

# Diageo Capital B.V.

## Report on the financial statements for the year ended 30 June 2010

Registered number: 34196822

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## Annual Report

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### Directors

M.C.T.M. Gerichhausen  
D.M.F. Leese  
J.J.M. van Lierop  
J.A. Ibeas Franco  
C.D. Isaacs

Appointed 1 July 2009, resigned 1 October 2010

Appointed 1 October 2010

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## Directors' report

The Directors of Diageo Capital B.V. submit their report with respect to the result for the year ended 30 June 2010 and the state of the company's affairs as at that date.

### Directors

The names of the Directors in office at the date of this report are: M.C.T.M. Gerichhausen, D.M.F. Leese, C.D. Isaacs and J.A. Ibeas Franco.

### 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 company's funding, liquidity and exposure to interest rate and foreign exchange rate risks are managed by the group's treasury department. The treasury department uses conventional financial instruments to manage these underlying risks so that they result in natural hedges. Treasury operations are conducted within a framework of board-approved policies and guidelines.

### Market risk

The principal risks and uncertainties facing the company are foreign currency risk associated with certain foreign currency denominated bonds arising principally on changes in Euro foreign exchange rates.

Diageo Capital B.V. is used to raise external EUR debt. In order to manage the interest rate and foreign exchange risk within the approved group policy framework, Diageo Capital B.V. structures its transactions in such a way that any external transaction entered into by Diageo Capital B.V. will lead to a compensating transaction with Diageo plc, i.e. external funds raised through a bond issuance are forwarded to Diageo plc as an intercompany loan adding a minor margin percentage to the cumulated external interest expense. Thus any foreign exchange exposure is transferred to the ultimate parent company.

### Liquidity risk

Interest rates on loans receivable are set to ensure that the company is able to recover its net interest cost plus a certain margin. Due to this the company's liquidity risk is very limited.

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## Directors' report (continued)

### Cash flow risk

The company faces certain cash flow risks from loans payable and receivable with group companies. However, these risks are largely offset by back-to-back financing deals and the remaining cash flow risk within the company is considered to be negligible.

### Credit risk

The company's financial fixed assets only comprise loans to Diageo plc and to Diageo Brands Holdings B.V. (a fully owned subsidiary of Diageo plc). Both counterparties are considered to be sufficiently solvent and liquid. Therefore, the company's credit risk is considered to be very low.

### **Dividends**

During the year ended 30 June 2010 the company did not pay a dividend.

### **Results for the year**

The company recorded a profit after tax of £1,247 thousand (2009: £1,597 thousand).

### **Personnel**

The company has no employees.

### **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, 12 November 2010

Directors:

  
J.A. Ideas Franco

  
M.C.T.M. Gerichhausen



C.D. Isaacs



D.M.F. Leese

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## Balance sheet as at 30 June 2010

(Before appropriation of net result)

| Assets                           | Notes | 30 June 2010<br>£ '000 | 30 June 2009<br>£ '000 |
|----------------------------------|-------|------------------------|------------------------|
| <b>Fixed assets</b>              |       |                        |                        |
| <i>Financial fixed assets</i>    |       |                        |                        |
| Loans to group companies         | 3     | 1,768,719              | 1,795,170              |
| <b>Total Fixed assets</b>        |       | <u>1,768,719</u>       | <u>1,795,170</u>       |
| <b>Current assets</b>            |       |                        |                        |
| Receivables from group companies | 12    | 115,051                | 117,111                |
| Cash at bank                     | 4     | 21                     | 63                     |
| <b>Total Current assets</b>      |       | <u>115,072</u>         | <u>117,174</u>         |
| <b>Total assets</b>              |       | <u>1,883,791</u>       | <u>1,912,344</u>       |

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**Balance sheet as at 30 June 2010 (continued)**  
(Before appropriation of net result)

| <b>LIABILITIES</b>                                    | <b>Notes</b> | <b>30 June 2010</b><br><b>£ '000</b> | <b>30 June 2009</b><br><b>£ '000</b> |
|---|--------------|--------------------------------------|--------------------------------------|
| <b>Shareholders' equity</b>                           | <b>5</b>     |                                      |                                      |
| Issued and paid-up share capital                      |              | 12                                   | 12                                   |
| Retained earnings                                     |              | 4,307                                | 2,710                                |
| Result for the period                                 |              | 1,247                                | 1,597                                |
|   |              | <u>5,566</u>                         | <u>4,319</u>                         |
| <br><b>Long-term liabilities</b>                      |              |                                      |                                      |
| Bond  | 6            | 939,417                              | 978,509                              |
| Loans from group companies                            | 7            | 830,677                              | 817,041                              |
|   |              | <u>1,770,094</u>                     | <u>1,795,550</u>                     |
| <br><b>Current liabilities</b>                        |              |                                      |                                      |
| Interest payable on bond                              | 6            | 51,702                               | 67,057                               |
| Payable to group companies                            | 12           | 55,970                               | 45,401                               |
| Accrued corporate income tax (to group company)       |              | 427                                  | -                                    |
| Other current liabilities                             |              | 32                                   | 17                                   |
|   |              | <u>108,131</u>                       | <u>112,475</u>                       |
| <br><b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |              | <u><b>1,883,791</b></u>              | <u><b>1,912,344</b></u>              |


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## Profit and loss account for the year ended 30 June 2010

|                                       | Notes | 12 months to<br>30 June 2010<br>£ '000 | 12 months to<br>30 June 2009<br>£ '000 |
|---------------------------------------|-------|--|--|
| <b>Financial income</b>               |       |  |  |
| Interest income from group companies  | 3     | 109,145                                | 122,061                                |
|                                       |       | <u>109,145</u>                         | <u>122,061</u>                         |
| <b>Financial expenses</b>             |       |  |  |
| Interest expense to group companies   | 8     | (54,469)                               | (51,959)                               |
| Interest and related expenses on bond | 6     | (52,826)                               | (55,842)                               |
| Net exchange loss                     |       | (8)                                    | (632)                                  |
| Interest expense on medium term note  | 6     | -                                      | (11,328)                               |
|                                       |       | <u>(107,303)</u>                       | <u>(119,761)</u>                       |
| <b>Other expenses</b>                 |       |  |  |
| Administrative expenses               |       | <u>(168)</u>                           | <u>(157)</u>                           |
| <b>Profit before income tax</b>       |       | <b>1,674</b>                           | <b>2,143</b>                           |
| Income tax                            |       | (427)                                  | (546)                                  |
| <b>Net profit for the period</b>      |       | <b><u>1,247</u></b>                    | <b><u>1,597</u></b>                    |

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## Notes to the accounts at 30 June 2010

### 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 B.V. 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.

### 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 financial statements have been prepared based on the going concern assumption. In principle, the company's assets and liabilities are valued at the lower of cost and market value, unless stated otherwise.

#### 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 rate used by the company as at 30 June 2010 based on GBP is:  
- closing rate of EUR 1.22 (balance sheet)

The currency exchange rate used by the company as at 30 June 2009 based on GBP is:  
- closing rate of EUR 1.17 (balance sheet)

#### 2d Recognition of income and expenses

Income is recognised in the period to which it relates, unless stated otherwise. Expenses are recorded in the period in which they are incurred.

#### 2e Amortised costs

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

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Notes to the accounts at 30 June 2010 (continued)

Loans to Group companies

The movements in the financial fixed assets – loans to group companies – can be explained as follows:

| In thousands of GBP                               | Value and maturity date   | Original currency amount | Nominal interest rate | Balance as at 1 July 2009 | Effects of movements in exchange rates | Reclassification to current assets or due to novation | Balance as at 30 June 2010 | Fair value as at 30 June 2010 | F09 interest   | F10 interest   |
|---|---------------------------|--------------------------|-----------------------|---------------------------|--|---|----------------------------|-------------------------------|----------------|----------------|
| <b>Non-current</b>                                |                           |                          |                       |                           |  |   |                            |                               |                |                |
| Diageo plc  | 03/04/2008 and 01/07/2013 | EUR 845,070              | 5.74%                 | 722,282                   | (29,602)                               | -   | 692,680                    | 776,956                       | 42,172         | 39,586         |
| Diageo plc  | 03/04/2008 and 01/07/2013 | EUR 299,342              | 5.62%                 | 255,848                   | (10,486)                               | -   | 245,362                    | 274,371                       | 14,843         | 13,734         |
| Diageo Brands B.V.                                | 06/01/2006 and 06/01/2009 | GBP 335,426              | -                     | -                         | -                                      | -   | -                          | -                             | 10,803         | -              |
| Diageo Brands B.V.                                | 06/01/2006 and 06/01/2009 | EUR 496,431              | -                     | -                         | -                                      | -   | -                          | -                             | 11,337         | -              |
| Diageo Brands B.V.                                | 06/01/2009 and 01/07/2009 | GBP 202,592              | 7.14%                 | 202,592                   | -                                      | (202,592)   | -                          | -                             | 6,935          | 40             |
| Diageo Brands B.V.                                | 06/01/2009 and 01/07/2009 | GBP 132,834              | 7.00%                 | 132,834                   | -                                      | (132,834)   | -                          | -                             | 4,458          | 25             |
| Diageo Brands Holdings B.V.                       | 01/07/2009 and 01/07/2013 | GBP 202,592              | 7.14%                 | -                         | -                                      | 202,592   | 202,592                    | 234,107                       | -              | 14,425         |
| Diageo Brands Holdings B.V.                       | 01/07/2009 and 01/07/2013 | GBP 132,834              | 7.00%                 | -                         | -                                      | 132,834   | 132,834                    | 152,956                       | -              | 9,273          |
| Diageo Brands Holdings B.V.                       | 05/06/2008 and 01/07/2013 | USD 225,000              | 5.29%                 | 136,363                   | 13,637                                 | -   | 150,000                    | 167,420                       | 7,299          | 7,921          |
| Diageo Brands Holdings B.V.                       | 05/06/2008 and 01/07/2013 | GBP 345,251              | 6.96%                 | 345,251                   | -                                      | -   | 345,251                    | 397,147                       | 24,029         | 24,029         |
| <b>Total non-current</b>                          |                           |                          |                       | <b>1,795,170</b>          | <b>(26,451)</b>                        | <b>-</b>  | <b>1,768,719</b>           | <b>2,002,957</b>              | <b>121,876</b> | <b>109,033</b> |
| Interest on current accounts                      |                           |                          |                       |                           |  |   |                            |                               | 185            | 112            |
| <b>Total interest income from group companies</b> |                           |                          |                       |                           |  |   |                            |                               | <b>122,061</b> | <b>109,145</b> |

As at 1 July 2009 intercompany loans to Diageo Brands B.V. have been transferred to Diageo Brands Holdings B.V.

The interest rates of the currently existing intercompany loans to Diageo Brands Holdings B.V. are fixed. The interest rate is set to ensure that the company recovers the interest cost plus a margin of 15 basis points per annum.

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# Notes to the accounts at 30 June 2010 (continued)

The settlement of accrued interest is timed to coincide with external interest payments. It is expected that the repayment of the loan principals will coincide with the maturity of any associated bonds or medium term notes. The borrower shall only repay the loan on demand by Diageo Capital B.V. or at maturity date.

The €496 million loan to Diageo plc and the £335 million loan to Diageo Brands B.V. both matured on 6 January 2009.

The interest rates of the intercompany loans to Diageo Brands B.V. were fixed at 7.00% and 7.14% respectively. The interest rate is set to ensure that the company recovers the interest cost plus a margin of 15 basis points per annum.

Diageo Capital B.V. borrowed funds from Diageo plc during the year ending 30 June 2009 amounting to £203 million and £133 million. Diageo Capital B.V. lent these funds to Diageo Brands B.V.

## Cash at bank

Cash at bank comprises the following items:

| Original currency | Maturity date | Amount in original currency | Amount in thousands of GBP |
|-------------------|---------------|-----------------------------|----------------------------|
| EUR               | on demand     | 6                           | 5                          |
| GBP               | on demand     | 10                          | 10                         |
| USD               | on demand     | 9                           | 6                          |
| <b>Total</b>      |               |                             | <b>21</b>                  |

The fair value of cash at bank agrees with the book value.

## Shareholders' Equity

| <i>In thousands of GBP</i>           |               |               |                   |                         |              |
|--------------------------------------|---------------|---------------|-------------------|-------------------------|--------------|
|                                      | Share capital | Share premium | Retained earnings | Net result for the year | Total equity |
| <b>Balance as at 1 July 2008</b>     | <b>12</b>     | <b>-</b>      | <b>1,650</b>      | <b>1,060</b>            | <b>2,722</b> |
| Transfer result to retained earnings |               |               | 1,060             | (1,060)                 | -            |
| Net result for the year              |               |               |                   | 1,597                   | 1,597        |
| <b>Balance as at 30 June 2009</b>    | <b>12</b>     | <b>-</b>      | <b>2,710</b>      | <b>1,597</b>            | <b>4,319</b> |
| Balance as at 1 July 2009            | 12            | -             | 2,710             | 1,597                   | 4,319        |
| Transfer to retained earnings        |               |               | 1,597             | (1,597)                 | -            |
| Net result for the year              |               |               |                   | 1,247                   | 1,247        |
| <b>Balance as at 30 June 2010</b>    | <b>12</b>     | <b>-</b>      | <b>4,307</b>      | <b>1,247</b>            | <b>5,566</b> |

The authorised share capital of the company amounts to € 90,000.

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Notes to the accounts at 30 June 2010 (continued)

Bond

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

At 30 June 2010 the company had the following bond:

| <i>In thousands of EUR</i>  | <i>In thousands of GBP</i> |               |                |              |                 |                                      |                                  |  |                                   |                               |                               |  |
|-----------------------------|----------------------------|---------------|----------------|--------------|-----------------|--------------------------------------|----------------------------------|--|-----------------------------------|-------------------------------|-------------------------------|--|
| Amount in original currency | Value date                 | Maturity date | Nominal amount | Market value | Interest charge | Capitalised discount and issue costs | Net book value as at 1 July 2009 | Effects of movements in exchange rates | Net book value as at 30 June 2010 | F09 interest and related exp. | F10 interest and related exp. |  |
| <b>Non-current</b>          |                            |               |                |              |                 |                                      |                                  |  |                                   |                               |                               |  |
| 1,150,000                   | 03/04/2008                 | 01/07/2013    | 942,623        | 1,032,172    | 5.500%          | 3,206                                | 979,937                          | 40,283                                 | 939,417                           | (55,842)                      | (52,826)                      |  |
| 500,000                     | 04/12/2003                 | 06/01/2009    |                |              | 3,875%          |                                      |                                  |  |                                   | (11,328)                      |                               |  |
| <b>Total</b>                |                            |               |                |              |                 | <b>3,206</b>                         | <b>979,937</b>                   | <b>40,283</b>                          | <b>939,417</b>                    | <b>(67,170)</b>               | <b>(52,826)</b>               |  |

The EUR 500 million medium term note matured as at 6 January 2009.

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. The company was in full compliance with all covenants throughout the years presented. The coupon interest accrued at year end amounts to £51,702k (2009: £54,060k).

Loans from Group companies

At 30 June 2010 the company had the following loans from group companies:

| In thousands of GBP                              | Value date | Maturity date | Original currency | Amount in original currency | Nominal interest rate | Balance as at 1 July 2009 | Balance as at 30 June 2010 | Fair value as at 30 June 2010 | F09 interest    | F10 interest    |
|--|------------|---------------|-------------------|-----------------------------|-----------------------|---------------------------|----------------------------|-------------------------------|-----------------|-----------------|
| <b>Non-current</b>                               |            |               |                   |                             |                       |                           |                            |                               |                 |                 |
| Diageo plc                                       | 06/01/2009 | 01/07/2013    | GBP               | 132,834                     | 6.85%                 | 132,834                   | 132,834                    | 152,376                       | (4,363)         | (9,099)         |
| Diageo plc                                       | 06/01/2009 | 01/07/2013    | GBP               | 202,592                     | 6.99%                 | 202,592                   | 202,592                    | 233,424                       | (6,790)         | (14,161)        |
| Diageo plc                                       | 05/06/2008 | 01/07/2013    | GBP               | 345,251                     | 6.81%                 | 345,251                   | 345,251                    | 395,638                       | (23,510)        | (23,511)        |
| Diageo plc                                       | 05/06/2008 | 01/07/2013    | USD               | 225,000                     | 5.14%                 | 136,364                   | 150,000                    | 166,758                       | (7,092)         | (7,696)         |
| Diageo plc                                       | 04/12/2003 | 06/01/2009    | GBP               | 335,426                     | 5.84%                 | -                         | -                          | -                             | (10,195)        | -               |
| <b>Total non-current</b>                         |            |               |                   |                             |                       | <b>817,041</b>            | <b>830,677</b>             | <b>948,196</b>                | <b>(51,950)</b> | <b>(54,467)</b> |
| Interest on current accounts                     |            |               |                   |                             |                       |                           |                            |                               | 9               | 2               |
| <b>Total interest expense to group companies</b> |            |               |                   |                             |                       |                           |                            |                               | <b>(51,959)</b> | <b>(54,469)</b> |

The £345 million and \$225 million loans shall be repaid by Diageo Capital B.V. on demand to Diageo plc or in the absence of any such demand on the maturity date. However, it is expected the repayment of the loan principals will coincide with the maturity of the bond to which they relate, respectively.

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**Notes to the accounts at 30 June 2010 (continued)**

The £335 million loan was repaid at the maturity date 6 January 2009, thus coinciding with the maturity of the medium term note. On the same date the company borrowed funds from Diageo plc amounting to £203 million and £133 million. Interest rates were set at 6.05% and 6.99%, respectively. The company lent these funds to Diageo Brands Holdings B.V. on that date as well.

**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.

**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. The 2010 tax charge is equal to the profit before tax multiplied with the nominal tax rate of 25.5%.

**Employees**

The company had no employees during the years ended 30 June 2010 and 2009.

**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 the years ended 30 June 2010 and 2009 in which the Directors of the company had a material interest. Document to which our report dated

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Diageo Brands Holdings B.V.

Notes to the accounts at 30 June 2010 (continued)

**Related Party transactions**

Included in the Administrative Expenses is an amount of £140,000 (2008: £148,750) charged by other Diageo Group companies.

The company has entered into loan agreements with Diageo plc and Diageo Brands Holdings B.V. as noted in Note 3 & 7. The interest income and expense on these loans are also disclosed in Note 3 and 7 (respectively). The interest receivable at the year end of £53,387,295 (2009: £69,500,434) and £55,575,235 (2009: £33,383,014) respectively is included in Receivables from group companies. The interest payable at the year end to Diageo plc of £54,332,633 (2009: £43,763,327) 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 £6,089,453 (2009: £2,833,629) is included in Receivables from group companies. The interest rate on this balance is calculated monthly based on LIBOR plus 100 basis points.

Amsterdam, 12 November 2010

Directors:

J.A. Ibeas Franco

C.D. Isaacs

M.C.T.M. Gerichhausen

D.M.F. Leese

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## **Other information**

### **Appropriation of profit**

Article 19 of the company's articles of association states that the result for the year is at the disposal of the shareholders.

### **Profit appropriation - management proposal**

The Directors propose to add the result for the year ending 30 June 2010 to the retained earnings of the company.

### **Audit**

The auditor's report is included on the next page.

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### **Subsequent events**

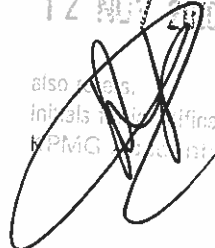
There were no material events occurring between the end of the financial year and the date of signing the report.

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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 2009/2010 of Diageo Capital B.V., Amsterdam, which comprise the balance sheet as at 30 June 2010, 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.

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## AUDITOR'S REPORT (CONTINUED)

### 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 2010, 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 f 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, 12 November 2010

KPMG ACCOUNTANTS N.V.

R.W.G. van Teeffelen RA

KPMG Audit  
Document to which our report dated  
12 NOV 2010  
also refers  
Initial for identification purposes  
KPMG Accountants N.V.