

DIAGEO PLC  
Form 20-F  
September 25, 2006

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: 30 June 2006

Commission file number: 1-10691

## DIAGEO plc

(Exact name of Registrant as specified in its charter)

**England**

(Jurisdiction of incorporation or organisation)

**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
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American Depositary Shares Ordinary shares of 28101/108 pence each	New York Stock Exchange New York Stock Exchange*
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\* 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:  
3,050,980,245 ordinary shares of 28101/108 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  No

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  No

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

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the past 90 days.

Yes  No

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  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17  Item 18

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  No

This document comprises the annual report on Form 20-F and the annual report to shareholders for the year ended 30 June 2006 of Diageo plc (the 2006 Form 20-F). Reference is made to the cross reference to Form 20-F table on pages 211 to 213 hereof (the Form 20-F Cross reference table). Only (i) the information in this document that is referenced in the Form 20-F Cross reference table, (ii) the cautionary statement concerning forward-looking statements on pages 23 and 24 and (iii) the Exhibits, 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 2006 Form 20-F. Any information herein which is not referenced in the Form 20-F Cross reference table, or the Exhibits themselves, shall not be deemed to be so incorporated by reference.

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**214 Glossary of terms and US equivalents**

- Exhibit 12.1
- Exhibit 12.2
- Exhibit 13.1
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This is the Annual Report on Form 20-F of Diageo plc for the year ended 30 June 2006.

This document contains forward-looking statements that involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors beyond Diageo's control. For more details, please refer to the cautionary statement concerning forward-looking statements on pages 23 and 24.

The market data contained in this document is taken from independent industry sources in the markets in which Diageo operates.

This report includes names of Diageo's products, which constitute trademarks or trade names which Diageo owns or which others own and license to Diageo for use. In this report, the term "company" refers to Diageo plc and the terms "group" and "Diageo" refer to the company and its consolidated subsidiaries, except as the context otherwise requires. A glossary of terms used in this report is included at the end of the document.

Diageo's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed and adopted for use in the European Union (IFRS), which is the group's primary reporting framework. Unless otherwise indicated, all financial information contained in this document has been prepared in accordance with IFRS. The principal differences between IFRS and US GAAP are set out in the consolidated financial statements.

**Information presented**

Percentage movements in this document are organic movements unless otherwise stated. These movements and operating margins are before exceptional items. Commentary, unless otherwise stated, refers to organic movements. Share, unless otherwise stated, refers to volume share. See the "Operating and financial review" for an explanation of organic movement calculations. The financial statements for the year ended 30 June 2006 have been prepared in accordance with IFRS.

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## Historical information

The following table presents selected consolidated financial data for Diageo prepared under International Financial Reporting Standards as endorsed and adopted for use in the European Union (IFRS) for the years ended 30 June 2006 and 30 June 2005 and as at the respective year ends. Consolidated financial data has been prepared in accordance with IFRS for the first time for the year ended 30 June 2006, following the implementation of IFRS by the group, and the data for the year ended 30 June 2005 has been adjusted accordingly. In addition, the following table includes selected consolidated financial data for Diageo prepared under US GAAP for the five years ended 30 June 2006 and as at the respective year ends. The IFRS data for the two years ended 30 June 2006 and US GAAP data for the five years ended 30 June 2006 have been derived from Diageo's audited consolidated financial statements.

	Year ended 30 June	
	2006	2005
	£ million	£ million
<b>Income statement data(1)</b>		
<b>IFRS</b>		
Sales	9,704	8,968
Operating profit before exceptional items(3)	2,044	1,932
Exceptional items charged to operating profit(3)		(201 )
<b>Operating profit</b>	<b>2,044</b>	<b>1,731</b>
Other exceptional items for continuing operations, excluding tax(3)	157	214
Profit for the year		
Continuing operations	1,965	1,326
Discontinued operations(2)		73
<b>Total profit for the year</b>	<b>1,965</b>	<b>1,399</b>
	pence	pence
<b>Per share data</b>		
Dividend per share(4)	31.10	29.55
Earnings per share		
Basic		
Continuing operations	67.2	42.8
Discontinued operations(2)		2.4
<b>Basic earnings per share</b>	<b>67.2</b>	<b>45.2</b>
Diluted		
Continuing operations	66.9	42.8
Discontinued operations(2)		2.4
<b>Diluted earnings per share</b>	<b>66.9</b>	<b>45.2</b>
	million	million
Average shares	2,841	2,972

## Historical information (continued)

	Year ended 30 June				
	2006	2005	2004	2003	2002
	£ million	£ million	£ million	£ million	£ million
<b>Income statement data</b>					
<b>US GAAP(5)</b>					
Sales	10,031	9,170	8,777	9,153	10,760
Operating income	1,942	1,768	1,928	955	3,630
Net income	1,427	1,470	1,700	434	2,554

	pence	pence	pence	pence	pence
<b>Per share data</b>					
Basic earnings per ordinary share before cumulative effect of accounting change	50.3	49.5	56.1	13.9	77.0
Cumulative effect of accounting change(5)	(0.1 )				
<b>Basic earnings per ordinary share</b>	<b>50.2</b>	49.5	56.1	13.9	77.0
Diluted earnings per ordinary share before cumulative effect of accounting change	50.1	49.4	56.1	13.9	77.0
Cumulative effect of accounting change(5)	(0.1 )				
<b>Diluted earnings per ordinary share</b>	<b>50.0</b>	49.4	56.1	13.9	77.0
Basic earnings per ADS	200.8	198.0	224.4	55.6	308.0
Diluted earnings per ADS	200.0	197.6	224.4	55.6	308.0

	million	million	million	million	million
Average shares	2,841	2,972	3,030	3,113	3,316

	As at 30 June	
	2006	2005
	£ million	£ million
<b>Balance sheet data(1)</b>		
<b>IFRS</b>		
Total assets	13,927	13,921
Net borrowings(6)	4,082	3,706
Equity attributable to the parent company's equity shareholders	4,502	4,459
Called up share capital(7)	883	883

	As at 30 June				
	2006	2005	2004	2003	2002
	£ million	£ million	£ million	£ million	£ million
<b>Balance sheet data</b>					
<b>US GAAP(5)</b>					
Total assets	20,072	21,570	23,071	24,071	26,153
Long term obligations(6)	4,016	3,751	3,381	3,149	3,892
Shareholders' equity	9,508	9,853	10,287	9,344	11,316



## Historical information (continued)

### Notes to the selected consolidated financial data

**1 IFRS accounting policies** The financial statements for the year ended 30 June 2006 are the group's first financial statements published in accordance with IFRS. Extracts from the income statement and balance sheet as of and for the year ended 30 June 2005 presented here have been restated under IFRS as applied by the group from financial information previously reported in the group's consolidated financial statements as of and for the year ended 30 June 2005. The group has adopted the provisions of *IAS 39 Financial instruments recognition and measurement* from 1 July 2005. As permitted under *IFRS 1 First-time adoption of International Financial Reporting Standards*, financial instruments in the year ended 30 June 2005 remain recorded in accordance with previous UK GAAP accounting policies, and the adjustment to IAS 39 is reflected in the consolidated balance sheet at 1 July 2005. The IFRS accounting policies applied by the group to the financial information in this document are presented in Accounting policies of the group in the financial statements. In addition, there is an explanation of the primary impacts of IFRS on the group's financial results and position as previously reported under UK GAAP in note 34 to the consolidated financial statements.

**2 Discontinued operations** Discontinued operations in the year ended 30 June 2005 under IFRS are in respect of the quick service restaurants business (Burger King, sold 13 December 2002) and the packaged food business (Pillsbury, sold 31 October 2001). These were not discontinued operations under US GAAP.

**3 Exceptional items** The group presents certain items separately as exceptional. These are items which, in management's judgment, need to be disclosed by virtue of their size or incidence in order for the user to obtain a proper understanding of the financial information. Such items are included within the income statement caption to which they relate. Exceptional items, as presented by management, do not represent extraordinary items under US GAAP. An analysis of exceptional items for continuing operations under IFRS is as follows:

	Year ended 30 June	
	2006	2005
	£ million	£ million
<b>Exceptional items (charged)/credited to operating profit</b>		
Park Royal brewery accelerated depreciation		(29 )
Seagram integration costs		(30 )
Thalidomide Trust		(149 )
Disposal of property		7
		(201 )
<b>Other exceptional items</b>		
Gain on disposal of General Mills shares	151	221
Gains/(losses) on disposal and termination of businesses	6	(7 )
	157	214
<b>Tax exceptional items</b>		
Tax credit in respect of exceptional items	2	78
Deferred tax exceptional item - agreement of brand carrying values	313	
	315	78
<b>Total exceptional items</b>	<b>472</b>	<b>91</b>

**4 Dividends** The board expects that Diageo will pay an interim dividend in April and a final dividend in October of each year. Approximately 40% of the total dividend in respect of any financial year is





## Historical information (continued)

expected to be paid as an interim dividend and approximately 60% as a final dividend. The payment of any future dividends, subject to shareholder approval, will depend upon Diageo's earnings, financial condition and such other factors as the board deems relevant. Under IFRS, proposed dividends are not considered to be a liability until they are approved by the board for the interim dividend and by the shareholders at the annual general meeting for the final dividend. The information provided below for the final dividend for each period represents the dividend proposed by the directors but not approved by the shareholders and therefore is not reflected as a deduction from reserves at the balance sheet date.

The table below sets out the amounts of interim, final and total cash dividends paid by the company on each ordinary share. The dividends are translated into US dollars per ADS (each ADS representing four ordinary shares) at the noon buying rate on each of the respective dividend payment dates.

		Year ended 30 June				
		2006	2005	2004	2003	2002
		pence	pence	pence	pence	pence
Per ordinary share	Interim	11.95	11.35	10.6	9.9	9.3
	Final	19.15	18.20	17.0	15.7	14.5
	Total	31.10	29.55	27.6	25.6	23.8
		\$	\$	\$	\$	\$
Per ADS	Interim	0.88	0.81	0.77	0.61	0.54
	Final	1.42	1.30	1.24	1.06	0.90
	Total	2.30	2.11	2.01	1.67	1.44

Note: Subject to shareholder approval, the final dividend for the year ended 30 June 2006 will be paid on 23 October 2006 and payment to US ADR holders will be made on 27 October 2006. In the table above, an exchange rate of £1 = \$1.85 has been assumed for this dividend, but the exact amount of the payment to US ADR holders will be determined by the rate of exchange on 23 October 2006.

**5 US GAAP accounting changes** From 1 July 2005 Diageo adopted the provisions of *SFAS No. 123(R) Share-Based Payment* for its US GAAP reporting. On adoption of SFAS 123(R), Diageo revalued unvested awards in its senior executive share option plan (SESOP) and recognised a cumulative effect of an accounting change of £2 million net of tax in its US GAAP financial information. Prior year information has not been restated. From 1 July 2004 Diageo adopted the provisions of *FIN 46(R) Consolidation of Variable Interest Entities*, which requires the group to consolidate the results, assets and liabilities of variable interest entities if the group is regarded as the primary beneficiary. Adoption of FIN 46(R) had no effect on US GAAP net income or shareholders' equity.

**6 Definitions** Net borrowings are defined as total borrowings (short term borrowings and long term borrowings plus finance lease obligations) less cash and cash equivalents, interest rate fair value hedging instruments, foreign currency swaps and forwards and other liquid resources. Long term obligations are defined as long term borrowings which fall due after more than one year.

**7 Share capital** The called up share capital represents the par value of ordinary shares of 28<sup>101</sup>/<sub>108</sub> pence in issue. There were 3,051 million ordinary shares in issue and fully paid up at the balance sheet date (2005 3,050 million; 2004 3,057 million; 2003 3,100 million; 2002 3,215 million). Of these, 42 million (2005 43 million; 2004 43 million; 2003 45 million; 2002 39 million) are held in employee share trusts and 250 million are held as treasury shares (2005 86 million; 2004, 2003, 2002 nil). These shares are deducted in arriving at equity attributable to the parent company's equity shareholders. During the year ended 30 June 2006, the group repurchased 164 million ordinary shares for cancellation or to be held



## Historical information (continued)

as treasury shares at a cost including fees and stamp duty of £1,407 million (2005 94 million ordinary shares, cost of £710 million; 2004 43 million ordinary shares, cost of £306 million; 2003 116 million ordinary shares, cost of £852 million; 2002 198 million ordinary shares, cost of £1,658 million). In addition the group repurchased 2 million ordinary shares to be held as treasury shares for hedging employee share scheme grants provided to employees during the year at a cost of £21 million.

**8 Exchange rates** A substantial portion of the group's assets, liabilities, revenues and expenses is denominated in currencies other than pound sterling, principally US dollars. For a discussion of the impact of exchange rate fluctuations on the company's financial condition and results of operations, see Operating and financial review Risk management .

The following table shows year end and average US dollar/pound sterling noon buying exchange rates, for the years indicated, expressed in US dollars per £1.

	Year ended 30 June				
	2006	2005	2004	2003	2002
	\$	\$	\$	\$	\$
Year end	1.85	1.79	1.81	1.65	1.52
Average rate(a)	1.78	1.86	1.75	1.59	1.45

The following table shows period end, high, low and average US dollar/pound sterling noon buying exchange rates by month, for the six month period to 30 August 2006, expressed in US dollars per £1.

2006	July	June	May	April	March
August					
\$	\$	\$	\$	\$	\$