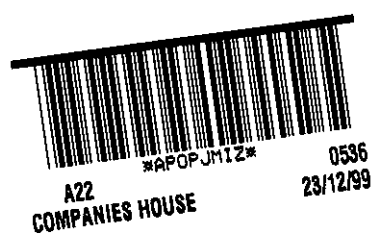


**Diageo Finance plc**  
**FINANCIAL STATEMENTS**

**30 June 1999**

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 1999.

### **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.

### **Year 2000**

Most companies face a major challenge in making their business and other systems Year 2000 ready. The problem is caused by the inability of some systems to handle four-digit years. For example, without correction the two digit year '00', meaning 2000, could be recognised as 1900, causing systems to generate inaccurate information and potentially to fail.

The Diageo group recognises this challenge and has established a compliance programme to address the issue in all of its business units and subsidiaries. The implications for Diageo Finance plc are being addressed as part of the Diageo programme to allow it to operate successfully and safely into the new millennium. This includes potential risks to:

- Information systems used to support the Diageo Finance plc's activities;
- Building services and computerised equipment in all premises from which the company operates;
- Trading partners including suppliers of critical business and other support services to the company.

Each programme involved the identification and assessment of items at risk in these areas, followed by the implementation of an appropriate strategy to avoid or minimise the impact of Year 2000 related problems. Testing was performed as necessary, taking into account professional advice and a full assessment of risk.

All major stages of the programme were completed on target by 30 September 1999 and Diageo Finance plc is now Year 2000 ready.

Procedures are in place to maintain a clean environment where risks have been addressed. Some outstanding work remains but is not business critical. This includes ongoing contact with key trading partners to share best practice and risk information.

Even the best run projects are likely to face some Year 2000 compliance failures. There can be no certainty that the Year 2000 programmes will be successful or that the date change from 1999 to 2000 will not materially and adversely affect a company's operations and financial results. Based on the work already completed, we do not believe that the Year 2000 will give rise to significant

## **Diageo Finance plc**

### **Directors' Report (continued)**

operational problems for Diageo Finance plc. However, it may still be adversely affected by the inability of third parties to manage the problem and by the general uncertainty inherent in the Year 2000. Business Continuity Plans are therefore in place, along with pro-active mitigation strategies (millennium operating procedures) for the key impact period. Both continue to be refined to reflect the best available risk information.

The full cost of managing the Year 2000 problem for Diageo Finance plc has not been identified separately, but is included within the overall programme cost shown in the annual report of the ultimate parent company, Diageo plc.

### **Euro**

In accordance with the Treaty on European Union, signed at Maastricht on 7 February 1992, the third stage of Economic and Monetary Union (EMU) commenced on 1 January 1999. The Diageo Group's euro-readiness is being managed as a discrete business project. The Group had systems and procedures in place which enabled it to conduct euro transactions appropriate to local market requirements.

The Diageo Group is also working actively with key business suppliers, joint distribution arrangement partners and customers. In addition, monetary union may have a significant impact on macroeconomic factors, including interest and foreign exchange rates.

Key commercial risks, such as pricing transparency, have been analysed, with a view to reducing any impact through active management over the transition period and beyond. However, there can be no assurance that the euro will not have a negative impact. The impact of future entry to EMU of other European countries (particularly the United Kingdom) is being similarly analysed.

The cost associated with the euro-readiness project for Diageo Finance plc has not been identified separately but is included within the overall project cost in the annual report of the ultimate parent company, Diageo plc.

### **Financial**

The results for the period shown on page 10 are for the twelve months from 1 July 1998 to 30 June 1999.

The directors do not recommend the payment of a final ordinary dividend (1998: £ nil). After deducting the total dividends on non-equity shares of £165.8m (1998: £124.7m) the profit for the period retained in the company is £9.2m (1998: £13.5m deficit).

## Diageo Finance plc

### Directors Report (continued)

#### Directors

The directors who served during the period were as follows:-

P K Bentley  
P S Binning (appointed 12 May 1999)  
R King (resigned 12 May 1999)  
M D Peters  
D C Stainton

#### Emoluments

None of the directors received any remuneration during the period in respect of their services as directors of the company (1998: £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 period in any significant contract with the company.

The directors who held office at the end of the financial period had the following beneficial interests in the shares of the ultimate parent company, Diageo plc:-

#### Shares and Awards over ordinary shares

Name of Director	Ordinary shares of 28 101/108p (1)	Ordinary shares of 28 101/108p (1)	RSP Awards (2)	Diageo LTIP (3)	Diageo LTIP (3)
	1.7.98 or date of appointment	30.6.99	30.6.99	Performance cycle commencing 1.1.98	1.1.99
P K Bentley	-	10,000	15,625	25,000	22,630
P S Binning	6,720	6,720	10,500	11,000	8,700
M D Peters	3,917	4,968	-	2,250	2,400
D C Stainton	-	-	12,997	16,466	14,972

#### Options

Name of Director	1.7.98 or date of appointment	Granted during period	Exercised during period	30.6.99
P K Bentley	27,138	-	-	27,138
P S Binning	65,416	-	61,295	4,121
M D Peters	13,348	433	1,051	12,730
D C Stainton	4,886	-	-	4,886

**Directors' Report (continued)**

The directors held the above options under Grand Metropolitan PLC and Diageo plc share option schemes at prices between 314p and 494p per share exercisable by 2007. No options lapsed during the year.

The mid-market share price of Diageo plc shares fluctuated between 480.5p and 778.5p per share during the year. The mid-market share price on 30 June 1999 was 662.5p.

At 30 June 1999 the directors had an interest in 22,716,419 shares and 9,096,653 shares subject to call options held by trusts to satisfy grants made under ex-GrandMet incentive plans, ex-Guinness incentive plans and Diageo incentive plans and savings-related share option schemes.

**\* NOTES**

**(1) Ordinary Shares**

Interests in ordinary shares at 1 July 1998, or date of appointment where applicable, include B shares converted at a rate of 70.993915 ordinary shares to every 100 B shares, although the conversion actually occurred on 1 August 1998.

**(2) The Grand Metropolitan Restricted Share Plan (RSP)**

Awards over shares were granted to senior executives, with eventual transfer dependent on the performance of total shareholder return (TSR) against a comparator group of companies at the end of three years after the date of grant. The 1997 awards granted by Grand Metropolitan are now dependent upon the performance of Diageo's TSR against comparator groups of companies.

**(3) The Diageo LTIP (LTIP)**

Under the Diageo LTIP, approved in August 1998, eligible senior executives are granted a conditional right to receive shares or, exceptionally, a cash sum. The rights vest after the end of a three year period following the date of grant (the "performance cycle") provided a performance test is achieved and subject to the discretion of the trustees who operate the LTIP. The performance test is a comparison of the annualised percentage growth in Diageo's share price (assuming all dividends and capital distributions are re-invested) known as total shareholder return (TSR) with the TSRs of a defined peer group of 20 companies over a three year period. The remuneration committee will not recommend the release of awards if there has not been an underlying improvement in the financial performance of Diageo. The first LTIP performance cycle runs from 1 January 1998 to 31 December 2000 and the second from 1 January 1999 to 31 December 2001. Awards of shares will be released, subject to the performance test and the discretion of the trustees, in March 2001 and March 2002 respectively. The number of awards shown will only be released if Diageo reaches position five within the peer group (upper quartile). At position four, 125% of the original awards will vest and, at position three or above, 150%. At position ten (median position), 50% of the awards will vest. Between median and upper quartile, vesting will be calculated on a straight line basis. Awards will lapse if Diageo does not reach position ten.

**Directors' Report (continued)**

**Supplier Payment Policy**

Given the international nature of the Diageo Group's operations, there is no standard code in respect of payments to suppliers. Companies are responsible for agreeing terms and conditions for their 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.

By Order of the Board



S M Bunn, Secretary

8 Henrietta Place  
London W1M 9AG

*17 December 1999*

**DIRECTORS' RESPONSIBILITIES  
IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS**

The following statement, which should be read in conjunction with the report of the auditor, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

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

The directors, in preparing the financial statements on pages 8 to 20, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, that all accounting standards which they consider to be applicable 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 as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**REPORT OF THE AUDITOR, KPMG AUDIT PLC,  
TO THE MEMBERS OF DIAGEO FINANCE PLC**

We have audited the financial statements on pages 8 to 20.

**Respective responsibilities of directors and auditor**

As described on page 6 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of 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 1999 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, 17 December 1999



## **ACCOUNTING POLICIES**

### **Basis of preparation**

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

During the previous financial period, the financial period end was changed to 30 June. Accordingly the comparative accounting period runs from 1 October 1997 to 30 June 1998.

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 closing rates. Exchange gains and losses for transactions are taken to the profit and loss account.

### **Financial instruments**

The company participates in 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. The company uses 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 members. 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**

The charge for taxation is based on the profit for the period and takes into account deferred taxation.

Deferred taxation on differences between the treatment of certain items for accounting and taxation purposes is accounted for to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

## Diageo Finance plc

### PROFIT AND LOSS ACCOUNT

For the year ended 30 June 1999

	Notes	12 months ended 30 June 1999 £m	9 months ended 30 June 1998 £m
Interest receivable	1	1,595.5	1,275.4
Interest payable	2	(1,346.0)	(1,119.0)
Net interest receivable		249.5	156.4
Other operating income		8.2	6.2
Operating costs	4	(4.4)	(0.6)
<b>Profit on ordinary activities before taxation</b>		<b>253.3</b>	<b>162.0</b>
Taxation on profit on ordinary activities	6	(78.3)	(50.8)
<b>Profit for the financial period after taxation</b>		<b>175.0</b>	<b>111.2</b>
Non-equity dividends paid and accrued	7	(165.8)	(124.7)
<b>Transferred to reserves</b>		<b>9.2</b>	<b>(13.5)</b>

There are no recognised gains or losses other than the profit for the period 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 period and the historical cost profit for the period 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 1999

	Notes	12 months ended 30 June 1999 £m	9 months ended 30 June 1998 £m
Profit for the financial period		175.0	111.2
Non-equity dividends paid and accrued	7	(165.8)	(124.7)
		9.2	(13.5)
New share capital issued: redeemable preference Shares		-	1,000.0
Preference shares redeemed		-	(1,000.0)
Net addition to shareholders' funds		9.2	(13.5)
Shareholders' funds at beginning of the period		3,768.8	3,782.3
Shareholders' funds at end of the period		3,778.0	3,768.8

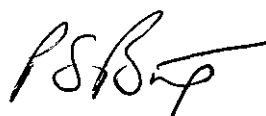
# Diageo Finance plc

## BALANCE SHEET

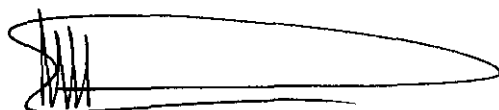
As at 30 June 1999

	Notes	30 June 1999 £m	30 June 1998 £m
<b>Current assets</b>			
Debtors - due within one year	8	7,875.0	7,188.0
Debtors - due after more than one year	8	4,368.2	4,103.5
Investments	11	27.7	487.1
Cash at bank	9	146.1	28.1
		<b>12,417.0</b>	<b>11,806.7</b>
<b>Creditors - due within one year</b>			
Borrowings	13	(122.0)	(195.7)
Other creditors	12	(3,936.4)	(3,626.4)
		<b>(4,058.4)</b>	<b>(3,822.1)</b>
<b>Net current assets</b>		<b>8,358.6</b>	<b>7,984.6</b>
<b>Creditors - due after more than one year</b>			
Borrowings	13	(235.6)	(266.6)
Other creditors	12	(4,345.0)	(3,949.2)
		<b>(4,580.6)</b>	<b>(4,215.8)</b>
		<b>3,778.0</b>	<b>3,768.8</b>
<b>Capital and reserves</b>			
Called up share capital - equity	15	655.0	655.0
Called up share capital - non-equity	15	3,005.0	3,005.0
		<b>3,660.0</b>	<b>3,660.0</b>
Profit and loss account	16	118.0	108.8
		<b>3,778.0</b>	<b>3,768.8</b>

The financial statements on pages 8 to 20 were approved by the board of directors on *17 December* 1999 and signed on its behalf by:



*P S Binning* Director



*M D Peters*, Director

# Diageo Finance plc

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Interest receivable

	12 months ended 30 June 1999 £m	9 months ended 30 June 1998 £m
Loans to group undertakings	1,580.6	1,230.0
Income from currency swaps	2.4	-
Other deposits	12.5	44.2
Option premia	-	1.2
	1,595.5	1,275.4

### 2 Interest payable

	12 months ended 30 June 1999 £m	9 months ended 30 June 1998 £m
Bank loans and overdrafts	(12.5)	(9.2)
Loans from group undertakings	(1,314.5)	(1,018.7)
Expense on currency swaps	-	(5.4)
Other loans	(19.0)	(85.7)
	(1,346.0)	(1,119.0)

### 3 Operations

During the financial period the company was engaged in treasury management for Diageo plc and its subsidiary undertakings. The business and geographical segments that it lent to are as disclosed in the consolidated statutory accounts of Diageo plc. The company's operations are based in the United Kingdom. It raises the external funds it requires principally using the London and New York financial markets.

### 4 Operating costs

The company has no employees. Fees in respect of services provided by the auditor were: statutory audit £22,129 (1998: £35,000) and other non-audit work £18,213 (1998: £nil).

### 5 Directors' interests

Details of directors' share interests are included in the Directors' Report on page 3.

# Diageo Finance plc

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 6 Taxation

	12 months ended 30 June 1999 £m	9 months ended 30 June 1998 £m
UK corporation tax payable at 30.75% (1998: 31%) on the Profits of the period	78.3	70.3
Deferred tax on close-out of long dated financial instruments	-	(19.5)
	78.3	50.8

The charge for UK corporation tax includes amounts which may be paid to other companies in the Diageo plc group in return for the surrender of tax losses.

### 7 Dividends

	12 months ended 30 June 1999			9 months ended 30 June 1998		
	Paid £m	Accrued £m	Total £m	Paid £m	Accrued £m	Total £m
<i>Non-equity:</i>						
5.00% "C" Cumulative Redeemable Preference Shares of £1 each	-	-	-	19.6	-	19.6
5.80% "E" Cumulative Redeemable Preference Shares of £1 each	112.1	3.8	115.9	83.2	4.1	87.3
5.00% "F" Cumulative Redeemable Preference Shares of £1 each	48.2	1.7	49.9	16.2	1.6	17.8
	160.3	5.5	165.8	119.0	5.7	124.7

### 8 Debtors

	1999		1998	
	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	7,832.3	4,368.2	7,132.6	4,099.6
Prepayments and accrued income	-	-	30.1	-
Other debtors	42.7	-	25.3	3.9
	7,875.0	4,368.2	7,188.0	4,103.5

Included in other debtors at 30 June 1998 is deferred tax of £19.5 million (1999: £nil) see note 9.

# Diageo Finance plc

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9 Cash

£79.0 million of cash at bank represents group scheme balances and supports overdrafts of other Diageo group undertakings.

### 10 Deferred tax asset

	1999 £m	1998 £m
At beginning of the period	19.5	-
Profit and loss account (credit)/charge	(19.5)	19.5
At end of the period	-	19.5

Included in interest payable on other loans for the 9 months ended 30 June 1998 is an exceptional interest charge of £58 million in respect of certain long dated financial instruments which were closed out as a result of the group establishing a new interest rate management policy. A deferred tax asset arose at 30 June 1998 as a result.

### 11 Investments

	1999 £m	1998 £m
Externally managed funds	-	483.8
Term deposits	27.7	3.3
	27.7	487.1

The current asset investments of £483.8 million at 30 June 1998 comprised amounts placed with external fund managers, the majority of which could be converted into cash within 7 days and the remainder within 30 days. All current asset investments were liquidated during the year to 30 June 1999.

### 12 Other creditors

	1999		1998	
	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	3,836.0	4,345.0	3,399.0	3,949.2
Corporate taxation	58.9	-	145.3	-
Accruals and deferred income	41.5	-	82.1	-
	3,936.4	4,345.0	3,626.4	3,949.2

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13 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 from group undertakings.

External Borrowings	Currency	Year end Interest rates %	30 June 1999 £m	30 June 1998 £ m
Guaranteed bonds 2005	Sterling	9	199.1	199.1
Medium term notes	Various	Various	49.0	59.1
Bank loans	Various	Various	18.3	21.5
Bank overdrafts	Various	Various	91.2	182.6
			357.6	462.3

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 £0.8 million (1998: £1.0 million).

None of the borrowings are secured.

## Maturity of financial liabilities

1999

	Bank loans	Overdrafts	Other loans	Total for External liabilities	Borrowings from group undertakings	Total
	£m	£m	£m	£m	£m	£m
<i>Analysis by year of repayment:</i>						
After five years	-	-	199.1	199.1	-	199.1
From two to five years	11.5	-	-	11.5	3,975.2	3,986.7
From one to two years	3.5	-	21.5	25.0	369.8	394.8
Due after more than one year	15.0	-	220.6	235.6	4,345.0	4,580.6
Due within one year	3.3	91.2	27.5	122.0	3,836.0	3,958.0
	18.3	91.2	248.1	357.6	8,181.0	8,538.6

1998

	Bank loans	Overdrafts	Other loans	Total for External liabilities	Borrowings from group undertakings	Total
	£m	£m	£m	£m	£m	£m
<i>Analysis by year of repayment:</i>						
After five years	3.5	-	199.1	202.6	-	202.6
From two to five years	11.4	-	20.3	31.7	3,753.6	3,785.3
From one to two years	3.3	-	29.0	32.3	195.6	227.9
Due after more than one year	18.2	-	248.4	266.6	3,949.2	4,215.8
Due within one year	3.3	182.6	9.8	195.7	3,399.0	3,594.7
	21.5	182.6	258.2	462.3	7,348.2	7,810.5



## Diageo Finance plc

### NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 1999, 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 group was as follows:

	Floating rate £ m	Fixed rate £m	Total £m	Weighted average fixed interest rate %	Weighted Average period for which rate is fixed yrs
<b>Financial Liabilities:</b>					
US dollar	(5,217.8)	(3,670.6)	(8,888.4)	5.7	1.1
Euro	(1,376.6)	(151.5)	(1,528.1)	3.0	3.7
Sterling	(10,209.6)	(506.9)	(10,716.5)	7.4	5.2
Other	(1,271.4)	(33.2)	(1,304.6)	3.6	0
	(18,075.4)	(4,362.2)	(22,437.6)	5.8	1.7
<b>Assets:</b>					
US dollar	8,700.0	176.6	8,876.6	5.0	0
Euro	1,088.4	114.2	1,202.6	2.6	0
Sterling	11,684.9	3,119.6	14,804.5	5.8	0
Other	1,244.6	145.9	1,390.5	4.7	0
	22,717.9	3,556.3	26,274.2	5.3	0
<b>Net Financial Assets</b>	<b>4,642.5</b>	<b>(805.9)</b>	<b>3,836.6</b>	<b>5.5</b>	<b>1.7</b>

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

At 30 June 1999, there were no material monetary assets or liabilities in currencies other than the functional currencies of the group companies, having taken into account the effect of forward contract and other derivative financial instruments that have been utilised to match foreign currency exposure.

The company had available undrawn committed bank facilities at 30 June 1999 as follows:

	£ m
Expiring in one year or less	1,294.0
Expiring in more than one year but not more than two years	-
Expiring in more than two years	1,253.0
	2,547.0

Since 30 June 1999 the company has cancelled £456 million of the facilities due to a rationalisation of the banking relationship maintained by the group.

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.

A large number of major international financial institutions are counterparties to the interest rate swaps, forward exchange contracts and deposits. The company continually monitors its positions and the credit ratings of its counterparties and, by policy, limits the amount of agreements or contracts it enters into with any one party.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 14 Disclosure relating to derivative financial instruments

## (i) Fair values

The estimated fair values of borrowings and associated derivative financial instruments at 30 June 1999 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 fair values obtained from third parties.

	30 June 1999 Net carrying amount £m	30 June 1999 Estimated Fair value £m
<b>Primary financial instruments:</b>		
External borrowings due within one year including overdrafts	122.0	122.0
External borrowings due after one year	235.6	261.1
Borrowings from group undertakings due within one year	3,836.0	3,836.0
Borrowings from group undertakings due after one year	4,345.0	4,345.0
Cash at bank and in hand and investments	173.8	173.8
<b>Derivatives - interest rate contracts:</b>		
Interest rate swaps – positive values	1.3	29.1
- negative values	(3.7)	(22.7)
Other interest rate contracts	0.8	-
<b>Derivatives - foreign exchange contracts:</b>		
Transaction - positive values	7.6	91.9
- negative values	-	(84.3)
Balance sheet translation - positive values	19.7	19.7
- negative values	(7.7)	(6.0)
Foreign exchange options ( profit translation)		
- positive values	-	8.5
- negative values	(3.4)	(15.1)

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 1999. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

The estimated fair values of cash at bank and current asset investments are not materially different from their carrying values.

## NOTES TO THE FINANCIAL STATEMENTS (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 1998	52	(31)	21	3	(2)	1
Arising in previous years recognised in year ended 30 June 1999	40	(23)	17	1	(2)	(1)
At 30 June 1999	92	(54)	38	4	(4)	-
Of which gains and losses expected to be recognised in the year ended 30 June 2000	32	(50)	(18)	-	(1)	(1)

**(iii) Option cylinders**

At 30 June 1999 currency option cylinders protect the translation of estimated overseas profits for the year ending 30 June 2000 within the following weighed average ranges:

	Hedged amount £m	30 June 1999 Weighted average range ( against £ )
US dollar	655	1.59 - 1.66
Euro	276	1.40 - 1.48

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 15 Share capital

	1999 £m	1998 £m
<b>Authorised:</b>		
<b>Equity</b>		
13,100,000,000 Ordinary shares of 5p each	655.0	655.0
<b>Non-equity</b>		
2,005,000,000 5.8% "E" Cumulative Redeemable Preference shares of £1 each	2,005.0	2,005.0
1,055,000,000 5.0% "F" Cumulative Redeemable Preference shares of £1 each	1,055.0	1,055.0
Unclassified	1,950.0	1,950.0
	<b>5,665.0</b>	<b>5,665.0</b>
<b>Allotted, called up and fully paid:</b>		
<b>Equity</b>		
13,100,000,000 Ordinary shares of 5p each	655.0	655.0
<b>Non-equity</b>		
2,005,000,000 5.8% "E" Cumulative Redeemable Preference shares of £1 each	2,005.0	2,005.0
1,055,000,000 5.0% "F" Cumulative Redeemable Preference shares of £1 each	1,000.0	1,000.0
	<b>3,660.0</b>	<b>3,660.0</b>

The holders of the "E" and "F" Cumulative Redeemable Preference Shares are entitled, in priority to the payment of dividends to the holders of any other class of shares, to be paid a cumulative preferential dividend, in respect of each dividend period at the dividend rate on the nominal value.

The "E" and "F" Cumulative Redeemable Preference Shares can either be redeemed by the company on 31 October 2001 or on the giving of not less than two business days notice in writing to the holder, or by the holder giving not less than thirty days notice in writing to the company.

On redemption, the amount paid up on the "E" and "F" Cumulative Redeemable Preference Shares, together with a sum equal to all arrears and accruals (if any) of the preferential dividend, is payable.

On a winding up, the holders of the "E" and "F" Cumulative Redeemable Preference Shares shall rank pari passu to receive an amount in respect of each Cumulative Redeemable Preference Share, equal to the nominal amount paid up, together with all arrears and accruals (if any) of the dividend payable thereon, whether or not such dividend has become due and payable.

The rights attached to the "E" and "F" Cumulative Redeemable Preference Shares may only be varied with consent in writing of the holder or holders of the preference shares.

None of the "E" and "F" preference shares carry voting rights.

Ordinary shares are entitled to one vote each.

## Diageo Finance plc

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 16 Reserves

	1999	1998
	£m	£m
<i>Profit and loss account:</i>		
Balance brought forward	108.8	122.3
Retained profit/(deficit) for the financial period	9.2	(13.5)
Balance carried forward	118.0	108.8

#### 17 Contingent liabilities

The company enters into various forward dated transactions to manage the Diageo group's interest and exchange rate exposures. It is not anticipated that any material losses will arise from these transactions.

#### 18 Ultimate parent undertaking

The company is a wholly owned subsidiary of Diageo plc. Diageo plc is incorporated and registered in England and has an accounting period end of 30 June.

The consolidated accounts of Diageo plc for the year ended 30 June 1999 can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.