

Grand Metropolitan Estate Holdings Limited

Financial statements 30 June 2006

Registered number 2426273

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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 2006

Activities

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

Financial

The results for the year ended 30 June 2006 are shown on page 6. The directors do not recommend the payment of a dividend for the year (2005 - £nil).

The loss for the year transferred from reserves is £7,093,000 (2005 - £6,889,000 loss transferred from reserves).

Directors

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

S M Bunn
C D Coase
M J Lester

M J Lester resigned as a director on 31 August 2006.

M C Flynn and C R R Marsh were appointed directors of the company on 3 October 2006.

Directors' emoluments

None of the directors received any remuneration during the year in respect of their services as directors of the company (2005 - £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	At end of year	At beginning of year	Granted in year	Vested in year	Lapsed in year	At end of year
S M Bunn	128	132	-	-	-	-	-
C D Coase	14,207	15,000	-	23,380	-	-	23,380
M J Lester	26,306	28,852	30,790	8,361	(3,521)	-	35,630

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	Granted in year	Exercised in year	Lapsed in year	At end of year
S M Bunn	52,437	12,420	(19,033)	-	45,824
C D Coase	141,269	16,366	(18,550)	-	139,085
M J Lester	113,567	17,693	(55,550)	-	75,710

The directors held the above options under Diageo plc share option schemes at prices between 518p and 815p per ordinary share exercisable between 2006 and 2015. Certain options granted in the Republic of Ireland were granted at a price of €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 778p and 928p during the year. The mid-market share price on 30 June 2006 was 917p.

At 30 June 2006 all the directors had an interest in 17,791,320 shares and 8,045,000 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes. M J Lester had a further interest in 6,460,442 shares held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes.

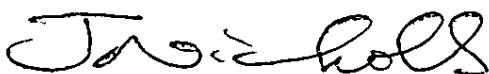
Directors' report (continued)

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 2006.

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

By order of the board



J Nicholls
Secretary
8 Henrietta Place
London W1G 0NB

19 December 2006

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Year ended 30 June 2006

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

We have audited the financial statements of Grand Metropolitan Estate Holdings Limited for the year ended 30 June 2006, which comprise the Profit and Loss account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditor

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition, we report to you if, in our opinion, 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 is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
19 December 2006

Profit and loss account

	<i>Notes</i>	Year ended 30 June 2006 £'000	Year ended 30 June 2005 £'000
Income from other fixed asset investments	4	1	1
Net interest payable	5	(10,134)	(9,842)
Loss on ordinary activities before taxation		(10,133)	(9,841)
Taxation on loss on ordinary activities	6	3,040	2,952
Loss on ordinary activities after taxation		(7,093)	(6,889)
Amounts transferred from reserves		(7,093)	(6,889)

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

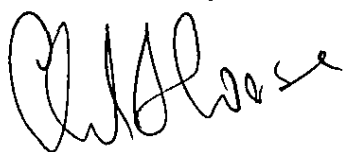
There is no difference between the results for the years shown in the profit and loss account and the results for the relevant years restated on an historical cost basis

All results arise from continuing operations

Balance sheet

	<i>Notes</i>	30 June 2006		30 June 2005	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	7		11		10
Current assets					
Debtors due within one year	8	77,686		74,650	
Creditors due within one year	9	(189,863)		(179,733)	
Net current liabilities			(112,177)		(105,083)
Net liabilities			(112,166)		(105,073)
Capital and reserves					
Called up share capital	10		125		125
Share premium account	11	555		555	
Profit and loss account	11	(112,846)		(105,753)	
Reserves attributable to equity shareholders			(112,291)		(105,198)
Equity shareholders' deficit			(112,166)		(105,073)

These financial statements on pages 6 to 12 were approved by the board of directors on 19 December 2006 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 statements of Diageo plc, which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996)

The company is 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

Going concern

The financial statements have been prepared on a going concern basis, as a fellow group undertaking has agreed to provide financial support for the foreseeable future. The only liabilities at the balance sheet date are in respect of balances due to fellow group undertakings

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

Notes to the financial statements

1. New Accounting Policies

The accounting policies of the company are consistent with those applied last year, apart from where the company has adopted the following accounting standards in the year

FRS 21 – Events after the balance sheet date This standard specifies the accounting treatment to be adopted and the disclosures to be provided by entities for events occurring after the balance sheet date. The adoption of this standard has not resulted in the restatement of information reported in respect of the year ended 30 June 2005 nor has it impacted the results in respect of the year ended 30 June 2006

FRS 25 – Financial Instruments: Disclosure and Presentation. The company has adopted the presentation requirements of FRS 25 in these financial statements. The presentational requirements apply to the classification of financial instruments into financial assets, financial liabilities or equity instruments, the classification of related interest, dividend, gains and losses, and the circumstances around which financial assets and liabilities should be offset. The adoption of these requirements has not resulted in the restatement of the information in respect of the year ended 30 June 2006. Note that the company has not adopted the disclosure requirements of FRS 25 in these financial statements

FRS 28 – Corresponding amounts. FRS 28 sets out the requirements for the disclosure of corresponding amounts for items disclosed in a company's primary financial statements and the notes to the financial statements

2. 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 (2005 - £nil)

3. 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 (2005 - £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

Notes to the financial statements (continued)

4. Income from fixed asset investments

	Year ended 30 June 2006 £'000	Year ended 30 June 2005 £'000
Income from other fixed asset investments	<u>1</u>	<u>1</u>

5. Net interest payable

	Year ended 30 June 2006 £'000	Year ended 30 June 2005 £'000
Interest payable on loans from fellow group undertaking	(20,818)	(18,431)
Other interest expense	(8)	-
Exchange loss	(3)	(10)
	<u>(20,829)</u>	<u>(18,441)</u>
Interest receivable on loans to fellow group undertakings	<u>10,695</u>	<u>8,599</u>
	<u>(10,134)</u>	<u>(9,842)</u>

6. Taxation

	Year ended 30 June 2006 £'000	Year ended 30 June 2005 £'000
(i) Analysis of taxation charge for the year		
Amounts receivable in respect of group relief surrendered	<u>3,040</u>	<u>2,952</u>
	Year ended 30 June 2006 £'000	Year ended 30 June 2005 £'000
(ii) Factors affecting current tax charge for the year		
Loss on ordinary activities before taxation	<u>(10,133)</u>	<u>(9,841)</u>
Taxation on loss on ordinary activities at UK corporation tax rate of 30% (2005 - 30 %)	<u>3,040</u>	<u>2,952</u>
Current ordinary tax credit for the year	<u>3,040</u>	<u>2,952</u>

Notes to the financial statements (continued)

7. Fixed assets – investments

	30 June 2006	30 June 2005
	£'000	£'000
Market value of investments listed on the London Stock Exchange	19	22
	<hr/>	<hr/>
Cost	10	10
Gilt tax recoverable	1	-
	<hr/>	<hr/>
Net book value	11	10
	<hr/>	<hr/>

8. Debtors

	30 June 2006	30 June 2005
	£'000	£'000
Amounts owed by fellow group undertakings	77,686	74,647
Other Income receivable	-	3
	<hr/>	<hr/>
	77,686	74,650
	<hr/>	<hr/>

The amounts owed by fellow group undertakings include the sum of £69,331,000, which bears interest at floating rate. The remaining balance is interest free.

9. Creditors - due within one year

	30 June 2006	30 June 2005
	£'000	£'000
Amounts owed to fellow group undertakings	189,863	179,733
	<hr/>	<hr/>

These amounts are all at a floating rate.

Notes to the financial statements (continued)

10. Share capital

	30 June 2006	30 June 2005
	£'000	£'000
<i>Authorised, allotted, called up and fully paid</i>		
Equity - 125,000 ordinary shares of £1 each	125	125

11. Reserves

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 30 June 2005	555	(105,753)	(105,198)
Retained loss for year	-	(7,093)	(7,093)
At 30 June 2006	555	(112,846)	(112,291)

12. Reconciliation of movement in shareholders' funds

	30 June 2006	30 June 2005
	£'000	£'000
Loss on ordinary activities after taxation	(7,093)	(6,889)
Net addition to shareholders' deficit	(7,093)	(6,889)
Shareholders' deficit at beginning of year	(105,073)	(98,184)
Shareholders' deficit at end of year	(112,166)	(105,073)

13. Immediate and ultimate parent undertaking

The immediate parent undertaking of the company is Grand Metropolitan Estates Limited, 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