

Diageo Capital B.V.

**Report on the financial statements
for the year ended 30 June 2008**

Registered number: 34196822

0945636



Annual Report

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Directors

M.C.T.M. Gerichhausen

D.M.F. Leese

A.P. Bottomley

K.J.M. Slobbe

J.T.C. Slade

A.S. Frame

Z. Bodnar

Resigned November 30, 2007

Appointed February 1, 2008

Appointed November 21, 2008

Resigned, September 1, 2008

Directors' report

The Directors of Diageo Capital B.V. submit their report with respect to the result for the year ended June 30, 2008 and the state of the company's affairs as at that date.

Directors

The name of the Directors in office at the date of this report are: M.C.T.M. Gerichhausen, D.M.F. Leese, A.P. Bottomley, J.T.C. Slade and A.S. Frame.

Principal activity

The principal activity of the company is the financing of other companies in the Diageo Group. No significant change in the nature of those activities is expected in the near future. The company raises debt from external markets and lends funds to other Diageo group companies.

Risk management

The principal risks and uncertainties facing the company are foreign currency risk associated with a foreign currency denominated bond and a medium term note and interest rate risk arising principally on changes in Euro interest rates. In order to hedge eventual exposures to fluctuations in interest and exchange rates the company would use derivative financial instruments. Fair value hedging deals would be entered into to manage the interest rate risks to which the fair value of certain assets and liabilities are exposed. Cash flow hedges would be carried out to hedge the currency risk of highly probable future foreign currency cash flows, as well as the cash flow risk from changes in interest rates. Currently the company has no derivative financial instruments.

Dividends

During the year ended June 30, 2008 the company did not pay a dividend.

Results for the year

The company recorded a profit after tax of GBP 1,059,840 (2007: GBP 490,820).

Personnel

The company has no employees.

Directors' report (continued)

Directors' benefits

The Directors of the company have not received or become entitled to receive any benefits other than disclosed in the accounts as Director's emoluments.

Amsterdam, 17 December, 2008

Directors:

A.P. Bottomley

A.S. Frame

M.C.T.M. Gerichhausen

D.M.F. Leese

J.T.C. Slade

Balance sheet as at 30 June 2008

(Before appropriation of net result)

Assets	Notes	30 June 2008	30 June 2007
		£	£
Fixed assets			
<i>Financial fixed assets</i>			
Loans to group companies	3	1,702,005,601	670,852,702
Total Fixed assets		<u>1,702,005,601</u>	<u>670,852,702</u>
Current assets			
Deferred note issue costs	4	1,778,690	208,480
Loans to group companies	3	393,992,857	0
Receivables from group companies		36,481,710	19,322,605
Cash at bank		288,843	940
Total Current assets		<u>432,542,100</u>	<u>19,532,025</u>
Total assets		<u>2,134,547,701</u>	<u>690,384,727</u>

Balance sheet as at 30 June 2008 (continued)
(Before appropriation of net result)

LIABILITIES	Notes	30 June 2008	30 June 2007
		£	£
Shareholders' equity	5		
Issued and paid-up share capital		12,162	12,162
Retained earnings		1,650,103	1,159,283
Result for the period		1,059,840	490,820
		<u>2,722,105</u>	<u>1,662,265</u>
 Long-term liabilities			
Bond	6	909,391,747	0
Medium term note	7	0	337,363,063
Loans from group companies	8	793,742,265	335,426,351
		<u>1,703,134,012</u>	<u>672,789,414</u>
 Current liabilities			
Medium term note	7	396,661,376	0
Interest payable on bonds		12,094,680	0
Interest payable on medium term note		7,432,209	6,327,421
Payable to group companies		11,398,361	8,869,259
Accrued corporate income tax (to group company)		1,091,133	728,369
Other current liabilities		13,825	8,000
		<u>428,691,584</u>	<u>15,933,049</u>
 TOTAL LIABILITIES		<u><u>2,134,547,701</u></u>	<u><u>690,384,727</u></u>

Profit and loss account for the year ended 30 June 2008

	Notes	12 months to 30 June 2008 £	12 months to 30 June 2007 £
Financial income			
Interest income from group companies	3	48,642,032	31,261,535
Net exchange gain		0	1,044
		<u>48,642,032</u>	<u>31,262,579</u>
Financial expenses			
Interest expense from group companies	8	(21,186,473)	(16,783,083)
Interest expense on MTN	7	(14,665,472)	(13,142,028)
Interest expense on bond	6	(10,484,776)	0
Amortisation of capitalised issue and discount costs	10	(718,383)	(482,297)
Net exchange loss		(14,622)	0
		<u>(47,069,725)</u>	<u>(30,407,407)</u>
Other expenses			
Administrative expenses		<u>(149,703)</u>	<u>(177,712)</u>
Profit before income tax		1,422,604	677,460
Income tax		(362,764)	(186,640)
Net profit for the period		<u>1,059,840</u>	<u>490,820</u>

Notes to the accounts at 30 June 2008

1 General

The Company is registered in Amsterdam and is primarily engaged in issuing external debt on the London Stock Exchange, which it uses for the financing of other Diageo companies within the Diageo Group. Diageo Brands BV is considered as the Company's immediate parent company. The Company's ultimate parent company is Diageo plc, which is listed on the London Stock Exchange.

2 Summary of significant accounting policies

2a Basis of presentation

The financial statements have been prepared in accordance with applicable generally accepted accounting standards in the Netherlands and are in compliance with the provisions of the Netherlands Civil Code, Book 2, Part 9.

2b Accounting policies

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

2c Foreign currency translation

Transactions in foreign currencies and assets and liabilities denominated in foreign currencies are translated into GBP at the rate of exchange ruling at the transaction date and at the balance sheet date respectively. All exchange differences arising from the foregoing are taken to the profit and loss account.

The currency exchange rates used by the company as at 30 June 2008 based on GBP are:

- closing rate of EUR 1.26 (balance sheet)
- cumulative average rate of EUR 1.36 (profit & loss)

The currency exchange rate used by the company as at 30 June 2007 based on GBP are:

- closing rate of EUR 1.48 (balance sheet)
- cumulative average rate of EUR 1.48 (profit & loss)

2d Recognition of Income

Income and expenses are recorded in the year in which they originate unless indicated otherwise.

2e Other assets and liabilities

All other assets and liabilities are stated at their face value.

2f Amortized costs

The bonds and medium term note are valued at amortized costs whereby the discounts have been amortized based upon the linear method and presented as financial expenses.

Notes to the accounts at 30 June 2008 (continued)

3 Loans to Group companies

At 30 June 2008 the company had the following loans to group companies:

	Original currency	GBP	Interest
Diageo Brands B.V.	GBP 335,426,351	335,426,351	20,567,147
Diageo plc	EUR 496,431,000	393,992,857	14,129,497
Diageo plc	EUR 845,070,000	670,690,476	8,591,249
Diageo plc	EUR 299,341,803	237,572,860	3,023,744
Diageo Brands Holdings BV	USD 225,000,000	113,065,327	405,592
Diageo Brands Holdings BV	GBP 345,250,587	345,250,587	1,645,852
		2,095,998,458	48,363,080
Interest on amounts receivable from group companies			278,952
Total interest income from group companies			48,642,032

The EUR 496 million loan to Diageo Plc matures on 6 January 2009 and is therefore disclosed under current assets. The other loans mature in 2013 or 2014.

The rate of interest applicable to the loan to Diageo Brands B.V. varied between 6.06% and 6.19% during the year. The interest rate is recalculated every six months, and is set to ensure that the Company recovers the net interest cost plus a margin of 15 basis points per annum.

The rate of interest applicable to the loans to Diageo Plc varied between 3.875% and 5.74% during the year. The interest rates include both fixed and variable interest rates. The variable interest rates are recalculated every six months, with a margin added to ensure that the Company recovers the net interest cost of the external bond.

The settlement of accrued interest is timed to coincide with external interest payments. The GBP 335 million and EUR 496 million loans can be repaid at any time and/or repayment can be requested at any time. However, it is expected that the repayment of the loan principals will coincide with the maturity of any associated Bonds and the MTN. For the other loans the borrower shall only repay the loan on demand by Diageo Capital B.V. or at maturity date.

Diageo Capital B.V. borrowed funds from Diageo plc during the year amounting to USD 225 million and GBP 345 million. Diageo Capital B.V. lent these funds to Diageo Brands Holdings B.V. The rates of interest applicable to the USD 225 million and GBP 345 million loans to Diageo Brands Holdings BV are 5.29% and 6.96% fixed respectively.

Movement schedule of long-term loans to group companies:

	Year ending 30 June 2008	Year ending 30 June 2007
Opening balance as per 1 July previous year	670,852,702	677,792,558
New loans	1,370,235,772	0
Repayments	0	0
Reclassification to current assets	(393,992,857)	0
Exchange results and other movements	54,909,984	(6,939,856)
Balance as at 30 June	1,702,005,601	670,852,702

Notes to the accounts at 30 June 2008 (continued)

At 30 June 2007 the company had the following loans to group companies:

	Original currency	GBP	Interest
Diageo Brands B.V.	GBP 335,426,351	335,426,351	18,117,048
Diageo plc	EUR 496,431,000	335,426,351	13,144,487
		670,852,702	31,261,535

The rate of interest applicable to the loan to Diageo Brands B.V. varied between 4.98% and 5.88% during the year. The interest rate is recalculated every six months, and is set to ensure that the Company recovers the net interest cost plus a margin of 15 basis points per annum.

The rate of interest applicable to the loan to Diageo Plc varied between 3.85% and 3.9% during the year. The interest rate is recalculated every six months, and is set to ensure that the Company recovers the net interest cost of the medium term note.

The settlement of accrued interest is timed to coincide with external interest payments. These loans can be repaid at any time and/or repayment can be requested at any time. However, it is expected the repayment of the loan principals will co-incide with the maturity of the MTN.

4 Deferred Note issue costs

	30 June 2008	30 June 2007
	GBP	GBP
Net book value at beginning of year	208,480	363,620
Retranslation of opening balance to closing rate	36,401	(7,321)
Additions	1,777,778	0
Amortisation of costs	(243,969)	(147,819)
Net book value at end of year	1,778,690	208,480

5 Shareholders' Equity

	30 June 2008	30 June 2007
	GBP	GBP
Shareholders' Equity at beginning of year	1,662,265	1,171,445
Net result for the year	1,059,840	490,820
Shareholders' Equity at end of year	2,722,105	1,662,265

The authorized share capital of the Company amounts to EUR 90,000.

Notes to the accounts at 30 June 2008 (continued)

6 Bond

A EUR 850m Bond was issued on 3 April 2008 which matures on 1 July 2013. The EUR 850m Bond was reopened and increased by an additional EUR 300m on 25 April 2008. The bond is listed on the London Stock Exchange regulated market.

At 30 June 2008 the company had the following bond:

Starting date: 03/04/2008

Maturity date: 01/07/2013

Nominal Amount EUR	Total Discount EUR	Amortised discount EUR	Net book value EUR	Net book value GBP
1,150,000,000	(4,340,000)	173,601	1,145,833,601	909,391,747
			<u>1,145,833,601</u>	<u>909,391,747</u>

The coupon rate is as follows:

	Fixed coupon rate	12 months to 30 June 2008 GBP	12 months to 30 June 2007 GBP
EUR 1,150,000,000	5.500%	(10,484,776)	-
		<u>(10,484,776)</u>	<u>-</u>

The coupon (fixed interest rate) is payable annually in arrears on 1 July until maturity. The bond is guaranteed by Diageo plc and is subject to certain covenants.

Notes to the accounts at 30 June 2008 (continued)

7 Medium term note

At 30 June 2008 the company had the following medium term note:

Starting date: 04/12/2003

Maturity date: 06/01/2009

Nominal Amount EUR	Total Discount EUR	Amortised discount EUR	Net book value EUR	Net book value GBP
500,000,000	(2,480,000)	2,273,333	499,793,333	396,661,376
			499,793,333	396,661,376

As at 30 June 2008 the medium term note has been disclosed among current liabilities as it matures on 6 January 2009.

At 30 June 2007 the company had the following medium term note:

Starting date: 04/12/2003

Maturity date: 06/01/2009

Nominal Amount EUR	Total Discount EUR	Amortised discount EUR	Net book value EUR	Net book value GBP
500,000,000	(2,480,000)	1,777,333	499,297,333	337,363,063
			499,297,333	337,363,063

The coupon rate is as follows:

	Fixed coupon coupon rate	12 months to 30 June 2008 GBP	12 months to 30 June 2007 GBP
EUR 500,000,000	3.875%	14,665,472	13,142,028
		14,665,472	13,142,028

The coupon (fixed interest rate) is payable annually in arrears on 6 January until maturity. The medium term note is guaranteed by Diageo plc and is subject to certain covenants.

Notes to the accounts at 30 June 2008 (continued)

8 Loans from Group companies

At 30 June 2008 the company had the following loans from group companies:

	<u>Original currency</u>	<u>GBP</u>	<u>Interest</u>
Diageo plc	GBP 335,426,351	335,426,351	(19,181,999)
Diageo plc	GBP 345,250,587	345,250,587	(1,610,382)
Diageo plc	USD 225,000,000	113,065,327	(394,092)
		<u>793,742,265</u>	<u>(21,186,473)</u>

The rate of interest applicable to the loan to Diageo Plc varied between 5.14% and 6.81% during the year. The interest rate is recalculated every six months.

The GBP 335 million loan can be repaid at any time and/or repayment can be requested at any time. However, it is expected the repayment of the loan principals will co-incide with the maturity of the medium term note and the bond.

The GBP 345 million and USD 225 million loans shall be repaid by Diageo Capital B.V. on demand of Diageo Plc or in the absence of any such demand on the maturity date.

At 30 June 2007 the company had the following loan from group companies:

	<u>Original currency</u>	<u>GBP</u>	<u>Interest</u>
Diageo plc	GBP 335,426,351	335,426,351	(16,783,083)
		<u>335,426,351</u>	<u>(16,783,083)</u>

The rate of interest applicable to the loan to Diageo Plc varied between 4.56% and 5.58% during the year. The interest rate is recalculated every six months.

This loan can be repaid at any time and/or repayment can be requested at any time. However, it is expected the repayment of the loan principals will coincide with the maturity of the MTN.

Notes to the accounts at 30 June 2008 (continued)

9 Contingent liabilities

Diageo Capital B.V. forms part of the fiscal unity of Diageo Brands Holdings B.V. Therefore, Diageo Capital B.V. is jointly and severally liable to all corporate income tax debts within the fiscal unity.

10 Amortisation of capitalised Bond and Medium Term Note (MTN) issue costs and discounts

	12 months to 30 June 2008	12 months to 30 June 2007
	GBP	GBP
Amortised issue costs	243,969	147,162
Amortised discount	474,414	335,135
	<u>718,383</u>	<u>482,297</u>

Issue fees are capitalised and amortised over the 5-year life of the bond and MTN. The discount is embedded in the Net Book Value of the bond and MTN (see note 6) and is amortised over the life of the bond and MTN bringing it to the nominal amount by maturity.

11 Taxation

Diageo Capital B.V. is subject to taxation in the Netherlands at normal prevailing rates. Diageo Capital B.V. forms part of the fiscal unity of Diageo Brands Holdings B.V. Tax charges are settled through the intercompany accounts.

12 Employees

The company had no employees during the year ended June 30, 2008, and 2007.

13 Director's emoluments and interests

The Directors did not receive any remuneration in respect of services during the year concerned. There were no contracts of significance during 2007/2008 in which the Directors of the company had a material interest.

Notes to the accounts at 30 June 2008 (continued)

14 Related Party transactions

Included in the Administrative Expenses is an amount of GBP 148,750 (2007: GBP 140,000) charged by other Diageo Group Companies.

The company has entered into loan agreements with Diageo Brands BV, Diageo Plc and Diageo Brands Holdings BV as noted in Note 3 & 8. The interest income and expense on these loans are also disclosed in Note 3 and 8 (respectively). The interest receivable at the year end of GBP 9,949,924 (2007: GBP 9,361,405), GBP 19,958,384 (2007: GBP 6,246,151) and GBP 2,055,520 (2007: nil) respectively is included in Receivables from group companies. The interest payable at the year end to Diageo Plc of GBP 11,398,361 (2007: GBP 8,869,259) is included in Payables to group companies.

The majority of excess cash in the company is lent to Diageo Plc. The balance at the year end amounting to GBP 4,236,052 (2007: GBP 3,580,717) is included in Receivables from group companies. The interest rate on this balance plus 100 basis points is calculated monthly based on LIBOR.

The balance at the year end arising from the 15 basis points plus interest charged on the loan with Diageo Brands BV is amounting to GBP 281,799 (2007: GBP 134,332). This balance is included in Receivables from group companies. The interest rate on this balance is calculated monthly based on LIBOR plus 100 basis points.

Amsterdam, 17 December, 2008

Directors:

A.P. Bottomley

A.S. Frame

M.C.T.M. Gerichhausen

D.M.F. Leese

J.T.C. Slade



To: the General Meeting of Shareholders of Diageo Capital B.V.

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements 2007/2008 of Diageo Capital B.V., Amsterdam, which comprise the balance sheet as at 30 June 2008, the profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Diageo Capital B.V. as at 30 June 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.



Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 17 December 2008

KPMG ACCOUNTANTS N.V.

A handwritten signature in black ink, appearing to read 'R.W.G. van Teeffelen', written over a horizontal line.

R.W.G. van Teeffelen RA