

Diageo Balkans Limited

Financial statements 30 June 2008

Registered number 2036686

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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 2008.

Activities

The company was engaged in the export of wines and spirits to Central Europe until this activity ceased in October 2007. The directors intend the company to commence the provision of marketing services, and thus the financial statements accompanying this report have been prepared on a going concern basis.

Financial

The results for the year ended 30 June 2008 are shown on page 5.

The directors do not recommend the payment of a dividend (2007 - £nil).

The profit for the year transferred to reserves is £1,631,000 (2007 - £642,000).

Directors

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

V Andrikopoulos	(appointed 15 February 2008)
S M Bunn	(resigned 4 January 2008)
C D Coase	
M C Flynn	(resigned 15 June 2008)
N Makos	
A Morgan	(resigned 15 February 2008)
P D Tunnacliffe	(appointed 17 January 2008)

A A Abigail was appointed a director of the company on 7 August 2008.

Directors' emoluments

None of the directors received any remuneration during the year in respect of their services as directors of the company (2007 - £nil).


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 2008.

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

By order of the board



J Nicholls
Secretary
8 Henrietta Place, London W1G 0NB
24 March 2009

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 Diageo Balkans Limited

We have audited the financial statements of Diageo Balkans Limited for the year ended 30 June 2008, 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 3. 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 other 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 2008 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 Me
KPMG Audit Plc
 Chartered Accountants
 Registered Auditor
 London

Profit and loss account

	<i>Notes</i>	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Turnover	<i>1</i>	169	5,262
Operating income/(costs)	<i>2-4</i>	1,712	(4,501)
		<hr/>	<hr/>
Operating profit		1,881	761
Interest received	<i>5</i>	6	5
		<hr/>	<hr/>
Profit on ordinary activities before taxation		1,887	766
Taxation on profit on ordinary activities	<i>6</i>	(256)	(124)
		<hr/>	<hr/>
Profit for the financial year	<i>13</i>	1,631	642
		<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.

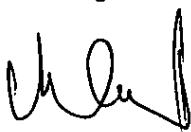
There is no difference between the results for the years shown in the profit and loss account and the results for the relevant years restated on an historical cost basis.

All results relate to ceased activities of the company and thus arise from discontinued operations.

Balance sheet

	<i>Notes</i>	30 June 2008		30 June 2007	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	7		30		-
Current assets					
Stocks	8	-		100	
Debtors: due within one year	9	40		1,609	
Cash at bank	10	1,037		734	
		<u>1,077</u>		<u>2,443</u>	
Creditors: due within one year	11	<u>(3,854)</u>		<u>(6,821)</u>	
Net current liabilities			<u>(2,777)</u>		<u>(4,378)</u>
Total assets less current liabilities			<u>(2,747)</u>		<u>(4,378)</u>
Net liabilities			<u>(2,747)</u>		<u>(4,378)</u>
Capital and reserves					
Called up share capital	12	90		90	
Profit and loss account	13	(2,837)		(4,468)	
Shareholders' deficit	14	<u>(2,747)</u>		<u>(4,378)</u>	

These financial statements on pages 5 to 15 were approved by the board of directors on **24** March 2009 and were signed on its behalf by:



N Makos
Director

Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996).

The company is exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions (but not balances) with entities that are part of the Diageo plc group ("group undertakings") or investees of the Diageo plc group.

Going concern

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

Tangible fixed assets

Tangible fixed assets are depreciated on a straight-line basis to estimated residual values over their expected useful lives within the following ranges:

Plant and machinery	5 to 25 years
Fixtures and fittings	3 to 6 years
Computer hardware/software	3 years

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.

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.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, and an appropriate proportion of production and other overheads.

Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the financial year end exchange rates. If items are hedged forward, the impact of hedging is recognised, where permitted, under hedge accounting.

All exchange gains and losses are taken to the profit and loss account.

Turnover

Turnover represents the net invoice value of goods and services including excise duties and royalties receivable, but excluding value added tax.

Turnover for goods is recognised at the fair value of the right to consideration. The point at which ownership transfers may be at the time of despatch, delivery or some other specified point depending upon individual customer terms. Provision is made for returns where appropriate. Turnover for goods is stated net of price discounts, allowances for customer loyalty and certain promotional activities and similar items.

Taxation

Current tax, including UK corporation tax and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted at the balance sheet date.

Except as otherwise required by FRS 19, deferred tax is provided in full on timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more tax, or a right to pay less tax, in the future.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

1. 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 the export of wines and spirits, all of which was carried out in the Central European markets until this activity ceased in October 2007.

2. Operating income/(costs)

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Raw materials and consumables	(102)	(2,103)
Excise duties	(29)	(1,402)
Advertising, marketing and promotion costs	-	(912)
Other external income (a)	10	892
Staff costs (note 3)	(68)	(82)
Depreciation and other amounts written off fixed assets	-	(51)
Other operating income/(charges) (b)	1,901	(843)
	<u>1,712</u>	<u>(4,501)</u>

(a) Other external income includes: foreign exchange gain of £10,000 (2007 - £980,000).

(b) Other operating income/(charges) include: bad debt provision recovery of £463,000 (2007 - £311,000 bad debt provision) and write back of intercompany payable of £1,485,000 (2007 - £nil).

Fees in respect of services provided by the auditor were: statutory audit £6,481 (2007 - £5,079); other non-audit work £nil (2007 - £nil).

3. Staff costs

The average number of employees during the year was:

	Year ended 30 June 2008	Year ended 30 June 2007
Full time	2	3
Part time	-	1
	<u>2</u>	<u>4</u>

Notes to the financial statements (continued)

3. Staff costs (continued)

The aggregate remuneration of all employees comprised:

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Wages and salaries	55	65
Employer's social security costs	13	17
	<u>68</u>	<u>82</u>

4. Directors' emoluments

None of the directors received any remuneration during the financial year in respect of their services as directors of the company (2007 - £nil).

5. Interest receivable

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Other interest receivable	6	5
	<u>6</u>	<u>5</u>

Notes to the financial statements (continued)

6. Taxation

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
(i) Analysis of taxation charge for the year		
Current tax		
UK corporation tax at 29.5% (2007 - 30%)	(263)	(20)
Double tax relief	263	20
Overseas corporation tax	(263)	(75)
Overseas corporation tax – adjustment in respect of prior years	-	(49)
	<hr/>	<hr/>
Total current tax	(263)	(124)
	<hr/>	<hr/>
Deferred tax		
Deferred tax charge arising in the period	(3)	-
Adjustments in respect of prior years	10	-
	<hr/>	<hr/>
Total deferred tax	7	-
	<hr/>	<hr/>
Taxation on profit on ordinary activities	(256)	-
	<hr/>	<hr/>
	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
(ii) Factors affecting current tax charge for the year		
Profit on ordinary activities before taxation	1,887	766
	<hr/>	<hr/>
Taxation on profit on ordinary activities at UK corporation tax rate of 29.5% (2007 - 30%)	(557)	(230)
Capital allowances in excess of depreciation	3	(6)
Permanent differences	(18)	-
Group relief received for nil consideration	309	216
Double tax relief	263	20
Overseas corporation tax – adjustment in respect of prior years	-	(49)
Overseas corporation tax	(263)	(75)
	<hr/>	<hr/>
Current ordinary tax charge for the year	(263)	(124)
	<hr/>	<hr/>

Notes to the financial statements (continued)

7. Fixed assets – tangible assets

	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 30 June 2007	51	16	67
Additions	30	-	30
	<hr/>	<hr/>	<hr/>
At 30 June 2008	81	16	97
	<hr/>	<hr/>	<hr/>
Depreciation			
At 30 June 2007	(51)	(16)	(67)
Provided during the year	-	-	-
	<hr/>	<hr/>	<hr/>
At 30 June 2008	(51)	(16)	(67)
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 June 2007	-	-	-
	<hr/>	<hr/>	<hr/>
At 30 June 2008	30	-	30
	<hr/>	<hr/>	<hr/>

8. Stocks

	30 June 2008 £'000	30 June 2007 £'000
Raw materials and consumables	-	15
Finished goods and goods for resale	-	85
	<hr/>	<hr/>
	-	100
	<hr/>	<hr/>

Notes to the financial statements (continued)

9. Debtors

	30 June 2008	30 June 2007
	£'000	£'000
Trade debtors	-	1,519
Other debtors	25	53
Other prepayments and accrued income	-	1
Deferred taxation	7	-
VAT recoverable	8	36
	<hr/>	<hr/>
	40	1,609
	<hr/>	<hr/>

All amounts fall due within one year.

Trade debtors as at 30 June 2008 include a provision of £415,000 for doubtful debts at the year-end.

The company continues to be involved in proceedings, which allege that the company violated the terms of the distribution agreement with its former Bulgarian distributor, Maccar AD. The company disputes these allegations and is defending them. The ultimate outcome of the matter and the ability to collect the receivable balances from Maccar AD, arising from the distribution agreement and totalling £285,000, still cannot be determined. However, in 2002 all amounts were fully provided for in the financial statements. For further information regarding this dispute, refer to note 15.

10. Cash at bank

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.

11. Creditors – due within one year

	30 June 2008	30 June 2007
	£'000	£'000
Trade creditors	7	4
Amounts owed to fellow group companies		
- Diageo Brands B.V.	-	3,188
- Diageo Great Britain Limited	1,839	1,821
- Diageo Scotland Limited	787	774
- Diageo North America Inc.	971	971
Corporate taxation	250	22
Accrued expenses	-	7
Net obligations under finance lease	-	3
Other creditors	-	31
	<hr/>	<hr/>
	3,854	6,821
	<hr/>	<hr/>

Notes to the financial statements (continued)

11. Creditors – due within one year (continued)

Net obligations under finance leases:

	30 June 2008 £'000	30 June 2007 £'000
Gross obligations due:		
From one to five years	-	-
Within one year	-	3
	<hr/>	<hr/>
	-	3
	<hr/>	<hr/>

12. Share capital

	30 June 2008 £'000	30 June 2007 £'000
<i>Authorised</i>		
200,000 ordinary shares of £1 each	200	200
	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>		
90,000 ordinary shares of £1 each	90	90
	<hr/>	<hr/>

13. Reserves

	Profit and loss account £'000
At 30 June 2007	(4,468)
Profit for the year	1,631
	<hr/>
At 30 June 2008	(2,837)
	<hr/>

Notes to the financial statements (continued)

14. Reconciliation of movement in shareholders' deficit

	30 June 2008	30 June 2007
	£'000	£'000
Profit on ordinary activities after taxation	1,631	642
Net reduction in shareholders' deficit	1,631	642
Shareholders' deficit at beginning of year	(4,378)	(5,020)
Shareholders' deficit at end of year	(2,747)	(4,378)

15. Contingent liabilities

The company has a receivable balance of £285,000 from Maccar AD, a company incorporated in Bulgaria - the company's former distributor. Following termination of this relationship, Maccar AD has brought various court actions and arbitration proceedings against the company, which have been successfully defended for lack of jurisdiction. An injunction is currently blocking the company from cashing in a third party bank guarantee, which was intended to cover the receivable. The company is in the process of taking action to lift the injunction and enforce the bank guarantee.

16. Immediate and ultimate parent undertaking

The immediate parent undertaking of the company is Diageo Great Britain Limited, a company incorporated and registered in England.

The ultimate parent undertaking of the company is Diageo plc, a company incorporated and registered in England. The consolidated financial statements of Diageo plc can be obtained from the registered office at 8 Henrietta Place, London W1G 0NB.