

**Diageo Finance plc**  
**Financial statements**  
**30 June 2011**

Registered number 213393

M Pais  
Director

15 December 2011



## **Directors' report**

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2011

### **Activities**

During the financial year the company was engaged in treasury risk and cash 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, interest rate and foreign exchange risks. Further information on the risk management policies of the Diageo group is included in the annual report of Diageo plc (see note 23 of the consolidated 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.

### **Business review**

*Development and performance of the business of the company during the financial year and position of the company as at 30 June 2011*

Diageo Finance plc operates as the bank of the group, finances operating companies via internal loans and deposits and makes third party payments on behalf of other group companies. Foreign exchange transactional hedging deals are carried out in the company to hedge brand owners' future foreign currency cash flows with 0.2% margin. Foreign exchange translation hedging, interest rate risk management and cash management is also performed by the company.

*Financial and other key performance indicators*

The performance of the company is based on its ability to hedge exposures to foreign currency and interest rate fluctuations for both the group and the company. The company generates income through interest on intra-group lending.

*Principal risks and uncertainties facing the company as at 30 June 2011*

The principal risks and uncertainties facing the company are foreign currency risk associated with certain foreign currency transactions and interest rate risk arising principally on changes in interest rates. The fair value movement on these financial instruments is recorded in the profit and loss account.

### **Going concern**

The company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the directors' report on page 1. The company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Diageo group to continue as a going concern. On the basis of their assessment, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## **Directors' report (continued)**

### **Financial**

The results for the year ended 30 June 2011 are shown on page 6

The directors do not recommend the payment of a dividend (2010 - £187 million)

The profit for the year transferred to reserves is £293 million (2010 – £184 million profit)

### **Directors**

The directors who held office during the year were as follows

|                |                              |
|----------------|------------------------------|
| S J Bolton     | (appointed 1 April 2011)     |
| C D Coase      | (resigned 31 March 2011)     |
| J A I Franco   | (appointed 24 March 2011)    |
| G Geiszl       | (appointed 9 September 2010) |
| D Heginbottom  | (appointed 9 September 2010) |
| D A Mahlan     | (resigned 13 December 2010)  |
| A O M Manz     | (resigned 1 September 2010)  |
| S C Moore      | (resigned 24 March 2011)     |
| J J Nicholls   | (appointed 24 March 2011)    |
| M Pais         |                              |
| A M Smith      |                              |
| P D Tunncliffe |                              |

### **Directors' remuneration**

None of the directors received any remuneration during the year in respect of their services as directors of the company (2010 - £nil)

**Diageo Finance plc**  
**Registered number: 213393**  
**Year ended: 30 June 2011**

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## **Directors' report (continued)**

### **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

### **Disclosure of information to auditors**

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



M Pais

Director

Lakeside Drive, Park Royal,  
London NW10 7HQ

15 December 2011

## **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)

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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 2011 set out on pages 6 to 20. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2011 and of its profit/loss for the year then ended
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Lee Edwards (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc Statutory Auditor

Chartered Accountants  
KPMG Audit Plc  
15 Canada Square  
London  
E14 5GL

15 December 2011



**Profit and loss account**

|                                                      | <i>Notes</i> | <b>Year ended<br/>30 June 2011<br/>£'m</b> | <b>Year ended<br/>30 June 2010<br/>£'m</b> |
|------------------------------------------------------|--------------|--------------------------------------------|--------------------------------------------|
| Interest income                                      | <i>1</i>     | <b>850</b>                                 | 889                                        |
| Interest expense                                     | <i>2</i>     | <b>(563)</b>                               | (713)                                      |
|                                                      |              | <hr/>                                      | <hr/>                                      |
| Net interest income                                  |              | <b>287</b>                                 | 176                                        |
| Other operating income                               | <i>3</i>     | <b>7</b>                                   | 9                                          |
|                                                      |              | <hr/>                                      | <hr/>                                      |
| <b>Profit on ordinary activities before taxation</b> |              | <b>294</b>                                 | 185                                        |
| Taxation on profit on ordinary activities            | <i>5</i>     | <b>(1)</b>                                 | (1)                                        |
|                                                      |              | <hr/>                                      | <hr/>                                      |
| <b>Profit for the financial year</b>                 |              | <b>293</b>                                 | 184                                        |
|                                                      |              | <hr/>                                      | <hr/>                                      |

All results arise from continuing operations


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

**Balance sheet**

|                                              | <i>Notes</i> | <b>30 June 2011</b> | <b>30 June 2010</b> |
|----------------------------------------------|--------------|---------------------|---------------------|
|                                              |              | <b>£'m</b>          | <b>£'m</b>          |
| <b>Fixed assets</b>                          |              |                     |                     |
| Other financial assets                       | 7            | 326                 | 504                 |
| Debtors due after one year                   | 6            | 62                  | 56                  |
| Deferred tax                                 | 8            | 1                   | 1                   |
|                                              |              | <b>389</b>          | <b>561</b>          |
| <b>Current assets</b>                        |              |                     |                     |
| Debtors due within one year                  | 6            | 35,725              | 36,531              |
| Other financial assets                       | 7            | 139                 | 226                 |
| Cash and cash equivalents                    | 9            | 1,019               | 756                 |
|                                              |              | <b>36,883</b>       | <b>37,513</b>       |
| <b>Creditors: due within one year</b>        |              |                     |                     |
| Other financial assets and liabilities       | 7            | (112)               | (239)               |
| Borrowings                                   | 11           | (767)               | (228)               |
| Other creditors                              | 12           | (31,108)            | (31,773)            |
|                                              |              | <b>(31,987)</b>     | <b>(32,240)</b>     |
| <b>Net current assets</b>                    |              | <b>4,896</b>        | <b>5,273</b>        |
| <b>Total assets less current liabilities</b> |              | <b>5,285</b>        | <b>5,834</b>        |
| <b>Creditors: due after one year</b>         |              |                     |                     |
| Other financial liabilities                  | 7            | (389)               | (484)               |
| Borrowings                                   | 11           | (925)               | (1,485)             |
|                                              |              | <b>(1,314)</b>      | <b>(1,969)</b>      |
| <b>Net assets</b>                            |              | <b>3,971</b>        | <b>3,865</b>        |
| <b>Capital and reserves</b>                  |              |                     |                     |
| Called up share capital                      | 13           | 3,660               | 3,660               |
| Reserves                                     | 14           | 311                 | 205                 |
| <b>Shareholders' funds</b>                   | 15           | <b>3,971</b>        | <b>3,865</b>        |

These financial statements on pages 6 to 20 were approved by the board of directors on 15 December 2011 and were signed on its behalf by

M Pais  
Director





**Note of historical cost profits and losses**

|                                                                                       | Year ended<br>30 June 2011<br>£'m | Year ended<br>30 June 2010<br>£'m |
|---------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| <b>Reported profit on ordinary activities before taxation</b>                         | <b>294</b>                        | 185                               |
| Market value loss/(gain) on external derivative interest rate instruments             | 19                                | (154)                             |
| Market value (gain)/loss on intra-group derivative interest rate instruments          | (5)                               | 122                               |
| Market value loss/(gain) on external derivative cross currency interest rate swaps    | 13                                | (17)                              |
| Market value (gain)/loss on intra-group derivative cross currency interest rate swaps | (13)                              | 17                                |
| Fair value of monetization of derivatives                                             | -                                 | 19                                |
| Fair value adjustment to borrowings – (gain)/loss                                     | (21)                              | 33                                |
| Amortization of bonds                                                                 | (5)                               | (1)                               |
| <b>Historical cost profit on ordinary activities before taxation</b>                  | <b>282</b>                        | 204                               |

## 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 on a going concern basis 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 wholly owned by a member of the Diageo group ("group undertakings") or investees of the Diageo group.

### Dividends paid and received

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

### Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. 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 amortised 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 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 23 to the group financial statements.

## **Accounting policies (continued)**

### **Derivative financial instruments**

On behalf of Diageo plc and its subsidiaries (the 'group'), the company participates in hedging of foreign exchange exposures arising on group transactions and the underlying net assets of the group's foreign subsidiaries by using forward contracts and currency swaps

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

The company participates in the group's interest rate management and uses interest rate swaps in the management of the interest rate exposure arising on the group's borrowings

At the group and company level, derivative financial instruments are recognised in the balance sheet at fair value that is calculated using discounted cash flow techniques taking into consideration assumptions based on market data

At the group level, the purpose of hedge accounting is to mitigate the impact of potential volatility in the profit and loss account of the changes in exchange rates or 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. For group purposes, 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 transaction. This process includes linking all derivatives designated as hedges to specific assets and liabilities. For group purposes 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

For the purposes of the group consolidated financial statements prepared under International Financial Reporting Standards the group designates derivatives which qualify as hedges for accounting purposes as either (a) a hedge of the fair value of a recognised asset or liability (fair value hedge); or (b) a hedge of the cash flow risk from a change in interest rates or foreign exchange cash flows (cash flow hedge); or (c) a hedge of the foreign exchange movement from revaluation of investment (net investment hedge)

The group uses derivative financial instruments to manage the currency and/or interest rate risk to which the fair value of certain assets and liabilities are exposed. 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

For the purposes of the company's statutory financial statements any change in the fair value of derivatives is recorded in the profit and loss account. Fair value hedge accounting is applied for interest rate swap derivatives only

### **Deferred taxation**

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

## Notes to the financial statements

### 1. Interest income

|                                                                       | Year ended<br>30 June 2011<br>£'m | Year ended<br>30 June 2010<br>£'m |
|-----------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| Interest from fellow group undertakings                               | 580                               | 471                               |
| Other deposits and swaps                                              | 110                               | 118                               |
| Market value differential on foreign exchange contracts               | 42                                | 15                                |
| Market value gain on intra-group derivative interest rate instruments | 42                                | 35                                |
| Market value gain on external derivative interest rate instruments    | 37                                | 196                               |
| Market value gain on intra-group cross currency interest rate swaps   | 13                                | 18                                |
| Market value gain on external cross currency interest rate swaps      | -                                 | 35                                |
| Fair value adjustment to bonds in hedge relationship                  | 21                                | -                                 |
| Amortization of bonds                                                 | 5                                 | 1                                 |
|                                                                       | <u>850</u>                        | <u>889</u>                        |

### 2. Interest expense

|                                                                       | Year ended<br>30 June 2011<br>£'m | Year ended<br>30 June 2010<br>£'m |
|-----------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| Interest to fellow group undertakings                                 | (333)                             | (297)                             |
| Other loans, borrowings and swaps                                     | (106)                             | (102)                             |
| Bank loans and overdrafts                                             | (11)                              | (11)                              |
| Market value differential on foreign exchange contracts               | (7)                               | (15)                              |
| Market value loss on intra-group derivative interest rate instruments | (37)                              | (157)                             |
| Market value loss on external derivative interest rate instruments    | (56)                              | (45)                              |
| Market value loss on intra-group cross currency interest rate swaps   | -                                 | (35)                              |
| Market value loss on external cross currency interest rate swaps      | (13)                              | (18)                              |
| Fair value adjustment to bonds in hedge relationship                  | -                                 | (33)                              |
|                                                                       | <u>(563)</u>                      | <u>(713)</u>                      |

Market value movement of interest rate derivatives in fair value hedge relationship amounted to £14m, the movement of fair value adjustment on bonds in hedge relationship amounted to £21m gain

## Notes to the financial statements (continued)

### 3. Other operating income

|                                                                                | Year ended<br>30 June 2011<br>£'m | Year ended<br>30 June 2010<br>£'m |
|--------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| Foreign exchange result on operations                                          | 1                                 | 2                                 |
| Margin on transaction hedging                                                  | 8                                 | 11                                |
| Market value movement on transactional foreign exchange derivative transaction | (1)                               | (1)                               |
| Other expense                                                                  | (1)                               | (3)                               |
|                                                                                | <u>7</u>                          | <u>9</u>                          |

Fees in respect of services provided by the auditor statutory audit - £45,000 (2010 - £45,000), group audit £81,400 (2010 - £81,400) were paid on behalf of the company by a fellow group undertaking. There were no fees payable to the auditor in respect of non-audit services (2010 - £nil).

### 4. Directors and employees

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

None of the directors received any remuneration during the financial year in respect of their services as directors of the company (2010 - £nil).

### 5. Taxation

|                                                     | Year ended<br>30 June 2011<br>£'m | Year ended<br>30 June 2010<br>£'m |
|-----------------------------------------------------|-----------------------------------|-----------------------------------|
| <b>(i) Analysis of taxation charge for the year</b> |                                   |                                   |
| <b>Current tax</b>                                  |                                   |                                   |
| Overseas corporation tax                            | (1)                               | (1)                               |
| Total current tax charge                            | <u>(1)</u>                        | <u>(1)</u>                        |
| <b>Deferred tax</b>                                 |                                   |                                   |
| Charge for the year                                 | -                                 | -                                 |
| Total deferred tax                                  | <u>-</u>                          | <u>-</u>                          |
| Taxation on profit on ordinary activities           | <u>(1)</u>                        | <u>(1)</u>                        |

## Notes to the financial statements (continued)

### 5. Taxation (continued)

|                                                                                             | Year ended<br>30 June 2011<br>£'m | Year ended<br>30 June 2010<br>£'m |
|---------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| <b>(ii) Factors affecting current tax charge for the year</b>                               |                                   |                                   |
| Profit on ordinary activities before taxation                                               | 294                               | 185                               |
| Taxation on profit on ordinary activities at UK corporation tax rate of 27.5% (2010 – 28 %) | (80)                              | (52)                              |
| Expenses not deductible for tax purposes                                                    | (1)                               | (1)                               |
| Movement of other timing differences                                                        | -                                 | -                                 |
| Group relief received for nil consideration                                                 | 81                                | 53                                |
| Overseas corporation tax                                                                    | (1)                               | (1)                               |
| Current ordinary tax charge for the year                                                    | (1)                               | (1)                               |

### 6. Debtors

|                                           | 30 June 2011<br>£'m | 30 June 2010<br>£'m |
|-------------------------------------------|---------------------|---------------------|
| Due within one year                       |                     |                     |
| Amounts owed by fellow group undertakings | 35,693              | 36,496              |
| Other debtors                             | 32                  | 35                  |
|                                           | 35,725              | 36,531              |
| Due after one year                        |                     |                     |
| Amounts owed by associated undertakings   | 62                  | 56                  |

Amounts owed by fellow group undertakings represent transactions with companies in the Diageo group with which the company has a long term financing relationship. These financing relationships are expected to continue for the foreseeable future. For the purposes of financial statement classification, amounts owed by group undertakings that do not have a specified repayment date are regarded as short term and consequently are considered to have a fair value which is not materially different to the book value.

Diageo formed two ventures in South Africa with third parties: DHN Drinks (Pty) Limited and Sedibeng Brewery (Pty) Limited are associates to the Diageo group. The company provides long term funding to these entities amounting to £62m (2010 - £56m).

## Notes to the financial statements (continued)

### 7. Other financial assets and liabilities

|                                                           | Non-current<br>financial<br>assets<br>£'m | Current<br>financial<br>assets<br>£'m | Financial<br>liabilities due<br>within one<br>year<br>£'m | 2011<br>Financial<br>liabilities due<br>after one<br>year<br>£'m |
|-----------------------------------------------------------|-------------------------------------------|---------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------|
| <b>External derivative assets/(liabilities):</b>          |                                           |                                       |                                                           |                                                                  |
| Foreign exchange contracts – transaction (on group level) | 5                                         | 47                                    | (44)                                                      | (3)                                                              |
| Foreign exchange contracts – other                        | -                                         | 38                                    | (20)                                                      | -                                                                |
| Interest rate derivatives                                 | 116                                       | 1                                     | -                                                         | (43)                                                             |
| Cross currency interest rate swaps                        | 159                                       | -                                     | -                                                         | (7)                                                              |
|                                                           | <u>280</u>                                | <u>86</u>                             | <u>(64)</u>                                               | <u>(53)</u>                                                      |
| <b>Available for sale financial asset</b>                 | <u>-</u>                                  | <u>-</u>                              | <u>-</u>                                                  | <u>-</u>                                                         |
|                                                           | <u>280</u>                                | <u>86</u>                             | <u>(64)</u>                                               | <u>(53)</u>                                                      |
| <b>Intra-group derivative assets/(liabilities):</b>       |                                           |                                       |                                                           |                                                                  |
| Foreign exchange contracts – transaction (on group level) | 4                                         | 47                                    | (45)                                                      | (4)                                                              |
| Foreign exchange contracts – other                        | -                                         | 6                                     | (2)                                                       | (69)                                                             |
| Interest rate derivatives                                 | 35                                        | -                                     | (1)                                                       | (104)                                                            |
| Cross currency interest rate swaps                        | 7                                         | -                                     | -                                                         | (159)                                                            |
|                                                           | <u>46</u>                                 | <u>53</u>                             | <u>(48)</u>                                               | <u>(336)</u>                                                     |
| <b>Total derivative assets/(liabilities)</b>              | <u>326</u>                                | <u>139</u>                            | <u>(112)</u>                                              | <u>(389)</u>                                                     |

Seychelles government bonds classified as available for sale financial asset have been sold in June 2011 resulting a loss of £0.2m

Market value of interest rate derivatives in hedge relationship amounted to £4m, the fair value adjustment on bonds amounted to a loss of £3m

The company entered into external cross currency interest rate swaps on behalf of a group fellow company, Diageo Capital plc, market value amounted to £152m at balance sheet date. The external deals are mirrored through Diageo plc to Diageo Capital plc, the ultimate beneficiary. Market value of internal cross currency interest rate swaps amounts to a liability of £152m presented due after one year.

## Notes to the financial statements (continued)

### 7. Other financial assets and liabilities (continued)

Fair value movements of cross currency interest rate swaps are taken to the profit and loss account foreign exchange component of change in market value is presented as foreign exchange result on operations, the interest related amounts are recognised as interest income

|                                                           | Non-current<br>financial<br>assets<br>£'m | Current<br>financial<br>assets<br>£'m | Financial<br>liabilities due<br>within one<br>year<br>£'m | 2010<br>Financial<br>liabilities due<br>after one<br>year<br>£'m |
|-----------------------------------------------------------|-------------------------------------------|---------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------|
| <b>External derivative assets/(liabilities):</b>          |                                           |                                       |                                                           |                                                                  |
| Foreign exchange contracts – transaction (on group level) | 20                                        | 57                                    | (117)                                                     | (36)                                                             |
| Foreign exchange contracts – other                        | -                                         | 32                                    | (36)                                                      | -                                                                |
| Interest rate derivatives                                 | 192                                       | -                                     | -                                                         | (39)                                                             |
| Cross currency interest rate swaps                        | 217                                       | -                                     | -                                                         | (2)                                                              |
|                                                           | <u>429</u>                                | <u>89</u>                             | <u>(153)</u>                                              | <u>(77)</u>                                                      |
| <b>Available for sale financial asset</b>                 | -                                         | 2                                     | -                                                         | -                                                                |
|                                                           | <u>429</u>                                | <u>91</u>                             | <u>(153)</u>                                              | <u>(77)</u>                                                      |
| <b>Intra-group derivative assets/(liabilities):</b>       |                                           |                                       |                                                           |                                                                  |
| Foreign exchange contracts – transaction (on group level) | 38                                        | 134                                   | (70)                                                      | (19)                                                             |
| Foreign exchange contracts – other                        | -                                         | 1                                     | (16)                                                      | -                                                                |
| Interest rate derivatives                                 | 35                                        | -                                     | -                                                         | (171)                                                            |
| Cross currency interest rate swaps                        | 2                                         | -                                     | -                                                         | (217)                                                            |
|                                                           | <u>75</u>                                 | <u>135</u>                            | <u>(86)</u>                                               | <u>(407)</u>                                                     |
| <b>Total derivative assets/(liabilities)</b>              | <u>504</u>                                | <u>226</u>                            | <u>(239)</u>                                              | <u>(484)</u>                                                     |

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



## Notes to the financial statements (continued)

### 8. Deferred taxation

|                                                | 30 June 2011<br>£'m | 30 June 2010<br>£'m |
|------------------------------------------------|---------------------|---------------------|
| Deferred taxation at the beginning of the year | 1                   | 1                   |
| Recognised in profit and loss account          | -                   | -                   |
|                                                | <hr/>               | <hr/>               |
| Deferred taxation at the end of the year       | 1                   | 1                   |
|                                                | <hr/>               | <hr/>               |

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

### 9. Cash and cash equivalents

The company has entered into a joint and several guarantee with other UK undertakings of Diageo group such that any balance on the company's bank accounts within the joint 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 2011 was £7m (2010 - £33m) and liquidity funds were £1,012m (2010 - £723m).

### 10. Fair value of financial instruments

#### Fair values

The fair values of derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market interest 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 term and consequently are considered to have a fair value which is not materially different to the book value.

## Notes to the financial statements (continued)

### 11. Borrowings, facilities and financial liabilities

Financial instruments comprise net borrowings, including borrowings from group undertakings, together with other instruments deemed to be financial instruments under FRS 26 including long term debtors and other long term creditors. Disclosures dealt within the following two notes exclude short term debtors and creditors where permitted by FRS 26, but include short term borrowings to and from group undertakings.

#### (i) External borrowings

|                                     | Currency | Year end<br>interest rate<br>% | 30 June 2011<br>£'m | 30 June 2010<br>£'m |
|-------------------------------------|----------|--------------------------------|---------------------|---------------------|
| <b>Due within one year:</b>         |          |                                |                     |                     |
| Eurobond 2012                       | Euro     | 1.674                          | (676)               | -                   |
| Collaterals                         | Various  | Various                        | (91)                | (80)                |
| Bank overdrafts                     | Various  | Various                        | -                   | (148)               |
|                                     |          |                                | <u>(767)</u>        | <u>(843)</u>        |
| <b>Due after one year:</b>          |          |                                |                     |                     |
| Eurobond 2012                       | Euro     | 1.674                          | -                   | (615)               |
| Eurobond 2014                       | Euro     | 6.625                          | (899)               | (818)               |
| Fair value adjustment to borrowings |          |                                | (26)                | (52)                |
|                                     |          |                                | <u>(925)</u>        | <u>(870)</u>        |

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

## Notes to the financial statements (continued)

### 11. Borrowings, facilities and financial liabilities (continued)

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

|                           | 30 June 2011<br>£'m |
|---------------------------|---------------------|
| <i>Expiring:</i>          |                     |
| Within one year           | 776                 |
| Between one and two years | 727                 |
| After two years           | 671                 |
|                           | <hr/> 2,174 <hr/>   |

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

There are no financial covenants on the group's short and long term borrowings. Certain of these borrowings contain cross default provisions and negative pledges.

The committed bank facilities are subject to a single financial covenant, being minimum interest cover ratio of two times (defined as the ratio of operating profit before exceptional items, aggregated with share of associates' profits after tax, to net interest). They are also subject to pari passu ranking and negative pledge covenants.

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

## Notes to the financial statements (continued)

### 12. Creditors: due within one year

|                                           | 30 June 2011<br>£'m | 30 June 2010<br>£'m |
|-------------------------------------------|---------------------|---------------------|
| Amounts owed to fellow group undertakings | (31,068)            | (31,739)            |
| Accruals and deferred income              | (40)                | (34)                |
|                                           | <u>(31,108)</u>     | <u>(31,773)</u>     |

Amounts owed to fellow group undertakings represent transactions with companies in the Diageo group with which the company has a long term financing relationship. These financing relationships are expected to continue for the foreseeable future. For the purposes of financial statement classification, amounts owed to group undertakings that do not have a specified repayment date are regarded as short term and consequently are considered to have a fair value which is not materially different to the book value.

### 13. Share capital

|                                            | 30 June 2011<br>£'m | 30 June 2010<br>£m |
|--------------------------------------------|---------------------|--------------------|
| <i>Allotted, called up and fully paid:</i> |                     |                    |
| 73,200,000,000 ordinary shares of 5p each  | <u>3,660</u>        | <u>3,660</u>       |

## Notes to the financial statements (continued)

### 14. Reserves

|                               | Profit and loss<br>account<br>£'m |
|-------------------------------|-----------------------------------|
| At 30 June 2010               | 205                               |
| Profit for the financial year | 293                               |
| Dividend paid                 | (187)                             |
|                               | <hr/>                             |
| At 30 June 2011               | 311                               |
|                               | <hr/>                             |

### 15. Reconciliation of movement in shareholders' funds

|                                                  | 30 June 2011<br>£'m | 30 June 2010<br>£'m |
|--------------------------------------------------|---------------------|---------------------|
| Profit for the financial year                    | 293                 | 184                 |
| Dividends paid                                   | (187)               | -                   |
|                                                  | <hr/>               | <hr/>               |
| Net addition to shareholders' funds              | 106                 | 184                 |
| Shareholders' funds at the beginning of the year | 3,865               | 3,681               |
|                                                  | <hr/>               | <hr/>               |
| Shareholders' funds at the end of the year       | 3,971               | 3,865               |
|                                                  | <hr/>               | <hr/>               |

### 16. Immediate and ultimate parent undertaking

The 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 Lakeside Drive, Park Royal, London, NW10 7HQ.