DIAGEO PLC
Form 20-F/A
March 05, 2008

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F/A

Amendment No. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: 30 June 2007

Commission file number: 1-10691

DIAGEO plc

(Exact name of Registrant as specified in its charter)

England
(Jurisdiction of incorporation or organization)

8 Henrietta Place, London, W1G 0NB, England
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange
Ordinary shares of $28^{101}/_{108}$ pence each	New York Stock Exchange*

*

Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report: 2,931,085,864 ordinary shares of $28^{101}/_{108}$ pence each.

Indicate by check mark if each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ý No o

If this report is an annual or transition report, indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No ý

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o International Financial Reporting Standards as issued by the International Accounting Standards Board ý Other o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

This document and the Annual Report on Form 20-F filed with the SEC on 17 September 2007 (the "Original 20-F") comprise the annual report on Form 20-F for the year ended 30 June 2007 of Diageo plc (the 2007 Form 20-F). Reference is made in the Original 20-F to the cross reference to Form 20-F table on pages 226 to 228 thereof (the Form 20-F Cross reference table). The 2007 Form 20-F includes only (i) the information in the Original 20-F that is referenced in the Form 20-F Cross reference table (except to the extent such information is amended herein), (ii) the cautionary statement concerning forward-looking statements on pages 25 and 26 of the Original 20-F, (iii) the Exhibits to the Original 20-F, and (iv) the entirety of this amendment, and only those materials shall be deemed to be filed with the Securities and Exchange Commission for any purpose, including incorporation by reference into the Registration Statements on Form F-3 (File Nos. 333-10410, 333-14100, 333-110804 and 333-132732) and Registration Statements on Form S-8 (File Nos. 333-08090, 333-08092, 333-08094, 333-08096, 333-08098, 333-08102, 333-08104, 333-08106, 333-09770, 333-11460 and 333-11462), and any other documents, including documents filed by Diageo plc pursuant to the Securities Act of 1933, as amended, which purport to incorporate by reference the 2007 Form 20-F.

Contents

2	Explanatory Note
3	Consolidated financial statements
4	Report of independent registered public accounting firm
5	Consolidated income statement
6	Consolidated statement of recognised income and expense
7	Consolidated balance sheet
8	Consolidated cash flow statement
9	Accounting policies of the group
15	Notes to the consolidated financial statements
100	Principal group companies
	Exhibits
	Exhibit 12.3
	Exhibit 12.4
	Exhibit 13.3
	Exhibit 13.4
	Exhibit 15.2

Explanatory Note

The sole purpose of this amendment to Diageo plc's Annual Report on Form 20-F for the year ended 30 June 2007 is to amend the consolidated financial statements that were originally approved on 29 August 2007 to include an unreserved and explicit statement of compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as well as to include a re-issued audit report on the consolidated financial statements that includes an opinion on compliance with IFRS as issued by the IASB.

In its Form 20-F filed on 17 September 2007 Diageo plc stated in the 'basis of preparation' note that it prepared its consolidated financial statements in accordance with IFRS as endorsed and adopted for use in the European Union (EU). The company stated in Note 35 to its consolidated financial statements that it had prepared its consolidated financial statements in accordance with IFRS as adopted by the EU and that the consolidated financial statements would have been no different had the group applied IFRS as issued by the IASB.

The amendment to Item 18 revises the 'basis of preparation' portion of the accounting policies of the Group to provide an unreserved and explicit statement of compliance with IFRS as issued by the IASB and also revises Note 35 to give an unreserved and explicit statement as to compliance with IFRS as issued by the IASB. A re-issued audit report dated 29 August 2007 is also included whereby KPMG Audit Plc have opined as to compliance with IFRS as issued by the IASB, as stated therein.

Material information as to events occurring subsequent to 29 August 2007 is disclosed in Diageo plc's current reports on Form 6-K dated 5 March 2008, which are incorporated by reference herein.

Diageo plc is including certain mandatory certifications of the chief executive officer and the chief financial officer, which are included as Exhibits.

This amendment amends 'Item 18 Financial Statements' and 'Item 19 Exhibits'.

Other than as expressly set forth above, this Form 20-F/A does not, and does not purport to, amend, update or restate the information in any other Item of the Form 20-F filed on 17 September 2007 or reflect any events that have occurred after the Form 20-F was filed.

The consolidated financial statements are prepared in accordance with IFRS as endorsed and adopted for use in the EU and IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU and IFRS as issued by the IASB.

Contents Consolidated financial statements
Year ended 30 June 2007

4	Report of independent registered public accounting firm
5	Consolidated income statement
6	Consolidated statement of recognised income and expense
7	Consolidated balance sheet
8	Consolidated cash flow statement
9	Accounting policies of the group
15	Notes to the consolidated financial statements
100	Principal group companies

Report of independent registered public accounting firm

The Board of Directors and Shareholders of Diageo plc.

We have audited the accompanying consolidated balance sheets of Diageo plc and subsidiaries as of 30 June 2007 and 30 June 2006, and the related consolidated income statements, consolidated statements of recognised income and expense, and consolidated cash flow statements for each of the years in the three year period ended 30 June 2007. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the financial position of Diageo plc and subsidiaries as of 30 June 2007 and 30 June 2006 and the results of their operations and their cash flows for each of the years in the three year period ended 30 June 2007 in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRS as issued by the International Accounting Standards Board (IASB).

As identified in the accounting policies of the group in the consolidated financial statements, the company has changed its method of accounting for certain financial instruments with effect from 1 July 2005.

IFRS as adopted by the European Union and IFRS as issued by the IASB vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 35 to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Diageo plc's internal control over financial reporting as of 30 June 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated 29 August 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG Audit Plc
Chartered Accountants

London, England
29 August 2007

Consolidated income statement

	Notes	Year ended 30 June 2007	Year ended 30 June 2006	Year ended 30 June 2005
		£ million	£ million	£ million
Sales	2	**9,917**	9,704	8,968
Excise duties	3	**(2,436)**	(2,444)	(2,291)
Net sales		**7,481**	7,260	6,677
Cost of sales	3,5	**(3,003)**	(2,921)	(2,632)
Gross profit		**4,478**	4,339	4,045
Marketing expenses	3	**(1,162)**	(1,127)	(1,013)
Other operating expenses	3,5	**(1,157)**	(1,168)	(1,301)
Operating profit	2	**2,159**	2,044	1,731
Sale of General Mills and other businesses	5	**(1)**	157	214
Interest receivable	6	**111**	51	121
Interest payable	6	**(362)**	(244)	(271)
Other finance income	6	**55**	24	26
Other finance charges	6	**(16)**	(17)	(17)
Share of associates' profits after tax	7	**149**	131	121
Profit before taxation		**2,095**	2,146	1,925
Taxation	8	**(678)**	(181)	(599)
Profit from continuing operations		**1,417**	1,965	1,326
Discontinued operations	9	**139**		73
Profit for the year		**1,556**	1,965	1,399
Attributable to:				
Equity shareholders of the parent company		**1,489**	1,908	1,344
Minority interests		**67**	57	55
		1,556	1,965	1,399
Basic earnings per share	10			
Continuing operations		**50.2p**	67.2p	42.8p
Discontinued operations		**5.2p**		2.4p
		55.4p	67.2p	45.2p
Diluted earnings per share	10			
Continuing operations		**49.9p**	66.9p	42.8p
Discontinued operations		**5.1p**		2.4p
		55.0p	66.9p	45.2p
Average shares		**2,688m**	2,841m	2,972m

	Notes	Year ended 30 June 2007	Year ended 30 June 2006	Year ended 30 June 2005

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of recognised income and expense

	Year ended 30 June 2007	Year ended 30 June 2006	Year ended 30 June 2005
	£ million	£ million	£ million
Exchange differences on translation of foreign operations excluding borrowings	**(269)**	(76)	116
Exchange differences on borrowings and derivative net investment hedges	**199**	52	
Effective portion of changes in fair value of cash flow hedges			
gains taken to equity	**28**	39	
transferred to income statement	**35**	4	
Fair value movement on available for sale securities		(148)	
Actuarial gains/(losses) on post employment plans	**328**	459	(238)
Tax on items taken directly to equity	**(99)**	(97)	33
Net income/(expense) recognised directly in equity	**222**	233	(89)
Profit for the year	**1,556**	1,965	1,399
Total recognised income and expense for the year	**1,778**	2,198	1,310
Attributable to:			
Equity shareholders of the parent company	**1,719**	2,146	1,250
Minority interests	**59**	52	60
Total recognised income and expense for the year	**1,778**	2,198	1,310

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated balance sheet

	Notes	30 June 2007		30 June 2006	
		£ million	£ million	£ million	£ million
Non-current assets					
Intangible assets	11	**4,383**		4,534	
Property, plant and equipment	12	**1,932**		1,952	
Biological assets	13	**12**		13	
Investments in associates	14	**1,436**		1,341	
Other investments	16	**128**		69	
Other receivables	18	**17**		12	
Other financial assets	21	**52**		42	
Deferred tax assets	25	**771**		1,113	
Post employment benefit assets	4	**38**		14	
			8,769		9,090
Current assets					
Inventories	17	**2,465**		2,386	
Trade and other receivables	18	**1,759**		1,681	
Other financial assets	21	**78**		71	
Cash and cash equivalents	19	**885**		699	
			5,187		4,837
Total assets			**13,956**		13,927
Current liabilities					
Borrowings and bank overdrafts	20	**(1,535)**		(759)	
Other financial liabilities	21	**(43)**		(36)	
Trade and other payables	23	**(1,888)**		(1,803)	
Corporate tax payable	8	**(673)**		(681)	
Provisions	24	**(60)**		(56)	
			(4,199)		(3,335)
Non-current liabilities					
Borrowings	20	**(4,132)**		(4,001)	
Other financial liabilities	21	**(104)**		(78)	
Other payables	23	**(38)**		(37)	
Provisions	24	**(274)**		(306)	
Deferred tax liabilities	25	**(582)**		(674)	
Post employment benefit liabilities	4	**(457)**		(815)	
			(5,587)		(5,911)
Total liabilities			**(9,786)**		(9,246)
Net assets			**4,170**		4,681
Equity					
Called up share capital		**848**		883	
Share premium		**1,341**		1,340	
Other reserves		**3,186**		3,168	
Retained deficit		**(1,403)**		(889)	

	Notes	30 June 2007	30 June 2006
Equity attributable to equity shareholders of the parent company		**3,972**	4,502
Minority interests		**198**	179
Total equity	26	**4,170**	4,681

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved by a duly appointed and authorised committee of the board of directors on 29 August 2007 and were signed on its behalf by PS Walsh and NC Rose, directors.

Consolidated cash flow statement

	Notes	Year ended 30 June 2007		Year ended 30 June 2006		Year ended 30 June 2005	
		£ million	£ million	£ million	£ million	£ million	£ million
Cash flows from operating activities							
Profit for the year		**1,556**		1,965		1,399	
Discontinued operations		**(139)**				(73)	
Taxation		**678**		181		599	
Share of associates' profits after tax		**(149)**		(131)		(121)	
Net interest and other net finance income		**212**		186		141	
Losses/(gains) on disposal of businesses		**1**		(157)		(214)	
Depreciation and amortisation		**210**		214		241	
Movements in working capital		**(180)**		(192)		89	
Dividend income and other items	27	**83**		133		212	
Cash generated from operations			**2,272**		2,199		2,273
Interest received			**42**		64		146
Interest paid			**(279)**		(235)		(325)
Dividends paid to equity minority interests			**(41)**		(40)		(49)
Taxation paid			**(368)**		(393)		(320)
Net cash from operating activities			**1,626**		1,595		1,725
Cash flows from investing activities							
Disposal of property, plant and equipment		**69**		16		18	
Purchase of property, plant and equipment		**(274)**		(257)		(294)	
Net (purchase)/disposal of other investments		**(6)**		7		(6)	
Payment into escrow in respect of the UK pension fund		**(50)**					
Disposal of businesses	28	**4**		772		1,194	
Purchase of businesses	29	**(70)**		(209)		(258)	
Net cash (outflow)/inflow from investing activities			**(327)**		329		654
Cash flows from financing activities							
Proceeds from issue of share capital		**1**		3		6	
Net purchase of own shares for share schemes		**(25)**		(32)		(29)	
Own shares repurchased		**(1,405)**		(1,407)		(710)	
Net increase/(decrease) in loans		**1,226**		309		(379)	
Redemption of guaranteed preferred securities						(302)	
Equity dividends paid		**(858)**		(864)		(849)	
Net cash used in financing activities			**(1,061)**		(1,991)		(2,263)
Net increase/(decrease) in net cash and cash equivalents			**238**		(67)		116
Exchange differences			**(50)**		(11)		(55)
Net cash and cash equivalents at beginning of the year			**651**		729		668
Net cash and cash equivalents at end of the year			**839**		651		729

	Notes	Year ended 30 June 2007	Year ended 30 June 2006	Year ended 30 June 2005
Net cash and cash equivalents consist of:				
Cash and cash equivalents	19	**885**	699	787
Bank overdrafts	20	**(46)**	(48)	(58)
		839	651	729

The accompanying notes are an integral part of these consolidated financial statements.

Accounting policies of the group

Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use in the European Union (EU) and IFRS as issued by the International Accounting Standards Board (IASB). References to IFRS hereafter should be construed as references to both IFRS as adopted by the EU and IFRS as issued by the IASB.

The consolidated financial statements are prepared on a going concern basis under the historical cost convention, except that biological assets and certain financial instruments are stated at their fair value.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The critical accounting policies, which the directors consider are of greater complexity and/or particularly subject to the exercise of judgement, are set out with related disclosures in 'Critical accounting policies' in the Business review section of this Annual Report.

Business combinations

The consolidated financial statements include the results of the company and its subsidiaries together with the group's attributable share of the results of associates and joint ventures. The results of subsidiaries sold or acquired are included in the income statement up to, or from, the date that control passes.

On the acquisition of a business, or of an interest in an associate or joint venture, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets including identifiable intangible assets acquired. Adjustments to fair values include those made to bring accounting policies into line with those of the group.

Sales

Sales comprise revenue from the sale of goods, royalties receivable and rents receivable. Revenue from the sale of goods includes excise and import duties which the group pays as principal but excludes amounts collected on behalf of third parties, such as value added tax. Sales are recognised depending upon individual customer terms at the time of despatch, delivery or some other specified point when the risk of loss transfers. Provision is made for returns where appropriate. Sales are stated net of price discounts, allowances for customer loyalty and certain promotional activities and similar items.

Advertising

Advertising production costs are charged in the income statement when the advertisement is first shown to the public.

Research and development

Research expenditure in respect of new drinks products and package design is written off in the period in which it is incurred. Any subsequent development expenditure in the period leading up to product launch that meets the recognition criteria set out in the relevant standard is capitalised. If capitalised, any intangible asset is amortised on a straight-line basis over the period of the expected benefit.

Accounting policies of the group (continued)

Share-based payments employee benefits

The fair value of equity-settled share options granted is initially measured at grant date based on the binomial or Monte Carlo models and is charged in the income statement over the vesting period.

Shares of Diageo plc held by the company for the purpose of fulfilling obligations in respect of various employee share plans around the group are deducted from equity in the consolidated balance sheet. Any surplus or deficit arising on the sale of the Diageo plc shares held by the group is included as an adjustment to reserves.

Pensions and other post employment benefits

The group's principal pension funds are defined benefit plans. In addition the group has defined contribution plans, unfunded post employment medical benefit liabilities and other unfunded defined benefit post employment liabilities. For defined benefit plans, the amount charged in the income statement is the cost of accruing pension benefits promised to employees over the year, plus any fully vested benefit improvements granted to members by the group during the year. It also includes a credit equivalent to the group's expected return on the pension plans' assets over the year, offset by a charge equal to the expected increase in the plans' liabilities over the year. The difference between the fair value of the plans' assets and the present value of the plans' liabilities is disclosed as an asset or liability on the consolidated balance sheet. Any differences between the expected return on assets and that actually achieved, and any changes in the liabilities over the year due to changes in assumptions or experience within the plans, are recognised in the statement of recognised income and expense.

Contributions payable by the group in respect of defined contribution plans are charged to operating profit as incurred.

Exceptional items

Exceptional items are those that in management's judgement need to be disclosed by virtue of their size or incidence. Such items are included within the income statement caption to which they relate, and are separately disclosed either in the notes to the consolidated financial statements or on the face of the consolidated income statement.

Foreign currencies

Items included in the financial statements of the group's subsidiaries, associates and joint ventures are measured using the currency of the primary economic environment in which each entity operates (its functional currency). The consolidated financial statements are presented in sterling, which is the functional currency of the parent company.

The income statements and cash flows of overseas entities are translated into sterling at weighted average rates of exchange, other than substantial transactions that are translated at the rate on the date of the transaction. The adjustment to closing rates is taken to reserves.

Balance sheets are translated at closing rates. Exchange differences arising on the re-translation at closing rates of the opening balance sheets of overseas entities are taken to reserves, as are exchange differences arising on related foreign currency borrowings and financial instruments designated as net investment hedges, to the extent that they are effective. Tax charges and credits arising on such items are also taken to reserves. Other exchange differences are taken to the income statement.

The results, assets and liabilities of operations in hyper-inflationary economies are adjusted to reflect the changes in the purchasing power of the local market currency of the entity.

Accounting policies of the group (continued)

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. If hedged forward, the impact of hedging is recognised, where permitted, under hedge accounting (refer to accounting policy for derivative financial instruments).

Brands, goodwill and other intangible assets

When the cost of an acquisition exceeds the fair values attributable to the group's share of the net assets acquired, the difference is treated as purchased goodwill. Goodwill arising on acquisitions prior to 1 July 1998 was eliminated against reserves, and this goodwill has not been restated. Goodwill arising subsequent to 1 July 1998 has been capitalised.

Acquired brands and other intangible assets are recognised when they are controlled through contractual or other legal rights, or are separable from the rest of the business, and the fair value can be reliably measured.

Goodwill and intangible assets that are regarded as having indefinite useful economic lives are not amortised. Intangible assets that are regarded as having limited useful economic lives are amortised on a straight-line basis over those lives. Assets with indefinite lives are reviewed for impairment annually and other assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. To ensure that goodwill and intangible assets are not carried at above their recoverable amounts, impairment reviews are carried out comparing the net carrying value with the recoverable amount, where the recoverable amount is the higher of value in use or fair value less cost to sell. Amortisation and any impairment write downs are charged in the income statement.

Computer software is amortised on a straight-line basis to estimated residual value over its expected useful life, expected to be up to five years. Residual values and useful lives are reviewed each year.

Property, plant and equipment

Land and buildings are stated at cost less depreciation. Freehold land is not depreciated. Leaseholds are depreciated over the unexpired period of the lease. Other property, plant and equipment are depreciated on a straight-line basis to estimated residual values over their expected useful lives, and these values and lives are reviewed each year. Subject to these reviews, the estimated useful lives fall within the following ranges: industrial and other buildings 10 to 50 years; plant and machinery 5 to 25 years; fixtures and fittings 5 to 10 years; and casks and containers 15 to 20 years.

Reviews are carried out if there is some indication that impairment may have occurred, to ensure that property, plant and equipment are not carried at above their recoverable amounts.

Leases

Where the group has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Other leases are treated as operating leases, with payments and receipts taken to the income statement on a straight-line basis over the life of the lease.

Agriculture

Grape cultivation by the group's wine business is accounted for as an agricultural activity. Accordingly the group's biological assets (grape vines) are carried at fair value which is computed on the basis of a discounted cash flow computation. Agricultural produce (harvested grapes) is valued at market value on transfer into inventory.

Accounting policies of the group (continued)

Associates and joint ventures

An associate is an undertaking in which the group has a long-term equity interest and over which it has the power to exercise significant influence. The group's interest in the net assets of associates is included in investments in the consolidated balance sheet and its interest in their results is included in the income statement below the group's operating profit. Joint ventures, where there is contractual joint control over the entity, are accounted for by including on a line-by-line basis the attributable share of the results, assets and liabilities.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, an appropriate proportion of production and other overheads, but not borrowing costs. Cost is calculated on an actual usage basis for maturing inventories and on a first in, first out basis for other inventories.

Financial assets

Trade receivables Trade receivables are non-interest bearing and are stated at their nominal amount that is usually the original invoiced amount less provisions made for bad and doubtful receivables. Estimated irrecoverable amounts are based on the ageing of the receivable balances and historical experience. Individual trade receivables are written off when management deems them not to be collectable.

Cash and cash equivalents Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less at acquisition, including money market deposits, commercial paper and investments.

Financial liabilities

Borrowings Borrowings are initially measured at cost (which is equal to fair value at inception), and are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised over the term of the borrowings using the effective interest rate method. The fair value adjustments for all loans designated as hedged items in a fair value hedge are shown separately as a net figure.

Trade payables Trade payables are non-interest bearing and are stated at their nominal value.

Derivative financial instruments

The group uses derivative financial instruments to hedge its exposures to fluctuations in interest and exchange rates. The derivative instruments used by Diageo consist mainly of currency forwards, foreign currency swaps, interest rate swaps and cross currency interest rate swaps.

From 1 July 2005, derivative financial instruments are recognised in the balance sheet at fair value that is calculated using discounted cash flow techniques or option pricing models (such as Black Scholes) consistently for similar types of instruments. Both techniques take into consideration assumptions based on market data. Changes in the fair value of derivatives that do not qualify for hedge accounting treatment are charged or credited in the income statement.

Accounting policies of the group (continued)

The purpose of hedge accounting is to mitigate the impact of potential volatility in the income statement of the group of changes in exchange or interest rates or commodity prices, by matching the impact of the hedged item and the hedging instrument in the income statement. 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. At the inception of the transaction, the group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The group 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, effective in offsetting changes in fair value or cash flows of hedged items.

Diageo 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); (b) a hedge of a forecast transaction or the cash flow risk from a change in interest rates or exchange rates (cash flow hedge); or (c) a hedge of a net investment in foreign operations.

The method of recognising the resulting gains or losses from movements in fair values is dependent on whether the derivative contract is designated to hedge a specific risk and qualifies for hedge accounting.

Derivative financial instruments are used to manage the currency and/or interest rate risks to which the fair value of certain assets and liabilities are exposed. From 1 July 2005, changes in the fair value of derivatives that are fair value hedges are recognised in the income statement, along with any changes in the relevant fair value of the underlying hedged asset or liability that is attributable to the hedged risk. If such a hedge relationship is de-designated, fair value movements on the derivative continue to be taken to the income statement while any fair value adjustments made to the underlying hedged item to that date are amortised through the income statement over its remaining life.

Derivative financial instruments are used to hedge the currency risk of highly probable future foreign currency cash flows, as well as the cash flow risk from changes in interest rates and exchange rates. From 1 July 2005, the effective part of the changes in fair value of cash flow hedges is recognised in the statement of recognised income and expense, while any ineffective part is recognised immediately in the income statement. Amounts recorded in the statement of recognised income and expense are transferred to the income statement in the same period in which the underlying interest or foreign exchange exposure affects the income statement.

Net investment hedges take the form of either foreign currency borrowings or derivatives. All foreign exchange gains or losses arising on translation of net investments are recorded in the statement of recognised income and expense and included in cumulative translation differences. Liabilities used as hedging instruments in a net investment hedge are revalued at closing exchange rates. The resulting gains or losses are taken to the statement of recognised income and expense to the extent that they are effective, with any ineffectiveness recognised in the income statement. Foreign exchange contracts hedging net investments in overseas businesses are revalued at fair value. Effective fair value movements are taken to the statement of recognised income and expense, with any ineffectiveness recognised in the income statement.

Accounting policies of the group (continued)

Year ended 30 June 2005 Financial instruments in the year ended 30 June 2005 remain recorded in accordance with the previous UK GAAP accounting policies as follows.

Instruments accounted for as hedges were structured so as to reduce the market risk associated with the underlying transaction being hedged and were designated as a hedge at the inception of the contract. If the underlying transaction to a hedge ceased to exist, the hedge was terminated and the profit or loss was recognised immediately. If the hedge transaction was terminated, the profit or loss was held in the balance sheet and amortised over the life of the original underlying transaction.

Receipts and payments on interest rate instruments were recognised on an accruals basis over the life of the instrument. Foreign exchange contracts hedging net investments in overseas businesses were revalued at closing rates and exchange differences arising were taken to reserves. Gains and losses on contracts hedging forecast transactional cash flows, and on option instruments hedging the sterling value of foreign currency denominated income, were recognised in the hedged periods.

Cash flows associated with derivative financial instruments were classified in the cash flow statement in a manner consistent with those of the transactions being hedged. Finance costs associated with debt issuances were charged to the profit and loss account over the life of the issue.

The cumulative adjustment from UK GAAP to IFRS has been reflected in the consolidated balance sheet at 1 July 2005.

Taxation

Current tax payable is based on taxable profit for the year. This requires an estimation of the current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments.

Full provision for deferred tax is made for temporary differences between the carrying value of assets and liabilities in the consolidated financial statements and their tax bases. The amount of deferred tax reflects the expected recoverable amount and is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future. No deferred tax liability is provided in respect of any future remittance of earnings of foreign subsidiaries where the group is able to control the remittance of earnings and it is probable that such earnings will not be remitted in the foreseeable future, or where no liability would arise on the remittance.

Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. Any interest and penalties on tax liabilities are provided for in the tax charge.

Discontinued operations

Disposal groups are classified as discontinued operations where they represent a major line of business or geographical area of operations.

Notes to the consolidated financial statements

1 New accounting policies

The following interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), are effective for the first time in the current financial year and have been adopted by the group with no significant impact on its consolidated results or financial position:

IFRIC 4 Determining whether an arrangement contains a lease (effective for annual periods beginning on or after 1 January 2006).

IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds (effective for annual periods beginning on or after 1 January 2006).

IFRIC 6 Liabilities arising from participating in a specific market: waste electrical and electronic equipment (effective for annual periods beginning on or after 1 December 2005).

IFRIC 7 Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies (effective for annual periods beginning on or after 1 March 2006).

IFRIC 8 Scope of IFRS 2 Accounting for share-based payments (effective for annual periods beginning on or after 1 May 2006).

IFRIC 9 Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006).

In August 2005, the International Accounting Standards Board (IASB) issued *IFRS 7 Financial instruments: disclosures*, which contained new regulations concerning the disclosure of financial instruments. IFRS 7 replaces the disclosure regulations of *IAS 32 Financial instruments: disclosure and presentation* and must be applied to reporting periods that commence on or after 1 January 2007. Diageo adopted IFRS 7 early in its 2006 financial statements and applied the exemptions under IFRS 1, IFRS 7 and IAS 32 not to restate comparative information in respect of IFRS 7, IAS 32 and *IAS 39 Financial instruments: recognition and measurement*. As a consequence, financial instruments are included in the 2005 comparative information in accordance with UK GAAP, whereas they are accounted for in accordance with IAS 39 in the 2006 and 2007 results. In accordance with the transitional provisions of IFRS, this was treated as a change in accounting policy. The accounting policies for financial instruments under IAS 39 and, for the year ended 30 June 2005, under UK GAAP are detailed in 'Accounting policies of the group'. The adjustments made to net assets as a result of adopting IAS 39 on 1 July 2005 are detailed in note 34. If the group had not taken this exemption, a number of financial instruments would have been recognised or revalued in the opening balance sheet at 1 July 2004 and accounted for under IAS 39 during the year ended 30 June 2005.

The following standards and interpretations, issued by the IASB or IFRIC, have not yet been adopted by the group:

Amendment to IAS 1 Presentation of financial statements: capital disclosures (effective for annual periods beginning on or after 1 January 2007).

Amendment to IAS 23 Borrowing costs (effective for annual periods beginning on or after 1 January 2009).

IFRS 8 Operating segments (effective for annual periods beginning on or after 1 January 2009).

IFRIC 11 Group and treasury share transactions (effective for annual periods beginning on or after 1 March 2007).

IFRIC 12 Service concession arrangements (effective for annual periods beginning on or after 1 January 2008).

Notes to the consolidated financial statements (continued)

1 New accounting policies (continued)

IFRIC 13 Customer loyalty programmes (effective for annual periods beginning on or after 1 July 2008).

IFRIC 14 IAS 19: The limit on a defined benefit asset, minimum funding requirements and their interaction (effective for annual periods beginning on or after 1 January 2008).

The amendment to IAS 1 requires additional disclosures on the objectives, policies and processes for managing capital. Appropriate additional disclosures will be included in the 2008 Annual Report.

The amendment to IAS 23 generally eliminates the option to expense borrowing costs attributable to the acquisition, construction or production of a qualifying asset as incurred, and instead requires the capitalisation of such borrowing costs as part of the cost of specific assets. The group is currently assessing the impact of the amendment on the results and net assets of the group.

IFRS 8 contains requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The standard is concerned only with disclosure and replaces *IAS 14 Segment reporting*. The group is currently assessing the impact this standard would have on the presentation of its consolidated results.

The group does not currently believe the adoption of the interpretations would have a material impact on the consolidated results or financial position of the group reported in these financial statements.

2 Segmental information

Continuing operations Diageo is an international manufacturer and distributor of premium drinks. The group produces, markets and distributes a wide range of premium brands, including Smirnoff vodka, Johnnie Walker scotch whiskies, Guinness stout, Baileys Original Irish Cream liqueur, Captain Morgan rum, J&B scotch whisky and Tanqueray gin. In addition, Diageo also owns the distribution rights for the José Cuervo tequila brands in the United States and other countries.

Diageo also owns a number of investments in unconsolidated associates, the principal investment being a 34% interest in Moët Hennessy, the spirits and wines subsidiary of LVMH Moët Hennessy Louis Vuitton SA. Moët Hennessy is based in France and is a leading producer and exporter of champagne and cognac.

Following the reorganisation in January 2007 of the way in which the business is managed, continuing operations now comprise the following segments: Diageo North America (United States and Canada), Diageo Europe (all European countries and territories including Russia), Diageo International (Africa, Latin America, Caribbean, Global Travel and Middle East), Diageo Asia Pacific (Greater China, India, Japan, Korea, South East Asia and Australia), Moët Hennessy and Corporate and other. The comparative information for prior years has been restated to reflect the current organisation.

Corporate revenues and costs are in respect of central costs, including finance, human resources and legal, as well as certain information system, service centre, facilities and employee costs that are not directly allocated to the geographical operating units. They also include the revenues and costs related to rents receivable in respect of properties not used by Diageo in the manufacture, sale or distribution of premium drinks, exchange movements on short term intercompany balances and the results of Gleneagles Hotel.

Notes to the consolidated financial statements (continued)

2 Segmental information (continued)

Discontinued operations Included within discontinued operations are transactions relating to the disposal of the group's quick service restaurants business (Burger King, sold on 13 December 2002), and to the disposal of the group's packaged food business (Pillsbury, sold on 31 October 2001).

In the year ended 30 June 2007, a tax benefit of £82 million arose from the recognition of capital losses arising on the prior year disposals of the Pillsbury and Burger King businesses. In addition, a tax credit of £57 million arose following resolution with tax authorities of various audit issues (2005 £20 million tax credit in respect of the Pillsbury disposal).

In the year ended 30 June 2005, a gain of £53 million arose from the release of provisions held by Diageo as a result of the refinancing of Burger King on a stand-alone basis. In connection with the disposal of Burger King, Diageo guaranteed up to $850 million (£459 million) of Burger King's external borrowings. On 13 July 2005, Burger King refinanced its external borrowings on a stand-alone basis, releasing Diageo from its obligations under guarantees relating to that debt, and repaid in full the subordinated debt and associated interest owed to Diageo.

Notes to the consolidated financial statements (continued)

(i) Segmental information Continuing operations

	North America	Europe	International	Asia Pacific	Moët Hennessy	Corporate and other	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
2007							
Sales	**2,915**	**3,765**	**2,031**	**1,131**		**75**	**9,917**
Operating profit/(loss) before exceptional items	**850**	**723**	**499**	**196**		**(149)**	**2,119**
Exceptional items credited to operating profit						**40**	**40**
Operating profit/(loss)	**850**	**723**	**499**	**196**		**(109)**	**2,159**
Sale of investments and businesses			**1**			**(2)**	**(1)**
Share of associates' profits after tax		**5**	**7**	**1**	**136**		**149**
Profit/(loss) before interest, net finance income and tax	**850**	**728**	**507**	**197**	**136**	**(111)**	**2,307**
Depreciation	**(30)**	**(83)**	**(39)**	**(23)**		**(6)**	**(181)**
Intangible asset amortisation	**(7)**	**(15)**	**(1)**	**(3)**		**(3)**	**(29)**
Capital expenditure on segment assets	**19**	**63**	**53**	**20**		**170**	**325**
Segment assets	**832**	**1,041**	**789**	**369**		**312**	**3,343**
Investments in associates	**10**	**22**	**19**	**37**	**1,348**		**1,436**
Unallocated assets						**9,177**	**9,177**
Total assets	**842**	**1,063**	**808**	**406**	**1,348**	**9,489**	**13,956**
Segment liabilities	**262**	**616**	**244**	**130**		**425**	**1,677**
Unallocated liabilities						**8,109**	**8,109**
Total liabilities	**262**	**616**	**244**	**130**		**8,534**	**9,786**
2006							
Sales	2,968	3,834	1,784	1,042		76	9,704
Operating profit/(loss)	829	737	445	199		(166)	2,044
Sale of investments and businesses		1				156	157
Share of associates' profits after tax		5	4		122		131
Profit/(loss) before interest, net finance income and tax	829	743	449	199	122	(10)	2,332
Depreciation	(31)	(85)	(48)	(17)		(5)	(186)
Intangible asset amortisation	(8)	(14)	(1)	(3)		(2)	(28)
Capital expenditure on segment assets	28	246	61	17		111	463
Segment assets	872	1,171	770	350		238	3,401
Investments in associates		19	19		1,303		1,341
Unallocated assets						9,185	9,185
Total assets	872	1,190	789	350	1,303	9,423	13,927
Segment liabilities	260	628	218	118		440	1,664
Unallocated liabilities						7,582	7,582

	North America	Europe	Inter-national	Asia Pacific	Moët Hennessy	Corporate and other	Total
Total liabilities	260	628	218	118		8,022	9,246

18

Notes to the consolidated financial statements (continued)

(i) Segmental information Continuing operations (continued)

2005							
Sales	2,622	3,860	1,552	872		62	8,968
Operating profit/(loss) before exceptional items	779	702	427	188		(164)	1,932
Exceptional items (charged)/credited to operating profit	(30)	(26)	4			(149)	(201)
Operating profit/(loss)	749	676	431	188		(313)	1,731
Sale of investments and businesses	2	(8)		(1)		221	214
Share of associates' profits after tax		3	5		113		121
Profit/(loss) before interest, net finance income and tax	751	671	436	187	113	(92)	2,066
Depreciation	(44)	(79)	(34)	(15)		(6)	(178)
Exceptional accelerated depreciation		(29)					(29)
Intangible asset amortisation	(7)	(16)	(3)	(3)			(29)
Goodwill impairment charge		(5)					(5)
Capital expenditure on segment assets	136	140	93	24		123	516
Segment assets	872	1,055	779	324		373	3,403
Investments in associates		19	22		1,220		1,261
Unallocated assets						9,257	9,257
Total assets	872	1,074	801	324	1,220	9,630	13,921
Segment liabilities	257	660	240	103		502	1,762
Unallocated liabilities						7,533	7,533
Total liabilities	257	660	240	103		8,035	9,295

(a) The segmental analysis of sales and operating profit/(loss) is based on the location of the third party customers.

(b) The group interest expense is managed centrally and is not attributable to individual activities.

(c) Segmental information for the 'Corporate and other' segment, which includes unallocated assets and liabilities, is as follows:

Sales, operating profit/(loss), profit/(loss) before interest, net finance income and tax, depreciation and amortisation comprise central items not readily allocable to the group's operating segments.

The operating loss of £109 million (2006 £166 million; 2005 £313 million) includes an exceptional credit of £40 million in respect of the sale of the site of the former brewery at Park Royal (2006 £nil; 2005 exceptional charge of £149 million in respect of the commitment for payments to the Thalidomide Trust).

The loss on sale of investments and businesses of £2 million (2006 gain of £156 million; 2005 gain of £221 million) includes £nil (2006 £151 million; 2005 £221 million) from the sale of General Mills shares.

Notes to the consolidated financial statements (continued)

(i) Segmental information Continuing operations (continued)

Capital expenditure on segment assets of £170 million (2006 £111 million; 2005 £123 million) includes expenditure on intangible assets and property, plant and equipment of £138 million (2006 £109 million; 2005 £117 million) in respect of unallocated assets relating to the worldwide supply of product which is not readily allocable to the group's operating segments.

Segment assets of £312 million (2006 £238 million; 2005 £373 million) comprise: property, plant and equipment of £80 million (2006 £64 million; 2005 £108 million); inventories of £61 million (2006 £15 million; 2005 £nil); and other assets of £171 million (2006 £159 million; 2005 £265 million).

Unallocated assets of £9,177 million (2006 £9,185 million; 2005 £9,257 million) comprise: brands of £4,085 million (2006 £4,283 million; 2005 £4,176 million); property, plant and equipment of £1,144 million (2006 £1,114 million; 2005 £1,149 million); the net investment in General Mills of £nil (2006 £nil; 2005 £508 million); maturing inventories of £1,582 million (2006 £1,483 million; 2005 £1,410 million); cash and cash equivalents of £885 million (2006 £699 million; 2005 £787 million); and other assets of £1,481 million (2006 £1,606 million; 2005 £1,227 million). Brands that are capitalised in the balance sheet are sold throughout the world and are not readily allocable to North America, Europe, International and Asia Pacific. Property, plant and equipment, maturing inventories and other assets classified as unallocated are principally located in Scotland and are not readily allocable to the group's operating segments.

Segment liabilities of £425 million (2006 £440 million; 2005 £502 million) comprise trade and other payables of £258 million (2006 £270 million; 2005 £320 million) and provisions of £167 million (2006 £170 million; 2005 £182 million).

Unallocated liabilities of £8,109 million (2006 £7,582 million; 2005 £7,533 million) comprise: external borrowings of £5,667 million (2006 £4,760 million; 2005 £4,546 million); corporate tax payable of £673 million (2006 £681 million; 2005 £777 million); post employment benefit liabilities of £457 million (2006 £815 million; 2005 £1,306 million); and other liabilities of £1,312 million (2006 £1,326 million; 2005 £904 million).

(d)

The weighted average exchange rates used in the translation of income statements were US dollar £1 = $1.93 (2006 £1 = $1.78; 2005 £1 = $1.86) and euro £1 = €1.48 (2006 £1 = €1.46; 2005 £1 = €1.46). Exchange rates used to translate assets and liabilities at the balance sheet date were US dollar £1 = $2.01 (2006 £1 = $1.85; 2005 £1 = $1.79) and euro £1 = €1.48 (2006 £1 = €1.45; 2005 £1 = €1.48). The group uses foreign exchange transaction hedges to mitigate the effect of exchange rate movements.

Notes to the consolidated financial statements (continued)

(ii) Geographical information

	Great Britain	Rest of Europe	North America	Asia Pacific	Latin America	Rest of World	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
2007							
Sales	**1,470**	**2,442**	**2,958**	**1,179**	**813**	**1,055**	**9,917**
Long-lived assets	**2,070**	**614**	**2,551**	**675**	**54**	**363**	**6,327**
Segment assets	**468**	**895**	**813**	**371**	**182**	**614**	**3,343**
Capital expenditure on segment assets	**131**	**53**	**59**	**22**	**9**	**51**	**325**
2006							
Sales	1,549	2,428	2,999	1,085	671	972	9,704
Long-lived assets	1,975	652	2,782	704	54	332	6,499
Segment assets	711	775	807	347	168	593	3,401
Capital expenditure on segment assets	70	247	64	17	13	52	463
2005							
Sales	1,553	2,421	2,658	918	564	854	8,968
Long-lived assets	1,784	661	2,838	690	51	318	6,342
Segment assets	723	642	987	324	144	583	3,403
Capital expenditure on segment assets	83	152	158	24	8	91	516

(a)

The geographical analysis of sales is based on the location of the third party customers and an allocation of certain corporate items. Certain businesses, for internal management purposes, have been reported within the appropriate region in the geographical analysis above. Corporate sales of £75 million (2006 £76 million; 2005 £62 million) are included in Great Britain.

(b)

Long-lived assets comprise intangible assets and property, plant and equipment after amortisation and depreciation, respectively, and biological assets. Brands are included at net book value in the geographical regions in which the brands originated.

(c)

The geographical analysis of segment assets and related capital expenditure is based on the geographical location of the assets and excludes investments in associates and assets and capital expenditure which are not readily allocable to the group's operating segments.

(d)

Exports from the United Kingdom were £2,316 million (2006 £1,952 million; 2005 £1,898 million).

Notes to the consolidated financial statements (continued)

3 Operating costs

	2007	2006	2005
	£ million	£ million	£ million
Excise duties	**2,436**	2,444	2,291
Cost of sales	**3,003**	2,921	2,632
Marketing expenses	**1,162**	1,127	1,013
Other operating expenses	**1,157**	1,168	1,301
	7,758	7,660	7,237
Comprising:			
Excise duties United States	**443**	457	428
Other	**1,993**	1,987	1,863
Change in inventories	**(65)**	(6)	(84)
Raw materials and consumables	**1,692**	1,729	1,545
Advertising, marketing and promotion	**1,162**	1,127	1,013
Other external charges	**1,345**	1,225	1,306
Staff costs (note 4)	**993**	952	884
Depreciation and other amounts written off non-current assets	**210**	214	241
(Gains)/losses on disposal of property	**(62)**	4	(7)
Net foreign exchange losses/(gains)	**55**	(22)	53
Other operating income	**(8)**	(7)	(5)
	7,758	7,660	7,237

(a)

Other external charges Other external charges include operating lease rentals for plant and equipment of £7 million (2006 £5 million; 2005 £6 million), other operating lease rentals (mainly properties) of £58 million (2006 £64 million; 2005 £70 million), research and development expenditure of £17 million (2006 £18 million; 2005 £16 million), and maintenance and repairs of £53 million (2006 £45 million; 2005 £51 million).

(b)

Exceptional operating costs In the year ended 30 June 2007, gains on disposal of property of £62 million include an exceptional operating gain of £40 million in respect of the sale of the site of the former brewery at Park Royal. There were no exceptional operating items in the year ended 30 June 2006. Exceptional operating costs for continuing operations in the year ended 30 June 2005 amounted to £201 million as follows: other external charges £172 million; staff costs £5 million, and amounts written off assets £31 million, offset by £7 million gains on disposal of property.

(c)

Auditor fees The fees of the principal auditor of the group, KPMG Audit Plc, and its affiliates were as follows:

	United Kingdom	Rest of World	2007	2006	2005
	£ million	£ million	£ million	£ million	£ million
Audit of these financial statements	**0.8**		**0.8**	0.9	0.8
Audit of financial statements of subsidiaries pursuant to legislation	**1.4**	**2.8**	**4.2**	2.9	2.9

	United Kingdom	Rest of World	2007	2006	2005
Other services pursuant to such legislation	**1.7**	**0.8**	**2.5**	3.2	1.8
Other services relevant to taxation	**0.2**	**0.8**	**1.0**	1.4	1.4
All other services	**0.6**	**0.5**	**1.1**	0.3	0.2
	4.7	**4.9**	**9.6**	8.7	7.1

Notes to the consolidated financial statements (continued)

3 Operating costs (continued)

For the year ended 30 June 2007, other services pursuant to such legislation relate principally to reporting required under section 404 of US Sarbanes-Oxley Act (2006 principally to advisory services in respect of Diageo's preparedness for Sarbanes-Oxley Act section 404). Other services relevant to taxation comprise principally tax compliance services and tax advice. All other services relate principally to advisory services in respect of due diligence, services in relation to acquisitions and disposals, and audit services in respect of employee pension funds and benefit plans of £0.3 million (2006 £0.3 million; 2005 £0.2 million).

Under SEC regulations, the auditor fees of £9.6 million (2006 £8.7 million; 2005 £7.1 million) are required to be presented as follows: audit £7.1 million (2006 £4.4 million; 2005 £4.1 million); other audit-related £1.1 million (2006 £2.6 million; 2005 £1.6 million); tax £1.0 million (2006 £1.4 million; 2005 £1.4 million); and all other fees £0.4 million (2006 £0.3 million; 2005 £nil).

In addition to the amounts above, £0.1 million (2006 £0.3 million; 2005 £0.2 million) was charged in relation to the audit by firms other than KPMG.

4 Employees

	2007	2006	2005
Average number of employees			
Full time	**22,086**	21,972	22,333
Part time	**434**	647	633
	22,520	22,619	22,966

	2007	2006	2005
	£ million	£ million	£ million
Aggregate remuneration			
Wages and salaries	**796**	761	708
Share-based incentive plans	**25**	26	28
Employer's social security	**68**	59	59
Employer's pension	**97**	99	84
Other post employment	**7**	7	5
	993	952	884

Of the charge to the consolidated income statement for the year ended 30 June 2007: in respect of post employment benefits, £43 million (2006 £45 million; 2005 £41 million) has been included in cost of sales and £61 million (2006 £61 million; 2005 £48 million) has been included in other operating expenses; and in respect of share-based incentive plans, £5 million (2006 £5 million; 2005 £6 million) has been included in cost of sales and £20 million (2006 £21 million; 2005 £22 million) has been included in other operating expenses.

Retirement benefits The group operates a number of pension plans throughout the world, devised in accordance with local conditions and practices.

Notes to the consolidated financial statements (continued)

4 Employees (continued)

The larger plans are generally of the defined benefit type and are funded by payments to separately administered funds or insurance companies. The principal plans are in the United Kingdom, Ireland, United States and Canada. All valuations were performed by independent actuaries using the projected unit method to determine pension costs. The most recent full valuations of the significant defined benefit pension plans were carried out as follows: United Kingdom on 31 March 2006; United States on 1 January 2007; and Ireland on 31 December 2006. The measurement dates used to calculate the disclosures in the consolidated financial statements are the respective balance sheet dates. In the United Kingdom, the Diageo Pension Scheme closed to new members in November 2005. New employees in the United Kingdom now become members of the Diageo Lifestyle Plan, which is also a defined benefit pension plan.

The assets of the principal pension plans are held in separate funds administered by trustees to meet long term pension liabilities to past and present employees. The trustees are required to act in the best interests of the plans' beneficiaries. The two largest pension plans are the Diageo Pension Scheme in the United Kingdom and the Guinness Ireland Pension Scheme in Ireland. For the Diageo Pension Scheme in the United Kingdom, the trustee is Diageo Pension Trust Limited. The appointment of the directors to the board is determined by the Scheme's trust documentation. There is a policy that one-third of all directors should be nominated by members of the Scheme. Two member nominated directors have recently been appointed from the pensioner member community and two from the active member community. For the Guinness Ireland Pension Scheme, the appointment of trustees is strictly a company decision. Currently the company makes three nominations and appoints three further candidates nominated by representative groupings. The chairman is a former employee of the company and is viewed as independent.

The group also operates a number of plans, primarily in the United States, which provide employees with post employment benefits in respect of medical costs. These plans are generally unfunded. In addition, there are a number of other plans which provide post employment benefits other than pensions and medical benefits. These plans are also included in the figures presented below.

(a) The following weighted average assumptions were used to determine the group's deficit/surplus in the main post employment plans at 30 June in the relevant year. The assumptions used to calculate the charge/credit in the consolidated income statement for the year to 30 June are based on the assumptions disclosed as at the previous 30 June.

	United Kingdom			**Ireland**			**United States**		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
	%	%	%	%	%	%	%	%	%
Rate of general increase in salaries	**4.2**	3.8	3.9	**4.2**	4.0	4.0	**3.3**	3.4	3.0
Rate of increase to pensions in payment	**3.3**	2.9	2.6	**2.3**	2.1	2.1			
Rate of increase to deferred pensions	**3.2**	2.8	2.5	**2.2**	2.0	2.1			
Medical inflation	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**10.0**	9.0	10.0
Discount rate for plan liabilities	**5.8**	5.2	4.9	**5.3**	4.8	4.0	**6.2**	6.3	5.0
Inflation	**3.2**	2.8	2.5	**2.2**	2.0	2.0	**2.3**	2.4	2.0

For the UK and US plans, there are, in addition to the above percentages, age related promotional salary increases. The 2007 assumption for medical inflation in the United States reduces by 0.5% per year to 5% (2006 and 2005 1% per year to 5%).

Notes to the consolidated financial statements (continued)

4 Employees (continued)

In assessing the group's post retirement liabilities, the mortality assumption for the largest plan (which is in the United Kingdom) is based on the mortality experience of that plan. This mortality experience analysis was carried out in 2006 as part of the triennial funding valuation of that plan. The assumption is based on the PA92 birth year tables with scaling factors based on the experience of the plan. The assumption also allows for future improvements in life expectancy in line with the medium cohort effect. The mortality assumptions for the other plans around the world are based on relevant standard mortality tables in each country.

For the main UK and Irish pension funds, the table below illustrates the expected age at death of an average worker who retires currently at the age of 65, and one who is currently aged 45 and subsequently retires at the age of 65:

	United Kingdom			**Ireland**		
	2007 Age	**2006 Age**	**2005 Age**	**2007 Age**	**2006 Age**	**2005 Age**
Retiring currently at age 65						
Male	**84.4**	84.3	83.5	**85.3**	84.0	84.0
Female	**87.1**	87.1	86.4	**87.9**	86.9	86.9
Currently aged 45, retiring at age 65						
Male	**86.7**	86.7	85.2	**87.1**	84.8	84.8
Female	**89.4**	89.4	88.1	**89.7**	87.8	87.8

Notes to the consolidated financial statements (continued)

4 Employees (continued)

(b)

The amounts charged in respect of post employment plans to the consolidated income statement and consolidated statement of recognised income and expense for the three years ended 30 June 2007 are set out below:

	United Kingdom	Ireland	United States and other	Total
	£ million	£ million	£ million	£ million
2007				
Operating profit				
Current service cost	**(57)**	**(17)**	**(24)**	**(98)**
Past service cost	**(4)**			**(4)**
Total charge to operating profit	**(61)**	**(17)**	**(24)**	**(102)**
Net credit/(cost) to other finance income (note 6(ii))	**36**	**17**	**(5)**	**48**
Charge before taxation	**(25)**		**(29)**	**(54)**
Consolidated statement of recognised income and expense				
Actual return on post employment plan assets	**374**	**150**	**44**	**568**
Expected return on post employment plan assets	**(230)**	**(70)**	**(24)**	**(324)**
Actual return less expected return on post employment plan assets	**144**	**80**	**20**	**244**
Experience gains and losses arising on the plan liabilities	**(100)**	**7**	**(17)**	**(110)**
Changes in assumptions underlying the present value of the plan liabilities	**200**	**10**	**(21)**	**189**
Actuarial gain recognisable in the reconciliation of the assets and liabilities	**244**	**97**	**(18)**	**323**
Changes in the recognisable surplus of the plans with a surplus restriction			**5**	**5**
Total gain/(loss) recognisable in the consolidated statement of recognised income and expense	**244**	**97**	**(13)**	**328**
2006				
Operating profit				
Current service cost	(58)	(22)	(24)	(104)
Past service cost	(1)	(1)		(2)
Gains on curtailments	1			1
Total charge to operating profit	(58)	(23)	(24)	(105)
Net credit/(cost) to other finance income (note 6(ii))	14	11	(6)	19
Charge before taxation	(44)	(12)	(30)	(86)
Consolidated statement of recognised income and expense				
Actual return on post employment plan assets	513	84	15	612
Expected return on post employment plan assets	(191)	(60)	(24)	(275)

	United Kingdom	Ireland	United States and other	Total
Actual return less expected return on post employment plan assets	322	24	(9)	337
Experience gains and losses arising on the plan liabilities	(29)	(14)	(12)	(55)
Changes in assumptions underlying the present value of the plan liabilities	(2)	149	36	183
Actuarial gain recognisable in the reconciliation of the assets and liabilities	291	159	15	465
Changes in the recognisable surplus of the plans with a surplus restriction			(6)	(6)
Total gain recognisable in the consolidated statement of recognised income and expense	291	159	9	459

Notes to the consolidated financial statements (continued)

4 Employees (continued)

	United Kingdom	Ireland	United States and other	Total
	£ million	£ million	£ million	£ million
2005				
Operating profit				
Current service cost	(58)	(15)	(20)	(93)
Past service cost	(2)	(10)		(12)
Gains on curtailments	18		1	19
Losses on settlements			(2)	(2)
Total charge to operating profit	(42)	(25)	(21)	(88)
Net credit/(cost) to other finance income (note 6(ii))	4	9	(4)	9
Charge before taxation	(38)	(16)	(25)	(79)
Consolidated statement of recognised income and expense				
Actual return on post employment plan assets	318	129	30	477
Expected return on post employment plan assets	(194)	(62)	(24)	(280)