

Derivative 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 and currency swaps in this respect

Foreign exchange contracts 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 interest rate swaps in the management of the interest rate exposure arising on the Diageo group's borrowings

Year ended 30 June 2007 From 1 July 2005, derivative financial instruments are recognised in the balance sheet at fair value that is calculated using discounted cash flow techniques taking into consideration assumptions based on market data Changes in the fair value of derivatives that do not qualify for hedge accounting treatment are charged or credited in the profit and loss account

The purpose of hedge accounting is to mitigate the impact on the company of changes in interest rates, by matching the impact of the hedged item and the hedging instrument in the profit and loss account To qualify for hedge accounting, the hedging relationship must meet several conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement At the inception of the transaction the company documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transactions This process includes linking all derivatives designated as hedges to specific assets and liabilities The company also documents its assessment, both at the hedge inception and on a quarterly basis, as to whether the derivatives that are used in hedging transactions have been, and are likely to continue to be, highly effective in offsetting changes in fair value or cash flows of hedged items

The company designates derivatives which qualify as hedges for accounting purposes as either (a) a hedge of the fair value of a recognised asset or liability (fair value hedge), or (b) a hedge of the cash flow risk from a change in interest rates or foreign exchange cash flows (cash flow hedge)

The method of recognising the resulting gains or losses from movements in fair values is dependent on whether the derivative contract is designated to hedge a specific risk and qualifies for hedge accounting

Derivative financial instruments are used to manage the currency and/or interest rate risk to which the fair value of certain assets and liabilities are exposed From 1 July 2005, changes in the fair value of derivatives that are fair value hedges are recognised in the profit and loss account, along with any changes in the relevant fair value of the underlying hedged asset or liability that is attributable to the hedged risk If a hedge relationship is de-designated, fair value movements on the derivative continue to be taken to the profit and loss account while any fair value adjustments made to the underlying hedged item to that date are amortised through the profit and loss account over its remaining life

Accounting policies (continued)

Derivative financial instruments (continued)

Derivative financial instruments are used to hedge the cash flow risk from changes in interest rates From 1 July 2005, the effective part of the changes in fair value of cash flow hedges is recognised in the statement of total recognised gains and losses, while any ineffective part is recognised immediately in the profit and loss account Amounts recorded in the statement of total recognised gains and losses are transferred to the profit and loss statement in the same period in which the related interest cash flow affects the income statement

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 2007 £'m	Year ended 30 June 2006 £'m
Loans to fellow group undertakings	**1,413**	1,541
Income from swaps and deposits	**37**	69
Market Value gain on intra-group derivative interest rate instruments	**1**	13
Market Value gain on external derivative interest rate instruments	**1**	6
	1,452	1,629

Following a review of the interest result on the different financial instruments, certain balances have been reclassified in the comparative balances for more appropriate presentation The impact of this reclassification on net profit is £nil

2. Interest payable

	Year ended 30 June 2007 £'m	Year ended 30 June 2006 £'m
Bank loans and overdrafts	**(12)**	(10)
Interest expense on foreign exchange and interest rate derivatives	**(8)**	(43)
Loans from fellow group undertakings	**(1,354)**	(1,345)
Other loans	**(4)**	(5)
Market Value loss on external derivative interest rate instruments	**(1)**	(13)
	(1,379)	(1,416)

Following a review of the interest result on the different financial instruments, certain balances have been reclassified in the comparative balances for more appropriate presentation The impact of this reclassification on net profit is £nil

Notes to the financial statements (continued)

3. Other operating income

	Year ended 30 June 2007 £'m	Year ended 30 June 2006 £'m
Foreign exchange result on operations	**24**	(8)
Margin on transaction hedging	**7**	5
Market value movement on transactional foreign exchange derivatives	**1**	4
Other income	**1**	1
	33	2

Following a review of the other operating result on the different financial instruments, certain balances have been reclassified in the comparative balances for more appropriate presentation The impact of this reclassification on net profit is £nil

Fees in respect of services provided by the auditor were Statutory audit £23,600 (2006 - £16,000), Group audit £40,000 (2006 - £nil) and other non-audit work £nil (2006 - £nil)

4. 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 (2006 - £nil)

5. Taxation

Factors affecting current tax credit for the year	**Year ended 30 June 2007 £'m**	Year ended 30 June 2006 £'m
Profit on ordinary activities before taxation	**106**	215
Taxation on profit on ordinary activities at UK corporation tax rate of 30% (2006 - 30 %)	**(32)**	(65)
Deductible item not included in financial statements	**6**	-
Group relief received for nil consideration	**26**	65
Adjustment for prior year	**8**	5
Current ordinary tax credit for the year	**8**	5

Notes to the financial statements (continued)

6. Debtors: due within one year

	30 June 2007 £'m	30 June 2006 £'m
Amounts owed by fellow group undertakings	**38,283**	42,242
Corporation tax	**7**	-
Other debtors	**4**	5
	38,294	42,247

Amounts owed by fellow group undertakings represent transactions with companies in the Diageo group with which the company has a long term financing relationship These financing relationships are expected to continue for the foreseeable future For the purposes of financial statement classification, amounts owed by 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

Notes to the financial statements (continued)

7. Other financial assets and liabilities

	Non-current financial assets £'m	Current financial assets £'m	Financial liabilities less than one year £'m	2007 Financial liabilities greater than one year £'m
External derivative assets/(liabilities)				
Foreign exchange contracts – transaction	15	74	(15)	(5)
Foreign exchange contracts – net investment hedging	-	4	(20)	-
Interest rate derivatives	5	-	-	-
	20	78	(35)	(5)
Intra-group derivative assets/(liabilities)				
Foreign exchange contracts - transaction	6	16	(71)	(14)
Interest rate derivatives	-	-	-	(5)
	6	16	(71)	(19)
	26	94	(106)	(24)

Notes to the financial statements (continued)

7. Other financial assets and liabilities (continued)

2006	Non-current financial assets £'m	Current financial assets £'m	Financial liabilities less than one year £'m	Financial liabilities greater than one year £'m
Derivative assets/(liabilities)				
Foreign exchange contracts – transaction	23	22	(14)	(4)
Foreign exchange contracts – net investment hedging	-	1,576	(1,594)	-
Interest rate derivatives	7	-	(1)	-
	30	1,598	(1,609)	(4)
Intra-group derivative assets/(liabilities)				
Foreign exchange contracts - transaction	4	15	(23)	(19)
Foreign exchange contracts – net investment hedging	-	6	(5)	-
Interest rate derivatives	-	-	-	(7)
	4	21	(28)	(26)
	34	1,619	(1,637)	(30)

Derivative assets and liabilities have been recognised at fair value since the adoption of FRS 26 on 1 July 2005 The company does not use derivative financial instruments for speculative purposes All transactions in derivative financial instruments are undertaken to manage risk arising from underlying business activities

Notes to the financial statements (continued)

8. Deferred tax

	30 June 2007 £'m	30 June 2006 £'m
Deferred taxation at the beginning of the year	**3**	-
Recognised in profit and loss account	**-**	3
Deferred taxation at the end of the year	**3**	3

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

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 2007 was £25m (2006 - £20m) and £125m under Money Market deposits (2006 - £20m)

10. Fair value of financial instruments

Fair Values

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

Amounts owed to or from fellow group undertakings represent transactions with companies in the Diageo group with which the company has a long term financing relationship These financing relationships are expected to 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 tem and consequently are considered to have a fair value which is not materially different to the book value

Notes to the financial statements (continued)

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 26 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 26, but include short term borrowings to and from group undertakings

(i) External borrowings

	Currency	Year end interest rate %	30 June 2007 £'m	30 June 2006 £'m
Eurobond	**Euro**	**Floating**	**(507)**	-
Medium term note 2006	**Euro**	**2.24**	-	(207)
Money market borrowings	**Pounds**	**7.3**	**(35)**	-
Bank overdrafts	**Various**	**Various**	**(219)**	(173)
			(254)	(380)

The interest rates shown above are contracted on the underlying borrowings before taking into account any interest rate protection None of the borrowings are secured on assets of the Diageo group

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

Expiring:	**30 June 2007**	30 June 2006
	£'m	£'m
within one year	**498**	676
in more than two years	**1,109**	1,070
	1,607	1,746

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 programme

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 The 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 2007 £'m	30 June 2006 £'m
Amounts owed to fellow group undertakings	**(33,286)**	(37,355)
Accruals and deferred income	**(6)**	(7)
	(33,292)	(37,362)

Amounts owed to fellow group undertakings represent transactions with companies in the Diageo group with which the company has a long term financing relationship These financing relationships are expected to continue for the foreseeable future For the purposes of financial statement classification, amounts owed to 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

13. Called up share capital

	30 June 2007 £'m	30 June 2006 £m
Authorised:		
74,300,000,000 ordinary shares of 5p each	**3,715**	3,715
1,950,000,000 unclassified shares of £1 each	**1,950**	1,950
	5,665	5,665
Allotted, called up and fully paid:		
Equity - 73,200,000,000 ordinary shares of 5p each	**3,660**	3,660

14. Reserves

	Cash flow reserve £'m	Profit & Loss account £'m	Total reserves £'m
At 30 June 2006	(5)	879	874
Profit for the year	-	114	114
Dividend paid	-	(264)	(264)
At 30 June 2007	**(5)**	**729**	**724**

Notes to the financial statements (continued)

15. Reconciliation of movement in shareholders' funds

	30 June 2007 £'m	30 June 2006 £'m
Profit for the financial year	**114**	220
Dividends	**(264)**	(1,005)
Cashflow hedging reserve	-	(7)
Net reduction in shareholders' funds	**(150)**	(792)
Shareholders' funds at beginning of year	**4,534**	5,326
Shareholders' funds at end of year	**4,384**	4,534

16. 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

17. Post balance sheet events

On 6 December 2007 the company declared a dividend of £125 million to be paid to the ordinary shareholders on 7 December 2007