

GRAND METROPOLITAN ESTATES LIMITED

Financial statements 30 June 2007

Registered number: 367551



Year ended 30 June 2007

Directors' report

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2007

Activities

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

Business Review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2007

Grand Metropolitan Estates Limited manages freehold and leasehold properties held in its own name or by other Diageo group companies. The portfolio comprises mainly long leasehold properties in addition to several short leasehold properties and privity contracts. Properties are sub-let to third parties through external agents. Further income arises from interest received on financial assets of Grand Metropolitan Estates Limited invested by another group company.

During the financial year ended 30 June 2007 there were no significant changes to the nature or performance of the business or the property portfolio.

Principal risks and uncertainties facing the company as at 30 June 2007

The principal risks and uncertainties facing the company are as follows:

In relation to the sub-letting of leasehold properties to third parties, if any sub-tenant of the company were to breach the terms of its payment obligations under the lease or become insolvent, there would be a detrimental effect on the company's income stream and a risk that the company's business performance would be adversely affected.

The company may have a claim for former tenant liability lodged against it under the Landlord and Tenant (Covenants) Act 1995 if any of its assignees or subsequent assignees were to breach their obligations pursuant to the terms of the lease assigned by the company. If such a claim were to be lodged against the company, there is a risk that the company's business performance would be adversely affected.

Financial and other key performance indicators

The directors do not consider that analysis using key performance indicators is necessary (or appropriate) for an understanding of the development, performance or position of the business of the company, or that there are any factors by reference to which any meaningful analysis of the development, performance or position of the business of the company could be carried out.

The principal key performance indicators that are used to assess the performance of the Diageo group as a whole are described in the Business Review contained within the annual report of Diageo plc.

Year ended 30 June 2007**Directors' report (continued)****Business Review (continued)***Notes*

The information in this review has been prepared only for the purpose of complying with the requirements of section 234ZZB (*Directors' report business review*) of the Companies Act 1985. The information in this review does not constitute an offer to sell or an invitation to buy shares in the company (or any other company within the Diageo group) or constitute any other invitation or inducement to engage in investment activities. Any reader seeking information on the business and/or results of the Diageo group is directed to the annual report of Diageo plc (the company's ultimate parent undertaking). Past performance cannot be relied upon as a guide to future performance.

Financial

The results for the year ended 30 June 2007 are shown on page 6.

The directors do not recommend the payment of a dividend (2006 - £nil).

The profit for the year transferred to reserves is £26,379,000 (2006 - £25,632,000).

Directors

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

| | |
|---------------|---------------------------|
| S M Bunn | |
| D C Carter | |
| C D Coase | |
| G P Crickmore | (appointed 28 June 2007) |
| M C Flynn | |
| R J Joy | (resigned 22 June 2007) |
| J Kyne | (appointed 28 June 2007) |
| M J Lester | (resigned 31 August 2006) |
| N Makos | (appointed 27 July 2006) |
| C R R Marsh | |
| S C Moore | (appointed 28 June 2007) |

C R R Marsh resigned as a director of the company on 30 September 2007.

Directors' emoluments

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

Year ended 30 June 2007

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 re-appointed on the expiry of its term in office in respect of the year ended 30 June 2007.

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



G P Crickmore

Director

8 Henrietta Place, London W1G 0NB

December 2007

Year ended 30 June 2007

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.

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

We have audited the financial statements of Grand Metropolitan Estates Limited for the year ended 30 June 2007 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 with the company 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 2007 and of its profit 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

20 March 2008

Year ended 30 June 2007

Profit and Loss account

| | Notes | Year ended 30 June 2007 £000 | Year ended 30 June 2006 £000 |
|---|-------|------------------------------------|------------------------------------|
| Turnover | 2 | 4,154 | 5,598 |
| Operating costs including exceptional credits of £1,120,000 (2006 - £2,114,000) | 3 | (3,513) | (3,310) |
| Operating profit | | 641 | 2,288 |
| Dividend received from Grand Metropolitan Gibraltar Limited | | - | 32 |
| Net interest receivable | 6 | 26,149 | 23,047 |
| Profit on ordinary activities before taxation | | 26,790 | 25,367 |
| Taxation on profit on ordinary activities | 7 | (411) | 265 |
| Profit on ordinary activities after taxation | 16 | 26,379 | 25,632 |

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

Year ended 30 June 2007

Balance sheet

| | Notes | 30 June 2007 | | 30 June 2006 | |
|---|-------|------------------|-----------------------|------------------|-----------------------|
| | | £000 | £000 | £000 | £000 |
| Fixed assets | | | | | |
| Tangible assets | 8 | | 3,144 | | 3,074 |
| Investments | 9 | | - | | - |
| | | | <u>3,144</u> | | <u>3,074</u> |
| Current assets | | | | | |
| Debtors - due within one year | 10 | 468,865 | | 456,576 | |
| Cash at bank and in hand | 11 | 60,502 | | 52,011 | |
| | | <u>529,367</u> | | <u>508,587</u> | |
| Creditors - due within one year | | | | | |
| Other creditors | 12 | <u>(337,681)</u> | | <u>(339,486)</u> | |
| Net current assets | | | <u>191,686</u> | | <u>169,101</u> |
| Total assets less current liabilities | | | <u>194,830</u> | | <u>172,175</u> |
| Creditors - due after one year | 13 | | (1) | | (1) |
| Provisions for liabilities and charges | 14 | | <u>(7,792)</u> | | <u>(11,516)</u> |
| Net assets | | | <u><u>187,037</u></u> | | <u><u>160,658</u></u> |
| Capital and reserves | | | | | |
| Called up share capital | 15 | | 1 | | 1 |
| Other reserve | 16 | 41 | | 41 | |
| Profit and loss account | 16 | <u>186,995</u> | | <u>160,616</u> | |
| Reserves attributable to equity shareholders | | | <u>187,036</u> | | <u>160,657</u> |
| Equity shareholders' funds | 17 | | <u><u>187,037</u></u> | | <u><u>160,658</u></u> |

These financial statements on pages 6 to 17 were approved by the board of directors on 20 December 2007 and signed on its behalf by


N Makos
Director

Year ended 30 June 2007

Notes to the financial statements

1. 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

The accounting policies of the company are consistent with those applied last year

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

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

Tangible fixed assets

Fixed assets are stated at cost less depreciation

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

Fixed asset investments

Income from fixed asset investments is credited to the profit and loss account when it is approved 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

Leases

The company is involved in lease agreements which 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

Operating lease income is recognized on a straight-line basis over the lease period even if the receipts of lease income are not on such a basis

Year ended 30 June 2007

Notes to the financial statements (continued)**1. Accounting policies (continued)****Exceptional items**

Exceptional items are those that, in management's judgement, need to be disclosed by virtue of their size or incidence. Such items are included within the profit and loss account caption to which they relate and are separately disclosed either in the notes to the financial statements or on the face of the profit and loss account.

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 tax computations using current tax rates. The company does not discount these balances.

2. Analysis of turnover and profit on ordinary activities 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.

The directors have taken advantage of the exemption from full disclosure of segmental information required by Statement of Standard Accounting Practice No. 25 as the company is a wholly owned subsidiary. Segmental disclosures are provided in the accounts of the ultimate parent company, Diageo plc.

3. Operating costs

| | Year ended 30 June 2007 | Year ended 30 June 2006 |
|---------------------------------------|----------------------------|----------------------------|
| | £000 | £000 |
| Operating lease rentals (a) | 2,004 | 2,485 |
| Depreciation of tangible fixed assets | 26 | 23 |
| Other operating costs | 1,483 | 802 |
| | <u>3,513</u> | <u>3,310</u> |

(a) All operating lease rentals are in respect of properties, which are net of utilisation of £3,572,000 of a provision established in prior periods in respect of vacant properties. In addition operating lease rentals are net of an exceptional credit of £1,120,000 (2006 - £2,114,000) for the year ended 30 June 2007 in respect of a reduction in the provision for vacant properties (note 14).

The auditor's remuneration of £2,341 (2006 - £2,341) was settled on behalf of the company by a fellow group undertaking. There were no fees payable to the auditor in respect of non-audit services (2006 - £nil).

Year ended 30 June 2007

Notes to the financial statements (continued)

4. Staff costs

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

5. Directors' emoluments

None of the directors received any remuneration during the financial year in respect of their services as directors of the company (2006 - £nil)

6. Interest receivable (net)

| | Year ended 30 June 2007 £000 | Year ended 30 June 2006 £000 |
|---|------------------------------------|------------------------------------|
| On cash at bank | 3,355 | 2,301 |
| On loans to group undertakings | 23,351 | 21,625 |
| | <u>26,706</u> | <u>23,926</u> |
| Less | | |
| Unwind of discount on vacant property provision | (557) | (879) |
| | <u>26,149</u> | <u>23,047</u> |

Year ended 30 June 2007

Notes to the financial statements (continued)

7. Taxation

| | Year ended 30 June 2007 £000 | Year ended 30 June 2006 £000 |
|---|------------------------------------|------------------------------------|
| (i) Analysis of taxation charge for the year | | |
| Deferred tax | | |
| UK | (53) | 294 |
| Change in tax rate | 3 | - |
| Adjustment in respect of prior years | (361) | (29) |
| | <u>(411)</u> | <u>265</u> |
| Taxation (charge)/credit for the year | <u>(411)</u> | <u>265</u> |

| | Year ended 30 June 2007 £000 | Year ended 30 June 2006 £000 |
|--|------------------------------------|------------------------------------|
| (ii) Factors affecting current tax charge for the year | | |
| Profit on ordinary activities before taxation | <u>26,790</u> | <u>25,367</u> |
| Taxation charge on profits on ordinary activities at UK corporation tax rate of 30% (2006 – 30%) | (8,037) | (7,610) |
| Accelerated capital allowances and other timing differences | 53 | (294) |
| Items not chargeable for tax purposes | - | (251) |
| Items not deductible for tax purposes | (290) | - |
| Group relief received for nil consideration | <u>8,274</u> | <u>8,155</u> |
| Taxation for the year | <u>-</u> | <u>-</u> |

Year ended 30 June 2007

Notes to the financial statements (continued)

8. Tangible fixed assets

| | Land and buildings £000 |
|--------------------------|--|
| Cost: | |
| At 30 June 2006 | 5,135 |
| Transfer | 150 |
| At 30 June 2007 | <u>5,285</u> |
| Depreciation: | |
| At 30 June 2006 | 2,061 |
| Provided during the year | 26 |
| Transfer | 54 |
| At 30 June 2007 | <u>2,141</u> |
| Net book value: | |
| At 30 June 2007 | <u>3,144</u> |
| At 30 June 2006 | <u>3,074</u> |

The net book value of land and buildings comprises

| | Year ended 30 June 2007 £000 | Year ended 30 June 2006 £000 |
|-----------------|---|---|
| Freehold | 2,536 | 2,536 |
| Long leasehold | 500 | 500 |
| Short leasehold | 108 | 38 |
| | <u>3,144</u> | <u>3,074</u> |

Included in the net book value of freehold properties is £2,536,000 (2006 - £2,536,000) in respect of land on which no depreciation is charged

Year ended 30 June 2007

Notes to the financial statements (continued)

9. Fixed assets - investments

| | Subsidiary and associated undertakings £000 |
|----------------------------------|--|
| Cost | |
| At 30 June 2006 and 30 June 2007 | 680 |
| Provisions | |
| At 30 June 2006 and 30 June 2007 | (680) |
| Net book value | |
| At 30 June 2007 and 30 June 2006 | - |

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

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

Grand Metropolitan Gibraltar Limited, a former subsidiary undertaking of the company, was dissolved during the previous financial year (2006)

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

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

Year ended 30 June 2007

Notes to the financial statements (continued)

10. Debtors

| | Year ended 30 June 2007 | Year ended 30 June 2006 |
|---|----------------------------|----------------------------|
| | £000 | £000 |
| Trade debtors | 1,229 | 2,272 |
| Amounts owed by fellow group undertakings | 462,944 | 450,206 |
| Other debtors | 190 | 143 |
| Other prepayments and accrued income | 4,370 | 3,863 |
| VAT recoverable | 132 | 92 |
| | <u>468,865</u> | <u>456,576</u> |

All amounts fall due within one year

11. Cash at bank and in hand

The company has entered into a joint and several guarantee with certain other Diageo plc UK group 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

12. Other creditors – due within one year

| | Year ended 30 June 2007 | Year ended 30 June 2006 |
|---|----------------------------|----------------------------|
| | £000 | £000 |
| Amounts owed to fellow group undertakings | 333,477 | 334,615 |
| Other creditors | 869 | 852 |
| Accruals and deferred income | 3,335 | 4,019 |
| | <u>337,681</u> | <u>339,486</u> |

13. Other creditors – due after one year

| | Year ended 30 June 2007 | Year ended 30 June 2006 |
|-----------------------------|----------------------------|----------------------------|
| | £000 | £000 |
| Other financial liabilities | <u>1</u> | <u>1</u> |

The Other financial liabilities comprise 1,200 7% cumulative preference shares of £1 each

Year ended 30 June 2007

Notes to the financial statements (continued)

14. Provisions for liabilities and charges

| | Deferred taxation £000 | Other provisions £000 | Total provisions £000 |
|---|------------------------------|-----------------------------|-----------------------------|
| At 30 June 2006 | (371) | 11,887 | 11,516 |
| Utilised | - | (3,572) | (3,572) |
| Profit and loss account credit/(charge) | 411 | (1,120) | (709) |
| Unwind of discount on vacant property provision | - | 557 | 557 |
| At 30 June 2007 | 40 | 7,752 | 7,792 |

Other provisions comprise £7,752,000 (2006 - £11,887,000) for the estimated discounted rental shortfall in respect of vacant properties

Deferred tax liabilities comprise

| | Year ended 30 June 2007 £000 | Year ended 30 June 2006 £000 |
|--------------------------------|------------------------------------|------------------------------------|
| Accelerated capital allowances | 147 | 78 |
| Other timing differences | (107) | (449) |
| | 40 | (371) |

15. Share capital

| | Year ended 30 June 2007 £000 | Year ended 30 June 2006 £000 |
|---|------------------------------------|------------------------------------|
| Authorised, allotted, called up and fully paid Equity - 1,200 ordinary shares of £1 each | 1 | 1 |

Year ended 30 June 2007

Notes to the financial statements (continued)

16. Reserves

| | Other reserve | Profit and loss account | Total |
|---------------------|---------------|----------------------------|---------|
| | £000 | £000 | £000 |
| At 30 June 2006 | 41 | 160,616 | 160,657 |
| Profit for the year | - | 26,379 | 26,379 |
| | <hr/> | <hr/> | <hr/> |
| At 30 June 2007 | 41 | 186,995 | 187,036 |
| | <hr/> | <hr/> | <hr/> |

17. Reconciliation of movement in shareholders funds

| | Year ended 30 June 2007 | Year ended 30 June 2006 |
|--|----------------------------|----------------------------|
| | £000 | £000 |
| Shareholders' funds at 30 June 2006 | 160,658 | 135,026 |
| Profit on ordinary activities after taxation | 26,379 | 25,632 |
| | <hr/> | <hr/> |
| Shareholders' funds at 30 June 2007 | 187,037 | 160,658 |
| | <hr/> | <hr/> |

18. Commitments

At 30 June 2007 the company had minimum annual commitments under non-cancellable operating leases as follows

| | Year ended 30 June 2007 | Year ended 30 June 2006 |
|--------------------------------------|----------------------------|----------------------------|
| | Land and buildings | Land and buildings |
| | £000 | £000 |
| <i>Operating leases which expire</i> | | |
| After five years | 2,297 | 2,205 |
| From one to five years | 3,492 | 4,223 |
| Within one year | 9 | 34 |
| | <hr/> | <hr/> |
| | 5,798 | 6,462 |
| | <hr/> | <hr/> |

Year ended 30 June 2007

Notes to the financial statements (continued)

18. Commitments (continued)

Of these amounts payable in the year ending 30 June 2008 £1,885,000 have been provided for in the provision for vacant properties

19. 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