

Diageo Capital plc

FINANCIAL STATEMENTS

30 June 2002

Registered Number: 40795



SCT	S901E00L	0007
COMPANIES HOUSE	25/1/03	
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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 2002.

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.

Financial

The results for the year ended 30 June 2002 are shown on page 8.

The directors do not recommend a final dividend (2001: £nil).

After deducting the interim dividend of £500m declared on 26 February 2002 (2001: £nil) the deficit for the year taken to reserves is £344.0m (2001: profit £472.2m).

Directors

The directors who served during the year were as follows:

P S Binning
R J Moore
R H Myddelton
J Walters
A Williams (appointed 1 May 2002)

Directors' emoluments

None of the directors received any remuneration during the year in respect of their services as directors of the company (2001: £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 28 ¹⁰¹/₁₀₈ p each in the ultimate parent company, Diageo plc:

DIRECTORS' REPORT (continued)

(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	21,099	25,693	60,750	11,827	(4,350)	(4,350)	63,877
R J Moore	130	130	16,568	14,660	-	-	31,228
R H Myddelton	33,411	32,666	29,682	5,760	(8,422)	(8,422)	18,598
J Walters	11,796	26,244	25,984	13,600	(5,400)	(5,400)	28,784
A Williams	3,214	3,258	-	-	-	-	-

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	112,572	51,133	-	163,705
R J Moore	71,464	77,184	-	148,648
R H Myddelton	144,898	27,055	(78,748)	93,205
J Walters	161,584	70,084	-	231,668
A Williams	19,243	-	-	19,243

DIRECTORS' REPORT (continued)

The directors held the above options under Diageo plc share option schemes at prices between 402.0p and 687.0p per ordinary share exercisable between 2002 and 2011 for UK grants and US\$29.38 and US\$41.98 per ADS exercisable between 2002 and 2011 for US grants. 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 grants of options to date 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 644.0p and 940.5p during the year. The mid-market share price on 30 June 2002 was 852.0p.

At 30 June 2002 P S Binning, R J Moore, R H Myddelton and J Walters had an interest in 3,763,799 shares held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes; P S Binning, R H Myddelton and A Williams had an interest in 16,259,763 shares and 6,124,020 shares subject to call options held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes; R J Moore and J Walters had an interest in 18,164,656 shares and 574,300 shares subject to call options held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes; and J Walters had an interest in 144,098 shares and 502,360 shares subject to call options held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes.

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.

Diageo Capital plc

Auditor

The company has taken advantage of Section 386(1) of the Companies Act 1985, as amended, to dispense with the obligation to appoint an auditor annually. The auditor, KPMG Audit Plc, is willing to continue in office and will be deemed to be reappointed on the expiry of its term in office in respect of the year ended 30 June 2002.

By order of the board



S M Bunn
Secretary

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

18 December 2002

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

The following statement, which should be read in conjunction with the independent auditor's report set out overleaf 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 result for the financial year.

The directors, in preparing these 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF DIAGEO CAPITAL PLC**

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

Respective responsibilities of directors and auditors

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 auditor, 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 audit 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 2002 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Ltd

**KPMG Audit plc
Chartered Accountants
Registered Auditor
London, 19 December 2002**

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.

Taxation

Taxation is calculated based on the results for the year and takes into account deferred taxation. Full provision is now made for all material timing differences. Any potential deferred tax asset is recognised only when, on the basis of all material evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Diageo Capital plc

PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2002

		Year ended 30 June 2002 £m	Year ended 30 June 2001 £m
	Notes		
Interest receivable	1	536.3	1,050.2
Interest payable	2	(381.4)	(559.4)
Net interest receivable		154.9	490.8
Other operating income/(expenses)	4,5	2.1	(18.6)
Profit on ordinary activities before taxation		157.0	472.2
Taxation on profit on ordinary activities	7	(1.0)	-
Profit for the financial period after taxation		156.0	472.2
Dividends		(500.0)	-
Transferred to reserves	15	(344.0)	472.2

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 2002

	Year ended 30 June 2002 £m	Year ended 30 June 2001 £m
Profit for the financial year	156.0	472.2
Dividends	(500.0)	-
Shareholders' funds at beginning of the year	595.2	123.0
Shareholders' funds at end of the year	251.2	595.2

Diageo Capital plc

BALANCE SHEET

As at 30 June 2002

	Notes	30 June 2002 £m	30 June 2001 £m
Current assets			
Debtors - due within one year	8	10,573.9	8,479.7
Cash	9	1.7	3.4
		10,575.6	8,483.1
Creditors - due within one year			
External borrowings	11	(2,031.0)	(1,335.4)
Other creditors	13	(6,834.6)	(4,892.2)
		(8,865.6)	(6,227.6)
Net current assets		1,710.0	2,255.5
Creditors - due after more than one year			
External borrowings	11	(1,458.8)	(1,660.3)
		251.2	595.2
Capital and reserves			
Called up share capital - equity	14	0.1	0.1
Profit and loss account	15	251.1	595.1
		251.2	595.2

The financial statements on pages 7 to 15 were approved by the board of directors on 18 December 2002 and signed on its behalf by:



R H Myddelton,
Director

NOTES TO THE FINANCIAL STATEMENTS

1 Interest receivable

	Year ended 30 June 2002 £m	Year ended 30 June 2001 £m
Loans to group undertakings	476.8	932.6
Other deposits and swaps	59.5	117.6
	536.3	1,050.2

2 Interest payable

	Year ended 30 June 2002 £m	Year ended 30 June 2001 £m
Loans from group undertakings	(108.2)	(258.7)
Other loans and swaps	(273.2)	(300.7)
	(381.4)	(559.4)

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.

Operating costs include a foreign exchange gain for the year ended 30 June 2002 of £3.1m (2001: loss of £18.5m).

5 Auditor's remuneration

Fees in respect of services provided by the auditors were: Statutory audit £37,500 (2001: £11,750); and other non-audit work £391,000 (2001: nil).

6 Directors' interests

Details of directors' share interests are included in the directors' report on pages 1 to 3.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Taxation

	Year ended 30 June 2002 £m	Year ended 30 June 2001 £m
Factors affecting the current tax charge:		
Profit before taxation	157.0	472.2
Corporation tax at 30%	(47.1)	(141.7)
Group relief received for nil consideration	47.1	141.7
Adjustment in respect of prior year	(1.0)	-
Current tax charge	(1.0)	-

8 Debtors

	2002 Due within one year £m	2001 Due within one year £m
Amounts owed by group undertakings	10,556.8	8,471.9
Corporation tax	1.4	2.4
Other debtors	15.7	5.4
	10,573.9	8,479.7

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Cash

£0.4 million of Cash at bank represents group scheme balances and supports overdrafts of other Diageo group undertakings (2001: £3.4m).

10 Fair values

The estimated fair values of borrowings at 30 June 2002 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 values obtained from third parties.

	30 June 2002		30 June 2001	
	Net carrying amount £m	Estimated fair value £m	Net carrying amount £m	Estimated fair value £m
Primary financial instruments:				
Loans from group undertakings	(6,790.5)	(6,820.7)	(4,868.6)	(4,896.2)
External borrowings including overdrafts	(3,489.8)	(3,589.8)	(2,995.7)	(3,048.3)
Derivatives – interest rate contracts:				
Interest rate swaps with group undertakings:				
- positive values	2.0	65.5	2.9	49.2
- negative values	-	-	-	-
Interest rate swaps with third parties				
- positive values	0.1	1.9	-	2.1
- negative values	(11.2)	(78.7)	(0.3)	(8.6)
Collars	(4.0)	(20.3)	-	(4.2)

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 group has unrecognised 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		
	Gains £m	Losses £m	Total £m
On hedges at 30 June 2001	48.4	(12.5)	35.9
Arising in previous years recognised during 2002	35.6	(13.8)	21.8
On hedges at 30 June 2002	72.2	(90.7)	(18.5)
Of which gains/(losses) expected to be recognised in:			
- year ending 30 June 2003	25.7	(29.6)	(3.9)
- year ending 30 June 2004 or later	46.5	(61.1)	(14.6)

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 2002. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

Diageo Capital plc

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Maturity of financial liabilities

	2002				2001			
	Loans from group undertakings £m	Overdrafts £m	Other loans £m	Total £m	Loans from group undertakings £m	Overdrafts £m	Other loans £m	Total £m
<i>Analysis by year of repayment:</i>								
After five years	-	-	(231.8)	(231.8)	-	-	(211.3)	(211.3)
From two to five years	-	-	(331.0)	(331.0)	-	-	(1,060.0)	(1,060.0)
From one to two years	-	-	(896.0)	(896.0)	-	-	(389.0)	(389.0)
Due after more than one year	-	-	(1,458.8)	(1,458.8)	-	-	(1,660.3)	(1,660.3)
Due within one year	(6,790.5)	(1.0)	(2,030.0)	(8,821.5)	(4,868.6)	(0.4)	(1,335.0)	(6,204.0)
	(6,790.5)	(1.0)	(3,488.8)	(10,280.3)	(4,868.6)	(0.4)	(2,995.3)	(7,864.3)

Other loans comprise:

	Currency	Year end interest rates %	2002 £m	2001 £m
Guaranteed bond 2003	US dollar	6	(328.5)	(353.6)
Guaranteed bond 2004	US dollar	6.625	(656.7)	(707.3)
Guaranteed bond 2005	US dollar	6.125	(327.6)	(352.7)
Commercial paper	US dollar	Various	(1,600.6)	(1,150.3)
Medium term notes	Various	Various	(537.6)	(431.4)
Retail notes	US dollar	Various	(37.8)	-
			(3,488.8)	(2,995.3)

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 2002.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Interest rate risk management

At 30 June 2002, 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	(3,671.9)	(2,140.3)	(5,812.2)	5.7	3.0
Euro	(473.8)	-	(473.8)	-	-
Sterling	(3,359.2)	(628.6)	(3,987.8)	6.7	2.7
Other	(6.5)	-	(6.5)	-	-
	(7,511.4)	(2,768.9)	(10,280.3)	5.9	2.9
Financial assets:					
US dollar	5,798.7	-	5,798.7	-	-
Euro	473.1	-	473.1	-	-
Sterling	4,280.4	-	4,280.4	-	-
Other	6.3	-	6.3	-	-
	10,558.5	-	10,558.5	-	-
Net financial assets/(liabilities):	3,047.1	(2,768.9)	278.2	5.9	2.9

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 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	(925.9)	(1,950.9)	(2,876.8)	6.6	3.9
Euro	(423.5)	-	(423.5)	-	-
Sterling	(4,429.5)	(128.5)	(4,558.0)	6.7	3.7
Other	(6.0)	-	(6.0)	-	-
	(5,784.9)	(2,079.4)	(7,864.3)	6.6	3.9
Financial assets:					
US dollar	2,857.5	-	2,857.5	-	-
Euro	423.1	-	423.1	-	-
Sterling	5,185.3	-	5,185.3	-	-
Other	6.0	-	6.0	-	-
	8,471.9	-	8,471.9	-	-
Net financial assets/(liabilities):	2,687.0	(2,079.4)	607.6	6.6	3.9

Diageo Capital plc

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

In addition to the interest rate and currency swaps reflected in the tables above, Diageo Capital plc has £602 million notional principal of US Dollar interest rate collars which mature between 1 July 2003 and 1 January 2006 and have floors of 3.05%-5.44% and caps of 3.64%-7.98%.

13 Other creditors - due within one year

	2002 £m	2001 £m
Amounts owed to group undertakings	(6,790.5)	(4,868.6)
Other	-	(3.1)
Accruals and deferred income	(44.1)	(20.5)
	(6,834.6)	(4,892.2)

14 Share capital

	Authorised		Allotted, called up and fully paid			
	2002 Number (thousand)	2001 Number (thousand)	2002 Number (thousand)	2002 £m	2001 Number (thousand)	2001 £m
Ordinary shares: £1 each	100	100	100	0.1	100	0.1

15 Reserves

	2002 £m	2001 £m
<i>Profit and loss account:</i>		
Balance brought forward	595.1	122.9
Retained profit for the year	(344.0)	472.2
Balance carried forward	251.1	595.1

16 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 2002 can be obtained from the Registered Office at 8 Henrietta Place, London W1G ONB.