

**Diageo Finance plc**  
**FINANCIAL STATEMENTS**

**30 June 2003**

Registered Number: 213393



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COMPANIES HOUSE

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## **DIRECTORS' REPORT**

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2003.

### **Activities**

The company acts as a financing vehicle for the Diageo group. 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 2003 are shown on page 8. The directors do not recommend the payment of an ordinary dividend (2002: £nil), and the profit retained in the company is £397m (2002: £391m).

### **Directors**

The directors who served during the year were as follows:

S M Bunn (appointed 5 May 2003)  
M J Lester (appointed 31 January 2003)  
J W Walters  
R J Moore (resigned 31 January 2003)  
R H Myddelton (resigned 31 March 2003)  
A Williams (resigned 18 April 2003)

S D Coward, who was appointed a director on 5 May 2003, resigned on 31 July 2003.  
P S Binning resigned on 3 October 2003 and R Rajagopal was appointed a director on that date.

### **Directors' emoluments**

None of the directors received any remuneration during the year in respect of their services as directors of the company (2002: £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 <sup>101</sup>/<sub>108</sub> p each in the ultimate parent company, Diageo plc:

**Diageo Finance plc**  
**Year ended 30 June 2003**

**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
P S Binning	25,693	39,146	95,816	16,518	(16,971)	(7,382)	87,981
S M Bunn	3,351	3,351	-	-	-	-	-
S D Coward	736	793	-	-	-	-	-
M J Lester	15,459	15,803	15,845	-	-	-	15,845
J W Walters	26,376	31,452	42,744	27,696	-	-	70,440

The directors were granted conditional rights to receive ordinary shares or ADSs (one ADS is equivalent to four ordinary shares) or, exceptionally, a cash sum under certain long term incentive plans. Any conditional rights to ADSs are shown in the table as ordinary share equivalents. The conditional rights to ordinary shares or ADSs 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**

	At beginning of year (or date of appointment)	Granted during the year	Exercised during the year	At end of year
P S Binning	163,705	60,679	(1,513)	222,871
S M Bunn	30,743	-	-	30,743
S D Coward	25,633	-	-	25,633
M J Lester	116,587	-	-	116,587
J W Walters	230,588	70,492	-	301,080

The directors held the above options under Diageo plc share option schemes at prices between 447p and 863p per ordinary share exercisable between 2003 and 2012 for UK grants and US\$29.38 and US\$47.31 per ADS exercisable between 2003 and 2012 for US grants. US options were granted over ADSs at dollar prices (one ADS is equivalent to four ordinary shares). Any ADS options are shown in the table as ordinary share equivalents. 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.

**Diageo Finance plc**  
**Year ended 30 June 2003**

**DIRECTORS' REPORT (continued)**

**Directors' interests (continued)**

Options granted under 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 to date 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.

The mid-market share price of Diageo plc shares fluctuated between 582p and 851p during the year. The mid-market share price on 30 June 2003 was 647p.

At 30 June 2003, P S Binning, S M Bunn, S D Coward and M J Lester each had an interest in 20,744,545 shares and 6,605,055 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes; P S Binning had an additional interest in 6,177,180 shares held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes; and J W Walters had an interest in 23,287,316 shares and 413,940 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes, and an interest in 144,098 shares and 502,360 shares subject to call options held by a trust to satisfy grants made under ex-Grand Met 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.


**Secretary**

On 24 January 2003 S M Bunn resigned as secretary of the company and J J Nicholls was appointed in her place.

**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 2003.

By order of the board



J J Nicholls  
Secretary

8 Henrietta Place,  
London, W1G 0NB  
8 December 2003

**DIRECTORS' RESPONSIBILITIES**  
**IN RESPECT OF THE PREPARATION OF 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 at the end of the financial year and of the profit or loss of the company 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 the 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.

**Diageo Finance plc**  
**Year ended 30 June 2003**

**REPORT OF THE INDEPENDENT AUDITORS  
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 auditors, 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 2003 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**

*8<sup>th</sup> December 2003*

**Diageo Finance plc**  
**Year ended 30 June 2003**

**ACCOUNTING POLICIES**

**Basis of preparation**

The financial statements are prepared under the historical cost convention and comply 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 also 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 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 forward 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 forward 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 transaction costs and the translation of the results and 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.

Foreign exchange options used to protect against the translation of profits of Diageo group foreign subsidiaries are recognised in the underlying hedging periods.

The company participates in the Diageo group's interest rate management and uses 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)**

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.

**Current asset investments**

Current asset investments are stated at cost plus, where appropriate, accrued interest.

**Taxation**

Taxation is calculated based on the results for the year and takes into account deferred taxation. Full provision is now made for all material timing differences. Any potential deferred tax asset is recognised only when, on the basis of all material evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.



**Diageo Finance plc**  
**Year ended 30 June 2003**

**PROFIT AND LOSS ACCOUNT**

For the year ended 30 June 2003

	Notes	Year ended 30 June 2003 £m	Year ended 30 June 2002 £m
Interest receivable	1	1,471	1,694
Interest payable	2	(1,074)	(1,323)
Net interest receivable		397	371
Other operating income		14	17
Operating costs	4	(6)	(4)
<b>Profit on ordinary activities before taxation</b>		<b>405</b>	<b>384</b>
Taxation on profit on ordinary activities	6	(8)	7
<b>Profit after taxation transferred to reserves</b>	14	<b>397</b>	<b>391</b>

The results in the above profit and loss account relate entirely to continuing operations.

There are no recognised gains or losses other than the profit 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 profit for the year and the historical cost profit for the year and consequently no note of historical cost profits has been presented as part of the financial statements.

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

For the year ended 30 June 2003

	Notes	Year ended 30 June 2003 £m	Year ended 30 June 2002 £m
Profit for the financial year		397	391
Net addition to shareholders' funds	14	397	391
Shareholders' funds at beginning of the year		4,620	4,229
Shareholders' funds at end of the year		5,017	4,620

**Diageo Finance plc**  
**Year ended 30 June 2003**

**BALANCE SHEET**

As at 30 June 2003

	Notes	30 June 2003 £m	30 June 2002 £m
<b>Current assets</b>			
Debtors - due within one year	7	37,632	35,993
Debtors - due after more than one year	7	-	4,195
Investments	9	-	3
Cash at bank	8	78	80
		<b>37,710</b>	<b>40,271</b>
<b>Creditors - due within one year</b>			
External borrowings	11	(161)	(131)
Other creditors	10	(31,877)	(30,132)
		<b>(32,038)</b>	<b>(30,263)</b>
<b>Net current assets</b>		<b>5,672</b>	<b>10,008</b>
<b>Creditors - due after more than one year</b>			
External borrowings	11	(200)	(200)
Other creditors	10	(455)	(5,188)
		<b>(655)</b>	<b>(5,388)</b>
<b>Net assets</b>		<b>5,017</b>	<b>4,620</b>
<b>Capital and reserves</b>			
Called up share capital	13	3,660	3,660
Profit and loss account	14	1,357	960
<b>Shareholders' funds</b>		<b>5,017</b>	<b>4,620</b>

The financial statements on pages 6 to 19 were approved by the board of directors on 8 December 2003 and signed on its behalf by:



*M.J. Lester*  
 Director

**NOTES TO THE FINANCIAL STATEMENTS**

**1 Interest receivable**

	Year ended 30 June 2003 £m	Year ended 30 June 2002 £m
Loans to group undertakings	1,396	1,553
Income from swaps	73	122
Other deposits	2	18
Option premia	-	1
	<b>1,471</b>	<b>1,694</b>

**2 Interest payable**

	Year ended 30 June 2003 £m	Year ended 30 June 2002 £m
Bank loans and overdrafts	(11)	(6)
Loans from group undertakings	(1,037)	(1,284)
Other loans	(26)	(33)
	<b>(1,074)</b>	<b>(1,323)</b>

**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 financial markets.

**4 Operating costs**

The company has no employees. Fees in respect of services provided by the auditors were: statutory audit £16,300 (2002: £15,600); and other non-audit work £33,300 (2002: £10,500).

**5 Directors' interests**

Details of directors' share interests are included in the directors' report on pages 1 to 3.

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

**6 Taxation**

	Year ended 30 June 2003 £m	Year ended 30 June 2002 £m
Factors affecting the current tax charge:		
Profit before taxation	405	384
Corporation tax at 30%	(121)	(115)
Expenses not deductible for tax purposes	19	-
Group relief received for nil consideration	102	115
Adjustment in respect of prior year	(8)	7
Current tax (charge)/credit	(8)	7

**7 Debtors**

	2003		2002	
	Due within one year £m	Due after more than one year £m	Due within one year £m	Due after more than one year £m
Amounts owed by group undertakings	37,450	-	35,805	4,195
Corporation tax	8	-	16	-
Other debtors	174	-	172	-
	<b>37,632</b>	<b>-</b>	<b>35,993</b>	<b>4,195</b>

**8 Cash at bank**

£21m of cash at bank represents group scheme balances and supports overdrafts of other Diageo group undertakings (2002: £66m).

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

**9 Investments**

	2003 £m	2002 £m
Term deposits	-	3

**10 Other Creditors**

	2003		2002	
	Due within one year £m	Due after more than one year £m	Due within one year £m	Due after more than one year £m
Amounts owed to group undertakings	31,849	455	30,060	5,188
Accruals and deferred income	28	-	72	-
	<b>31,877</b>	<b>455</b>	<b>30,132</b>	<b>5,188</b>

**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 FRS13 including long term debtors and other long term creditors. Disclosures dealt with in this note exclude short term debtors and creditors where permitted by FRS13, but include short term borrowings to and from group undertakings.

**(i) External borrowings**

	Currency	Year end interest rates %	2003 £m	2002 £m
Guaranteed bonds 2005	Sterling	9.0	200	200
Bank loans and other	Various	Various	-	1
Bank overdrafts	Various	Various	161	130
			<b>361</b>	<b>331</b>

The interest rates shown in the table above are those contracted on the underlying borrowings before taking into account any interest rate protection. The above loans are stated net of unamortised finance costs of £1.1m (2002: £1.0m).

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**

2003	Bank loans £m	Overdrafts £m	Other loans £m	Total external liabilities £m	Borrowings owed to group undertakings £m	Total £m
<i>Analysis by year of repayment:</i>						
From two to five years	-	-	-	-	-	-
From one to two years	-	-	200	200	455	655
Due after more than one year	-	-	200	200	455	655
Due within one year	-	161	-	161	31,849	32,010
	-	161	200	361	32,304	32,665

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

2002	Bank loans £m	Overdrafts £m	Other loans £m	Total external liabilities £m	Borrowings owed to group undertakings £m	Total £m
<i>Analysis by year of repayment:</i>						
From two to five years	-	-	200	200	-	200
From one to two years	-	-	-	-	5,188	5,188
Due after more than one year	-	-	200	200	5,188	5,388
Due within one year	1	130	-	131	30,060	30,191
	1	130	200	331	35,248	35,579

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

**11 Borrowings, facilities and financial liabilities (continued)**

At 30 June 2003, 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 was as follows:

2003	Floating rate £m	Fixed rate £m	Impact of foreign currency swaps £m	Total £m	Weighted average fixed rate %	Weighted average time to maturity Years
<b>Financial liabilities:</b>						
US dollar	(7,705)	(2,667)	473	(9,899)	10.1	0.7
Euro	(2,041)	(600)	(832)	(3,473)	4.7	1.9
Sterling	(19,790)	(250)	1,269	(18,771)	5.4	1.0
Other	(213)	-	(195)	(408)	-	-
	(29,749)	(3,517)	715	(32,551)	8.8	0.9
<b>Financial assets:</b>						
US dollar	9,762	-	-	9,762	-	-
Euro	2,925	520	-	3,445	5.2	1.0
Sterling	23,972	-	-	23,972	-	-
Other	349	-	-	349	-	-
	37,008	520	-	37,528	-	-
<b>Net financial assets /(liabilities)</b>	<b>7,259</b>	<b>(2,997)</b>	<b>715</b>	<b>4,977</b>	<b>9.4</b>	<b>0.9</b>

At 30 June 2002, 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 was as follows:

2002	Floating rate £m	Fixed rate £m	Impact of foreign currency swaps £m	Total £m	Weighted average fixed rate %	Weighted average time to maturity Years
<b>Financial liabilities:</b>						
US dollar	(7,362)	(2,566)	(11)	(9,939)	10.6	1.4
Euro	(1,671)	(588)	(768)	(3,027)	4.8	2.2
Sterling	(22,646)	(550)	1,034	(22,162)	7.9	0.7
Other	(197)	-	(212)	(409)	-	-
	(31,876)	(3,704)	43	(35,537)	9.3	1.4
<b>Financial assets:</b>						
US dollar	9,933	-	-	9,933	-	-
Euro	3,058	-	-	3,058	-	-
Sterling	26,709	-	-	26,709	-	-
Other	384	-	-	384	-	-
	40,084	-	-	40,084	-	-
<b>Net financial assets /(liabilities)</b>	<b>8,208</b>	<b>(3,704)</b>	<b>43</b>	<b>4,547</b>	<b>9.3</b>	<b>1.4</b>

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

**11 Borrowings, facilities and financial liabilities (continued)**

Interest bearing financial liabilities comprise bonds and bank overdrafts. Floating rate financial liabilities include borrowings from group undertakings and bear interest based on short term inter-bank rates (predominately 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 rate swaps which transfer £600m of euro floating rate interest liabilities arising from foreign currency swaps into euro fixed rate liabilities.

The company had available undrawn committed bank facilities with third parties at 30 June 2003 as follows:

	<b>£m</b>
Expiring in one year or less	<b>1,182</b>
Expiring in more than two years	<b>788</b>
	<b>1,970</b>

Commitment fees are paid on the undrawn portion of these facilities. Borrowings 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 support Diageo group's commercial paper programme.

These facilities are subject to a single financial covenant for 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 groups' 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.



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

**12 Disclosure relating to derivative financial instruments**

**(i) Fair values**

The estimated fair values of borrowings and associated derivative financial instruments and other financial liabilities at 30 June 2003 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.

	2003		2002	
	Net carrying amount £m	Estimated fair value £m	Net carrying amount £m	Estimated fair value £m
<b>Primary financial instruments:</b>				
External borrowings due within one year including overdrafts	(161)	(161)	(131)	(131)
External borrowings due after one year	(200)	(218)	(200)	(219)
Borrowings from group undertakings due within one year	(31,849)	(31,849)	(29,874)	(29,882)
Borrowings from group undertakings due after one year	(455)	(484)	(5,188)	(5,188)
Cash at bank and investments	78	78	83	83
<b>Derivatives – interest rate contracts:</b>				
Interest rate swaps with group undertakings:				
- positive values	-	2	-	-
- negative values	(2)	(76)	(2)	(70)
Interest rate swaps with third parties:				
- positive values	42	176	71	178
- negative values	(3)	(27)	(2)	(9)
Other interest rate contracts	(1)	-	(3)	-
<b>Derivatives – foreign exchange contracts:</b>				
Transaction:				
- positive values	-	186	-	136
- negative values	-	(175)	-	(137)
Balance sheet translation:				
- positive values	138	138	96	98
- negative values	(22)	(28)	(65)	(65)
Foreign exchange options (profit translation):				
- positive values	-	-	-	18
- negative values	-	-	-	(7)

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 2003. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

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

**12 Disclosure relating to derivative financial instruments (continued)**

**(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 recognised the 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
<b>Gains and losses:</b>						
On hedges at 1 July 2002	267	(219)	48	-	(1)	(1)
Arising in previous years recognised in year ended 30 June 2003	101	(66)	35	-	(1)	(1)
At 30 June 2003	322	(279)	43	1	(2)	(1)
Of which gains and losses expected to be recognised in the year ended :						
- 30 June 2004	193	(174)	19	1	(2)	(1)
- 30 June 2005	129	(105)	24	-	-	-

**(iii) Option cylinders**

Following a policy review in June 2002 the company no longer undertakes profit translation hedging in respect of Diageo plc group estimated overseas profits. The remaining option cylinders have all matured in the year.

As at 30 June 2002, currency cylinders, forwards and options protect the translation of estimated overseas profits for the year ending 30 June 2003 within the following weighted average ranges:

	Hedged amount £m	2002 Weighted average range (against £)
US dollar - forwards	214	1.41
Euro - cylinders	58	1.52-1.64
- options	250	1.56

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

**13 Share capital**

	2003	2002
	£m	£m
<i>Authorised:</i>		
<b>Equity</b>		
74,300,000,000 ordinary shares of 5p each	3,715	3,715
<b>Non-equity</b>		
Unclassified shares of £1 each	1,950	1,950
	<b>5,665</b>	<b>5,665</b>
<i>Allotted, called up and fully paid:</i>		
<b>Equity</b>		
73,200,000,000 ordinary shares of 5p each	3,660	3,660

Ordinary shares are entitled to one vote each.

**14 Reserves**

	2003	2002
	£m	£m
<i>Profit and loss account:</i>		
Balance brought forward	960	569
Retained profit for the financial year	397	391
Balance carried forward	<b>1,357</b>	<b>960</b>

**15 Contingent liabilities**

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

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

**16 Related party transaction**

As reported last year, in connection with P S Walsh's (Chief Executive Officer, Diageo plc, ultimate parent undertaking) relocation from the United States to the United Kingdom, Diageo Finance plc had entered into three forward foreign currency transactions with him to buy an aggregate of US\$3.5m for £2.33m. One transaction for US\$0.5m was outstanding at 30 June 2002. This transaction matured on 21 March 2003 and Diageo Finance plc bought US\$0.5m from him for £0.34m. These transactions were hedged with a third party on identical terms and involved no cost to the company.

**17 Ultimate parent undertaking**

The company is a wholly owned subsidiary of Diageo plc, a company incorporated and registered in England.

The consolidated financial statements of Diageo plc for the year ended 30 June 2003 can be obtained from the Registered Office at 8 Henrietta Place, London W1G 0NB.