

Diageo Capital plc

FINANCIAL STATEMENTS

30 June 2000

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Registered Number: 40795

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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 2000.

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 significant implications on the activities of the company on the introduction of the euro. There are no significant anticipated costs associated with the introduction of the euro for Diageo Capital plc. A statement explaining the impact of the introduction of the euro, and the programme put in place to deal with this, for the Diageo group is disclosed in the annual report of the ultimate parent undertaking, Diageo plc.

Financial

The results for the period shown on page 8 are for the twelve months from 1 July 1999 to 30 June 2000.

The directors recommend that a final ordinary dividend of £nil (1999 - £nil) be paid.

After deducting the total ordinary dividends of £nil (1999 - £37.0m) the profit for the year retained in the company is £44.1m (1999 - £41.3m).

Directors

The directors who served during the year were as follows:

P K Bentley (resigned 30 June 2000)
P S Binning
I S Cray (appointed 30 June 2000)
R H Myddelton (appointed 6 August 1999)
M D Peters
D C Stainton (resigned 30 June 2000)
J Walters (appointed 30 June 2000)

Subsequent to the year end, M D Peters resigned as a director on 10 November 2000.

Directors' emoluments

None of the directors received any remuneration during the year in respect of their services as directors of the company (1999 - £nil).

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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 28 ¹⁰¹/₁₀₈ p each in the ultimate parent company, Diageo 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	Vested	Lapsed	At end of year
P K Bentley	10,000	16,557	63,255	31,935	(8,750)	(6,875)	79,565
P S Binning	6,720	14,381	30,200	38,113	5,880	(4,620)	63,693
I S Cray	2,727	6,827	18,700	-	-	-	18,700
R H Myddelton	19,519	22,780	53,449	5,919	10,125	(7,956)	51,412
M D Peters	4,744	6,957	4,650	-	-	-	4,650
D C Stainton	-	3,750	44,435	-	7,278	(5,719)	38,716
J Walters	7,900	-	30,720	-	-	-	30,720

The directors were granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under certain long term incentive plans (The Grand Metropolitan Restricted Share Plan ('GrandMet RSP'), the Share Incentive Plan and the Total Shareholder Return Plan ('TSR')). The GrandMet RSP vested during the year and the directors received 56% of their conditional rights to ordinary shares. P S Binning, R H Myddelton, D C Stainton and J Walters did not have their shares released until September 2000, these are shown under the "Vested in year" column above. Full details of the performance criteria are disclosed in the annual report of the ultimate holding company, Diageo plc.

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(ii) Options

	At beginning of year (or date of <u>appointment</u>)	Granted during the <u>year</u>	Exercised during the <u>year</u>	At end of <u>year</u>	<u>Options Exercised</u>	
					<u>Option price</u>	<u>Market price</u>
United Kingdom						
P K Bentley	27,138	41,920	-	69,058		
P S Binning	4,121	41,023	-	45,144		
I S Cray	35,384	33,005	-	68,389		
R H Myddelton	204,354	33,808	1,954	236,208	353	635
M D Peters	12,730	5,824	961 550	17,043	359 354	437.75
D C Stainton	4,886	1,981	4,886	1,981	353	619
United States						
J Walters	78,928	65,652	-	144,580		

For executive option schemes, UK grants were between 1992 and 1999 at prices between 359 pence and 518 pence with the 1999 grants being at 519 pence, and US grants were between 1996 and 1999 at prices between US \$29.38 and US \$33.63 per ADS with the 1999 grants being at \$33.63. US options were granted over ADSs at dollar prices (one ADS is equivalent to four ordinary shares); the option holdings and prices in the table are stated as ordinary share equivalents in pence.

The mid-market share price of Diageo plc shares fluctuated between 384p and 696.5p during the year. The mid-market share price on 30 June 2000 was 593p.

At 30 June 2000, P K Bentley, P S Binning, I S Cray, R H Myddelton, D C Stainton and J Walters had an interest in 159,475 shares and 8,551,299 shares subject to call options held by trusts to satisfy grants made under ex-Grandmet incentive plans; and the directors had an interest in 31,557,529 shares and 3,132,000 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes.

A new Senior Executive Share Option Plan ('SESOP') was introduced with effect from 1 January 2000. The combined benefits provided under the TSR and the SESOP are expected to be the same as those previously provided under the TSR. Options granted under the 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 parent company, Diageo plc.

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Options granted during the year for P K Bentley, P S Binning, I S Cray, R H Myddelton and J Walters are principally options granted under the Diageo plc Senior Executive Share Option Plan, which are subject to performance conditions, as detailed above.

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.

By Order of the Board



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S M Bunn

Secretary

Edinburgh Park, 5 Lochside Way, Edinburgh, EH12 9DT

22 December 2000

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

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

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

The directors, in preparing the financial statements on pages 7 to 15, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, that all accounting standards which they consider to be applicable have been followed, and that it is appropriate to prepare the financial statements on the going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**REPORT OF THE AUDITORS, KPMG AUDIT PLC,
TO THE MEMBERS OF DIAGEO CAPITAL PLC**

We have audited the financial statements on pages 7 to 15.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 5, 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. 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 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**KPMG Audit plc
Chartered Accountants
Registered Auditor
London, 22 December 2000**

ACCOUNTING POLICIES

Basis of preparation

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

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities in foreign currencies are translated into sterling at the financial year end exchange rates, or if hedged forward, at the rate of exchange under the related forward currency contract.

Exchange gains and losses are taken to the profit and loss account.

Financial instruments

The company participates in the Diageo group's 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.

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.

PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2000

	Notes	Year ended 30 June 2000 £m	Year ended 30 June 1999 £m
Interest receivable	1	316.0	567.1
Interest payable	2	(304.0)	(439.3)
Net interest receivable		12.0	127.8
Other operating (expenses)/income	4	16.2	(14.7)
Profit on ordinary activities before taxation		28.2	113.1
Taxation on profit on ordinary activities	6	15.9	(34.8)
Profit for the financial period after taxation		44.1	78.3
Dividends paid		-	(37.0)
Transferred to reserves	13	44.1	41.3

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 2000

	Year ended 30 June 2000 £m	Year ended 30 June 1999 £m
Profit for the financial year	44.1	78.3
Dividends paid	-	(37.0)
Shareholders' funds at beginning of the year	78.9	37.6
Shareholders' funds at end of the year	123.0	78.9

Diageo Capital plc

BALANCE SHEET

As at 30 June 2000

	Notes	30 June 2000 £m	30 June 1999 £m
Current assets			
Debtors - due within one year	7	7,896.2	10,498.7
		7,896.2	10,498.7
Creditors - due within one year			
External borrowings	9	(1,745.8)	(2,205.9)
Other creditors	11	(4,430.0)	(6,527.8)
		(6,175.8)	(8,733.7)
Net current assets		1,720.4	1,765.0
Creditors - due after more than one year			
External borrowings	9	(1,597.4)	(1,686.1)
		123.0	78.9
Capital and reserves			
Called up share capital - equity	12	0.1	0.1
Profit and loss account	13	122.9	78.8
		123.0	78.9

The financial statements on pages 7 to 15 were approved by the board of directors on 22 December 2000 and signed on its behalf by:


I S Cray, Director

NOTES TO THE FINANCIAL STATEMENTS (continued)**1 Interest receivable**

	Year ended 30 June 2000 £m	Year ended 30 June 1999 £m
Loans to group undertakings	316.0	556.9
Other deposits	-	10.2
	316.0	567.1

2 Interest payable

	Year ended 30 June 2000 £m	Year ended 30 June 1999 £m
Loans from group undertakings	75.7	259.0
Other loans	228.3	180.3
	304.0	439.3

3 Operations

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

4 Operating costs

The company has no employees. The auditor's remuneration was borne by a group company.

5 Directors' interests

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Taxation

	Year ended 30 June 2000 £m	Year ended 30 June 1999 £m
UK corporation tax (receivable) payable at 30% (1999: 30.75%) on the profits for the year	-	34.8
Adjustment in respect of prior years	(15.9)	-
	(15.9)	34.8

Companies in the Diageo plc group generally apply group relief rules in administering their taxation positions. During the year the company agreed to change its policy from paying/charging for group relief so that group relief is effected for nil consideration. As a consequence the company has neither a current tax charge nor credit for the year ended 30 June 2000. The adjustment in respect of prior years principally results from a reassessment of group relief in respect of earlier periods.

7 Debtors

	2000 Due within one year £m	1999 Due within one year £m
Amounts owed by group undertakings	7,882.0	10,497.2
Prepayments and accrued income	0.6	0.4
Corporation tax	12.0	-
Other debtors	1.6	1.1
	7,896.2	10,498.7

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 Fair values

The estimated fair values of borrowings at 30 June 2000 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 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 2000		30 June 1999	
	Net carrying amount £m	Estimated fair value £m	Net carrying amount £m	Estimated fair value £m
Primary financial instruments:				
Borrowings from group undertakings	(4,406.8)	(4,406.8)	(6,463.9)	(6,463.9)
External borrowings	(3,342.2)	(3,298.0)	(3,892.0)	(3,886.5)
Derivatives – interest rate contracts:				
Interest rate swaps – positive values	4.0	1.0	0.2	(1.0)
- negative values	(0.2)	(23.4)	-	-

The unrealised gains and losses on interest rate swaps arose largely in 2000 and are predominantly expected to be realised after 30 June 2001.

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 2000. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

9 Maturity of financial liabilities

	2000				1999			
	Loans from group undertakings £m	Overdrafts £m	Other Loans £m	Total £m	Loans from group undertaking £m	Other loans £m	Total £m	
<i>Analysis by year of repayment:</i>								
After five years	-	-	(522.7)	(522.7)	-	(314.0)	(314.0)	
From two five years	-	-	(1,025.5)	(1,025.5)	-	(1,372.1)	(1,372.1)	
From one to two years	-	-	(49.2)	(49.2)	-	-	-	
Due after more than one year	-	-	(1,597.4)	(1,597.4)	-	(1,686.1)	(1,686.1)	
Due within one year	(4,406.8)	(1.0)	(1,744.8)	(6,152.6)	(6,463.9)	(2,205.9)	(8,669.8)	
	(4,406.8)	(1.0)	(3,342.2)	(7,750.0)	(6,463.9)	(3,892.0)	(10,355.9)	

NOTES TO THE FINANCIAL STATEMENTS (continued)

Other loans comprise:

	Currency	Year end interest rates %	2000 £m	1999 £m
Guaranteed bond 2000	US Dollar	6.24	(230.3)	-
Guaranteed bond 2000	US Dollar	Variable	(328.9)	-
Guaranteed bond 2000	US Dollar	Variable	(328.9)	-
Guaranteed bond 2003	US Dollar	6.0	(327.4)	(314.4)
Guaranteed bond 2004	US Dollar	6.625	(655.6)	(630.1)
Guaranteed bond 2005	US Dollar	6.125	(326.8)	(314.0)
Commercial Paper	US Dollar	Various	(790.8)	(2,205.9)
Medium Term Notes	US Dollar	Various	(353.5)	(427.6)
			(3,342.2)	(3,892.0)

The interest rates shown above are contracted on the underlying borrowings before taking into account any interest rate protection.

The company has no committed bank facilities at 30 June 2000.

10 Interest rate risk management

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 company were as follows:

	Floating rate £m	Fixed rate £m	Total £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed yrs
Financial Liabilities:					
US dollar	(2,634.2)	(650.0)	(3,284.2)	6.0%	3.9
Euro	(423.9)	-	(423.9)	-	-
Sterling	(4,035.7)	-	(4,035.7)	-	-
Other	(6.2)	-	(6.2)	-	-
	(7,100.0)	(650.0)	(7,750.0)	6.0%	3.9
Assets:					
US dollar	3,071.7	-	3,071.7	-	-
Euro	424.4	-	424.4	-	-
Sterling	4,379.8	-	4,379.8	-	-
Other	6.1	-	6.1	-	-
	7,882.0	-	7,882.0	-	-
Net Financial Liabilities:	782.0	(650.0)	132.0	6.0%	3.9

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 1999 the currency and interest rate profile of the financial liabilities and assets of the company were as follows:

	Floating rate £m	Fixed rate £m	Total £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed yrs
Financial liabilities:					
US dollar	(2,206.0)	(1,258.5)	(3,464.5)	6	5
Euro	(428.1)	-	(428.1)	-	-
Sterling	(6,463.3)	-	(6,463.3)	-	-
	(9,097.4)	(1,258.5)	(10,355.9)	6	5
Assets:					
US dollar	3,207.8	-	3,207.8	-	-
Euro	428.0	-	428.0	-	-
Sterling	6,860.8	-	6,860.8	-	-
Other	0.6	-	0.6	-	-
	10,497.2	-	10,497.2	-	-
Net financial assets/(liabilities):	1,399.8	(1,258.5)	141.3	6	5

Interest bearing financial liabilities comprise bonds, medium term notes, commercial papers and borrowings from group undertakings. Floating rate financial liabilities comprise borrowings from group undertakings and bear interest based on short term interbank rates (predominately 6 month LIBOR). Financial assets comprise amounts due from group undertakings.

11 Other creditors - due within one year

	2000 £m	1999 £m
Amounts owed to group undertakings	(4,406.8)	(6,463.9)
Corporation tax	-	(50.6)
Accruals and deferred income	(23.2)	(13.3)
	(4,430.0)	(6,527.8)

12 Share capital

	Authorised		Allotted, called up and fully paid			
	2000 Number (thousand)	1999 Number (thousand)	2000 Number (thousand)	2000 £m	1999 Number (thousand)	1999 £m
Ordinary shares:£1 each	100	100	100	0.1	100	0.1

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 Reserves

	2000	1999
	£m	£m
<i>Profit and loss account:</i>		
Balance brought forward	78.8	37.5
Retained profit for the period	44.1	41.3
Balance carried forward	122.9	78.8

14 Ultimate parent undertaking

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

The consolidated accounts of Diageo plc for the year ended 30 June 2000 can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.