

Grand Metropolitan Holdings Limited

Financial statements 30 June 2005

Registered number 464950



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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 2005.

Activities

The company is an investment holding company. The directors foresee no material changes in the nature of the company's activities.

Details of changes in investments during the year are set out in note 6 of these financial statements.

Financial

The results for the year ended 30 June 2005 are shown on page 6. Interim dividends of £17,073,253,000 were paid during the year (2004 - £nil). After deducting the interim dividends, the profit for the year transferred to reserves is £2,226,605,000 (2004 - £312,715,000 loss transferred from reserves).

Directors

The directors who held office during the year were as follows:

S M Bunn
C D Coase (appointed 7 April 2005)
M J Lester
R Rajagopal (resigned 7 April 2005)

Directors' emoluments

None of the directors received any remuneration during the year in respect of their services as directors of the company (2004 - £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)

Directors' interests (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
S M Bunn	1,088	128	-	-	-	-	-
C D Coase	14,207	14,207	-	-	-	-	-
M J Lester	20,658	26,306	34,311	-	(3,521)	-	30,790

Certain directors are granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under certain long term incentive plans. Any conditional rights are shown in the table as ordinary share equivalents. The conditional rights to ordinary shares are subject to share performance criteria of Diageo plc ordinary shares. The numbers disclosed in the above table represent the maximum number of conditional rights. Full details of the performance criteria are disclosed in the annual report of the ultimate holding company, Diageo plc.

(ii) Options

	Options over ordinary shares				
	At beginning of year (or date of appointment)	Granted in year	Exercised in year	Lapsed in year	At end of year
S M Bunn	46,319	15,434	(9,316)	-	52,437
C D Coase	141,269	-	-	-	141,269
M J Lester	150,846	23,758	(61,037)	-	113,567

The directors held the above options under Diageo plc share option schemes at prices between 460p and 863p per ordinary share exercisable between 2005 and 2014. Certain options granted in the Republic of Ireland were granted at a price of Euro 7.37 per ordinary share. 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.

The mid-market share price of Diageo plc shares fluctuated between 658p and 824p during the year. The mid-market share price on 30 June 2005 was 823p.


At 30 June 2005 all the directors had an interest in 21,465,587 shares and 8,233,337 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes.

Directors' report (continued)

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 2005.

By order of the board



J Nicholls
Secretary
8 Henrietta Place
London
W1G 0NB

16 December 2005

Statement of directors' responsibilities in relation to the financial statements

The following statement, which should be read in conjunction with the independent auditor's report set out on page 5, 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 at the end of the financial year and of the profit or loss for the financial year.

The directors, in preparing these financial statements, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all applicable accounting standards have been followed and that it is appropriate to prepare the financial statements on a going concern basis.

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

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

Independent auditor's report to the members of Grand Metropolitan Holdings Limited

We have audited the financial statements on pages 6 to 15.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent 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 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
16 December 2005

Profit and loss account

	<i>Notes</i>	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Profit on disposal of investment	6	19,752,000	-
Income from shares in group undertakings	3	45,890	45,970
Net interest payable	4	(506,825)	(489,379)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation		19,291,065	(443,409)
Taxation on profit/(loss) on ordinary activities	5	8,793	130,694
		<hr/>	<hr/>
Profit/(loss) on ordinary activities after taxation		19,299,858	(312,715)
Dividends		(17,073,253)	-
		<hr/>	<hr/>
Amounts transferred to/(from) reserves	11	2,226,605	(312,715)
		<hr/>	<hr/>

There are no recognised gains and losses other than the result 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 results for the years shown in the profit and loss account and the results for the relevant years restated on an historical cost basis.

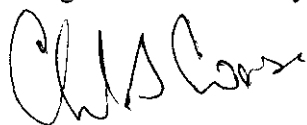
All results arise from continuing operations.

Balance sheet

	Notes	30 June 2005		30 June 2004	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	6		822,027		13,441,004
Current assets					
Debtors: due within one year	7	2,617,551		5,241,539	
Cash at bank and in hand		1		7,225	
		<u>2,617,552</u>		<u>5,248,764</u>	
Creditors: due within one year	9	<u>(26,228)</u>		<u>(14,141,939)</u>	
Net current assets/ (liabilities)			2,591,324		(8,893,175)
Debtors: due after one year	7		3,365,937		4,854
Net assets			<u>6,779,288</u>		<u>4,552,683</u>
Capital and reserves					
Called up share capital	10		6,306,613		6,306,613
Share premium account	11	112,129		112,129	
Other reserves	11	1,559		1,559	
Profit and loss account	11	<u>358,987</u>		<u>(1,867,618)</u>	
Reserves attributable to equity shareholders			<u>472,675</u>		<u>(1,753,930)</u>
Equity shareholders' funds			<u>6,779,288</u>		<u>4,552,683</u>

These financial statements on pages 6 to 15 were approved by the board of directors on 16 December 2005 and were signed on its behalf by:

C D Coase
Director



Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

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

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statement 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 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 ("group undertakings") or investees of the Diageo plc group.

The company is exempt from the requirement to prepare group accounts under section 228 of the Companies Act 1985 as its results are included in the published consolidated financial statements of Diageo plc.

Fixed asset investments

Income from fixed asset investments is credited to the profit and loss account when it is declared by the paying company. Investments are stated individually at cost less, where appropriate, provision for impairment in value where such impairment is expected by the directors to be permanent.

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 foreign 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 foreign currency contract.

All exchange gains and losses are taken to the profit and loss account.

Deferred taxation

Full provision is made for timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations using current tax rates. The company does not discount these balances.

Notes to the financial statements

1. Operating costs

The auditor's remuneration was paid on behalf of the company by a fellow group undertaking. There were no fees payable to the auditor in respect of non-audit services (2004 - £nil).

2. Directors and employees

The company did not employ any staff during either the current or prior year.

None of the directors received any remuneration during the financial year in respect of their services as directors of the company (2004 - £nil).

Details of the directors' share interests and any share options exercised during the year are included within the directors' report on pages 1 and 2.

3. Income from fixed asset investments

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Income from shares in group undertakings	45,890	45,970

4. Net interest payable

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Interest payable on loans from fellow group undertakings	(734,552)	(706,739)
Interest receivable on loans to fellow group undertakings	227,065	217,294
Foreign exchange gain	662	66
	(506,825)	(489,379)

Notes to the financial statements (continued)

5. Taxation

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
(i) Analysis of taxation charge for the year		
Current tax		
Current tax charge/(credit) for the year	-	1,254
Amounts receivable in respect of group relief surrendered	-	(146,814)
	<hr/>	<hr/>
Total current tax	-	(145,560)
Deferred tax		
UK	(8,793)	14,866
	<hr/>	<hr/>
Total deferred tax	(8,793)	14,866
	<hr/>	<hr/>
Taxation on profit on ordinary activities	(8,793)	(130,694)
	<hr/>	<hr/>
(ii) Reconciliation of current tax charge		
	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Profit/(Loss) on ordinary activities before taxation	19,291,065	(443,409)
	<hr/>	<hr/>
Taxation on profit/(loss) on ordinary activities at UK corporation tax rate of 30% (2004 – 30%)	5,787,320	(133,023)
	<hr/>	<hr/>
Items not chargeable for tax purposes	(5,939,367)	(13,791)
Group relief surrendered for nil consideration	152,047	-
Adjustment in respect of prior years	-	1,254
	<hr/>	<hr/>
Current ordinary tax (credit) for the year	-	(145,560)
	<hr/>	<hr/>

Notes to the financial statements (continued)

6. Fixed assets – investments

	Subsidiary undertakings £'000
Cost	
At 30 June 2004	13,441,004
Disposals	(12,618,977)
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At 30 June 2005	822,027
	<hr/>
Net book value	
At 30 June 2004	13,441,004
	<hr/>
At 30 June 2005	822,027
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On 19 May 2005 the company disposed of its interest in Grand Metropolitan International Holdings Limited for the sum of £29,922,000,000, resulting in a profit on disposal of £19,752,000,000.

On 24 May 2005 the company disposed of its interest in Forcerate Limited for the sum of £2,448,973,773.

The remaining investments consist principally of holdings of 100% of the issued preference share capital of the following undertakings:

	Country of incorporation	Principal activity
Direct holdings:		
Diageo Funding Company No 1 Limited	England	Investment holding company
Diageo Funding Company No 2 Limited	England	Investment holding company

In the opinion of the directors, the investments are worth at least the amount at which they are stated in the financial statements.

Notes to the financial statements (continued)

7. Debtors

	30 June 2005		30 June 2004	
	Due within one year £'000	Due After one year £'000	Due within one year £'000	Due After one year
Deferred taxation	-	13,647	-	4,854
Amounts owed by fellow group undertakings	2,617,551	3,352,290	5,241,539	-
	<u>2,617,551</u>	<u>3,365,937</u>	<u>5,241,539</u>	<u>4,854</u>

Amounts owed by fellow group undertakings represent transactions with companies in the Diageo group with which the company has a long term financing relationship. These financing relationships are expected to continue for the foreseeable future. For the purposes of financial statement classification, amounts owed by group undertakings that do not have a specified repayment date are regarded as short term and consequently are considered to have a fair value which is not materially different to the book value.

These amounts include £1,617,229,000 which bears interest at a fixed rate of 5.125% and £279,330,000, £837,989,000, £446,927,000 and £157,873,000 which bear the following fixed rates, 6.16%, 6.27%, 6.34%, and 6.31%, respectively. The remaining balance is at a floating rate.

8. Deferred taxation

	30 June 2005 £'000	30 June 2004 £'000
Asset at beginning of year	4,854	19,720
Deferred tax credit/(debit) in profit and loss account	8,793	(14,866)
Deferred tax asset	<u>13,647</u>	<u>4,854</u>

The deferred tax asset arises from tax losses.

Notes to the financial statements (continued)

9. Creditors due within one year

	30 June 2005	30 June 2004
	£'000	£'000
Amounts owed to fellow group undertakings	26,228	14,141,939

Amounts owed to fellow group undertakings represent transactions with companies in the Diageo group with which the company has a long term financing relationship. These financing relationships are expected to continue for the foreseeable future. For the purposes of financial statement classification, amounts owed to group undertakings that do not have a specified repayment date are regarded as short term and consequently are considered to have a fair value which is not materially different to the book value.

These amounts are all at a variable interest rate.

Notes to the financial statements (continued)

10. Share Capital

		30 June 2005 £'000	30 June 2004 £'000
<i>Authorised</i>			
Equity:	6,804,000,001 Ordinary shares of £1 each	6,804,000	6,804,000
Non-	350,000,000 5.65% 'A' Cumulative Redeemable	350,000	350,000
equity:	Preference shares of £1 each		
	350,000,000 5.65% 'B' Cumulative Redeemable	350,000	350,000
	Preference shares of £1 each		
	705,000,000 4.6932% 'C' Cumulative Redeemable	705,000	705,000
	Preference shares of £1 each		
	50,000,000 4.694% 'D' Cumulative Redeemable	50,000	50,000
	Preference shares of £1 each		
	350,000,000 4.69% 'E' Cumulative Redeemable	350,000	350,000
	Preference shares of £1 each		
	500,000,000 4.6276% 'F' Cumulative Redeemable	500,000	500,000
	Preference shares of £1 each		
	200,000,000 4.6229% 'G' Cumulative Redeemable	200,000	200,000
	Preference shares of £1 each		
	1,000,000,000 4.933% 'H' Cumulative Redeemable	1,000,000	1,000,000
	Preference shares of £1 each		
	290,999,999 'I' Cumulative Redeemable Preference	291,000	291,000
	shares of £1 each		
	300,000,000 4.4715% 'J' Cumulative Redeemable	300,000	300,000
	Preference shares of £1 each		
	700,000,000 4.4708% 'K' Cumulative Redeemable	700,000	700,000
	Preference shares of £1 each		
	350,000,000 4.75% 'L' Cumulative Redeemable	350,000	350,000
	Preference shares of £1 each		
	2,355,000,000 5.75% 'M' Cumulative Redeemable	2,355,000	2,355,000
	Preference shares of £1 each		
	850,000,000 5.472592104% 'N' Cumulative	850,000	850,000
	Redeemable Preference shares of £1 each		
	800,000,000 5.922709135% 'O' Cumulative	800,000	800,000
	Redeemable Preference shares of £1 each		
	10,000,000 5.5% 'P' Cumulative Redeemable	10,000	10,000
	Preference shares of £1 each		
	695,000,000 4.75% 'Q' Cumulative Redeemable	695,000	695,000
	Preference shares of £1 each		
	400,000,000 5.617624933% 'R' Cumulative	400,000	400,000
	Redeemable Preference shares of £1 each		
		<hr/>	<hr/>
		17,060,000	17,060,000
		<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>			
Equity:	6,306,613,162 ordinary shares of £1 each	6,306,613	6,306,613
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Notes to the financial statements (continued)

11. Reserves

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 30 June 2004	112,129	1,559	(1,867,618)	(1,753,930)
Retained profit for year	-	-	2,226,605	2,226,605
At 30 June 2005	112,129	1,559	358,987	472,675

12. Reconciliation of movement in shareholders' funds

	30 June 2005 £'000	30 June 2004 £'000
Profit/(loss) on ordinary activities after taxation	2,226,605	(312,715)
Net addition to/(reduction in) shareholders' funds	2,226,605	(312,715)
Shareholders' funds at beginning of year	4,552,683	4,865,398
Shareholders' funds at end of year	6,779,288	4,552,683

13. Immediate and ultimate parent undertaking

The immediate parent undertaking of the company is Grand Metropolitan Public Limited Company, a company incorporated and registered in England.

The ultimate parent undertaking of the company is Diageo plc, a company incorporated and registered in England. The consolidated financial statements of Diageo plc can be obtained from the registered office at 8 Henrietta Place, London W1G 0NB.