

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

**30 June 2001**

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 2001.

### **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.

### **Euro**

The directors do not anticipate that there will be any implications on the activities of the company on the introduction of the euro. There are no significant costs associated with the introduction of the euro for Diageo Finance plc. A statement explaining the impact of the introduction of the euro, and the programme put in place to deal with this along with associated costs, for the Diageo group is disclosed in the annual report of the ultimate parent undertaking, Diageo plc.

### **Financial**

The results for the year ended 30 June 2001 are shown on page 8. The directors do not recommend the payment of an ordinary dividend (2000 - £nil). After deducting the total preference dividends of £166.3m (2000 - £166.8m) the profit for the year retained in the company is £194.4m (2000 - £256.9m).

### **Directors**

The directors who served during the year were as follows:

P S Binning	
I S Cray	(resigned 12 January 2001)
R J Moore	(appointed 15 January 2001)
R H Myddelton	(appointed 10 November 2000)
M D Peters	(resigned 10 November 2000)
J Walters	

### **Directors' emoluments**

None of the directors received any remuneration during the year in respect of their services as directors of the company (2000 - £nil).

### **Directors' interests**

No directors had any interest, beneficial or non-beneficial, in the share capital of the company or had a material interest during the year in any significant contract with the company or any subsidiary.

The directors who held office at the end of the financial year had the following beneficial interests in the ordinary shares of 28 <sup>101</sup>/<sub>108</sub> p each in the ultimate parent company, Diageo plc:

## Diageo Finance plc

### (i) Ordinary shares and conditional rights to ordinary shares

	Ordinary Shares		Conditional rights to ordinary shares				
	At beginning of year (or date of appointment)	At end of year	At beginning of year (or date of appointment)	Granted in year	Vested in year	Lapsed In year	At end of year
P S Binning	14,381	21,099	63,693	13,937	(12,601)	(4,279)	60,750
R J Moore	0	0	16,568	0	0	0	16,568
R H Myddelton	35,270	33,411	41,287	6,919	(11,318)	(7,206)	29,682
J Walters	0	3,016	24,000	15,184	(8,064)	(5,136)	25,984

The directors were granted conditional rights to receive ordinary shares or ADSs (one ADS is equivalent to four ordinary shares) or, exceptionally, a cash sum under certain long term incentive plans, the Share Incentive Plan and the Total Shareholder Return Plan. Any conditional rights to ADSs are shown in the table as ordinary share equivalents. The conditional rights to ordinary shares or ADSs are subject to share performance criteria of Diageo plc ordinary shares. Full details of the performance criteria are disclosed in the annual report of the ultimate holding company, Diageo plc.

### (ii) Options

	At beginning of year (or date of appointment)	Granted during the year	Exercised during the year	At end of year
P S Binning	45,144	68,526	(1,098)	112,572
R J Moore	0	71,464	0	71,464
R H Myddelton	265,939	0	(121,041)	144,898
J Walters	78,928	82,656	0	161,584

The directors held the above options under Diageo plc share option schemes at prices between 402p and 587p per ordinary share for UK options and US\$29.38 and US\$41.98 per ADS for US options, exercisable between 2010 and 2011. US options were granted over ADSs at dollar prices (one ADS is equivalent to four ordinary shares). Any ADS options are shown in the table as ordinary share equivalents. The options are granted at market value on the date the option is granted and the option price is payable when the option is exercised.

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

The mid-market share price of Diageo plc shares fluctuated between 792p and 560p during the year. The mid-market share price on 30 June 2001 was 780p.

## Diageo Finance plc

At 30 June 2001 all the directors had an interest in 9,831,421 shares held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes. In addition: P S Binning had an interest in 10,484,114 shares and 4,074,020 shares subject to call options held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes; P S Binning and J Walters had an interest in 154,100 shares and 2,017,451 shares subject to call options held by a trust to satisfy grants made under ex-Grand Metropolitan plc incentive plans; R J Moore and J Walters had an interest in 13,875,306 shares and 589,850 shares subject to call options held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes; and R H Myddelton had an interest in 46,480 shares and 2,077,419 shares subject to call options held by a trust to satisfy grants made under ex-Grand Metropolitan plc incentive plans.

### Supplier payment policy

The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

### Auditors

The company has taken advantage of Section 386(1) of the Companies Act 1985, as amended, to dispense with the obligation to appoint auditors annually. The auditors, KPMG Audit Plc, are willing to continue in office and will be deemed to be reappointed on the expiry of their term in office in respect of the year ended 30 June 2001.

By order of the board



S M Bunn  
Secretary

8 Henrietta Place, London, W1G 0NB

20 December 2001

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

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

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

The directors, in preparing the financial statements consider that, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that accounting standards 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 that are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **Diageo Finance plc**

### **INDEPENDENT AUDITORS' REPORT, TO THE MEMBERS OF DIAGEO FINANCE PLC**

We have audited the financial statements on pages 6 to 19.

#### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

#### **Basis of 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 2001 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, 20 December 2001**

## **ACCOUNTING POLICIES**

### **Basis of preparation**

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

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996). The company is also exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions (but not balances) with entities that are part of the Diageo plc group or investees of the Diageo plc group.

### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities in foreign currencies are translated into sterling at closing rates. Exchange gains and losses for transactions are taken to the profit and loss account.

### **Financial instruments**

The company participates in the Diageo group's hedging of foreign exchange exposures arising on Diageo group's transaction costs and the translation of the results and underlying net assets of Diageo group's foreign subsidiaries by using forward contracts, currency swaps, cross currency interest rate swaps and currency options in this respect.

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

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

The company participates in the Diageo group's interest rate management and uses interest rate swaps, forward starting swaps, forward rate agreements and bought and sold options in the management of the interest rate exposure arising on the Diageo group's borrowings.

Instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as a hedge at the inception of the contract. Hedge accounting is applied to swaps and other hedging instruments with interest recognised on an accruals basis with no adjustments made to reflect fluctuations in market values.

**Accounting policies (continued)**

If the underlying transaction to a hedge ceases to exist, the hedge is terminated and the profits and losses on termination are recognised in the profit and loss account immediately. If the hedge transaction is terminated, the profits and losses on termination are held in the balance sheet and amortised over the life of the original underlying transactions. Finance costs associated with the debt issuances are charged to the profit and loss account over the life of the issue.

**Current asset investments**

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

# Diageo Finance plc

## PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2001

	Notes	Year ended 30 June 2001 £m	Year ended 30 June 2000 £m
Interest receivable	1	2,164.5	1,389.7
Interest payable	2	(1,789.0)	(1,022.5)
Net interest receivable		375.5	367.2
Other operating income		0.0	28.4
Operating costs	4	(11.4)	(0.7)
<b>Profit on ordinary activities before taxation</b>		<b>364.1</b>	<b>394.9</b>
Taxation on profit on ordinary activities	6	(3.4)	28.8
<b>Profit after taxation</b>		<b>360.7</b>	<b>423.7</b>
Non-equity dividends paid and accrued	7	(166.3)	(166.8)
<b>Transferred to reserves</b>	15	<b>194.4</b>	<b>256.9</b>

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

There is no difference between the profit for the year and the historical cost profit for the year and consequently no note of historical cost profits has been presented as part of the financial statements.

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 30 June 2001

	Notes	Year ended 30 June 2001 £m	Year ended 30 June 2000 £m
Profit for the financial year		360.7	423.7
Non-equity dividends paid and accrued	7	(166.3)	(166.8)
Net addition to shareholders' funds		194.4	256.9
Shareholders' funds at beginning of the year		4,034.9	3,778.0
Shareholders' funds at end of the year		4,229.3	4,034.9

# Diageo Finance plc

## BALANCE SHEET

As at 30 June 2001

	Notes	30 June 2001 £m	30 June 2000 £m
<b>Current assets</b>			
Debtors - due within one year	8	24,157.7	22,598.6
Debtors - due after more than one year	8	4,522.2	8,279.5
Investments	10	144.6	139.4
Cash at bank	9	39.0	0.4
		<b>28,863.5</b>	<b>31,017.9</b>
<b>Creditors - due within one year</b>			
External borrowings	12	(317.7)	(421.3)
Other creditors	11	(18,692.7)	(21,238.1)
		<b>(19,010.4)</b>	<b>(21,659.4)</b>
<b>Net current assets</b>		<b>9,853.1</b>	<b>9,358.5</b>
<b>Creditors - due after more than one year</b>			
External borrowings	12	(201.6)	(210.7)
Other creditors	11	(5,422.2)	(5,112.9)
		<b>(5,623.8)</b>	<b>(5,323.6)</b>
		<b>4,229.3</b>	<b>4,034.9</b>
<b>Capital and reserves</b>			
Called up share capital – equity	14	655.0	655.0
Called up share capital - non-equity	14	3,005.0	3,005.0
		<b>3,660.0</b>	<b>3,660.0</b>
Profit and loss account	15	569.3	374.9
		<b>4,229.3</b>	<b>4,034.9</b>

The financial statements on pages 6 to 19 were approved by the board of directors on 20 December 2001 and signed on its behalf by:



*R J Moore, Director*

## NOTES TO THE FINANCIAL STATEMENTS

**1 Interest receivable**

	Year ended 30 June 2001 £m	Year ended 30 June 2000 £m
Loans to group undertakings	2,116.5	1,357.0
Income from swaps	38.3	8.8
Other deposits	9.7	22.6
Option premia	-	1.3
	<b>2,164.5</b>	<b>1,389.7</b>

**2 Interest payable**

	Year ended 30 June 2001 £m	Year ended 30 June 2000 £m
Bank loans and overdrafts	(15.0)	(12.2)
Loans from group undertakings	(1,736.5)	(983.8)
Other loans	(37.2)	(26.5)
Option premia	(0.3)	-
	<b>(1,789.0)</b>	<b>(1,022.5)</b>

**3 Operations**

During the financial year the company was engaged in treasury management for Diageo plc and its subsidiary undertakings. The company's operations are based in the United Kingdom. It raises the external funds it requires principally using the London financial markets.

**4 Operating costs**

The company has no employees. Fees in respect of services provided by the auditors were: statutory audit £21,779 (2000: £27,406); and other non-audit work £15,809 (2000: £18,863).

**5 Directors' interests**

Details of directors' share interests are included in the directors' report on page 2.

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 6 Taxation

	Year ended 30 June 2001 £m	Year ended 30 June 2000 £m
UK corporation tax for the year	0.0	0.0
Adjustment in respect of prior years	(3.4)	28.8
	(3.4)	28.8

Companies in the Diageo plc group generally apply group relief rules in administering their taxation positions. Such group relief is effected for nil consideration. As a consequence the company has neither a current tax charge nor credit. The adjustment in respect of prior years principally results from a reassessment of group relief in respect of earlier periods.

### 7 Dividends

	Year ended 30 June 2001 Total £m	Year ended 30 June 2000 Total £m
<i>Non-equity:</i>		
5.8% "E" cumulative redeemable preference shares of £1 each	116.3	116.6
5.0% "F" cumulative redeemable preference shares of £1 each	50.0	50.2
	166.3	166.8

### 8 Debtors

	2001		2000	
	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	24,034.8	4,522.2	22,534.4	8,279.5
Corporation tax	14.0	-	16.1	-
Other debtors	108.9	-	48.1	-
	24,157.7	4,522.2	22,598.6	8,279.5

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 9 Cash at bank

£7.6m of cash at bank represents group scheme balances and supports overdrafts of other Diageo group undertakings (2000: £0.3m).

## 10 Investments

	2001 £m	2000 £m
Term deposits	144.6	139.4

## 11 Other creditors

	2001		2000	
	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	18,618.6	5,422.2	21,184.6	5,112.9
Corporation taxation	-	-	-	-
Accruals and deferred income	74.1	-	53.5	-
	18,692.7	5,422.2	21,238.1	5,112.9

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 12 Borrowings, facilities and financial liabilities

Financial instruments comprise net borrowings, including borrowings from group undertakings, together with other instruments deemed to be financial instruments under FRS13 including long term debtors and other long term creditors. Disclosures dealt with in this note exclude short term debtors and creditors where permitted by FRS13, but include short term borrowings to and from group undertakings.

External borrowings	Currency	Year end interest rates %	2001 £m	2000 £m
Guaranteed bonds 2005	Sterling	9.0	199.5	199.3
Medium term notes	Various	Various	-	120.9
Bank loans and other	Various	Various	4.6	35.7
Bank overdrafts	Various	Various	315.2	276.1
			<b>519.3</b>	<b>632.0</b>

The interest rates shown in the table above are those contracted on the underlying borrowings before taking into account any interest rate protection. The above loans are stated net of unamortised finance costs of £0.8m (2000: £0.7m).

None of the borrowings are secured on assets of the Diageo group.

## Maturity of financial liabilities

2001	Bank loans £m	Overdrafts £m	Other loans £m	Total external liabilities £m	Borrowings owed to group undertakings £m	Total £m
<i>Analysis by year of repayment:</i>						
From two to five years	-	-	199.5	199.5	4,522.2	4,721.7
From one to two years	2.1	-	-	2.1	900.0	902.1
Due after more than one year	2.1	-	199.5	201.6	5,422.2	5,623.8
Due within one year	2.5	315.2	-	317.7	18,618.6	18,936.3
	4.6	315.2	199.5	519.3	24,040.8	24,560.1

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

# Diageo Finance plc

## NOTES TO THE FINANCIAL STATEMENTS (continued)

2000

	Bank loans £m	Overdrafts £m	Other loans £m	Total external liabilities £m	Borrowings owed to group undertakings £m	Total £m
<i>Analysis by year of repayment:</i>						
From two to five years	7.7	-	199.3	207.0	5,112.9	5,319.9
From one to two years	3.7	-	-	3.7	-	3.7
Due after more than one year	11.4	-	199.3	210.7	5,112.9	5,323.6
Due within one year	3.1	276.1	142.1	421.3	21,184.6	21,605.9
	14.5	276.1	341.4	632.0	26,297.5	26,929.5

At 30 June 2001, 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:

2001	Floating rate £m	Fixed rate £m	Impact of foreign currency swaps £m	Total £m	Weighted average fixed rate %	Weighted average time to maturity Years
<b>Financial liabilities:</b>						
US dollar	(4,455.8)	(2,572.3)	(8.2)	(7,036.3)	9.5	0.0
Euro	(758.4)	(528.8)	(741.3)	(2,028.5)	4.3	3.1
Sterling	(15,109.7)	(1,024.5)	969.6	(15,164.6)	7.2	1.9
Other	(112.5)	-	(203.8)	(316.3)	-	-
	(20,436.4)	(4,125.6)	16.3	(24,545.7)	8.3	0.9
<b>Financial assets:</b>						
US dollar	7,017.5	-	-	7,017.5	-	-
Euro	2,033.2	-	-	2,033.2	-	-
Sterling	19,371.6	-	-	19,371.6	-	-
Other	318.3	-	-	318.3	-	-
	28,740.6	-	-	28,740.6	-	-
<b>Net financial assets /(liabilities)</b>	<b>8,304.2</b>	<b>(4,125.6)</b>	<b>16.3</b>	<b>4,194.9</b>	<b>8.3</b>	<b>0.9</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 inter-bank rates (predominately 6 month LIBOR). Financial assets comprise cash, money market deposits and amounts due from group undertakings.

# Diageo Finance plc

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2000, 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:

2000			Impact of foreign currency swaps £m	Total £m	Weighted average fixed rate %	Weighted average time to maturity Years
	Floating rate £m	Fixed rate £m				
<b>Financial liabilities:</b>						
US dollar	(6,782.0)	(592.1)	382.4	(6,991.7)	10.0	3.5
Euro	(1,985.6)	(639.5)	(891.5)	(3,516.6)	3.6	2.5
Sterling	(16,530.2)	(499.2)	710.0	(16,319.4)	8.0	3.4
Other	(78.2)	(68.4)	(216.4)	(363.0)	0.1	0.7
	(25,376.0)	(1,799.2)	(15.5)	(27,190.7)	6.8	3.0
<b>Financial assets:</b>						
US dollar	6,957.9	498.0	-	7,455.9	4.8	5.5
Euro	3,522.1	-	-	3,522.1	-	-
Sterling	19,450.5	475.0	-	19,925.5	7.8	5.9
Other	359.9	-	-	359.9	-	-
	30,290.4	973.0	-	31,263.4	6.3	5.7
<b>Net financial assets / (liabilities)</b>	<b>4,914.4</b>	<b>(826.2)</b>	<b>(15.5)</b>	<b>4,072.7</b>	<b>6.6</b>	<b>4.0</b>

The company had available undrawn committed bank facilities with third parties at 30 June 2001 as follows:

	£m
Expiring in one year or less	1,248.2
Expiring in more than two years	1,021.3
	2,269.5

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)

## 13 Disclosure relating to derivative financial instruments

## (i) Fair values

The estimated fair values of borrowings and associated derivative financial instruments at 30 June 2001 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 2001 Net carrying amount £m	30 June 2001 Estimated fair value £m	30 June 2000 Net carrying amount £m	30 June 2000 Estimated fair value £m
<b>Primary financial instruments:</b>				
External borrowings due within one year including overdrafts	(317.7)	(317.7)	(400.1)	(400.1)
External borrowings due after one year	(201.6)	(220.1)	(210.7)	(229.4)
Borrowings from group undertakings due within one year	(18,617.8)	(18,626.2)	(21,184.6)	(21,184.6)
Borrowings from group undertakings due after one year	(5,442.2)	(5,442.2)	(5,112.9)	(5,112.9)
Cash at bank and in hand and investments	183.6	183.6	139.6	139.6
<b>Derivatives – interest rate contracts:</b>				
Interest rate swaps with group undertakings:				
- positive values	0.1	(0.8)	0.2	23.4
- negative values	(2.8)	(48.4)	(0.9)	(4.1)
Interest rate swaps with third parties				
- positive values	36.0	110.8	2.1	34.3
- negative values	(1.4)	(6.1)	(6.7)	(57.9)
Other interest rate contracts	(4.6)	-	1.3	-
<b>Derivatives – foreign exchange contracts:</b>				
Transaction – positive values	9.6	102.6	4.9	112.5
- negative values	-	(99.6)	-	(107.6)
Balance sheet translation - positive values	32.0	34.1	13.1	13.1
- negative values	(15.7)	(15.7)	(28.6)	(28.6)
Foreign exchange options (profit translation)				
- positive values	1.8	16.8	-	5.3
- negative values	-	(38.6)	(2.0)	(27.6)

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 2001. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

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

**(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 2000	168.5	(187.8)	(19.3)	0.4	(1.7)	(1.3)
Arising in previous years recognised in year ended 30 June 2001	99.2	(119.2)	(20.0)	0.1	(0.6)	(0.5)
At 30 June 2001	187.8	(189.0)	(1.2)	0.2	(1.0)	(0.8)
Of which gains and losses expected to be recognised in the year ended 30 June 2002	103.5	(112.6)	(9.1)	0.5	0.0	0.5

**(iii) Option cylinders**

As at 30 June 2001, currency cylinders, forwards and options protect the translation of estimated overseas profits for the year ending 30 June 2002 within the following weighted average ranges:

	30 June 2001	
	Hedged amount £m	Weighted average range (against £)
US dollar - cylinders	713	1.44-1.49
- forwards	121	1.43
Euro - cylinders	223	1.56-1.64
- options	108	1.75

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 14 Share capital

	2001 £m	2000 £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
	5,665.0	5,665.0
<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
1,000,000,000 5.0% "F" cumulative redeemable preference shares of £1 each	1,000.0	1,000.0
	3,660.0	3,660.0

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" cumulative redeemable preference shares carry voting rights.

On 24 July 2001 the "E" and "F" cumulative redeemable preference shares were converted into a total of 60,100,000,000 ordinary shares of 5p each.

Ordinary shares are entitled to one vote each.

## Diageo Finance plc

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 15 Reserves

	2001	2000
	£m	£m
<i>Profit and loss account:</i>		
Balance brought forward	374.9	118.0
Retained profit for the financial year	194.4	256.9
Balance carried forward	569.3	374.9

#### 16 Contingent liabilities

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

#### 17 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 year end of 30 June.

The consolidated accounts of Diageo plc for the year ended 30 June 2001 can be obtained from the Registered Office at 8 Henrietta Place, London W1G ONB.