Diageo Finance plc

Financial statements
30 June 2006

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 2006.

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 2006 are shown on page 6. A dividend of £1,005 million was paid during the year (2005 - £1,000 million).

The profit for the year transferred to reserves is £220 million (2005 – profit of £659 million transferred to reserves).

Directors

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

S M Bunn
C D Coase
R J Joy (appointed 11 October 2005)
M J Lester

M J Lester resigned as a director on 31 August 2006.

M C Flynn and C R R Marsh were appointed directors of the company on 3 October 2006.

Directors' emoluments

None of the directors received any remuneration during the year in respect of their services as directors of the company (2005 - £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	128	132	-	-	-	-	-
C D Coase	14,207	15,000	-	23,380	-	-	23,380
R J Joy	48,744	54,202	32,227	-	(3,296)	(4,797)	24,134
M J Lester	26,306	28,852	30,790	8,361	(3,521)	-	35,630

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	52,437	12,420	(19,033)	-	45,824
C D Coase	141,269	16,366	(18,550)	-	139,085
R J Joy	203,060	-	(3,341)	-	199,719
M J Lester	113,567	17,693	(55,550)	-	75,710

The directors held the above options under Diageo plc share option schemes at prices between 518p and 815p per ordinary share exercisable between 2006 and 2015. Certain options granted in the Republic of Ireland were granted at a price of €7.37 per ordinary share. The options are granted at market value on the date the option is granted and the option price is payable when the option is exercised.

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

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

The mid-market share price of Diageo plc shares fluctuated between 778p and 928p during the year. The mid-market share price on 30 June 2006 was 917p.

Directors' report (continued)

Directors' interests (continued)

At 30 June 2006 all the directors had an interest in 17,791,320 shares and 8,045,000 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes. R J Joy and M J Lester each had a further interest in 6,460,442 shares held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes.

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

19 December 2006

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 2006 which comprise the Profit and Loss account, the Balance Sheet, the Statement of Total Recognised Gains 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 4. 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 2006 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
19 December 2006

Profit and loss account

	Notes	**Year ended 30 June 2006**	Year ended 30 June 2005
		£'m	£'m
Interest receivable	*2*	**1,620**	2,120
Interest payable	*3*	**(1,403)**	(1,445)
Net interest receivable		**217**	675
Other operating expense	*4*	**(2)**	(7)
Profit on ordinary activities before taxation		**215**	668
Taxation on profit on ordinary activities	*6*	**5**	(9)
Profit on ordinary activities after taxation		**220**	659

All results arise from continuing operations.

Balance sheet

	Notes	30 June 2006 £'m	30 June 2006 £'m	30 June 2005 (Restated) See Note 1 £'m	30 June 2005 (Restated) See Note 1 £'m
Non-current assets					
Other financial assets	8		34		-
Deferred tax			3		-
			37		-
Current assets					
Debtors: due within one year	7	42,247		37,819	
Other financial assets	8	1,619		-	
Cash and bank deposits	9	40		111	
		43,906		37,930	
Creditors: due within one year					
Other financial liabilities	8	(1,637)		-	
Borrowings	11	(380)		(165)	
Other creditors	12	(37,362)		(32,238)	
		(39,379)		(32,403)	
Net current assets			4,527		5,527
Net assets less current liabilities			4,564		5,527
Creditors: due after one year					
Other financial liabilities	8	(30)		-	
Borrowings	11	-		(203)	
			(30)		(203)
Net Assets			4,534		5,324
Capital and reserves					
Called up share capital	13		3,660		3,660
Reserves	14		874		1,664
Equity shareholders' funds			4,534		5,324

These financial statements on pages 6 to 23 were approved by the board of directors on 19 December 2006 and were signed on its behalf by:

C D Coase
Director

Statement of total recognised gains and losses

	Notes	**Year ended 30 June 2006** **£'m**	Year ended 30 June 2005 (Restated) See Note 1 £'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*	**220**	659
Total recognised gains for the financial year	*14*	**213**	659
Total recognised gains since the last financial statements		**213**	659

Note of historical cost profits and losses

	Year ended 30 June 2006 **£'m**	Year ended 30 June 2005 (Restated) See note 1 £'m
Reported profit on ordinary activities before taxation	**215**	668
External market value gain on derivative interest rate instruments	**(1)**	-
External market value gain on intra-group derivative interest rate instruments	**(11)**	-
Historical cost profit on ordinary activities before taxation	**203**	668
Historical cost profit for the year retained after taxation	**208**	659

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 (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.

Dividends paid and received

The dividend is recorded in the financial statements in the period in which it is declared.

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 2006 From 1 July 2005, derivative financial instruments are recognised in the balance sheet at fair value. Fair value 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 (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.

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.

The cumulative adjustment from the change in accounting treatment has been reflected in the balance sheet at 1 July 2005.

Accounting policies (continued)

Derivative financial instruments (continued)

Year ended 30 June 2005 Financial instruments in the year ended 30 June 2005 remain recorded in accordance with the previous UK GAAP accounting policies as follows.

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.

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. New accounting policies

The accounting policies of the company are consistent with those applied last year, apart from where the company has adopted the following accounting standards in the year:

FRS 21 – Events after the balance sheet date Formerly, under UK GAAP, the proposed dividends on ordinary shares, as recommended by the directors, were deducted from shareholders' equity and shown as a liability in the balance sheet at the end of the period to which they related. Under FRS 21, proposed dividends are not considered to be a liability until they are approved by the board. Accordingly, the amounts transferred to reserves for the year ended 30 June 2005 and the net assets at 30 June 2005 have been restated. The net effect of the restatement is to increase shareholders funds as at 30 June 2005 by £1,005 million and retained earnings for the year then ended by £1,005 million. The dividend paid is then recorded in the year ended 30 June 2006.

FRS 23 – The effects of changes in foreign exchange rates The standard prescribes how to account for foreign currency transactions and foreign operations in financial statements. The standard is effective from 1 January 2005 and has been adopted prospectively by the company from 1 July 2005. Compliance with FRS 23 has not affected profit after taxation or shareholders' funds.

FRS 24 – Financial Reporting in Hyperinflationary Economies The company has adopted FRS 24 as part of the new package of UK GAAP financial reporting standards applied in conjunction with FRS 26. Compliance with this standard has had no impact on the financial statements for the year ended 30 June 2006.

FRS 25 – Financial instruments: disclosure and presentation and ***FRS 29 – Financial instruments: disclosure*** FRS 25 is effective from the accounting periods beginning on or after 1 January 2005. The company has early adopted FRS 29, which replaces the disclosure requirements of FRS 25. As Diageo Finance plc is a wholly owned subsidiary of Diageo plc, with all voting rights held by that company, the entity is not required to prepare the disclosures set out in FRS 29. Diageo plc has adopted IAS 32 and IFRS 7 in its consolidated financial statements for the year ended 30 June 2006. Further disclosures on the financial instruments held by the group can be found in note 22 of the Diageo plc consolidated financial statements for the year ended 30 June 2006.

The company has adopted the presentation requirements of FRS 25 in these financial statements. The presentational requirements apply to: the classification of financial instruments into financial assets, financial liabilities or equity instruments; the classification of related interest, dividend, gains and losses; and the circumstances around which financial assets and liabilities should be offset. The adoption of these requirements has not resulted in the restatement of the information is respect of the year ended 30 June 2005, nor has it impacted the results in respect of the year ended 30 June 2006.

FRS 26 – Financial instruments: measurement FRS 26 applies to all listed companies for accounting periods beginning on or after 1 January 2005 and prescribes the new rules for accounting for financial instruments and hedge accounting. The standard has been adopted by the company and applied prospectively from 1 July 2005. For the year ended 30 June 2006, the impact of FRS 26 is analysed in note 10. The transition adjustments are set out in Note 20 of these accounts.

FRS 28 – Corresponding amounts FRS 28 sets out the requirements for the disclosure of corresponding amounts for items disclosed in a company's primary financial statements and the notes to the financial statements.

Notes to the financial statements (continued)

2. Interest receivable

	Year ended 30 June 2006 £'m	Year ended 30 June 2005 £'m
Loans to group undertakings	1,541	1,935
Income from swaps and deposits	54	185
Market Value gain on intra-group derivative interest rate instruments	24	-
Market Value gain on external derivative interest rate instruments	1	-
	1,620	2,120

3. Interest payable

	Year ended 30 June 2006 £'m	Year ended 30 June 2005 £'m
Bank loans and overdrafts	(40)	(8)
Loans from group undertakings	(1,345)	(1,287)
Other loans	(5)	(150)
Market Value gain on intra-group derivative interest rate instruments	(13)	-
	(1,403)	(1,445)

4. Other operating expense

	Year ended 30 June 2006 £'m	Year ended 30 June 2005 £'m
Foreign exchange	(8)	(16)
Transaction hedging	5	8
Other income	1	1
	(2)	(7)

Fees in respect of services provided by the auditors were: Statutory audit £16,000 (2005 - £16,000): and other non-audit work £nil (2005 - £nil).

Notes to the financial statements (continued)

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 (2005 - £nil).

Details of the directors' share interests and any share options exercised during the year are included within the directors' report on pages 1 to 3.

6. Taxation

Factors affecting current tax credit/(charge) for the year	**Year ended 30 June 2006 £'m**	Year ended 30 June 2005 £'m
Profit on ordinary activities before taxation	**215**	668
Taxation on profit on ordinary activities at UK corporation tax rate of 30% (2005 - 30 %)	**(65)**	(200)
Group relief received for nil consideration	**65**	200
Adjustment for prior year	**5**	(9)
Current ordinary tax credit/(charge) for the year	**5**	(9)

7. Debtors

	30 June 2006 £'m	30 June 2005 £'m
Amounts owed by fellow group undertakings	**42,242**	37,756
Other debtors	**5**	63
	42,247	37,819

Notes to the financial statements (continued)

8. Other financial assets and liabilities

	Non-current assets £'m	Current assets £'m	Current liabilities £'m	2006 Non-current liabilities £'m
Derivative assets/(liabilities)				
Foreign exchange contracts – transaction	23	22	(14)	(4)
Foreign exchange contracts – other	-	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 – other	-	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. As noted in the basis of preparation, comparative information has not been restated. The company does not use derivative financial information for speculative purposes. All transactions in derivative financial instruments are undertaken to manage risk arising from underlying business activities.

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 2006 was £20m (2005 - £102m) and £20m under Money Market deposits (2005 - £9m).

Notes to the financial statements (continued)

10. Fair value of financial instruments

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.

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.

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

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.

Notes to the financial statements (continued)

10. Fair value of financial instruments (continued)

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
Gains & losses on hedges:						
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
Of which gains/(losses) expected to be recognised in the year ended:						
-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 26 (and previously 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 26 (and previously FRS 13), but include short term borrowings to and from group undertakings.

(i) External borrowings

	Currency	**Year end interest rate %**	**30 June 2006 £'m**	30 June 2005 £'m
Medium term note 2006	**Euro**	**2.24**	**(207)**	(203)
Bank overdrafts	**Various**	**Various**	**(173)**	(165)
			(380)	(368)

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)

(ii) Maturity of financial liabilities

30 June 2005	Overdrafts	Other loans	Total external liabilities	Amounts owed to group under-takings	Total
	£'m	£'m	£'m	£'m	£'m
Analysis by year of repayment:					
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)

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)

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
Financial liabilities:								
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)	-	-	-
	(28,606)	(526)	(3,663)	262	(32,533)	5.0	1.1	1.0
Financial Assets:								
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	-	-	-
	32,743	760	4,364	-	37,867	4.5	1.0	1.0
Net financial assets/ (liabilities)	4,137	234	701	262	5,334	3.1	1.0	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 above table 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 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:

Expiring:	**30 June 2006 £'m**	30 June 2005 £'m
within one year	**676**	631
in more than two years	**1,070**	1,157
	1,746	1,788

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 convenants.

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 2006	As restated 30 June 2005
	£'m	£'m
Amounts owed to fellow group undertakings	**(37,355)**	(32,197)
Accruals and deferred income	**(7)**	(37)
Corporation tax	**-**	(4)
	(37,362)	(32,238)

13. Share capital

	30 June 2006	30 June 2005
	£'m	£m
Authorised:		
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
	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
As restated at 30 June 2005	-	1,664	1,664
Adoption of FRS 26	2	-	2
At 1 July 2005	2	1,664	1,666
Retained profit for the year	(7)	220	213
Dividend paid	-	(1,005)	(1,005)
Balance carried forward	**(5)**	**879**	**874**

Notes to the financial statements (continued)

15. Reconciliation of movement in shareholders' funds

	30 June 2006	30 June 2005 Restated (see note 1)
	£'m	£'m
Profit on ordinary activities after taxation	**220**	659
Ordinary dividends	**(1,005)**	(1,000)
Cashflow hedging reserve	**(7)**	-
Net reduction in shareholders' funds	**(792)**	(341)
Shareholders' funds at beginning of year	**5,324**	5,665
Adoption of FRS26	**2**	-
Shareholders' funds at 1 July	**5,326**	5,665
Shareholders' funds at end of year	**4,534**	5,324

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 15 December 2006 the company declared a dividend to be paid to the ordinary shareholders of £264 million.

18. Adoption of FRS 26

The comparative information presented for the year ended 30 June 2005 does not comply with *FRS 26 – Financial instruments: recognition and measurement* and *FRS 25 – Financial instruments: presentation and disclosure* and *FRS 29 – Financial instruments: disclosure.* Financial instruments for the year ended 30 June 2005 and as at 30 June 2005 have been recognised and presented in accordance with previous UK GAAP accounting policies.

In accordance with the exemption available in FRS 26 (para 1080), the company has adopted FRS 26 with effect from 1 July 2005, the principal impact of this standard being to change the carrying value of financial instruments in the group's financial statements. The impact of adoption of FRS 26 on the balance sheet at 1 July 2005 (date of adoption) is set out in the table on the following page:

Notes to the financial statements (continued)

18. *Adoption of FRS 26 (continued)*

	Restated 30 June 2005 £'m	Impact of FRS 26 £'m	1 July 2005 £'m	**30 June 2006 £'m**
Non-current assets				
Other financial assets	-	64	64	**34**
Deferred tax	-	7	7	**3**
	-	71	71	**37**
Current assets				
Debtors: due within one year	37,819	-	37,819	**42,247**
Other financial assets	-	-	-	**1,619**
Cash at bank and in hand	111	-	111	**40**
	37,930	-	37,930	**43,906**
Creditors: due within one year				
Borrowings	(165)	-	(165)	**(380)**
Other financial liabilities	-	-	-	**(1,637)**
Other creditors	(32,238)	1	(32,237)	**(37,362)**
	(32,403)	1	(32,402)	**(39,379)**
Net current assets	5,527	1	5,528	**4,527**
Net assets less current liabilities	5,527	72	5,599	**4,564**
Creditors: due after one year				
Borrowings	(203)	-	(203)	**-**
Other financial liabilities	-	(70)	(70)	**(30)**
Net Assets	5,324	2	5,326	**4,534**
Capital and reserves				
Called up share capital	3,660	-	3,660	**3,660**
Profit and loss account	1,664	-	1,664	**879**
Cash flow reserve	-	2	2	**(5)**
Equity shareholders' funds	5,324	2	5,326	**4,534**