

Grand Metropolitan Estates Limited

FINANCIAL STATEMENTS

30 JUNE 2003

Company Registration No. 367551



DIRECTORS' REPORT

The directors have pleasure in submitting their annual report, together with the audited financial statements, for the year ended 30 June 2003.

Activities

The principal activity of the company was the holding and management of property interests for Diageo plc. The directors foresee no changes in the company's activities.

Financial

The results for the year ended 30 June 2003 are shown on page 6. The directors do not recommend the payment of a dividend (2002 - £nil).

The profit for the year transferred to reserves is £15,046,000 (2002 - £28,158,000).

Directors

The directors who served during the year were as follows:

P S Binning
S M Bunn
D C Carter
M C Flynn (appointed 22 April 2003)
R H Myddelton (resigned 31 March 2003)
A Williams (resigned 18 April 2003)

P S Binning resigned on 3 October 2003 and R Rajagopal was appointed a director of the company on that date. R J Joy was appointed a director of the company on 20 April 2004.

Directors' emoluments

The emoluments of the directors are detailed in note 5 of these financial statements.

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 pence of the ultimate parent company, Diageo plc:-

DIRECTORS' REPORT (continued)

Directors' interests (continued)

(i) Ordinary shares and conditional rights to ordinary shares

	<u>Ordinary shares</u>		<u>Conditional rights to ordinary shares</u>				
	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
P S Binning	25,693	39,146	79,405	16,518	(16,971)	(1,911)	77,041
S M Bunn	2,853	3,351	-	-	-	-	-
D C Carter	8,432	9,087	-	-	-	-	-
M C Flynn	7,239	7,634	-	-	-	-	-

The directors were granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under certain long term incentive plans. 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

	At beginning of year (or date of appointment)	Granted in year	Exercised in year	At end of year
P S Binning	163,705	60,679	(1,513)	222,871
S M Bunn	20,786	11,866	(1,909)	30,743
D C Carter	57,867	10,946	-	68,813
M C Flynn	11,853	-	-	11,853

The directors held the above options under Diageo plc share option schemes at prices between 429p and 759p per ordinary share exercisable between 2003 and 2012. 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.

DIRECTORS' REPORT (continued)

Directors' interests (continued)

Options granted under the Senior Executive Share Option Plan ('SESOP') may not normally be exercised unless a performance condition is satisfied. The performance condition applicable to grants of options to date under the SESOP is linked to the increase in earnings per share and is initially applied over the three year period commencing on the date the options are granted. Full details of the performance condition are disclosed in the annual report of the ultimate holding company, Diageo plc.

Options granted during the year for P S Binning are options granted under the SESOP, which are subject to performance conditions as detailed above.

The mid-market share price of Diageo plc shares fluctuated between 582p and 851p during the year. The mid-market share price on 30 June 2003 was 647p.

At 30 June 2003, all the directors had an interest in 20,744,545 shares and 6,605,055 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes; P S Binning had an additional interest in 6,177,180 shares held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes; and D C Carter had an additional interest in 144,098 shares and 502,360 shares subject to call options held by a trust to satisfy grants made under ex-Grandmet incentive plans.

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 re-appointed on the expiry of its term in office in respect of the year ended 30 June 2003.

By order of the board



J Nicholls
Secretary

8 Henrietta Place, London, W1G 0NB

29 April 2004

**DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS**

The following statement, which should be read in conjunction with the independent auditor's report 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 the 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 THE GRAND METROPOLITAN ESTATES LIMITED**

We have audited the financial statements on pages 6 to 17.

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 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 an 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 2003 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

29 April 2004

PROFIT AND LOSS ACCOUNT

	Notes	Year ended 30 June 2003	Year ended 30 June 2002
		£000	£000
Turnover	2	7,817	8,059
Operating costs including exceptional credits of £3,047,000 (2002 - £10,090,000)	3	(6,513)	(631)
Operating profit		<u>1,304</u>	<u>7,428</u>
Profit on disposal of fixed assets	6	-	14
Interest receivable	7	<u>16,457</u>	<u>19,631</u>
Profit on ordinary activities before taxation	2	17,761	27,073
Tax on profit on ordinary activities	8	<u>(2,715)</u>	<u>1,085</u>
Transferred to reserves	16	<u>15,046</u>	<u>28,158</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 30 June 2003	Year ended 30 June 2002
	£000	£000
Total recognised gains for the financial year	15,046	28,158
Prior year adjustment	<u>-</u>	<u>112</u>
Total recognised gains since the last financial statements	<u>15,046</u>	<u>28,270</u>

The notes on pages 8 to 17 form part of these financial statements.

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

BALANCE SHEET

		<u>30 June 2003</u>	<u>30 June 2002</u>
	Notes	£000	£000
Fixed assets			
Tangible assets	9	8,117	8,185
Investments	10	<u>680</u>	<u>680</u>
		8,797	8,865
Current assets			
Debtors - due within one year	11	422,633	1,080,441
Debtors - due after one year	11	4,638	4,638
Cash at bank and in hand	12	<u>24,058</u>	<u>22,222</u>
		<u>451,329</u>	<u>1,107,301</u>
Creditors - due within one year			
Other creditors	13	<u>(336,938)</u>	<u>(1,007,454)</u>
Net current assets		<u>114,391</u>	<u>99,847</u>
Total assets less current liabilities		<u>123,188</u>	<u>108,712</u>
Provisions for liabilities and charges	14	<u>(24,859)</u>	<u>(25,429)</u>
		<u>98,329</u>	<u>83,283</u>
Capital and reserves			
Called up share capital	15	2	2
Other reserve	16	41	41
Profit and loss account	16	<u>98,286</u>	<u>83,240</u>
Reserves attributable to equity shareholders		98,327	83,281
Shareholders' funds		<u>98,329</u>	<u>83,283</u>

The notes on pages 8 to 17 form part of these financial statements.

The financial statements on pages 6 to 17 were approved by the board of directors on 29 April 2004 and signed on its behalf by:


R Rajagopal
Director

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Basis of preparation

The financial statements of the company have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. The bases used are consistent with those used in the previous year.

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. These financial statements present information about the company as an individual undertaking and not about its group.

Tangible fixed assets

Fixed assets are stated at cost less depreciation and provisions.

Freehold land is not depreciated. Leaseholds are depreciated over the unexpired period of the lease.

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

Profit or loss on the sale of a property is the difference between the disposal proceeds and the net book value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

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 diminution in values where such diminution is expected by the directors to be permanent.

Leases

Where the company 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 profit and loss account on a straight line basis over the life of the lease.

The company has adopted Urgent Issues Task Force Abstract 28 (UITF 28), 'Operating lease incentives' in these accounts.

Deferred taxation

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

New accounting standard

The financial statements comply with the following new Financial Reporting Standard issued by the UK Accounting Standards Board.

FRS 17 – Retirement benefits. This standard replaces the use of actuarial values for assets in a pension scheme in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the standard requires that the profit and loss account shows the relatively stable ongoing service cost, interest cost and expected return on assets. Fluctuations in market values and changes in actuarial assumptions are reflected in the statement of total recognised gains and losses. The employees of the company are members of the Diageo UK pension fund. The assets and liabilities of the Diageo UK pension fund cannot be separately identified or attributed to Grand Metropolitan Estates Limited. The Diageo group has continued to account for pensions and other post employment benefits in accordance with SSAP 24 but has complied with the transitional disclosure requirements of FRS 17. The disclosures required by FRS 17 for the Diageo UK pension fund are included in the consolidated financial statements of Diageo plc which are publicly available.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Analysis of turnover and profit before taxation

The turnover and profit on ordinary activities before taxation are attributable to one class of business, that of property management, all of which is carried out in the United Kingdom.

3. Operating costs

	<u>Year ended</u> <u>30 June 2003</u> £000	<u>Year ended</u> <u>30 June 2002</u> £000
Operating lease rentals (a)	4,582	(1,533)
Staff costs (note 4)	403	391
Depreciation of tangible fixed assets	33	51
Writedown of leasehold property	35	75
Other operating costs (b)	<u>1,460</u>	<u>1,647</u>
	<u>6,513</u>	<u>631</u>

(a) All operating lease rentals are in respect of properties. Exceptional credits of £3,047,000 (2002 - £10,090,000) are included in operating lease rentals for the year ended 30 June 2003. The credits represent the partial release of the provision for the estimated discounted rental shortfall in respect of vacant properties (note 14).

(b) Other operating costs include a credit of irrecoverable VAT of £125,735 (2002 - cost of £236,000).

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 (2002: £nil).

4. Staff costs

The average number of employees, including directors, during the year was:

	<u>Year ended</u> <u>30 June 2003</u>	<u>Year ended</u> <u>30 June 2002</u>
Full time	<u>4</u>	<u>4</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

The aggregate remuneration of all employees comprised:

	<u>Year ended 30 June 2003</u>	<u>Year ended 30 June 2002</u>
	£000	£000
Wages and salaries	363	350
Employer's social security costs	<u>40</u>	<u>41</u>
	<u>403</u>	<u>391</u>

5. Directors' emoluments

	<u>Year ended 30 June 2003</u>	<u>Year ended 30 June 2002</u>
	£000	£000
Emoluments (including pension contributions)	<u>220</u>	<u>359</u>

Only one director received emoluments for their services to the company during the year. They are a member of a defined benefit scheme under which their accrued annual pension at the year end was £63,613 (2002 : £58,228).

Details of the directors' share interests are included in the directors' report on pages 1 to 3.

6. Disposal of fixed assets

	<u>Year ended 30 June 2003</u>	<u>Year ended 30 June 2002</u>
	£000	£000
Profit on sale of properties	<u>-</u>	<u>14</u>

The tax charge on these items in 2003 amounted to £nil (2002: £nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Interest receivable (net)

	Year ended 30 June 2003 £000	Year ended 30 June 2002 £000
On cash at bank	1,162	1,059
Loans to group undertakings	<u>16,633</u>	<u>20,419</u>
	17,795	21,478
Less: Interest charge on vacant property provision	<u>(1,338)</u>	<u>(1,847)</u>
	<u>16,457</u>	<u>19,631</u>

8. Taxation

	Year ended 30 June 2003 £000	Year ended 30 June 2002 £000
(i) Taxation on profit on ordinary activities		
Current tax		
UK corporation tax at 30% (2002: 30%)	-	-
Adjustment in respect of prior year	<u>-</u>	<u>(146)</u>
	-	(146)
Deferred tax		
Charge / (Credit) for the year	20	(13)
Adjustment in respect of prior year	<u>(2,735)</u>	<u>1,244</u>
	<u>(2,715)</u>	<u>1,085</u>

	Year ended 30 June 2003 £000	Year ended 30 June 2002 £000
(ii) Factors affecting current tax credit for the year		
Profit on ordinary activities before taxation	<u>17,761</u>	<u>27,073</u>
Corporation tax @ 30% (30% - 2002)	(5,328)	(8,122)
Group relief received for nil consideration	5,546	8,070
Depreciation in excess of capital allowances	(20)	90
Items not deductible/(chargeable) for tax purposes	(198)	(38)
Adjustment in respect of prior years	<u>-</u>	<u>(146)</u>
Total current tax (charge) / credit for the year	=	<u>(146)</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Fixed tangible assets

	<u>Land and buildings</u> £000
Cost:	
At 30 June 2002	10,211
Additions	<u>-</u>
At 30 June 2003	<u>10,211</u>
Depreciation:	
At 30 June 2002	2,026
Provided during the year	33
Writedown of leasehold property	<u>35</u>
At 30 June 2003	<u>2,094</u>
Net book value:	
At 30 June 2003	<u>8,117</u>
At 30 June 2002	<u>8,185</u>

The net book value of land and buildings comprises:

	<u>Year ended 30 June 2003</u> £000	<u>Year ended 30 June 2002</u> £000
Freehold	7,336	7,336
Long leasehold	588	611
Short leasehold	<u>193</u>	<u>238</u>
	<u>8,117</u>	<u>8,185</u>

Included in the net book value of freehold properties is £7,336,000 (2002: £7,336,000) in respect of land on which no depreciation is charged.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Fixed assets - investments

30 June 2003
£000

At beginning and end of year 680

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

<u>Subsidiary undertakings</u>	<u>Country of incorporation</u>	<u>Principal activity</u>	<u>Class and percentage of shares held</u>
Grand Metropolitan Estate Holdings Limited	England & Wales	Investment holding company	100 % ordinary shares
Grand Metropolitan Estates (Developments) Limited	England & Wales	Property development	100 % ordinary shares
Grand Metropolitan Gibraltar Limited	Gibraltar	Non Trading	100 % ordinary shares
GMEI Property Management Limited	England & Wales	Dormant	100 % ordinary shares
Grand Metropolitan Estates Property Management Services Limited	England & Wales	Dormant	100 % ordinary shares
<u>Associated undertakings</u>			
Trafalgar Metropolitan Homes Limited	England & Wales	Property development	50 % ordinary shares

The investments in subsidiary and associated undertakings are held at cost. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Debtors

	<u>30 June 2003</u>		<u>30 June 2002</u>	
	Due within one year £000	Due after one year £000	Due within one year £000	Due after one year £000
Trade debtors	2,692	-	1,961	-
Amounts owed by fellow group undertakings	411,372	-	1,069,866	-
Other debtors	325	-	152	-
Pension prepayment	-	4,638	-	4,638
Other prepayments and accrued income	4,463	-	4,054	-
Deferred taxation	-	-	627	-
Corporate taxation recoverable	3,781	-	3,781	-
	<u>422,633</u>	<u>4,638</u>	<u>1,080,441</u>	<u>4,638</u>

12. Cash at bank and in hand

The company has entered into a joint and several guarantee with certain other Diageo plc UK subsidiary undertakings such that any balance on the company's bank accounts within the cashpool may be offset against the bank balances or overdrafts of those companies included in the cashpool.

13. Other creditors – due within one year

	<u>30 June 2003</u> £000	<u>30 June 2002</u> £000
Amounts owed to fellow group undertakings	331,004	1,001,692
Other creditors	1,208	19
Accruals and deferred income	4,726	5,743
	<u>336,938</u>	<u>1,007,454</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Provisions for liabilities and charges

	<u>Deferred taxation</u> £000	<u>Disposal provisions</u> £000	<u>Other provisions</u> £000	<u>Total provisions</u> £000
At 30 June 2002	-	700	24,729	25,429
Transfer from debtors	(627)	-	-	(627)
Utilised	-	48	(397)	(349)
Profit and loss account charge	<u>2,715</u>	<u>-</u>	<u>(2,309)</u>	<u>406</u>
At 30 June 2003	<u>2,088</u>	<u>748</u>	<u>22,023</u>	<u>24,859</u>

Other provisions include £20,992,000 (2002 - £23,084,000) for the estimated discounted rental shortfall in respect of vacant properties.

Deferred taxation

	<u>ACA</u> £000	<u>Other timing differences</u> £000	<u>Total provision</u> £000
At 30 June 2002 Deferred tax asset	0	627	627
Profit and loss charge for the year	<u>(1,041)</u>	<u>(1,674)</u>	<u>(2,715)</u>
At 30 June 2003 Deferred tax liability	<u>(1,041)</u>	<u>(1,047)</u>	<u>(2,088)</u>

15. Share capital

	<u>30 June 2003</u> £000	<u>30 June 2002</u> £000
Authorised, allotted, called up and fully paid		
Equity - 1,200 ordinary shares of £1 each	1	1
Non-equity - 1,200 7 % cumulative preference shares of £1 each	1	1
	<u>2</u>	<u>2</u>

16. Reserves

	<u>Other reserve</u> £000	<u>Profit and loss account</u> £000	<u>Total</u> £000
At 30 June 2002	41	83,240	83,281
Retained profit for year	<u>-</u>	<u>15,046</u>	<u>15,046</u>
At 30 June 2003	<u>41</u>	<u>98,286</u>	<u>98,327</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Reconciliation of movements in shareholders funds

	<u>30 June 2003</u> £000	<u>30 June 2002</u> £000
Profit for the financial year	15,046	28,158
Shareholders funds at the beginning of the year	<u>83,283</u>	<u>55,125</u>
Shareholders funds at the end of the year	<u>98,329</u>	<u>83,283</u>

18. Commitments

At 30 June 2003 the company had minimum annual commitments under non-cancellable operating leases as follows:

	<u>30 June 2003</u> Land and buildings £000	<u>30 June 2002</u> Land and buildings £000
<i>Operating leases which expire:</i>		
After five years	5,604	6,803
From one to five years	1,866	1,413
Within one year	<u>453</u>	<u>215</u>
	<u>7,923</u>	<u>8,431</u>

19. Immediate and ultimate parent undertaking

The company is a wholly owned subsidiary of 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.