

Diageo Capital B.V.

Report on the financial statements for the year ended 30 June 2011

Registered number: 34196822

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

E.M. Peachey

Resigned 1 October 2010

Resigned 1 October 2011

Appointed 1 October 2010

Appointed 1 October 2011

Directors' report

The Directors of Diageo Capital B.V. submit their report with respect to the result for the year ended 30 June 2011 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 E.M. Peachey.

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.

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 low.

Dividends

During the year ended 30 June 2011 the company paid a dividend of £5,000 thousand (2010: £nil).

Results for the year

The company recorded a profit after tax of £1,240 thousand (2010: profit after tax of £1,247 thousand).

Personnel

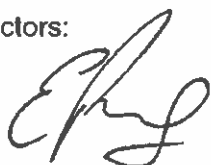
The company has no employees.

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, 17 November 2011

Directors:



E.M. Peachey



C.D. Isaacs



M.C.T.M. Gerichhausen



D.M.F. Leese

Balance sheet as at 30 June 2011

(Before appropriation of net result)

Assets	Notes	30 June 2011 £ '000	30 June 2010 £ '000
Fixed assets			
<i>Financial fixed assets</i>			
Loans to group companies	3	1,851,430	1,768,719
Total Fixed assets		<u>1,851,430</u>	<u>1,768,719</u>
Current assets			
Receivables from group companies	12	119,034	115,051
Cash at bank	4	14	21
Total Current assets		<u>119,048</u>	<u>115,072</u>
Total assets		<u>1,970,478</u>	<u>1,883,791</u>

Balance sheet as at 30 June 2011 (continued)
(Before appropriation of net result)

LIABILITIES	Notes	30 June 2011	30 June 2010
		£ '000	£ '000
Shareholders' equity	5		
Issued and paid-up share capital		16	12
Retained earnings		550	4,307
Result for the period		1,240	1,247
		<u>1,806</u>	<u>5,566</u>
 Long-term liabilities			
Bond	6	1,034,336	939,417
Loans from group companies	7	820,428	830,677
		<u>1,854,764</u>	<u>1,770,094</u>
 Current liabilities			
Interest payable on bond	6	56,826	51,702
Payable to group companies	12	56,634	55,970
Accrued corporate income tax (to group company)		419	427
Other current liabilities		29	32
		<u>113,908</u>	<u>108,131</u>
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>1,970,478</u>	<u>1,883,791</u>

Profit and loss account for the year ended 30 June 2011

	Notes	12 months to 30 June 2011 £ '000	12 months to 30 June 2010 £ '000
Financial income			
Interest income from group companies	3	113,749	109,145
		<u>113,749</u>	<u>109,145</u>
Financial expenses			
Interest expense to group companies	7	(53,902)	(54,469)
Interest and related expenses on bond	6	(58,071)	(52,826)
Net exchange gain/(loss)		30	(8)
		<u>(111,943)</u>	<u>(107,303)</u>
Other expenses			
Administrative expenses		<u>(147)</u>	<u>(168)</u>
Profit before income tax		1,659	1,674
Income tax		(419)	(427)
Net profit for the period		<u>1,240</u>	<u>1,247</u>

Notes to the accounts at 30 June 2011

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 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. The company's financial statements are included in the consolidated financial statements of Diageo plc.

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. Based on the size criteria set in that Civil Code, the company qualifies as a small-sized company. Therefore, the company makes use of the exemption to not disclose a cash flow statement.

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 2011 based on GBP is:

- closing rate of EUR 1.11 (balance sheet)
- closing rate of USD 1.61 (balance sheet)

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)
- closing rate of USD 1.50 (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 are valued at amortised costs whereby the discounts have been amortised based upon the effective interest method and presented as financial expenses.

Notes to the accounts at 30 June 2011 (continued)

3 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 2010	Effects of movements in exchange rates	Balance as at 30 June 2011	Fair value as at 30 June 2011	F10 interest	F11 interest
Non-current									
Diageo plc	03/04/2008 and 01/07/2013	EUR 845,070	5.74%	692,680	68,644	761,324	814,102	39,586	43,364
Diageo plc	03/04/2008 and 01/07/2013	EUR 299,342	5.62%	245,362	24,315	269,677	287,756	13,734	15,045
Diageo Brands B.V.	06/01/2009 and 01/07/2009	GBP 202,592	7.14%	-	-	-	-	40	-
Diageo Brands B.V.	06/01/2009 and 01/07/2009	GBP 132,834	7.00%	-	-	-	-	25	-
Diageo Brands Holdings B.V.	01/07/2009 and 01/07/2013	GBP 202,592	7.14%	202,592	-	202,592	225,253	14,425	14,465
Diageo Brands Holdings B.V.	01/07/2009 and 01/07/2013	GBP 132,834	7.00%	132,834	-	132,834	147,327	9,273	9,298
Diageo Brands Holdings B.V.	05/06/2008 and 01/07/2013	USD 225,000	5.29%	150,000	(10,248)	139,752	152,552	7,921	7,337
Diageo Brands Holdings B.V.	05/06/2008 and 01/07/2013	GBP 345,251	6.96%	345,251	-	345,251	382,647	24,029	24,030
Total non-current				1,768,719	82,711	1,851,430	2,009,637	109,033	113,539
Interest on current accounts								112	210
Total interest income from group companies								109,145	113,749

The interest rates of the currently existing 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.

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.

Notes to the accounts at 30 June 2011 (continued)

4 Cash at bank

Cash at bank comprises the following items:

Original currency	Maturity date	Amount in original currency	Amount in thousands of GBP
GBP	on demand	10	10
USD	on demand	6	4
Total			14

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

5 Shareholders' Equity

<i>In thousands of GBP</i>					
	Share capital	Share premium	Retained earnings	Net result for the year	Total equity
Balance as at 1 July 2009	12	-	2,710	1,597	4,319
Transfer result to retained earnings			1,597	(1,597)	-
Net result for the year				1,247	1,247
Balance as at 30 June 2010	12	-	4,307	1,247	5,566
Balance as at 1 July 2010	12	-	4,307	1,247	5,566
Transfer to retained earnings			1,247	(1,247)	-
Net result for the year				1,240	1,240
FX revaluation result on the issued and paid share capital	4		(4)		0
Dividend paid			(5,000)		(5,000)
Balance as at 30 June 2011	16	-	550	1,240	1,806

The authorized share capital of the company amounts to EUR 90,000. The issued and paid share capital of the company is EUR 18,000.

The Company paid a dividend of GBP 5,000 thousand to its shareholders during the year.

Notes to the accounts at 30 June 2011 (continued)

6 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 2011 the company had the following bond:

In thousands of EUR	In thousands of GBP										
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 2010	Effects of movements in exchange rates	Net book value as at 30 June 2011	F10 interest and related exp.	F11 interest and related exp.
Non-current											
1,150,000	03/04/2008	01/07/2013	1,036,036	1,092,780	5.500%	1,700	939,417	93,413	1,034,336	(52,826)	(58,071)
Total						1,700	939,417	93,413	1,034,336	(52,826)	(58,071)

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 £56,826k (2010: £51,702k).

7 Loans from Group companies

At 30 June 2011 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 2010	Balance as at 30 June 2011	Fair value as at 30 June 2011	F10 interest	F11 interest
Non-current										
Diageo plc	06/01/2009	01/07/2013	GBP	132,834	6.85%	132,834	132,834	146,935	(9,099)	(9,099)
Diageo plc	06/01/2009	01/07/2013	GBP	202,592	6.99%	202,592	202,592	224,766	(14,161)	(14,161)
Diageo plc	05/06/2008	01/07/2013	GBP	345,251	6.81%	345,251	345,251	381,629	(23,511)	(23,512)
Diageo plc	05/06/2008	01/07/2013	USD	225,000	5.14%	150,000	139,751	152,136	(7,696)	(7,129)
Total non-current						830,677	820,428	905,466	(54,467)	(53,901)
Interest on current accounts									(2)	(1)
Total interest expense to group companies									(54,469)	(53,902)

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.

Notes to the accounts at 30 June 2011 (continued)

8 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.

9 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 2011 tax charge is equal to the profit before tax multiplied with the nominal tax rate of 25.25%.

10 Employees

The company had no employees during the years ended 30 June 2011 and 2010.

11 Directors' 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 2011 and 2010 in which the Directors of the company had a material interest.

Notes to the accounts at 30 June 2011 (continued)

12 Related Party transactions

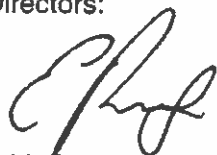
Included in the Administrative Expenses is an amount of £140,000 (2010: £140,000) charged by other Diageo Group companies.

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 £58,677,928 (2010: £53,387,295) and £55,034,577 (2010: £55,575,235) respectively is included in Receivables from group companies. The interest payable at the year end to Diageo plc of £53,807,306 (2010: £54,332,633) 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 £5,321,780 (2010: £6,089,453) is included in Receivables from group companies and £761,868 is included in Payables to group companies. The interest rate on the deposit is calculated monthly based on LIBOR, the loan is on LIBOR plus 100 basis points.

Amsterdam, 17 November 2011

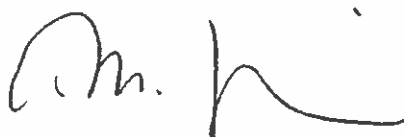
Directors:



E.M. Peachey



C.D. Isaacs



M.C.T.M. Gerichhausen



D.M.F. Leese

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 2011 to the retained earnings of the company.

Audit

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

Subsequent events

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

Independent auditor's report

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

Report on the financial statements

We have audited the accompanying financial statements for the year ended 30 June 2011 of Diageo Capital B.V., Amsterdam, which comprise the balance sheet as at 30 June 2011, the profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Directors' responsibility

The directors are 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. Furthermore, the directors are responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 2011 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 requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the Directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 17 November 2011

KPMG ACCOUNTANTS N.V.

J.M. Bouman RA