

Grand Metropolitan Public Limited Company

Financial statements 30 June 2007

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 2007

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.

Financial

The results for the year ended 30 June 2007 are shown on page 5. The directors do not recommend the payment of a dividend for the year (2006 - £nil). The profit for the year transferred to reserves is £42m (2006 - £421m loss transferred from reserves).

Directors

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

S M Bunn	(appointed 3 October 2006)
C D Coase	
G P Crickmore	(appointed 28 June 2007)
M C Flynn	
J Kyne	(appointed 28 June 2007)
M J Lester	(resigned 31 August 2006)
N Mákos	(appointed 3 October 2006)
C R R Marsh	(appointed 3 October 2006)
S C Moore	(appointed 28 June 2007)
N C Rose	(resigned 20 June 2007)
P S Walsh	(resigned 31 August 2006)

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

S M Bunn resigned as a director of the company on 4 January 2008.

P D Tunnacliffe was appointed a director of the company on 7 January 2008.

Directors' emoluments

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

Directors' report (continued)

Supplier payment policy

The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

Credit days have not been calculated for the company, as the company had no trade creditors at 30 June 2007. The company's invoices for goods and services are settled by fellow subsidiary undertakings acting as agents for the company.

Secretary

On 3 October 2006 J J Nicholls was appointed as secretary of the company in place of S M Bunn.

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.

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 January 2008

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 Public Limited Company

We have audited the financial statements of Grand Metropolitan Public Limited Company 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 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 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

30 January 2008

Profit and loss account

	<i>Notes</i>	Year ended 30 June 2007	Year ended 30 June 2006 (as restated)
		£m	£m
Operating costs	2	<u>(5)</u>	<u>(8)</u>
Operating loss		(5)	(8)
Provision against investment in subsidiary undertakings		-	(5)
Dividends received	4	570	70
Interest receivable	5	6	7
Interest payable	6	(529)	(485)
Profit/(loss) on ordinary activities before taxation		42	(421)
Taxation on profit on ordinary activities	7	<u>-</u>	<u>-</u>
Profit/(loss) for the year transferred to/ (from) reserves	16	<u><u>42</u></u>	<u><u>(421)</u></u>

Statement of total recognised gains and losses

		Year ended 30 June 2007	Year ended 30 June 2006 (as restated)
		£m	£m
Profit/(loss) for the financial year and total recognised gains and losses for the year		42	(421)
Prior year adjustment	1	<u>(134)</u>	<u>-</u>
Total recognised gains and losses since the last financial statements		<u><u>(92)</u></u>	<u><u>(421)</u></u>

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 activities

Balance sheet

	Notes	30 June 2007		30 June 2006 (as restated)	
		£m	£m	£m	£m
Fixed assets					
Tangible assets	8	1		3	
Investments	9	40,777		40,774	
			40,778		40,777
Current assets					
Debtors – due within one year	10	1,116		639	
Cash at bank and in hand	11	<u>5</u>		<u>5</u>	
		1,121		644	
Current liabilities					
Creditors – due within one year	13	<u>(11,601)</u>		<u>(11,166)</u>	
Net current liabilities			<u>(10,480)</u>	<u>(10,522)</u>	
Total assets less current liabilities			30,298	30,255	
Provisions for liabilities and charges	14		<u>(14)</u>	<u>(14)</u>	
Net assets before post employment liabilities			30,284	30,241	
Post employment liabilities			<u>(2)</u>	<u>(1)</u>	
Net assets			<u>30,282</u>	<u>30,240</u>	
Capital and reserves					
Capital					
Called up share capital	15		690	690	
Reserves					
Share premium account		9,070		9,070	
Other reserves		530		530	
Profit and loss account		<u>19,992</u>		<u>19,950</u>	
Reserves attributable to equity shareholders	16		<u>29,592</u>	<u>29,550</u>	
Equity shareholders' funds			<u>30,282</u>	<u>30,240</u>	

The financial statements on pages 5 to 17 were approved by the board of directors on 24 January 2008 and 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, unless described otherwise within 'Prior year adjustment' on page 9

Basis of preparation

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

The company is exempt from the requirement to prepare group accounts under section 228 of the Companies Act 1985 as its results are included in the consolidated accounts 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

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

Pensions and other post employment benefits

The former employees of the company are members of the Diageo UK pension plan

FRS 17 – *Retirement benefits* replaced the use of actuarial values for assessing pension costs in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the standard requires that the profit and loss account shows the relatively stable ongoing service cost, 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 statement of total recognised gains and losses when such statement is required

Accounting policies (continued)

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

Deferred taxation

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

Notes to the financial statements

1. Prior year adjustment

The company has recognised a prior year adjustment affecting net assets in order to correct an accounting error in respect of the intercompany interest recorded as receivable on a loan note where the company no longer had entitlement to these interests having transferred the underlying loan to another group company on 25 June 2002. This resulted in net assets, amounts owed by subsidiary undertakings as at 30 June 2006 and interest receivable relating to that and prior years being overstated by £134 million. Of this amount, £33 million relates to the year ended 30 June 2006 with the remainder relating to years ended 30 June 2005 and earlier.

The effect of the above adjustment on the previously reported interest receivable and profit for the year ended 30 June 2006 is to reduce interest receivable from £40 million to £7 million and increase the loss after taxation of £388 million to a loss after taxation of £421 million. The previously reported net assets at 30 June 2006 and 2005 have been decreased from £30,374 million and £30,762 million respectively to net assets of £30,240 million and £30,661 million respectively.

2. Operating costs

	Year ended 30 June 2007	Year ended 30 June 2006
	£m	£m
Other external charges	13	9
Depreciation	2	2
Other operating income	<u>(10)</u>	<u>(3)</u>
	<u>5</u>	<u>8</u>

Other external charges comprise operating lease rentals of £11m – Hanover Square £1m, St James Square £5m, Henrietta Place £5m – (2006 - £9m) and other external charges of £2m.

Other operating income include rental income of £4m – Hanover Square £1m, St James Square £3m – (2006 - £3m) and proceeds from the dissolution of two subsidiary undertakings of £4m – (2006 – nil).

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).

Notes to the financial statements (continued)

3. 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 (2006 - £m)

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 2007 %	Year ended 30 June 2006 %
Rate of medical inflation	5.0	5.0
Discount rate for plan liabilities	<u>5.8</u>	<u>5.7</u>

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

	30 June 2007 £m	30 June 2006 £m
Present value of plan liabilities	<u>(3)</u>	<u>(2)</u>
Deficit in the GrandMet Brewing medical plan	(3)	(2)
Related deferred tax assets	<u>1</u>	<u>1</u>
Net post retirement medical benefit plan liabilities	<u>(2)</u>	<u>(1)</u>

4. Dividends received from subsidiary undertakings

	Year ended 30 June 2007 £m	Year ended 30 June 2006 £m
A.G.S. Insurance Company Limited	13	9
Diageo Great Britain Limited	534	-
Grand Metropolitan Capital Company Limited	<u>23</u>	<u>61</u>

570 70

Notes to the financial statements (continued)

5. Interest receivable

	Year ended 30 June 2007	Year ended 30 June 2006 (as restated)
	£m	£m
Interest receivable from group undertakings:		
Diageo plc	1	1
Grand Metropolitan Estate Holdings Limited	5	5
Diageo Investment Corporation	<u>-</u>	<u>1</u>
	<u>6</u>	<u>7</u>

6. Interest payable

	Year ended 30 June 2007	Year ended 30 June 2006
	£m	£m
Interest payable to Diageo Finance plc	528	484
External interest	<u>1</u>	<u>1</u>
	<u>529</u>	<u>485</u>

7. Taxation

	Year ended 30 June 2007	Year ended 30 June 2006 (as restated)
	£m	£m
(i) Analysis of taxation credit/(charge) in the year		
Current tax		
Corporation tax	-	6
Adjustment in respect of prior years	<u>-</u>	<u>(6)</u>
Taxation on profit on ordinary activities	<u>-</u>	<u>-</u>
(ii) Factors affecting current tax charge for the year		
Profit/(loss) on ordinary activities before taxation	<u>42</u>	<u>(421)</u>
Taxation on profit on ordinary activities at UK corporation tax rate of 30% (2006 – 30%)	(13)	126
Dividend income not subject to UK corporation tax	167	18
Expenses not deductible for tax purposes	(1)	(2)
Group relief surrendered for nil consideration	(153)	(136)
Adjustment in respect of prior years	<u>-</u>	<u>(6)</u>

Current ordinary tax charge for the year

Notes to the financial statements (continued)

8. Tangible assets

	Fixtures and fittings £m
Cost:	
At beginning and end of the year	<u> 17</u>
Depreciation:	
At beginning of the year	(14)
Depreciation charge for the year	<u> (2)</u>
At end of the year	<u> (16)</u>
Net book value:	
At beginning of the year	<u> 3</u>
At end of the year	<u> 1</u>

9. Fixed assets – investments

	Subsidiary undertakings £m	Other investments £m	Total £m
Cost:			
At 30 June 2006	<u>40,840</u>	<u> 3</u>	<u>40,843</u>
Addition	4	1	5
Strike-off	(3)	-	(3)
At 30 June 2007	<u>40,841</u>	<u> 4</u>	<u>40,845</u>
Provision:			
At 30 June 2006	<u> (68)</u>	<u> (1)</u>	<u> (69)</u>
Provision released in the year	1	-	1
At 30 June 2007	<u> (67)</u>	<u> (1)</u>	<u> (68)</u>
Net book value:			
At 30 June 2006	<u>40,772</u>	<u> 2</u>	<u>40,774</u>
At 30 June 2007	<u>40,774</u>	<u> 3</u>	<u>40,777</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

Subsidiary undertakings	Country of incorporation	Principal activity	Percentage of ordinary shares held
Diageo Ireland*	Ireland	Production, marketing and distribution of premium drinks	100
Diageo Scotland Limited*	Scotland	Production, 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 *	Netherlands	Production, marketing and distribution of premium drinks	100
Diageo North America, Inc *	USA	Production, importing and marketing 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

Notes to the financial statements (continued)

9. Fixed assets – investments (continued)

Subsidiary undertakings (continued)	Country of incorporation	Principal activity	Percentage of ordinary shares held
Grand Metropolitan Holdings Limited	England	Investment holding company	100
Grand Metropolitan Investments Limited	England	Investment holding company	100
The Old Bushmills Distillery Company Limited*	Northern Ireland	Distilling, blending and distribution of spirits	100
Associated undertakings			
Moet Hennessy, SNC*	France	Production and distribution of premium drinks	34

* Indirectly owned

In the opinion of the directors, the investments in and amounts due from the company's subsidiary and associated 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.

10. Debtors – due within one year

	30 June 2007	30 June 2006 (as restated)
	£m	£m
Amounts owed by subsidiary undertakings	852	380
Amounts owed by other group undertakings	263	258
Deferred taxation (note 12)	<u>1</u>	<u>1</u>
	<u>1,116</u>	<u>639</u>

11. Cash at bank and in hand

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

Notes to the financial statements (continued)

12. Deferred taxation

	Other timing differences £m
At beginning and end of the year	<u>1</u>

13. Creditors – due within one year

	30 June 2007 £m	30 June 2006 £m
Amounts owed to subsidiary undertakings	85	85
Amounts owed to other group undertakings	11,513	11,079
Other creditors	<u>3</u>	<u>2</u>
	<u>11,601</u>	<u>11,166</u>

14. Provisions for liabilities and charges

	Vacant property £m
At beginning and end of the year	<u>14</u>

The vacant property provision of £14m (2006 - £14m) represents the estimated discounted rental shortfall in respect of vacant properties over the terms of the leases

15. Called up share capital

	30 June 2007 £m	30 June 2006 £m
Authorised:		
3,000,000,000 ordinary shares of 25p each	<u>750</u>	<u>750</u>
Allotted, called up and fully paid:		
Equity - 2,759,144,946 ordinary shares of 25p each	<u>690</u>	<u>690</u>

Notes to the financial statements (continued)

16. Reserves

	Share premium £m	Other reserves £m	Profit and loss account		Total £m
			Own shares £m	Other £m	
At 30 June 2006 (as previously reported)	9,070	530	(2)	20,086	29,684
Prior year adjustment (as explained in note 1)	-	-	-	(134)	(134)
At 30 June 2006 (as restated)	9,070	530	(2)	19,952	29,550
Profit for the year	-	-	-	42	42
At 30 June 2007	<u>9,070</u>	<u>530</u>	<u>(2)</u>	<u>19,994</u>	<u>29,592</u>

'Other reserves' comprise a merger reserve of £62m, a special reserve of £426m, a preference share redemption reserve of £12m, and an other reserve of £30m. The merger reserve of £62m arose in 1992 on the issue of shares at a premium in connection with an acquisition. 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 (2006 – 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 2007 Diageo plc's mid-market share price was 1037 pence, valuing the company's interest at £476m (2006 - £4m).

17. Reconciliation of movement in shareholders' funds

	2007 £m	2006 (as restated) £m
Shareholders' funds at beginning of year (as previously reported)	30,374	30,762
Prior year adjustment (as explained in note 1)	(134)	(101)
Shareholders' funds at beginning of year (as restated)	30,240	30,661
Profit/(loss) for the year	42	(421)
Shareholders' funds at end of year	<u>30,282</u>	<u>30,240</u>

18. Commitments

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

	30 June 2007 £m	30 June 2006 £m
Operating leases which expire		
After five years	5	5
From one to five years	6	6
Within one year	-	-
	<u>11</u>	<u>11</u>

Notes to the financial statements (continued)

19. Contingent liabilities

The company has guaranteed certain borrowings and liabilities of subsidiaries which amounted to £506m (2006 - £538m)

20. 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 8 Henrietta Place, London W1G 0NB.