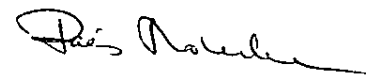


Diageo Finance plc
Financial statements
30 June 2009

Registered number: 213393

Amended version
Company number is added to the header
as required by Companies Act 2006



M Pais
Director
21 December 2009

WEDNESDAY



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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 2009.

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 22 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.

The registered office address changed from 8 Henrietta Place London W1G 0NB to Lakeside Drive, Park Royal, London, NW10 7HQ effective from 7 December 2009.

Business review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2009

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 and cash management is also performed by the company.

Principal risks and uncertainties facing the company as at 30 June 2009

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.

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.

Financial

The results for the year ended 30 June 2009 are shown on page 5.

A dividend of £764 million was approved during the year and settled in August 2009. (2008 - £125 million).

The profit for the year transferred to reserves is £8 million (2008 – £173 million profit).

Directors' report (continued)

Directors

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

A A Abigail	(appointed 7 August 2008)
C D Coase	
G P Crickmore	
J Kyne	(resigned 29 June 2009)
D A Mahlan	
A O M Manz	(appointed 6 April 2009)
S C Moore	
M Pais	(appointed 3 October 2008)
A M Smith	(appointed 29 June 2009)
P D Tunnacliffe	

On 1 October 2009 A A Abigail and G P Crickmore resigned as directors of the company.

Directors' remuneration

None of the directors received any remuneration during the year in respect of their services as directors of the company (2008 - £nil).

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

14 December 2009

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

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

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

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 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 2009 set out on pages 5 to 19. 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 sections 495 and 496 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 auditor

As explained more fully in the directors' responsibilities statement set out on page 3, 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 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 statement

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/UKNP.

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 2009 and of its profit 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.

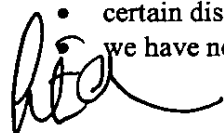
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the director's 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
8 Salisbury Square, London
14 December 2009

Profit and loss account

	<i>Notes</i>	Year ended 30 June 2009 £'m	Year ended 30 June 2008 £'m
Interest income	<i>1</i>	1,307	1,765
Interest expense	<i>2</i>	(1,324)	(1,612)
Net interest (expense)/income		(17)	153
Other operating income	<i>3</i>	28	21
Profit on ordinary activities before taxation		11	174
Taxation on profit on ordinary activities	<i>5</i>	(3)	(1)
Profit for the financial year		8	173

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

		30 June 2009		30 June 2008	
	Notes	£'m	£'m	£'m	£'m
Non-current assets					
Other financial assets	7		258		51
Debtors: due after one year	6		15		-
Deferred tax	8		1		3
			274		54
Current assets					
Debtors: due within one year	6	22,867		32,824	
Other financial assets	7	1,402		892	
Cash and cash equivalents	9	317		25	
		24,586		33,741	
Creditors: due within one year					
Other financial liabilities	7	(502)		(270)	
Borrowings	11	(196)		(188)	
Other creditors	12	(18,710)		(28,257)	
		(19,408)		(28,715)	
Net current assets			5,178		5,026
Total assets less current liabilities			5,452		5,080
Creditors: due after one year					
Other financial liabilities	7	(257)		(48)	
Borrowings	11	(1,514)		(595)	
			(1,771)		(643)
Net assets			3,681		4,437
Capital and reserves					
Called up share capital	13	3,660		3,660	
Reserves	14	21		777	
Shareholders' funds	15	3,681		4,437	

These financial statements on pages 5 to 20 were approved by the board of directors on 14 December 2009 and were signed on its behalf by:

M Pais 
Director

Note of historical cost profits and losses

	Year ended 30 June 2009 £'m	Year ended 30 June 2008 £'m
Reported profit on ordinary activities before taxation	11	174
Market value (gain) on external derivative interest rate instruments	(41)	(2)
Market value loss on intra-group derivative interest rate instruments	21	2
Market value (gain) on external derivative cross currency interest rate swaps	(44)	-
Market value loss on intra-group derivative cross currency interest rate swaps	42	-
Fair value adjustment to borrowings	20	-
Historical cost profit on ordinary activities before taxation	9	174
Historical cost profit for the year retained after taxation	8	173

Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements are prepared under the historical cost convention except that derivative financial instruments are stated at their fair value. The financial statements are in accordance with applicable UK accounting standards.

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996).

The company is exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions (but not balances) with entities that are part of the Diageo plc group ("group undertakings") or investees of the Diageo plc group.

Going concern

The financial statements have been prepared on a going concern basis.

Dividends paid and received

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

Foreign currencies

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

Exchange gains and losses on monetary assets and liabilities 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 22 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).

Derivative financial instruments are used to manage the currency and/or interest rate risk to which the fair value of certain assets and liabilities are exposed. 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.

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.

Accounting policies (continued)

Comparatives

2008 comparative Intra-group financial instruments have been reclassified from Debtor due within one year and Creditor due within one year to Intra-group derivative assets/(liability).

Other financial assets due within one year have been modified from £218m to £892m, Other financial liabilities due within one year have been modified from £(263)m to £(270)m, Debtors due within one year have been modified from £41,372m to £32,824m and Other creditors due within one year have been modified from £(36,138)m to £(28,257)m.

Notes to the financial statements

1. Interest income

	Year ended 30 June 2009 £'m	Year ended 30 June 2008 £'m
Loans to fellow group undertakings	1,155	1,735
Other deposits and swaps	49	28
Market Value gain on intra-group derivative interest rate instruments	11	-
Market Value gain on external derivative interest rate instruments	45	2
Market Value gain on intra-group cross currency interest rate swaps	3	-
Market Value gain on external cross currency interest rate swaps	44	-
	<u>1,307</u>	<u>1,765</u>

2. Interest expense

	Year ended 30 June 2009 £'m	Year ended 30 June 2008 £'m
Loans from fellow group undertakings	(989)	(1,492)
Other loans and borrowings	(65)	(27)
Bank loans and overdrafts	(8)	(12)
Interest expense on foreign exchange and interest rate derivatives	(161)	(79)
Market Value loss on intra-group derivative interest rate instruments	(32)	(2)
Market Value loss on external derivative interest rate instruments	(4)	-
Market Value loss on intra-group cross currency interest rate swaps	(45)	-
Fair value adjustment to borrowings	(20)	-
	<u>(1,324)</u>	<u>(1,612)</u>

Market value movement of interest rate derivatives in hedge relationship amounted to £20m (£12m external and £8m intra-group market value gain on derivative interest rate instruments), the movement of Fair value adjustment on bonds in hedge relationship amounted to £(20)m.

Notes to the financial statements (continued)

3. Other operating income

	Year ended 30 June 2009 £'m	Year ended 30 June 2008 £'m
Foreign exchange result on operations	15	5
Margin on transaction hedging	12	7
Market value movement on transactional foreign exchange derivative transaction	-	3
Other income	1	6
	<u>28</u>	<u>21</u>

Fees in respect of services provided by the auditor were: Statutory audit - £38,600 (2008 - £36,000), Group audit £67,000 (2008 - £60,000) and other non-audit work - £nil (2008 - £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 (2008 - £nil).

5. Taxation

	Year ended 30 June 2009 £'m	Year ended 30 June 2008 £'m
(i) Analysis of taxation credit/(charge) for the year		
Current tax		
Overseas corporation tax	(1)	-
Adjustment in respect of prior years	-	(1)
	<u>(1)</u>	<u>(1)</u>
Total current tax charge	(1)	(1)
Deferred tax		
Credit/(charge) for the year	(2)	-
	<u>(2)</u>	<u>-</u>
Total deferred tax	(2)	-
	<u>(3)</u>	<u>(1)</u>
Taxation on profit on ordinary activities		

Notes to the financial statements (continued)

5. Taxation (continued)

	Year ended 30 June 2009 £'m	Year ended 30 June 2008 £'m
(ii) Factors affecting current tax (charge)/credit for the year		
Profit on ordinary activities before taxation	11	174
Taxation on profit on ordinary activities at UK corporation tax rate of 28% (2008 – 29.5 %)	(3)	(51)
Deductible item not included in financial statements	-	7
UK/UK transfer pricing adjustment	-	9
Movement of other timing differences	2	-
Group relief received for nil consideration	1	35
Overseas corporation tax	(1)	-
Adjustment for prior year	-	(1)
Current ordinary tax (charge)/ credit for the year	(1)	(1)

6. Debtors

	30 June 2009 £'m	30 June 2008 £'m
Due within one year		
Amounts owed by fellow group undertakings	22,857	32,809
Corporation tax	-	12
Other debtors	10	3
	22,867	32,824
Due after one year		
Amounts owed by associated undertakings	15	-

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.

During the fiscal year Diageo formed two new ventures in South Africa with parties outside Diageo. 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 £15m.

Notes to the financial statements (continued)

7. Other financial assets and liabilities

	Non-current financial assets £'m	Current financial assets £'m	Financial liabilities due within one year £'m	2009 Financial liabilities due after one year £'m
External derivative assets/(liabilities):				
Foreign exchange contracts – transaction (on group level)	68	71	(186)	(24)
Foreign exchange contracts – net investment hedging (on group level)	-	15	(28)	-
Interest rate derivatives	40	8	-	-
Cross currency interest rate swaps	91			
	<u>199</u>	<u>94</u>	<u>(214)</u>	<u>(24)</u>
Available for sale financial asset	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>
	<u>199</u>	<u>95</u>	<u>(214)</u>	<u>(24)</u>
Intra-group derivative assets/(liabilities):				
Foreign exchange contracts – transaction (on group level)	26	199	(78)	(67)
Foreign exchange contracts – net investment hedging (on group level)	-	1,101	(198)	-
Interest rate derivatives	8	-	(8)	(27)
Cross currency interest rate swaps	25	7	(4)	(139)
	<u>59</u>	<u>1,307</u>	<u>(288)</u>	<u>(233)</u>
Total derivative assets/(liabilities)	<u>258</u>	<u>1,402</u>	<u>(502)</u>	<u>(257)</u>

Available for sale financial asset consists of Seychelles government bond.

Market value of interest rate derivatives in hedge relationship amounted to £20m, the fair value adjustment on bonds amounted to £(20)m.

The Company entered into external cross currency interest rate swaps on behalf of a group fellow company, Diageo Capital Plc, market value amounted to £91m 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 £(91)m presented as financial liability due after one year.

Notes to the financial statements (continued)

7. Other financial assets and liabilities (continued)

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

	2008			
	Non-current financial assets £'m	Current financial assets £'m	Financial liabilities due within one year £'m	Financial liabilities due after one year £'m
External derivative assets/(liabilities):				
Foreign exchange contracts – transaction (on group level)	16	88	(94)	(25)
Foreign exchange contracts – net investment hedging (on group level)	-	17	(24)	-
Interest rate derivatives	7	-	-	-
	<u>23</u>	<u>105</u>	<u>(118)</u>	<u>(25)</u>
Available for sale financial asset	<u>-</u>	<u>5</u>	<u>-</u>	<u>-</u>
	<u>23</u>	<u>110</u>	<u>(118)</u>	<u>(25)</u>
Intra-group derivative assets/(liabilities):				
Foreign exchange contracts – transaction (on group level)	28	101	(90)	(16)
Foreign exchange contracts – net investment hedging (on group level)	-	681	(62)	-
Interest rate derivatives	-	-	-	(7)
	<u>28</u>	<u>782</u>	<u>(152)</u>	<u>(23)</u>
Total derivative assets/(liabilities)	<u>51</u>	<u>892</u>	<u>(270)</u>	<u>(48)</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 2009 £'m	30 June 2008 £'m
Deferred taxation at the beginning of the year	3	3
Recognised in profit and loss account	(2)	-
Deferred taxation at the end of the year	1	3

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

9. Cash

The company has entered into a joint and several guarantee with certain other Diageo plc UK group undertakings such that any balance on the company's bank accounts within the cash pool may be offset against the bank balances or overdrafts of those companies included in the cash pool.

Cash at bank as at 30 June 2009 was £140m (2008 - £22m) and £177m in liquidity funds.

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 with 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 interest rate %	30 June 2009 £'m	30 June 2008 £'m
Eurobond 2012	Euro	Floating	(641)	(595)
Eurobond 2014	Euro	6.625	(853)	-
Fair value adjustment to borrowings			(20)	-
			<u>(1,514)</u>	<u>(595)</u>
Collaterals	US dollar	Various	(51)	-
Commercial papers	Sterling	Floating	(5)	-
Bank overdrafts	Various	Various	(140)	(188)
			<u>(196)</u>	<u>(188)</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.

During the year ended 30 June 2009, the company borrowed 1 billion EUR in the form of a global bond that matures in December 2014 with a coupon of 6.625%.

Notes to the financial statements (continued)

11. Borrowings, facilities and financial liabilities (continued)

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

	30 June 2009 £'m	30 June 2008 £'m
<i>Expiring:</i>		
Within one year	242	503
Between one and two years	655	452
After two years	1,212	668
	2,109	1,623

Commitment fees are paid on the undrawn portion of these facilities. Borrowing under these facilities will be at prevailing LIBOR rates plus an agreed margin, which is dependent on the period of the drawdown. These facilities can be used for the general corporate purposes and together with cash and cash equivalents to support Diageo group's commercial paper programme.

These facilities are subject to a single financial covenant for Diageo group, being minimum interest cover ratio of two times (defined as the ratio of operating profit before exceptional items aggregated with share of profits in associates to net interest). They are also subject to pari passu ranking and negative pledge covenants.

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

A large number of major international financial institutions are counterparties to the interest rate swaps, forward exchange contracts and deposits. Financial instruments are only transacted with major international financial institutions with a long term credit rating within the A band or better. Credit risks facing the company are monitored together with those of certain other entities within the Diageo group of companies. Policy limits the extent of credit exposure with particular counterparties. The notional amounts of financial instruments used in interest rate and foreign exchange management do not represent the credit risk arising through the use of these instruments. The immediate credit risk of these instruments is generally estimated based on the fair value of contracts with a positive value.

Notes to the financial statements (continued)

12. Creditors: due within one year

	30 June 2009 £'m	30 June 2008 £'m
Amounts owed to fellow group undertakings	(18,676)	(28,253)
Accruals and deferred income	(34)	(4)
	<u>(18,710)</u>	<u>(28,257)</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 2009 £'m	30 June 2008 £m
<i>Authorised:</i>		
74,300,000,000 ordinary shares of 5p each	3,715	3,715
1,950,000,000 unclassified shares of £1 each	1,950	1,950
	<u>5,665</u>	<u>5,665</u>
<i>Allotted, called up and fully paid:</i>		
73,200,000,000 ordinary shares of 5p each	3,660	3,660
	<u>3,660</u>	<u>3,660</u>

Notes to the financial statements (continued)

14. Reserves

	Profit & Loss account £'m
At 30 June 2008	777
Retained profit for the year	8
Dividend paid	(764)
At 30 June 2009	21

15. Reconciliation of movement in shareholders' funds

	30 June 2009 £'m	30 June 2008 £'m
Profit on ordinary activities after taxation	8	173
Dividends	(764)	(125)
Movement	-	5
Net addition to/(reduction in) shareholders' funds	(756)	53
Shareholders' funds at beginning of year	4,437	4,384
Shareholders' funds at end of year	3,681	4,437

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.