

Diageo Capital B.V.

Report on the financial statements for the year ended 30 June 2012

Registered number: 34196822



KPMG Audit
Document to which our report dated

30 NOV 2012

also refers.
Initials for identification purposes
KPMG Accountants N.V.

A handwritten signature in black ink, consisting of a large, stylized 'K' followed by a series of loops and a final flourish.

Adopted Abm at 21.12.2012

Annual Report

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Directors

M.C.T.M. Gerichhausen
D.M.F. Leese
J.A. Ibeas Franco
C.D. Isaacs
E.M. Peachey

Resigned 1 October 2011

Appointed 1 October 2011



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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 2012 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, E.M. Peachey 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 euro 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 and there was no change in their creditworthiness during the year based on Diageo Plc's credit rating, net asset position and the fact Diageo Plc was in full compliance with its covenants throughout the year. Therefore, the company's credit risk is considered to be low.

Dividends

During year ended 30 June 2012 the company did not pay a dividend (2011: £5,000).

Results for the Year

The company recorded a profit after tax of £1,686k (2011: £1,240k).

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, 30 November 2012

Directors:


E.M. Peachey


M.C.T.M. Gerichhausen


C.D. Isaacs


D.M.F. Leese



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Balance sheet as at 30 June 2012

(Before appropriation of net result)

Assets	Notes	30 June 2012 £ '000	30 June 2011 £ '000
Fixed assets			
<i>Financial fixed assets</i>			
Loans to group companies	3	1,746,902	1,851,430
Total Fixed assets		1,746,902	1,851,430
Current assets			
Receivables from group companies	12	114,944	119,034
Cash at bank	4	1	14
Total Current assets		114,945	119,048
Total assets		1,861,847	1,970,478



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Balance sheet as at 30 June 2012 (continued)
(Before appropriation of net result)

LIABILITIES	Notes	30 June 2012	30 June 2011
		£ '000	£ '000
Shareholders' equity	5		
Issued and paid-up share capital		14	16
Retained earnings		1,792	550
Result for the period		1,686	1,240
		<u>3,492</u>	<u>1,806</u>
 Long-term liabilities			
Bond	6	926,291	1,034,336
Loans from group companies	7	823,989	820,428
		<u>1,750,280</u>	<u>1,854,764</u>
 Current liabilities			
Interest payable on bond	6	50,869	56,826
Payable to group companies	12	56,623	56,634
Accrued corporate income tax (to group company)		562	419
Other current liabilities		21	29
		<u>108,075</u>	<u>113,908</u>
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>1,861,847</u>	<u>1,970,478</u>



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Profit and loss account for the year ended 30 June 2012

	Notes	12 months to 30 June 2012 £ '000	12 months to 30 June 2011 £ '000
Financial income			
Interest income from group companies	3	108,226	113,749
		<u>108,226</u>	<u>113,749</u>
Financial expenses			
Interest expense to group companies	7	(54,334)	(53,902)
Interest and related expenses on bond	6	(51,429)	(58,071)
Net exchange gain/(loss)		(57)	30
		<u>(105,820)</u>	<u>(111,943)</u>
Other expenses			
Administrative expenses		<u>(158)</u>	<u>(147)</u>
Profit before income tax		2,248	1,659
Income tax		(562)	(419)
Net profit for the period		<u>1,686</u>	<u>1,240</u>



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Notes to the accounts at 30 June 2012

1 General

The company is registered in Amsterdam and is primarily engaged in issuing external Euro 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

A 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 the Civil Code, the company qualifies as a small-sized company. Therefore, the company makes use of the exemption not to disclose a cash flow statement.

B 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.


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C 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.

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The currency exchange rate used by the company as at 30 June 2012 based on GBP is:

- Closing rate of EUR 1.24 (Balance sheet)
- Closing rate of USD 1.57 (Balance sheet)

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)

D 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.

E Amortised Costs

The bonds are valued at amortised cost whereby the discount and fees have been amortised based upon the effective interest method and presented as financial expenses.

Notes to the accounts at 30 June 2012 (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 30 June 2011	Effects of movements in exchange rates	Balance as at 30 June 2012	Fair value as at 30 June 2012	F11 interest	F12 interest
Non-current									
Diageo plc	03/04/2008 and 01/07/2013	EUR 845,070	5.74%	761,324	(79,816)	681,508	714,643	43,364	38,967
Diageo plc	03/04/2008 and 01/07/2013	EUR 299,342	5.62%	269,677	(28,272)	241,405	252,859	15,045	13,527
Diageo Brands Holdings B.V.	01/07/2009 and 01/07/2013	GBP 202,592	7.14%	202,592	-	202,592	214,848	14,465	14,505
Diageo Brands Holdings B.V.	01/07/2009 and 01/07/2013	GBP 132,834	7.00%	132,834	-	132,834	140,686	9,298	9,324
Diageo Brands Holdings B.V.	05/08/2008 and 01/07/2013	USD 225,000	5.29%	139,752	3,560	143,312	150,182	7,337	7,651
Diageo Brands Holdings B.V.	05/08/2008 and 01/07/2013	GBP 345,251	6.96%	345,251	-	345,251	365,520	24,030	24,095
Total non-current				1,851,430	(104,528)	1,746,902	1,838,738	113,539	108,089
Interest on current accounts								210	137
Total interest income from group companies								113,749	108,226

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.

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Notes to the accounts at 30 June 2012 (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	1	1

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 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
Balance as at 1 July 2011	16	-	550	1,240	1,806
Transfer to retained earnings			1,240	(1,240)	-
Net result for the year				1,686	1,686
FX revaluation result on the issued and paid share capital	(2)		2		0
Balance as at 30 June 2012	14	-	1,792	1,686	3,492

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.



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6 Bond

An €850m bond was issued on 3 April 2008. This €850m bond was reopened and increased by an additional €300m on 25 April 2008 and the overall bond amount of €1,150m is due to mature on 01 July 2013. The bond is listed on the London Stock Exchange regulated market.

At 30 June 2012 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 30 June 2011	Effects of movements in exchange rates	Net book value as at 30 June 2012	F11 Interest and related exp.	F12 Interest and related exp.
Non-current											
1,150,000	03/04/2008	01/07/2013	927,419	970,044	5.500%	1,128	1,034,336	(108,617)	926,291	(58,071)	(51,429)
Total						1,128	1,034,336	(108,617)	926,291	(58,071)	(51,429)

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 amounted to £50,869k (2011: £56,826k).

7 Loans from Group Companies

At 30 June 2012 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 30 June 2011	Balance as at 30 June 2012	Fair value as at 30 June 2012	F11 Interest	F12 Interest
Non-current										
Diageo plc	06/01/2009	01/07/2013	GBP	132,834	6.85%	132,834	132,834	140,488	(9,099)	(9,124)
Diageo plc	06/01/2009	01/07/2013	GBP	202,592	6.99%	202,592	202,592	214,578	(14,161)	(14,200)
Diageo plc	05/06/2008	01/07/2013	GBP	345,251	6.81%	345,251	345,251	365,006	(23,512)	(23,576)
Diageo plc	05/06/2008	01/07/2013	USD	225,000	5.14%	139,751	143,312	149,967	(7,129)	(7,434)
Total non-current						820,428	823,989	870,039	(53,901)	(54,334)
Interest on current accounts									(1)	0
Total interest expense to group companies									(53,902)	(54,334)

The £345m and \$225m loans are repayable on demand to Diageo Plc and in the absence of such demand they are repayable on the maturity date. It is expected however that the repayment of the loan principals will coincide with the maturity of the bond to which they relate.

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Notes to the accounts at 30 June 2012 (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 2012 tax charge is equal to the profit before tax multiplied with the nominal tax rate of 25.00% (2011: 25.25%)

10 Employees

The company had no employees during years ended 30 June 2012 and 30 June 2011.

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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 2011/2012 (2010/2011: £Nil) in which the Directors of the company had a material interest.

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12 Related Party Transactions

Included in the administrative expenses is an amount of £140,000 (2011: £140,000) charged by other Diageo group companies in relation to management fees.

The company has entered into six loan agreements with Diageo Plc as noted in notes 3 and 7. The interest income and expenses on these loans are also disclosed in notes 3 and 7. The interest receivable at year-end of £52,526,604 (2011: £58,677,928) is included in receivables from group companies.

The interest payable at year-end of £54,138,141 (2011: £53,807,306) is included in payables to group companies.

Along with the above interest payable, there is an amount of £2,483,616 due to a Diageo group company in relation to annual tax charges up to and including financial year 2011.

The company has entered into four loan agreements with Diageo Brands Holdings B.V. as noted in note 3. The interest income on these loans is also disclosed in note 3.

The interest receivable at year-end of £55,374,124 (2011: £55,034,577) is included in receivables from group companies.

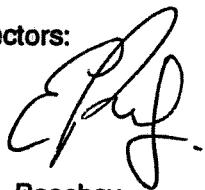
The majority of excess cash in the company is placed on deposit with Diageo Plc. The balance at year end amounted to £7,042,907 (2011: £5,321,780) and is included in receivables from group companies.

Notes to the accounts at 30 June 2012 (continued)

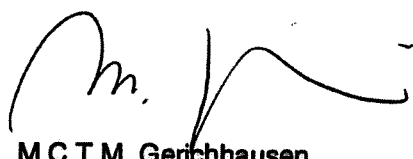
The interest rate on deposits placed with Diageo Plc is calculated monthly and is based on LIBOR plus 210 basis points.

Amsterdam, 30 November 2012

Directors:



E.M. Peachey



M.C.T.M. Gerichhausen



C.D. Isaacs




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 2012 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.



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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 on 30 June 2012 of Diageo Capital B.V., Amsterdam, which comprise the balance sheet as at 30 June 2012, 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 these 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 they determine 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 2012 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 Directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether 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.

Utrecht, 30 November 2012

KPMG Accountants N.V.

C.J.M. van Veen RA