

Grand Metropolitan Public Limited Company

**Financial statements
30 June 2009**

Registered number 291848

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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 2009.

Activities

The principal activity of the company is that of an investment holding company owning subsidiaries which hold assets in the global alcoholic drink sector. The directors foresee no changes in the nature of the company's activities.

The registered office address changed from 8 Henrietta Place London W1G 0NB to Lakeside Drive, Park Royal, London, NW10 7HQ effective from 7 December 2009.

Business review

Development and performance of the business of the company during the financial year and position of the company as at 30 June 2009

Income arises from dividends received on investments of the company and the company pays interest on its some of its intercompany payables. During the financial year ended 30 June 2009 there were no significant changes to the nature of the business.

Principal risks and uncertainties facing the company as at 30 June 2009

The principal risks and uncertainties facing the company are the changes in intercompany interest rates and the ability of the company's subsidiaries to earn and remit profits.

In so far as the company is concerned, the business activities are with fellow members of the Diageo group. Therefore, the risk of non-performance by counterparties to transactions with the company is considered remote.

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.

Financial risk management

The company's funding, liquidity and exposure to interest rate and foreign exchange rate risk, coincide with those facing the Diageo group as a whole and are managed by the group's treasury department. The treasury department uses a combination of derivative and conventional financial instruments to manage these underlying risks.

Directors' report (continued)

Financial risk management (continued)

Group treasury operations are conducted within a framework of board-approved policies and guidelines, which are recommended and subsequently monitored by the group finance committee. These include benchmark exposure and/or hedge cover levels for key areas of treasury risk. The benchmarks, hedge covers and overall appropriateness of Diageo's risk management policies are reviewed by the group board following, for example, significant businesses, strategic or accounting changes. The framework provides for limited defined levels of flexibility in execution to follow for the optimal application of the board-approved strategies. Transactions giving rise to exposures away from the defined benchmark levels arising on the application of this flexibility are separately monitored on a daily basis using value at risk analysis.

Currency risk

The company publishes its financial statements in sterling but has transactions in foreign currencies. As a result, it is subject to foreign currency exchange rate risk due to exchange rate movements, which will affect the company's income statement and balance sheet.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operation on future developments, the company has access to debt finance and group funding.

Financial

The results for the year ended 30 June 2009 are shown on page 6.

The profit for the year transferred to reserves is £3,019m (2008 - £213m loss transferred from reserves).

The directors do not recommend the payment of a dividend for the year (2008 - £nil).

Directors

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

A A Abigail	(appointed 7 August 2008)
C D Coase	
G P Crickmore	
J Kyne	(resigned 29 June 2009)
N Mákos	
S C Moore	
A M Smith	(appointed 29 June 2009)
P D Tunnacliffe	

A A Abigail resigned as a director of the company on 1 October 2009.

Directors' report (continued)

Directors' remuneration

None of the directors received any remuneration during the year in respect of their services as directors of the company (2008 - £nil).

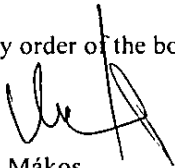
Auditor

The auditor, KPMG Audit Plc, is willing to continue in office and a resolution for its re-appointment as auditor of the company will be submitted to the Annual General Meeting.

Disclosure of information to auditors

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



N Mákos
Director
Lakeside Drive
Park Royal
London
NW10 7HQ

17 December 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 2006. 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 Public Limited Company

We have audited the financial statements of Grand Metropolitan Public Limited Company for the year ended 30 June 2009, which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. 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

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statement

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of company's affairs as at 30 June 2009 and of its profit for the year then ended
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

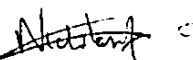
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the director's report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Nicholas Frost (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

17 December 2009

Profit and loss account

	<i>Notes</i>	Year ended 30 June 2009 £m	Year ended 30 June 2008 £m
Operating profit	<i>1</i>	7	1
Income from shares in fellow group undertakings		3,354	389
Provision against subsidiary undertaking	<i>6</i>	(9)	-
Net interest payable	<i>3</i>	(364)	(598)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation		2,988	(208)
Taxation on profit/ (loss) on ordinary activities	<i>4</i>	31	(5)
		<hr/>	<hr/>
Profit/(loss) for the financial year	<i>13</i>	3,019	(213)
		<hr/>	<hr/>

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

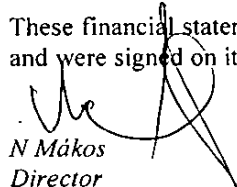
There is no difference between the results for the years shown in the profit and loss account and the results for the relevant years restated on an historical cost basis.

All results arise from continuing operations.

Balance sheet

	Notes	30 June 2009		30 June 2008	
		£m	£m	£m	£m
Fixed assets					
Tangible assets	5		-		-
Investments	6		40,717		40,709
			<u>40,717</u>		<u>40,709</u>
Current assets					
Debtors: due within one year	7,8	1,994		727	
Cash at bank	9	3		6	
		<u>1,997</u>		<u>733</u>	
Creditors: due within one year	10	<u>(9,616)</u>		<u>(11,362)</u>	
Net current liabilities			<u>(7,619)</u>		<u>(10,629)</u>
Total assets less current liabilities			<u>33,098</u>		<u>30,080</u>
Provision for liabilities and charges	11		<u>(8)</u>		<u>(9)</u>
Net assets before post employment liabilities			<u>33,090</u>		<u>30,071</u>
Post employment liabilities	2		(2)		(2)
Net assets			<u>33,088</u>		<u>30,069</u>
Capital and reserves					
Called up share capital	12		690		690
Share premium account	13	9,070		9,070	
Other reserves	13	530		530	
Profit and loss account	13	22,798		19,779	
		<u>32,398</u>		<u>29,379</u>	
Reserves attributable to equity shareholders			<u>32,398</u>		<u>29,379</u>
Shareholders' funds	14		<u>33,088</u>		<u>30,069</u>

These financial statements on pages 6 to 19 were approved by the board of directors on 17 December 2009 and were signed on its behalf by:


 N Mákos
 Director

Accounting policies

The following accounting policies have been applied consistently in dealing with items that 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 400 of the Companies Act 2006 as its results are included in the published consolidated financial statements of Diageo plc.

Tangible fixed assets

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

Fixtures and fittings	5 to 10 years
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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

Operating lease payments and receipts are taken to the profit and loss account on a straight-line basis over the life of the lease.

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.

Exchange gains and losses are taken to the profit and loss account.

Accounting policies (continued)

Provisions

Provisions are liabilities of uncertain timing or amount. A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis, where the effect is material to the original undiscounted provision. The carrying amounts of provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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. Any interest or penalties on tax liabilities are provided in the tax charge.

Notes to the financial statements

1. Operating profit

	Year ended 30 June 2009 £m	Year ended 30 June 2008 £m
Other external charges (a)	(12)	(10)
Depreciation	-	(1)
Other operating income (b)	19	12
	<u>7</u>	<u>1</u>

(a) **Other external charges** includes operating lease rentals of £11m (2008 - £11m) of which £3m had been provided for in a prior year, an increase of £2m (2008 - £nil) in the provision for vacant properties (note 11) and losses in respect of foreign exchange of £nil (2008 - £2m).

(b) **Other operating income** comprises rental income of £3m (2008 - £3m), intercompany management income of £7m (2008 - £7m), a reduction in vacant property provision of £nil (2008 - £2m), gains in respect of foreign exchange of £4m (2008 - £nil) and a release of £5m (2008 - £nil) of a prior year impairment in respect of intercompany receivables.

The auditor's remuneration of £1,531 (2008 - £2,917) 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 (2008 - £nil).

2. Directors and employees

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

None of the directors received any remuneration during the financial year in respect of their services as directors of the company (2008 - £nil).

Retirement benefits

The company operates the GrandMet Brewing medical plan which provides former employees with post employment benefits in respect of medical costs. The plan is unfunded. The measurement dates used to calculate the disclosures in the financial statements are the respective balance sheet dates.

(a) The following weighted average assumptions were used to determine the company's deficit in the post retirement medical plan at 30 June in the relevant year:

	Year ended 30 June 2009 %	Year ended 30 June 2008 %
Rate of medical inflation	5.0	5.0
Discount rate for plan liabilities	5.8	5.8
	<u>5.0</u>	<u>5.8</u>

Notes to the financial statements (continued)

2. Directors and employees (continued)

Retirement benefits (continued)

(b) The present values of the GrandMet Brewing medical plan were as follows:

	30 June 2009	30 June 2008
	£m	£m
Present value of plan liabilities	(3)	(3)
Deficit in the GrandMet Brewing medical plan	(3)	(3)
Related deferred tax assets	1	1
Net post retirement medical benefit plan liabilities	(2)	(2)

3. Net interest payable

	Year ended	Year ended
	30 June 2009	30 June 2008
	£m	£m
Interest payable to Diageo Finance plc	369	605
External interest	-	1
	369	606
Less:		
Interest receivable from fellow group undertakings	(5)	(8)
	364	598

Notes to the financial statements (continued)

4. Taxation

	Year ended 30 June 2009 £m	Year ended 30 June 2008 £m
(i) Analysis of taxation credit/(charge) for the year		
Current tax		
UK corporation tax at 28% (2008 – 29.5%)	-	(5)
Total current tax charge	-	(5)
Deferred tax		
Current year	31	-
Total deferred tax credit	31	-
Taxation on profit on ordinary activities	31	(5)

	Year ended 30 June 2009 £m	Year ended 30 June 2008 £m
(ii) Factors affecting current tax charge for the year		
Profit/(loss) on ordinary activities before taxation	2,988	(208)
Taxation on profit/(loss) on ordinary activities at UK corporation tax rate of 28% (2008 – 29.5%)	(837)	61
Dividend income not subject to UK corporation tax	935	115
Group relief surrendered for nil consideration	(49)	(126)
Surplus losses	(16)	(52)
Tax losses	(31)	-
UK/UK transfer pricing adjustment	-	2
Adjustment in respect of prior years	-	(5)
Expenses not deductible for tax purposes	(2)	-
Current ordinary tax charge for the year	-	(5)

Notes to the financial statements (continued)

5. Fixed assets – tangible assets

	Fixtures and fittings £m
Cost:	
At beginning and end of the year	17
Depreciation:	
At beginning and end of the year	(17)
Net book value:	
At beginning and end of the year	-

6. Fixed assets – investments

	Subsidiary undertakings £m	Other investments £m	Total £m
Cost:			
At 30 June 2008	40,775	2	40,777
Additions	18	-	18
Disposals	-	(1)	(1)
At 30 June 2009	40,793	1	40,794
Provision:			
At 30 June 2008	(67)	(1)	(68)
Provided during the year	(9)	-	(9)
At 30 June 2009	(76)	(1)	(77)
Net book value:			
At 30 June 2009	40,717	-	40,717
At 30 June 2008	40,708	1	40,709

Notes to the financial statements (continued)

6. Fixed assets – investments (continued)

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

	Country of incorporation	Principal activity	Percentage of shares held
Subsidiary undertakings			
Diageo Ireland*	Ireland	Production, marketing and distribution of premium drinks	100%
Diageo Scotland Limited*	Scotland	Production, maturation, marketing and distribution of premium drinks	100%
Diageo Great Britain Limited	England	Production, marketing and distribution of premium drinks	100%
Grand Metropolitan International Holdings Limited	England	Investment holding company	100%
Diageo Brands B.V.*	The Netherlands	Marketing and distribution of premium drinks	100%
Diageo North America, Inc.*	USA	Production, importing and marketing and distribution of premium drinks	100%
Diageo Investment Corporation*	USA	Financing company for US group companies	100%
R & A Bailey & Co*	Ireland	Production, marketing and distribution of premium drinks	100%
Grand Metropolitan Capital Company Limited**	England	Investment holding company	100%
Grand Metropolitan Holdings Limited	England	Investment holding company	100%
Diageo Capital BV*	The Netherlands	Financing company for the group companies	100%
Diageo Finance BV*	The Netherlands	Financing company for the group companies	100%
The Old Bushmills Distillery Company Limited*	Northern Ireland	Distilling, blending and distribution of spirits	100%
Associated undertaking			
Moët Hennessy, SNC*	France	Production and distribution of premium drinks	34%

* Indirectly owned

** Directly owned – 83%; indirectly owned – 17%

Notes to the financial statements (continued)

6. Fixed assets – investments (continued)

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

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

Certain undertakings have been omitted from the lists above as they are either dormant or not material. A full list of subsidiary and associated undertakings will be annexed to the company's annual return.

In April 2009 the company increased its investment in Montrue Limited, by the subscription for 1 new unclassified share of £1 at a premium of £8,737,999 to resolve the insolvency of this wholly owned subsidiary. This investment addition was fully written off based on the financial position of the subsidiary, as it is non-trading and had a shareholders' deficit of £nil after the capital injection. The subsidiary was placed into voluntary liquidation in November 2009.

On 24 June 2009 a fellow subsidiary company sold 100% of the issued shares in Grand Hotel (Mayfair) Limited, a fellow subsidiary company, to the company in exchange for consideration of £9 million.

7. Debtors: due within one year

	30 June 2009 £m	30 June 2008 £m
Amounts owed by fellow group undertakings:		
Diageo Great Britain Limited	1,656	22
Grand Metropolitan Estates Limited	262	260
Grandmet Foods (UK) Limited	41	32
Diageo Capital plc	-	183
Diageo Scotland Limited	-	96
Justerini & Brooks, Limited	-	30
Other fellow group undertakings	3	103
Deferred taxation (note 8)	32	1
	<hr/> 1,994	<hr/> 727

Notes to the financial statements (continued)

8. Deferred taxation

	30 June 2009 £m	30 June 2008 £m
Accelerated depreciation	-	1
Tax losses	32	-
	<hr/>	<hr/>
Deferred tax asset	32	1
	<hr/>	<hr/>
At 1 July 2008	1	1
Profit and loss account	31	-
	<hr/>	<hr/>
At 30 June 2009	32	1
	<hr/>	<hr/>

Deferred taxation assets have been recognised to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred taxation assets, where realisation does not meet the more likely than not criterion, have not been recognised.

9. Cash

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.

10. Creditors: due within one year

	30 June 2009 £m	30 June 2008 £m
Amounts owed to fellow group undertakings:		
Diageo Finance plc	5,835	8,458
Grand Metropolitan (Cayman Islands) Limited	2,562	2,562
Grand Metropolitan Investments Limited	1,095	27
Diageo plc	6	165
Other fellow group undertakings	118	143
Corporation tax	-	5
Other creditors	-	2
	<hr/>	<hr/>
	9,616	11,362
	<hr/>	<hr/>

Notes to the financial statements (continued)

11. Provision for liabilities and charges

	Vacant property £m
At 30 June 2008	9
Provision used during the year	(3)
Provision charged during the year	2
	<hr/>
At 30 June 2009	8
	<hr/> <hr/>

The vacant property provision of £8m (2008 - £9m) represents the estimated discounted rental shortfall in respect of vacant properties over the terms of the leases.

12. Share capital

	30 June 2009 £m	30 June 2008 £m
<i>Authorised:</i>		
3,000,000,000 ordinary shares of 25p each	750	750
	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>		
2,759,144,946 ordinary shares of 25p each	690	690
	<hr/> <hr/>	<hr/> <hr/>

13. Reserves

	Share premium account £m	Other reserves £m	Profit and loss account		Total £m
			Own shares £m	Other £m	
At 30 June 2008	9,070	530	(2)	19,781	29,379
Retained profit for the year	-	-	-	3,019	3,019
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2009	9,070	530	(2)	22,800	32,398
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

'Other reserves' comprise a merger reserve of £62m, a special reserve of £426m, a preference share redemption reserve of £12m, and another reserve of £30m. The merger reserve of £62m arose in 1992 on the issue of shares at a premium in connection with an acquisition.

Notes to the financial statements (continued)

13. Reserves (continued)

The special reserve was created, with shareholder and court approval, in 1988 by a transfer from the share premium account. The other reserve of £30m was created in 1998, with shareholder and court approval, following the cancellation and reissue of the company's shares to Diageo plc. This reserve is distributable on agreement from all of the creditors of the company which were existing at the date of the scheme of arrangement, or until such time that these creditors cease to exist.

'Own shares' is the company's interest of 459,180 (2008 - 459,180) ordinary shares in Diageo plc, a company incorporated in the United Kingdom and listed on the London Stock Exchange. These shares are held by share trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes. At 30 June 2009 Diageo plc's mid-market share price was 872 pence, valuing the company's interest at £4m (2008 - £4m).

14. Reconciliation of movement in shareholders' funds

	30 June 2009 £m	30 June 2008 £m
Profit/(loss) for the financial year	3,019	(213)
Net addition to/(reduction in) shareholders' funds	3,019	(213)
Shareholders' funds at beginning of year	30,069	30,282
Shareholders' funds at end of year	33,088	30,069

15. Commitments

At 30 June 2009, the company had minimum annual commitments under non-cancellable operating leases as follows:

	30 June 2009 £m	30 June 2008 £m
Annual payments under leases expiring:		
After five years	4	5
From one to five years	6	6
Within one year	-	-
	10	11

Notes to the financial statements (continued)

16. Contingent liabilities

The company undertakes to provide sufficient funds to various fellow group companies to enable them to meet their obligations, as and when required.

17. Post balance sheet events

Montrue Limited, a wholly owned subsidiary, was placed into voluntary liquidation on 5 November 2009.

18. Immediate and ultimate parent undertaking

The immediate parent undertaking of the company is Diageo Holdings 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 Lakeside Drive, Park Royal, London NW10 7HQ.