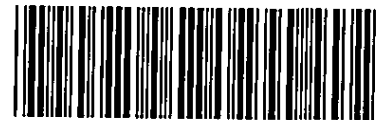


# **Grand Metropolitan Investments Limited**

## **Financial statements 30 June 2006**

Registered number 1732518

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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 acts as 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 £86,617,000 (2005 - loss of £89,178,000 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 <sup>101</sup>/<sub>108</sub> p each in the ultimate parent company, Diageo plc:

**Directors' report (continued)**

**Directors' interests (continued)**

**(i) Ordinary shares and conditional rights to ordinary shares**

|            | <b>Ordinary shares</b> |                | <b>Conditional rights to ordinary shares</b> |                 |                |                |                |
|------------|------------------------|----------------|--|-----------------|----------------|----------------|----------------|
|            | 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**

|            | <b>Options over ordinary shares</b> |                 |                   |                |                |
|------------|-------------------------------------|-----------------|-------------------|----------------|----------------|
|            | 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.

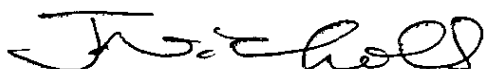
**Directors' report (continued)**

**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 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

**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2006**

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

We have audited the financial statements of Grand Metropolitan Investments 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*

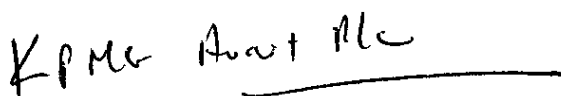
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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**  
Chartered Accountants  
Registered Auditor  
**London**  
19 December 2006

**Profit and loss account**

|  | <i>Notes</i> | <b>Year ended<br/>30 June 2006<br/>£'000</b> | <b>Year ended<br/>30 June 2005<br/>£'000</b> |
|--|--------------|--|--|
| Interest receivable                                | 4            | 97,518                                       | 96,495                                       |
| Interest payable                                   | 5            | (221,256)                                    | (223,892)                                    |
|  |              | <hr/>  | <hr/>  |
| Net interest payable                               |              | (123,738)                                    | (127,397)                                    |
|  |              | <hr/>  | <hr/>  |
| <b>Loss on ordinary activities before taxation</b> |              | <b>(123,738)</b>                             | <b>(127,397)</b>                             |
| Taxation on loss on ordinary activities            | 6            | 37,121                                       | 38,219                                       |
|  |              | <hr/>  | <hr/>  |
| <b>Loss on ordinary activities after taxation</b>  |              | <b>(86,617)</b>                              | <b>(89,178)</b>                              |
|  |              | <hr/>  | <hr/>  |
| <b>Amounts transferred from reserves</b>           |              | <b>(86,617)</b>                              | <b>(89,178)</b>                              |
|  |              | <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

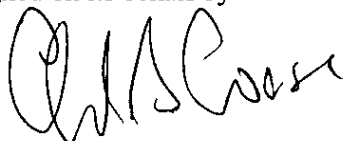
All results arise from continuing operations

**Balance sheet**

|                                       | <i>Notes</i> | <b>30 June 2006</b> |              | <b>30 June 2005</b> |              |
|---------------------------------------|--------------|---------------------|--------------|---------------------|--------------|
|                                       |              | <b>£'000</b>        | <b>£'000</b> | <b>£'000</b>        | <b>£'000</b> |
| <b>Fixed assets</b>                   |              |                     |              |                     |              |
| Investments                           | 7            |                     | 3,547,681    |                     | 3,547,681    |
| <b>Current assets</b>                 |              |                     |              |                     |              |
| Debtors due within one year           | 8            | 1,863,576           |              | 1,733,004           |              |
| <b>Creditors: due within one year</b> | 9            | (5,049,563)         |              | (4,832,374)         |              |
| <b>Net current liabilities</b>        |              |                     | (3,185,987)  |                     | (3,099,370)  |
| <b>Net assets</b>                     |              |                     | 361,694      |                     | 448,311      |
| <b>Capital and reserves</b>           |              |                     |              |                     |              |
| Called up share capital               | 10           |                     | 1,095,000    |                     | 1,095,000    |
| Profit and loss account               | 11           |                     | (733,306)    |                     | (646,689)    |
| <b>Equity shareholders' funds</b>     |              |                     | 361,694      |                     | 448,311      |

These financial statements on pages 6 to 13 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 also exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions (but not balances) with entities that are part of the Diageo plc group ("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

### **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 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

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.** FRS28 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 company's operations are based in the United Kingdom

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. Interest receivable**

|                                | <b>Year ended<br/>30 June 2006<br/>£'000</b> | <b>Year ended<br/>30 June 2005<br/>£'000</b> |
|--------------------------------|--|--|
| On loans to group undertakings | 97,518                                       | 96,493                                       |
| Other interest                 | -  | 1  |
| Foreign exchange gain          | -  | 1  |
|                                | <u>97,518</u>                                | <u>96,495</u>                                |

**5. Interest payable**

|                                  | <b>Year ended<br/>30 June 2006<br/>£'000</b> | <b>Year ended<br/>30 June 2005<br/>£'000</b> |
|----------------------------------|--|--|
| On loans from group undertakings | (221,251)                                    | (223,892)                                    |
| Other interest                   | (4)  | -  |
| Foreign exchange loss            | (1)  | -  |
|                                  | <u>(221,256)</u>                             | <u>(223,892)</u>                             |

**6. Taxation**

|  | <b>Year ended<br/>30 June 2006<br/>£'000</b> | <b>Year ended<br/>30 June 2005<br/>£'000</b> |
|--|--|--|
| <b>Factors affecting current tax charge for the year</b>                               |  |  |
| Loss on ordinary activities before taxation  | (123,738)                                    | (127,397)                                    |
|  | <u>                    </u>                  | <u>                    </u>                  |
| Taxation on loss on ordinary activities at UK corporation tax rate of 30% (2005 - 30%) | 37,121                                       | 38,219                                       |
|  | <u>                    </u>                  | <u>                    </u>                  |
| Current ordinary tax credit for the year   | 37,121                                       | 38,219                                       |
|  | <u>                    </u>                  | <u>                    </u>                  |

## Notes to the financial statements (continued)

### 7. Fixed Assets - investments

|                                  | Subsidiary<br>Undertakings<br>£'000 |
|----------------------------------|-------------------------------------|
| <b>Cost and net book value</b>   |                                     |
| At 30 June 2005 and 30 June 2006 | 3,547,681                           |

The subsidiary undertakings and the percentage of equity owned are as follows

|  | Country of<br>Incorporation | Principal activity         | Class and percentage<br>of shares held |
|--|-----------------------------|----------------------------|--|
| <b>Direct holdings:</b>                        |                             |                            |  |
| <b>Subsidiary undertakings</b>                 |                             |                            |  |
| Grand Metropolitan Irish Pension Trust Limited | Ireland                     | Investment Trust Company   | 100% holding, Ordinary                 |
| Grand Metropolitan Second Investments Limited  | England                     | Investment holding company | 100% holding, Deferred and Ordinary    |
| Grand Metropolitan Third Investments Limited   | England                     | Investment holding company | 100% holding, Deferred and Ordinary    |

The investments in subsidiary undertakings are held at cost less, where appropriate, provision for impairment in value

In the opinion of the directors, the investment in and amounts due from the company's subsidiary undertakings are worth at least the amount at which they are stated in the financial statements

### 8. Debtors

|   | 30 June 2006<br>£'000 | 30 June 2005<br>£'000 |
|---|-----------------------|-----------------------|
| Amounts owed by fellow group undertakings | 1,819,672             | 1,650,877             |
| Group relief receivable                   | 43,904                | 82,123                |
| Other debtors                             | -                     | 4                     |
|   | <u>1,863,576</u>      | <u>1,733,004</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.

The amounts owed by fellow group undertakings include the sum of £1,787,027,189 which bears interest at a floating rate. The remaining balance is interest free.

**Notes to the financial statements (continued)**

**9. Creditors: due within one year**

|   | <b>30 June 2006</b><br><b>£'000</b> | 30 June 2005<br>£'000 |
|---|-------------------------------------|-----------------------|
| Amounts owed to fellow group undertakings | <b>(5,049,563)</b>                  | (4,832,374)           |

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 bear interest at a floating rate.

**10. Share capital**

|   | <b>30 June 2006</b><br><b>£'000</b> | 30 June 2005<br>£'000 |
|---|-------------------------------------|-----------------------|
| <i><b>Authorised:</b></i>                         |                                     |                       |
| Equity - 4,300,000,000 ordinary shares of £1 each | <b>4,300,000</b>                    | 4,300,000             |
| 305,000,000 unclassified shares of £1 each        | <b>305,000</b>                      | 305,000               |
|   | <b>4,605,000</b>                    | 4,605,000             |
| <i><b>Allotted, called up and fully paid:</b></i> |                                     |                       |
| Equity - 1,095,000,000 ordinary shares of £1 each | <b>1,095,000</b>                    | 1,095,000             |
| 2 unclassified shares of £1 each                  | -                                   | -                     |
|   | <b>1,095,000</b>                    | 1,095,000             |

The unclassified and ordinary shares are entitled to one vote each.

**11. Reserves**

|  | <b>£'000</b>     |
|--|------------------|
| <i><b>Profit &amp; Loss Account:</b></i> |                  |
| At 30 June 2005                          | (646,689)        |
| Retained loss for year                   | (86,617)         |
| <b>At 30 June 2006</b>                   | <b>(733,306)</b> |

**Notes to the financial statements (continued)**

**12. Reconciliation of movement in shareholders' funds**

|   | <b>30 June 2006</b><br><b>£'000</b> | <b>30 June 2005</b><br><b>£'000</b> |
|---|-------------------------------------|-------------------------------------|
| Loss on ordinary activities after taxation  | <b>(86,617)</b>                     | <b>(89,178)</b>                     |
| <b>Net reduction in shareholders' funds</b> | <b>(86,617)</b>                     | <b>(89,178)</b>                     |
| Shareholders' funds at beginning of year    | <b>448,311</b>                      | <b>537,489</b>                      |
| <b>Shareholders' funds at end of year</b>   | <b>361,694</b>                      | <b>448,311</b>                      |

**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