

Grand Metropolitan Estates Limited

FINANCIAL STATEMENTS

30 JUNE 2005

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 2005.

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 2005 are shown on page 6. The directors do not recommend the payment of a dividend (2004 - £nil).

The profit for the year transferred to reserves is £20,845,000 (2004 - £19,100,000).

Directors

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

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

Directors' emoluments

The emoluments of the directors are detailed in note 4 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 each in 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
S M Bunn	1,088	128	-	-	-	-	-
D C Carter	9,807	12,289	-	-	-	-	-
C D Coase	14,207	14,207	-	-	-	-	-
M C Flynn	9,927	11,743	-	-	-	-	-
R J Joy	44,481	48,283	26,321	4,746	(7,819)	(465)	22,783
M J Lester	30,945	26,306	30,790	-	-	-	30,790

The directors were 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

	At beginning of year (or date of appointment)	<u>Options over ordinary shares</u>		At end of year
		Granted in year	Exercised in year	
S M Bunn	46,319	15,434	(9,316)	52,437
D C Carter	69,645	8,976	(27,316)	51,305
C D Coase	141,269	-	-	141,269
M C Flynn	15,590	3,490	(1,089)	17,991
R J Joy	241,263 (22,248 ADS and 152,271 ord. Shares)	30,236	(88,992) (22,248 ADS)	182,507
M J Lester	113,567	-	-	113,567

DIRECTORS' REPORT (continued)

Directors' interests (continued)

The directors held the above options under Diageo plc share option schemes at prices between 460 pence and 863 pence per ordinary share exercisable between 2005 and 2014. US grants were at prices between US\$25.21 and US\$29.38 per ADS. US options were granted over ADSs at dollar prices (one ADS is equivalent to four ordinary shares). Certain options granted in the Republic of Ireland were granted at a price of Euros 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.

Options granted under one of the schemes, 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 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 for R J Joy are principally 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 658 pence and 824 pence during the year. The mid-market share price on 30 June 2005 was 823 pence.

At 30 June 2005, all the directors had an interest in 21,465,587 shares and 8,233,337 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes. In addition, R J Joy had a further interest in 6,279,065 shares held by a trust to satisfy grants made under Diageo incentive plans and savings related share option schemes. Also on that date, R J Joy had an additional interest in 459,180 shares and 544,246 shares subject to call options, held by trusts 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 2005.

By order of the board



J Nicholls
Secretary

8 Henrietta Place, London, W1G 0NB

5 January 2006

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RELATION TO THE FINANCIAL STATEMENTS**

The following statement, which should be read in conjunction with the independent auditor's report on page 5, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss for the financial year.

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

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

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

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF GRAND METROPOLITAN 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 our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

10 January 2006

PROFIT AND LOSS ACCOUNT

	Notes	Year ended 30 June 2005	Year ended 30 June 2004
		£000	£000
Turnover	2	7,195	6,759
Operating costs including exceptional debits of £133,000 (2004 - credits of £7,104,000)	3	(8,388)	(382)
Operating (loss) / profit		<u>(1,193)</u>	<u>6,377</u>
Loss on disposal of fixed assets	5	(466)	(75)
Interest receivable	6	<u>22,876</u>	<u>19,463</u>
Profit on ordinary activities before taxation	2	21,217	25,765
Tax on profit on ordinary activities	7	<u>(372)</u>	<u>(6,665)</u>
Transferred to reserves	15	<u>20,845</u>	<u>19,100</u>

There are no recognised gains and losses other than the result for the year and consequently a statement of total recognised gains and losses has not been presented as part of the financial statements.

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

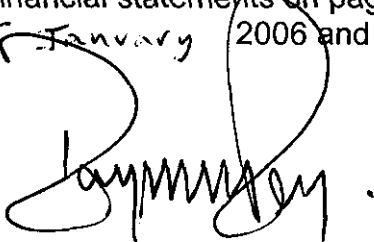
All results arise from continuing operations.

BALANCE SHEET

	Notes	30 June 2005		30 June 2004	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	8		3,097		8,009
Investments	9		<u>-</u>		<u>-</u>
			3,097		8,009
Current assets					
Debtors - due within one year	10	448,419		432,395	
Cash at bank and in hand	11	<u>36,160</u>		<u>27,910</u>	
		484,579		460,305	
Creditors - due within one year					
Other creditors	12	<u>(337,365)</u>		<u>(338,194)</u>	
Net current assets			147,214		122,111
Total assets less current liabilities			<u>150,311</u>		<u>130,120</u>
Provisions for liabilities and charges	13		<u>(15,284)</u>		<u>(15,938)</u>
			<u>135,027</u>		<u>114,182</u>
Capital and reserves					
Called up share capital	14		2		2
Other reserve	15	41		41	
Profit and loss account	15	<u>134,984</u>		<u>114,139</u>	
Reserves attributable to equity shareholders			135,025		114,180
Total shareholders' funds			<u>135,027</u>		<u>114,182</u>

These financial statements on pages 6 to 17 were approved by the board of directors on 5 January 2006 and signed on its behalf by:

R J Joy
Director



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.

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.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Pensions and other post employment benefits

The former employees of the company are members of the Diageo UK pension plan. With effect from 1 July 2004, the Diageo group adopted FRS 17 – *Retirement Benefits* in its consolidated financial statements.

FRS 17 shows the relatively stable ongoing service cost, the expected return on assets and the interest on the liabilities. Differences between expected and actual return on assets and the impact on the liabilities of changes in assumptions, are reflected in the statements of total recognised gains and losses.

It is not possible to allocate the assets and liabilities of the pension plan between individual companies and therefore the company accounts for it as a defined contribution scheme. The assets and liabilities of the Diageo UK pension plan are recognised in the Diageo plc consolidated financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 2005	Year ended 30 June 2004
	£000	£000
Operating lease rentals (a)	6,683	555
Depreciation of tangible fixed assets	22	33
Other operating costs / (credits)	<u>1,683</u>	<u>(206)</u>
	<u>8,388</u>	<u>382</u>

(a) All operating lease rentals are in respect of properties. Exceptional debits of £133,000 (2004 - credits of £7,104,000) are included in operating lease rentals for the year ended 30 June 2005. The debits and credits represent the movement of the provision for the estimated discounted rental shortfall in respect of vacant properties (note 13).

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

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

4. Directors' emoluments

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

All of the directors are members of the Diageo UK pension fund which is a defined benefit scheme.

Details of the directors' share interests and any share options exercised during the year are included in the directors' report on pages 1 to 3.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Disposal of fixed assets

	<u>Year ended</u> <u>30 June 2005</u> £000	<u>Year ended</u> <u>30 June 2004</u> £000
Loss on sale of leasehold assets	-	75
Loss on sale of freehold properties	<u>466</u>	<u>-</u>

The tax charge on these items in 2005 amounted to £nil (2004 - £nil).

6. Interest receivable (net)

	<u>Year ended</u> <u>30 June 2005</u> £000	<u>Year ended</u> <u>30 June 2004</u> £000
On cash at bank	2,487	1,286
Loans to group undertakings	<u>21,238</u>	<u>19,345</u>
	23,725	20,631
Less: Interest charge on vacant property provision	<u>(849)</u>	<u>(1,168)</u>
	<u>22,876</u>	<u>19,463</u>

7. Taxation

	<u>Year ended</u> <u>30 June 2005</u> £000	<u>Year ended</u> <u>30 June 2004</u> £000
(i) Analysis of taxation charge for the year		
Current tax		
Payment for group relief received	-	(7,729)
UK corporation tax at 30% (2004: 30%)	-	-
Adjustment in respect of prior years	<u>(111)</u>	<u>-</u>
	(111)	(7,729)
Deferred tax		
UK	(253)	(172)
Adjustment in respect of prior years	<u>(8)</u>	<u>1,236</u>
	<u>(261)</u>	<u>1,064</u>
Taxation charge for the year	<u>(372)</u>	<u>(6,665)</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Taxation (continued)

	Year ended 30 June 2005 £000	Year ended 30 June 2004 £000
(ii) Factors affecting current tax charge for the year		
Profit on ordinary activities before taxation	<u>21,217</u>	<u>25,765</u>
Taxation charge on profits on ordinary activities at UK corporation tax rate of 30% (2004 – 30%)	(6,365)	(7,730)
Group relief received for nil consideration	6,248	-
Accelerated capital allowances and other timing differences	253	50
Items not chargeable for tax purposes	(136)	(49)
Adjustments to tax charge in respect of prior years	<u>(111)</u>	<u>-</u>
Total current tax charge for the year	<u><u>(111)</u></u>	<u><u>(7,729)</u></u>

8. Fixed tangible assets

	Land and buildings £000
Cost:	
At 30 June 2004	10,025
Additions	-
Disposal	(4,800)
Impairment	<u>(90)</u>
At 30 June 2005	<u>5,135</u>
Depreciation:	
At 30 June 2004	2,016
Provided during the year	22
Disposals	<u>-</u>
At 30 June 2005	<u>2,038</u>
Net book value:	
At 30 June 2005	<u><u>3,097</u></u>
At 30 June 2004	<u><u>8,009</u></u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Fixed tangible assets (continued)

The net book value of land and buildings comprises:

	Year ended 30 June 2005 £000	Year ended 30 June 2004 £000
Freehold	2,536	7,336
Long leasehold	500	588
Short leasehold	61	85
	<u>3,097</u>	<u>8,009</u>

Included in the net book value of freehold properties is £2,536,000 (2004 - £7,336,000) in respect of land on which no depreciation is charged.

9. Fixed assets - investments

	Subsidiary Undertakings £000
Cost	
At 30 June 2004 and 30 June 2005	<u>680</u>
Provisions	
At 30 June 2004 and 30 June 2005	<u>(680)</u>
Net book value	
At 30 June 2005 and 30 June 2004	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Fixed assets – investments (continued)

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	United Kingdom	Investment holding company	100 % ordinary shares
Grand Metropolitan Estates (Developments) Limited	United Kingdom	Non Trading	100 % ordinary shares
Grand Metropolitan Gibraltar Limited	Gibraltar	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 development	50 % ordinary shares

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.

10. Debtors

	<u>30 June 2005</u> £000	<u>30 June 2004</u> £000
Trade debtors	7,835	1,776
Amounts owed by fellow group undertakings	436,542	421,049
Other debtors	71	1,356
Other prepayments and accrued income	3,971	4,433
Corporation tax recoverable	-	3,781
	<u>448,419</u>	<u>432,395</u>

All amounts fall due within one year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	<u>30 June 2005</u> £000	<u>30 June 2004</u> £000
Amounts owed to fellow group undertakings	330,448	332,562
Other creditors	1,338	1,033
Accruals and deferred income	5,579	4,599
	<u>337,365</u>	<u>338,194</u>

13. 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 2004	(367)	516	15,789	15,938
Utilised	-	(411)	(637)	(1,048)
Profit and loss account charge	<u>261</u>	<u>-</u>	<u>133</u>	<u>394</u>
At 30 June 2005	<u>(106)</u>	<u>105</u>	<u>15,285</u>	<u>15,284</u>

Other provisions include £15,285,000 (2004 - £14,957,000) for the estimated discounted rental shortfall in respect of vacant properties.

The elements of deferred taxation are as follows:

	<u>30 June 2005</u> £000	<u>30 June 2004</u> £000
Accelerated capital allowances	(57)	149
Other timing differences	<u>163</u>	<u>218</u>
	<u>106</u>	<u>367</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Share capital

	<u>30 June 2005</u> £000	<u>30 June 2004</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>

15. Reserves

	<u>Other reserve</u> £000	<u>Profit and loss account</u> £000	<u>Total</u> £000
At 30 June 2004	41	114,139	114,180
Retained profit for year	-	20,845	20,845
At 30 June 2005	<u>41</u>	<u>134,984</u>	<u>135,025</u>

16. Reconciliation of movement in shareholders funds

	<u>30 June 2005</u> £000	<u>30 June 2004</u> £000
Shareholders' funds at 30 June 2004	114,182	95,082
Profit for the financial year	20,845	19,100
Shareholders' funds at 30 June 2005	<u>135,027</u>	<u>114,182</u>

17. Commitments

At 30 June 2005 the company had minimum annual commitments under non-cancellable operating leases as follows:

	<u>30 June 2005</u> Land and buildings £000	<u>30 June 2004</u> Land and buildings £000
<i>Operating leases which expire:</i>		
After five years	5,564	5,495
From one to five years	1,534	1,968
Within one year	57	156
	<u>7,155</u>	<u>7,619</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. 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.