

DESNOES & GEDDES LIMITED

UNAUDITED OPERATING RESULTS

FOR THE 1ST QUARTER

ENDED 30 SEPTEMBER, 2003

	J\$ Millions		Change %
	3 months ended September 30th		
	2003	2002	
Turnover	1,764	1,499	18%
Trading Profit	321	318	1%
Profit before Tax	330	321	3%
Earnings per stock units (cents)	10.44	10.53	(1)%

The financials for the quarter ended September 30, 2003 and 2002 have been prepared in accordance with the International Reporting standards (IFRS), with a full restatement of prior year profit.

Note: Profits were impacted negatively by \$48m marketing spend on Red Stripe in the USA. Last year the full cost was invoiced in the last quarter. Without this, the profit before tax would have increased by 18% over the first quarter.

Operating Performance

Sales

Domestic volumes

YTD Growth %

	vs Sept. 2002
Red Stripe	30%
Dragon Stout	2%
Guinness	5%
Heineken	23%
Malta	9%
Smirnoff Ice	39%
Total	(22)%

After holding prices constant for four years, the company was forced to implement increases during the second half of the year just ended to cover the impact of inflation and devaluation on the cost base as well as the higher duties attributable to the increase (averaging 45%) in the rates of Special Consumption Tax. Given the impact of the price increases and the prevailing economic conditions, total domestic volumes fell by 22% with most brands experiencing a decline.

Export volumes	YTD Growth % vs Sept 2002
Other	30%
USA	5%
Total	(2)%

Total exports declined by 2% as shipments to the USA (which accounted for 87% of all exports) grew by only 5% while other exports declined by 30%. This is a slow-down from the growth rates experienced last financial year when total export had increased by 12% year on year. However, this is just due to the phasing of shipments as actual sales in the USA increased by 20% in the first quarter,

Profit and Loss

Turnover grew by 18% (\$1499m to \$1764m) over the first quarter, driven by higher prices. Over the same period, Special Consumption Tax (SCT) due to the government increased by 69% (\$166m to \$280m) being directly impacted by the combination of the significantly higher SCT rates combined with higher prices. Cost of sales increased by only 3% as the higher cost from inflation and devaluation were neutralised by the impact of lower volumes as well as efficiency gains.

We continued the policy of increasing investments behind the brands aimed at recovering

volumes. General, Selling and Administrative Expenses increased by 8% in line with inflationary increases.

Trading profit grew by 1% over the same period while profit before tax increased by 3%.

Balance Sheet and Cash Flow

Fixed assets increased by 10% (\$279m) compared to the same period last year as the company continued to modernise its plant and equipment.

The value of inventories grew by 25% (\$740m to \$929m) mainly due to improvements in finished goods stock levels as stock balances had fallen below normal levels during the commissioning of the new bottling line at the end of the first quarter last year.

We closed the first quarter with cash balances of \$1,095 m much of which will be used to pay outstanding creditors in the upcoming quarter as we continue to focus on improving our efficiency in the purchase-to-pay cycle.

Note:

In addition to restating the Profit and Loss in line with the International Financial Reporting Standards (IFRS), this opportunity has been taken to update the classification of expenses in order to provide more useful information to shareholders. The following may help readers to understand the new classification more fully:

1. **Turnover** is comprised of sale of products and services net of returns and discounts plus other trading income such as rental income and royalty income.
2. **Special Consumption Tax (SCT)** is the income paid to the government on the sale of products containing alcohol.
3. **Cost of Sales** represents the total cost of manufacturing and distributing the products, including the cost of staff engaged in these activities.
4. **Marketing Costs** are the amounts spent on all advertising and promotions for the brands. This does not include staff costs for the Marketing Department.
5. **General, Selling and Administrative Expenses (GS&A)** are the remaining costs of doing

business. This includes the remaining staff costs which covers departments such as Sales, Marketing, Finance, IS, HR, Communications, and other administrative functions.

6. **Other Income/Expenses** includes dividends received, exchange gains/losses and re-organisation costs that are not sufficiently large to be treated as exceptional.

GROUP BALANCE SHEET

	Unaudited as 30.09.03 \$'000	Unaudited as 30.09.02 \$'000	Audited for year ended 30.06.03 \$'000
CURRENT ASSETS			
Cash resources	83,993	335,184	446,403
Short-term deposits	1,010,548	781,018	727,681
Accounts receivable	619,327	629,285	491,727
Inventories	928,965	740,285	929,099
	<u>2,642,833</u>	<u>2,485,772</u>	<u>2,594,910</u>
CURRENT LIABILITIES			
Accounts payable	766,528	383,965	777,040
Taxation payable	(10,352)	25,562	42,167
Current portion of long-term liabilities	4,553	4,553	4,553

Diageo group companies	318,334	106,706	573,579
	1,079,064	520,787	1,397,339
WORKING CAPITAL	1,563,769	1,964,985	1,197,571
INVESTMENTS	45,148	45,262	45,167
INVESTMENT PROPERTIES	39,900	39,900	39,900
FIXED ASSETS	3,012,043	2,733,535	3,064,080
RETIREMENT ASSETS	669,500	715,000	679,000
	<u>5,330,360</u>	<u>5,498,682</u>	<u>5,025,718</u>
	=====	=====	=====
Financed by:			
STOCKHOLDERS' EQUITY			
Share capital	1,404,586	1,404,586	1,404,586
Share premium	770,394	770,394	770,394
Capital reserves	1,028,014	1,029,938	1,028,014
Investment revaluation reserve	38,474	38,474	38,474
Retained earnings	1,511,398	1,733,949	1,218,119
	<u>4,752,866</u>	<u>4,977,340</u>	<u>4,459,587</u>
LONG-TERM LIABILITY	1,139	5,312	2,277
DEFERRED TAXATION	568,908	508,583	556,407
MINORITY INTEREST	7,447	7,447	7,447
	<u>5,330,360</u>	<u>5,498,682</u>	<u>5,025,718</u>
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GROUP PROFIT AND LOSS ACCOUNT

	Unaudited 3 months to Sept. 30, 2003 \$'000	Unaudited 3 months to Sept. 30, 2002 \$'000
Turnover	1,763,519	1,499,308
Special Consumption Tax (SCT)	<u>(279,771)</u>	<u>(165,952)</u>
Net Sales	1,483,748	1,333,356
Cost of sales	<u>(781,078)</u>	<u>(757,881)</u>
Gross Profit	702,670	575,475
Marketing costs	<u>(223,454)</u>	<u>(102,716)</u>
Contribution after Marketing	479,216	472,759
General, selling and administrative expenses	(154,367)	(142,541)
Other income / expenses	<u>(4,058)</u>	<u>(11,903)</u>
Trading Profit	320,791	318,315
Interest income	9,919	6,911
Interest expense	<u>(734)</u>	<u>(4,092)</u>
Profit before exceptional item	329,976	321,134

Exceptional item	0	0
Profit before taxation	329,976	321,134
Taxation	(36,697)	(25,274)
Profit after Tax	293,279	295,860
Earnings per stock unit (in cents)	10.44	10.53

Note: The calculation of earnings per stock unit is based on the group's profit for the quarter of \$293,279,000 (Sept. 30, 2002: \$295,860,000) and 2,809,171,266 stock units, being the number of stock units in issue at the end of the quarter.

GROUP STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Share Capital \$'000	Share Premium \$'000	Capital Reserves \$'000	Investment Rev. Reserve \$'000	Retained Earnings \$'000	Total \$'000
Balances at June 30, 2002	1,404,586	770,394	1,041,889	38,474	1,435,051	4,690,394
Net profit for the period	-	-	-	-	1,328,112	1,328,112
Deferred taxation on revalued assets	-	-	33,930	-	-	33,930
Reduction in unrealised surplus for impairment on revalued building, plant and						

machinery	-	-	(47,805)	-	-	(47,805)
Dividends	-	-	-	-	(1,545,044)	(1,545,044)
Balances at June 30, 2003	<u>1,404,586</u>	<u>770,394</u>	<u>1,028,014</u>	<u>38,474</u>	<u>1,218,119</u>	<u>4,459,587</u>
Net profit for the period	-	-	-	-	293,279	293,279
Balances at September 30, 2003	<u>1,404,586</u>	<u>770,394</u>	<u>1,028,014</u>	<u>38,474</u>	<u>1,511,398</u>	<u>4,752,866</u>
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GROUP STATEMENT OF CASHFLOWS

	Unaudited as at 30.09.03 \$'000	Unaudited as at 30.09.02 \$'000
CASHFLOW FROM OPERATING ACTIVITIES		
Net profit attributable to stockholders	293,279	295,860
Adjustment to reconcile profit to net cash provided/(used) by operating activities:		
Items not involving cash:		
Depreciation	65,385	42,115
Depreciation on fixed assets in associated company	0	0
Loss/(Profit) on disposal/write-off of company	(101)	0
Deferred taxation charge	12,500	16,000
Retirement benefits asset (net)	0	0
Retirement benefits asset (net)	9,500	12,000
Reduction in value of property, plant and equipment	<u>0</u>	<u>11,951</u>
	380,563	377,926
(Increase)/decrease in current assets:		
Accounts receivable	(127,600)	(163,841)
Investment	134	(4,734)

Increase/(decrease) in current liabilities:		
Accounts payable	(10,511)	(48,235)
Taxation payable	(52,519)	(55,426)
Diageo group companies	(255,245)	(453,070)
Net cash provided by operating activities	<u>(65,177)</u>	<u>(347,379)</u>
CASHFLOW FROM INVESTING ACTIVITIES		
Proceeds from disposal of investments	19	7
Acquisition of fixed assets	(13,752)	(9,022)
Proceeds from disposal of fixed assets	505	0
Net cash used by investment activities	<u>(13,228)</u>	<u>(9,015)</u>
CASHFLOWS FROM FINANCING ACTIVITIES		
Long term liabilities repaid	<u>(1,138)</u>	<u>(1,518)</u>
Net (decrease)/increase in cash resources	(79,543)	(357,912)
Net cash at beginning of year	<u>1,174,084</u>	<u>1,474,114</u>
Net cash at end of year	<u>1,094,541</u>	<u>1,116,202</u>
Comprised of:-		
Cash	83,993	335,184
Short-term deposits	<u>1,010,548</u>	<u>781,018</u>
	<u>1,094,541</u>	<u>1,116,202</u>
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Financial Information by Geographical Segment

Domestic		Export		Group	
Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
3 months to	3 months to	3 months to	3 months to	3 months to	3 months to
30.09.03	30.09.02	30.09.03	30.09.02	30.09.03	30.09.02

Turnover	1,517,817	1,335,567	245,702	163,741	1,763,519	1,499,308
Special Consumption Tax	<u>(279,771)</u>	<u>(165,952)</u>	<u>0</u>	<u>0</u>	<u>(279,771)</u>	<u>(165,952)</u>
Net sales	1,238,046	1,169,615	245,702	163,741	1,483,748	1,333,356
Cost of sales	<u>(593,078)</u>	<u>(573,081)</u>	<u>(188,000)</u>	<u>(184,800)</u>	<u>(781,078)</u>	<u>(757,881)</u>
Gross profit	644,968	596,534	57,702	21,059	702,670	575,475
Marketing costs	<u>(175,454)</u>	<u>(102,716)</u>	<u>(48,000)</u>	<u>0</u>	<u>(223,454)</u>	<u>(102,716)</u>
Segment result	<u>469,514</u>	<u>493,818</u>	<u>9,702</u>	<u>(21,059)</u>	<u>479,216</u>	<u>472,759</u>
	=====	=====	=====	=====		
General, selling, & administrative expenses					(154,367)	(142,541)
Other income and expenses					<u>(4,058)</u>	<u>(11,903)</u>
Trading profit					320,791	318,315
Interest income					9,919	6,911
Interest expense					<u>(734)</u>	<u>(4,092)</u>
Profit before exceptional items					329,976	321,134
Exceptional item					<u>0</u>	<u>0</u>
Prof it before taxation					329,976	321,134
Taxation					<u>(36,697)</u>	<u>(25,274)</u>

Net profit for the period					293,279	295,860
					=====	=====
Segment Assets	6,121,000	5,748,593	288,424	270,876	6,409,424	6,019,469
	=====	=====	=====	=====	=====	=====
Depreciation	(54,838)	(35,322)	(10,547)	(6,793)	(65,385)	(42,115)
	=====	=====	=====	=====	=====	=====
Capital Expenditure	13,752	9,022	0	0	13,752	9,022
	=====	=====	=====	=====	=====	=====

Note: In reviewing the segment report, it is important to note that exports bear a full share of fixed costs.
