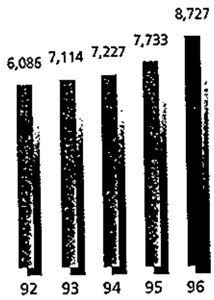
Operating and financial review

291848

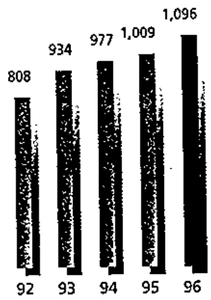
1996 RESULTS SUMMARY

Sales from continuing operations increased by 13%, from £7,733m to £8,727m, and operating profit from continuing operations before exceptional items increased by 9%, from £1,009m to £1,096m. The 1996 results benefited from a full year's contribution from Pet, the US branded food company acquired in February 1995, but, for the first time in several years, included no material refranchising gains from Burger King.

Sales from continuing operations
£m

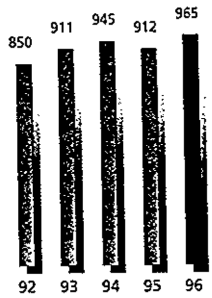


Operating profit from continuing operations before exceptional items
£m



Pillsbury continues to deliver strong and very profitable growth; organic growth was up 10%, based on volume growth, improved prices and mix, and better margins. IDV's operating profit was up 4% with volumes up 4% and average prices up 2%; the performance in Europe was particularly pleasing, with operating profit up 7%. Burger King continues to gain market share in the United States, opening a record number of stores, although reported profits were affected by the reduction in refranchising profit (down £28m to £2m) and difficult trading in the United Kingdom and Germany due primarily to BSE concerns.

Profit before exceptional items and taxation
£m



Profit before exceptional items and tax increased by 6% to £965m. Excluding refranchising gains in Burger King, profit before exceptional items and tax increased by 9%. Marketing investment increased by 16% to over £1,200m.

Exceptional items of £577m included a charge of £550m from the sale of businesses, mainly comprising a £291m loss on the disposal of Pearle, and a £215m charge related to the disposal of the national food businesses in Europe, which included a provision in respect of those businesses not yet sold. Pearle, the sale of which was completed subsequent to the year end, is reported as discontinued this year. The national food businesses in Europe, which have either already been sold or are expected to be sold by spring 1997, are included in continuing businesses; they will be reported as discontinued in 1997. These disposals were important steps in streamlining the group's portfolio of businesses.

Free cash flow remained strong at £420m, though it was £81m lower than last year, due mainly to higher capital expenditure and lower proceeds from fixed asset sales. Over £2,000m of free cash flow has been generated in the last four years. Net debt at the year end was down £633m to £2,688m. The financial position is strong with interest cover of over 6 times.

The board has recommended an increase in total dividend for the year of 6.7%.

INVESTING FOR THE FUTURE

Marketing investment behind GrandMet's brands drove incremental volume, price increases and market share gains in Pillsbury, IDV and Burger King.

The group's commitment to the promotion of its brands is demonstrated by the increase in expenditure over recent years. In 1991, the group spent a total of £786m on advertising, marketing and promotion, representing 9% of turnover. This year, the total spend represented 14% of turnover.

Both Pillsbury and IDV have applied the group's strategic resource allocation process to ensure that investment is targeted appropriately.

For example, within IDV, brand market units (BMUs, defined as the activity of a particular brand in a particular market) are categorised according to their potential to generate value going forward. Marketing investment is deployed to those BMUs with the greatest ability to provide economic return.

The group monitors the effectiveness of its promotional activity, assessing the health of each of its key brands. Again using IDV as an example, the brand equity of the top 24 BMUs is monitored to assess the impact of advertising. In 1996, advertising for these key markets reached £60m; volumes increased, and importantly, net effective price increases were achieved in 19 of the 24 BMUs.

The table below analyses the growth in marketing expenditure achieved by the group's continuing businesses in the year ended 30th September 1996. The Burger King expenditure does not include the significant contributions to marketing costs paid by its franchisees.

Marketing expenditure

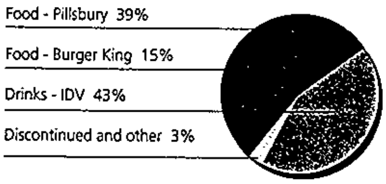
	1996 £m	1995 £m	Increase %	Organic growth %
Food – Packaged*	771	629	23	6
Food – Burger King	34	29	17	10
Drinks – IDV	427	402	6	4
	1,232	1,060	16	5

*Comprises Pillsbury and the national food businesses in Europe

Operating and financial review

OPERATING REVIEW

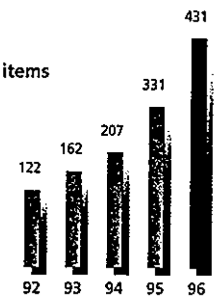
Operating profit by major business



Food – Pillsbury

Food – Pillsbury comprises the Pillsbury operations in North America and the rest of the world, including the European international brands businesses. The other European businesses, which are being sold, have been included under discontinued and other businesses.

Pillsbury – Operating profit before exceptional items £m



Pillsbury's operating profit increased by 30%, from £331m to £431m, benefiting from a full year from Pet. The underlying increase, excluding the impact of the Pet acquisition and exchange movements, was 10%, driven by volume, pricing and improved product mix. Marketing investment increased by 24%, a 6% organic increase.

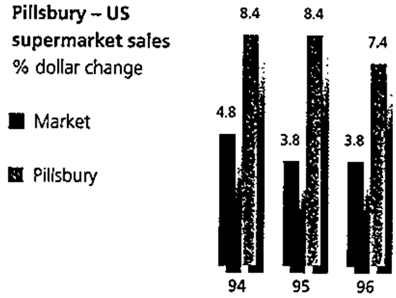
The major businesses acquired with Pet, Old El Paso and Progresso, showed good growth. Product quality was improved and marketing support restored.

North America

Organic volume growth in the United States was 4%. This volume growth was achieved despite aggressive price increases on regular biscuit products to cover increased wheat and other commodity costs; the closure of an unprofitable vegetable plant and vegetable shortages due to the reduced 1995 harvest. Excluding these three product categories, volume growth in other categories, which are higher margin, was over 6%. The volume growth was driven by both new value added products, such as Grands! Sweet Rolls, which contributed over $50m in retail sales in its first year, and core business vitality. For example, along with the success of the Grands! Sweet Rolls, the basic line of Sweet Rolls grew 3.5% through the introduction of a low fat line extension.

Supermarket sales in the United States as reported by Nielsen, the leading US retail sales monitor, provide an indication of Pillsbury's performance against the marketplace. The compound annual growth rate of Pillsbury's retail sales over the last three years was twice that of its competitors in the market.

Pillsbury – US supermarket sales
% dollar change



Pillsbury has been able to achieve these levels of growth by gaining market share in key categories, and by operating in food categories which are growing faster than the industry average. An example is Green Giant, where growth was focused on the higher value added frozen products where sales growth was 8.6% in 1996, against category growth of 1.3%.

Operating margins increased by 0.7 percentage points to a record 12.2%, and positive pricing actions resulted in average increases of approximately 3% compared with 1995. The margin improvement was the result of a concentrated effort to reduce costs and enrich product mix, and although the margin increases are expected to be more modest in the future, this strategy is expected to continue to generate improvements.

International

Pillsbury's international business is expanding, with organic sales growth of 29% in 1996. Acquisitions such as Pasta House, the Australian market leader in the high growth chilled pasta segment, and La Salteña and Deli France, both dough operations in Argentina, give Pillsbury access to key markets. The Pasta House acquisition also allows Pillsbury to build upon its successful Australian Old El Paso business.

In Europe, Pillsbury will now focus on marketing its international brands, Pillsbury, Green Giant, Old El Paso and Häagen-Dazs.

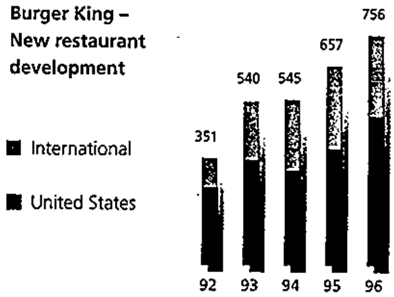
Food – Burger King

Burger King operating data	1996	1995
Systemwide sales	£5.9bn	£5.3bn
Operating profit before refranchising	£165m	£166m
Refranchising profits	£2m	£30m
Operating profit	£167m	£196m
New restaurant openings	756	657
Comparable sales growth	2.3%	5.7%

Burger King's worldwide system sales (including sales by franchisees) reached £5.9bn, an increase of 9% in dollar terms. This growth was achieved through a growth in comparable sales and continued growth in the number of stores.

Worldwide, there was a 2.3% increase in comparable store sales growth. Growth was achieved in all key areas except Europe, which was hit by the impact of BSE. In the United States, comparable store sales grew by 2.6%, and Burger King's share of traffic in the US quick service restaurant segment grew from 16.0% to 17.1%.

Burger King – New restaurant development

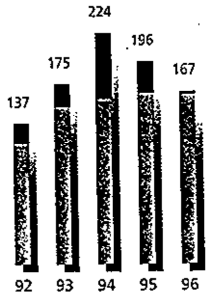


There are now nearly 8,700 restaurants across the globe. Over 2,800 restaurants have been added over the last 5 years, with nearly 1,800 of these opening in the United States.

Burger King – Operating profit before exceptional items
£m

■ BK refranchising

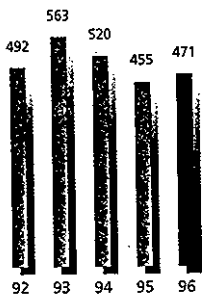
▨ Excluding refranchising



Gains from refranchising appropriate company owned stores fell from £30m to £2m in 1996. Excluding refranchising gains, worldwide operating profits were £1m lower than the previous year at £165m. Operating profit in the United States excluding refranchising gains was up 7% in local currency terms, however this was offset by a £19m reduction in operating profit in Europe, which was adversely affected by BSE concerns and other trading factors.

Drinks – IDV

IDV – Operating profit before exceptional items
£m



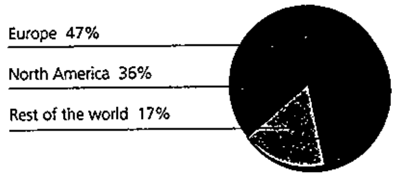
IDV's results have been affected in recent years by 'one-off' items such as the destocking initiatives undertaken in 1994 and the loss of distribution rights for Absolut vodka and Grand Marnier liqueur in the United States, as well as by ongoing pressures on margins. Despite this, IDV has relentlessly pursued its policy of building brand equity through strong marketing investment, increasing comparable marketing spend by 17% over the last two years. This investment is reflected in the results.

IDV's operating profit for the year increased by 4% to £471m, based on comparable volume growth of 4% and net effective price increases of 2%.

Since IDV began its significant increase in marketing investment three years ago, comparable spirits volume has increased at a compound rate of 3%, with growth in existing businesses, new brands and emerging markets. The 4% comparable volume growth for the year was driven by a 5% growth in spirits volume.

Regional performance

IDV – Geographical spread of sales
by market



While Western Europe and the United States remain IDV's major markets, emerging markets now represent 25% of IDV's total volume and generate 10% of its operating profit.

In North America, IDV's spirits volume was level with the previous year in a contracting market, and consequently IDV gained market share for the third consecutive year. While total wines volume was down, it was the lower margin brands that declined. In Europe, where spirits volume was up 9%, all the top five brands grew volume. The United Kingdom and Spain performed exceptionally well. In the rest of the world, a number of markets performed extremely well, particularly India, the Philippines and Brazil. The table below analyses regional volume growth for 1996 on a comparable basis with the previous year.

The investment in marketing boosted brand equity, particularly in key brand market units, providing a platform for price increases. In North America and Europe, price increases were successfully implemented on a number of key brands in the second half of the year, producing overall 2% and 1% increases for the year respectively. The full benefits should be seen in 1997. In the rest of the world, price increases of 6% were achieved.

The 4% increase in total IDV operating profit reflected a 1% reduction in North America to £199m, a 7% increase in Europe to £225m, and a 9% increase in the rest of the world to £47m. The reduction in North America reflected the loss of the Grand Marnier agency in December 1994 – excluding this there would have been an increase of 1% in sterling terms. In the rest of the world, increased marketing spend and investment in, and reorganisation of, the infrastructure contributed to the progress made.

Discontinued and other

The national food businesses in Europe made an operating profit of £27m, the same as last year.

Pearle contributed operating profit of £12m compared with £10m in 1995.

Associates

Income from associates was slightly down on last year from £48m in 1995 to £47m in 1996. The group's share of profits from the Jose Cuervo group in Mexico increased by £8m. However, earnings from Inntrepreneur Pub Company were down from £7m to £1m.

IDV – comparable volume growth
Percentage movement against 1995

	North America %	Europe %	Rest of world %	Total %
Spirits	–	9	12	5
Wines and others	(1)	(5)	10	–
Total	(1)	4	11	4

Operating and financial review

FINANCIAL REVIEW

Interest

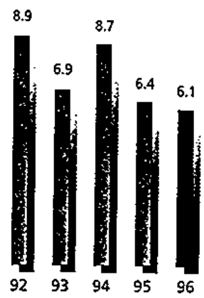
The net interest charge rose by £22m to £190m, reflecting a full year's interest on the additional borrowings associated with the Pet acquisition in February 1995, and a decline in swap income, from £21m in 1995 to £13m in 1996.

These increases were partly offset by two factors. During the year, the group took on new short term bank borrowings, structured to optimise the group's tax position. The lower cost of funding associated with these borrowings reduced the interest charge by £23m. In addition, the hedging arrangements for employee share options were revised in December 1995, resulting in the majority of the cost being accounted for within operating profit, causing a £9m reduction in the interest charge.

GrandMet's interest cover for the year was 6.1 times; this is above the group's 'comfort level' of 5 times but lower than cover in previous years due to the impact of the Pet acquisition. The A2, A+ long term credit ratings have been maintained.

Interest cover
times

Interest cover is defined as the number of times profit before interest, exceptional items and taxation is greater than the net interest charge.



Exchange rates

Exchange rate movements during the year ended 30th September 1996 benefited the translation of overseas operating profit by £20m and profit before exceptional items and tax by £9m. This was mainly as a result of the weakening of sterling against the US dollar, in which some 70% of operating profit is denominated. The average rate used for translating US profits was £1=$1.54, compared with £1=$1.58 for the previous year.

Exceptional items

Exceptional items for 1996 totalled £577m, comprising the following charges:

	£m
Disposal of Pearle	291
Disposal of national food businesses in Europe	215
Brent Walker/William Hill adjustment to consideration	36
Disposal of pubs by Inntrepreneur	24
IDV business disposals	8
Sale of fixed assets	3
Total	577

Included in the charges above is £498m in respect of goodwill previously written off.

The £138m proceeds from the sale of Pearle to Cole National Corporation were received upon completion of the transaction on 15th November 1996.

The first stage of the disposal of the national food businesses in Europe, the sale of the German food business Erasco, was completed in September 1996 for a consideration of £134m, and the sale of Hofmann Menu for £50m was completed in December 1996. The exceptional item includes an estimate for the loss on the sale of the remaining businesses, the sales of which are expected to be completed by the spring of 1997.

Following an arbitrator's decision in September 1996, £36m was paid to Brent Walker in October in respect of the William Hill disposal in 1989.

Other exceptional items comprise a £24m associated company exceptional charge in respect of the group's share of costs relating to the sale of 1,410 pubs by Inntrepreneur Pub Company; minor business disposals by IDV, including the Rebel retail liquor store business in South Africa and the Lancers wine business in Portugal; and minor fixed asset disposals throughout the group.

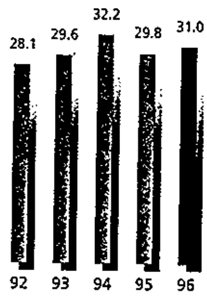
Taxation

The effective rate of tax on profit excluding exceptional items was 28%, approximately the same level as last year. Tax on exceptional items totalled a charge of £22m, resulting from the sale of Erasco in Germany, partially offset by tax relief on the adjustment to the William Hill consideration.

EPS

Earnings per share fell from 28.8p to 2.4p, reflecting the impact of the exceptional items. Excluding exceptionals, earnings per share increased by 4%, from 29.8p to 31.0p.

Earnings per share before exceptional items
pence per share



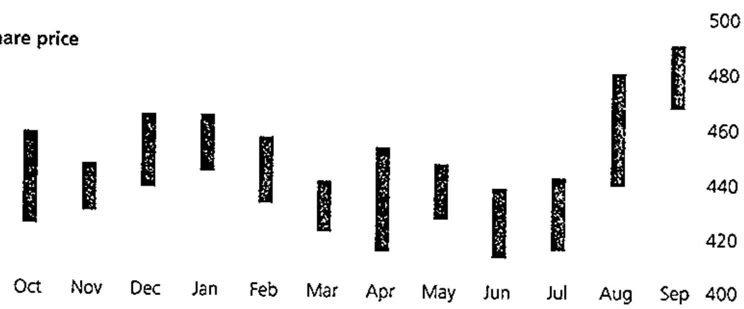
Shareholder return

The recommended dividend for the year is 15.9p, a 6.7% increase over last year. The annual dividend is covered 1.9 times by profit for the year before exceptional items.

The mid-market price of the shares fluctuated between 412p and 491p during the year. The mid-market share price on 30th September 1996 was 476p, capitalising the group at approximately £10bn.

GrandMet
Ordinary share price
pence

Bars show high and low prices in the month



Total shareholders' funds were £3,211m compared with £3,103m at 30th September 1995. This increase reflects the results for the year, adjusted for the reversal of the £498m of goodwill relating to business disposals (including those already announced but not yet completed), which although charged to the profit and loss account does not reduce shareholders' funds as it was written off against reserves at the dates of acquisition.

Key financial measures

Return on total invested capital and economic profit are the two financial measures now given most attention internally within the group.

Definitions

Return on total invested capital represents net operating profit plus share of income from associates less tax at the effective rate for the period ("NOPAT"), divided by average total invested capital (capital employed plus goodwill).

Economic profit represents NOPAT less a notional capital charge representing the cost of funding total invested capital, taking into account the returns expected by lenders and shareholders.

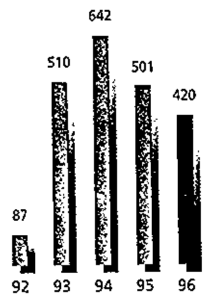
In 1996, GrandMet's return on average total invested capital was 8.0%, up from 7.8% the previous year.

A major priority of the group is to improve the return on total invested capital.

Free cash flow

Operating cash flow for the year was £1,131m, an increase of £61m on last year. Expenditure in respect of the 1993 and 1994 restructuring provisions and the Pet integration provision was £121m. There is approximately £80m of cash spend remaining on these provisions, the majority of which will be incurred during 1997.

Free cash flow
£m



Free cash flow, which represents the cash available for the payment of dividends, net acquisitions and financing items, was £420m, £81m lower than last year. Free cash flow excludes the £71m prior year interest received by the group from the Inntrepreneur Pub Company in 1995, and the £78m capital gains tax paid in respect of the Alpo Petfoods disposal in 1996.

The reduction in free cash flow was due mainly to an increase in capital expenditure of £58m and a reduction in proceeds from fixed asset disposals of £63m. Capital expenditure was higher than last year due to expenditure at Pillsbury on additional Toaster Strudel capacity and the integration of Pet, and additional Burger King stores. Capital expenditure for the group is expected to be at approximately the same level in 1997.

In the last four years, free cash flow of £2,073m has been generated, of which approximately half has been paid as dividends.

Movement in net borrowings

Net borrowings reduced by £633m to £2,688m, as summarised below.

	£m	£m
At 30th September 1995		(3,321)
Free cash flow	420	
Alpo loan note (net of tax)	249	
Share trust refinancing	212	
Dividends	(298)	
Acquisitions	(170)	
Disposals	199	
Other	21	633
At 30th September 1996		(2,688)

The loan to Nestlé in respect of the Alpo disposal was repaid at the beginning of the year, reducing net borrowings by £249m after taking account of tax on the disposal.

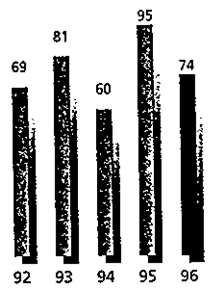
In December 1995, new arrangements were established for the share trust, so that rather than purchasing shares through a trust vehicle to hedge its employee share options, the group hedges its position using options. The total cost of the new arrangements remains similar, however the group's effective ownership of approximately 52m shares was disposed of, reducing investments and net borrowings by £212m.

Acquisitions in the year comprised various add-ons throughout the group, including Pillsbury's acquisitions of Pasta House in Australia and Frescarini in Brazil, and Burger King's acquisition of a franchisee in Florida. Disposals comprised the sale of Erasco for proceeds of £134m; Primo, a Canadian food business acquired with Pet; and various other small businesses. The borrowings at the year end do not reflect the £138m proceeds received on the completion of the sale of Pearle on 15th November 1996.

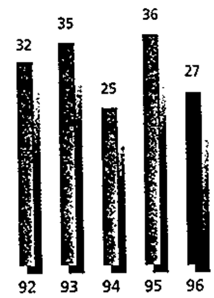
The reduction in borrowings resulted in a reduction in gearing from 95% to 74%, and a reduction in the ratio of debt to market capitalisation from 36% to 27%.

Gearing
%

Gearing is defined as net borrowings as a percentage of shareholders' equity (share capital, reserves and minority interests).



Net debt as a percentage of market capitalisation
%



Brands

Significant brands acquired since 1st January 1985 are recorded on the balance sheet. The key brands capitalised are Smirnoff, Pillsbury, Green Giant, Burger King, Häagen-Dazs, Old El Paso and Progresso which together comprise approximately 90% of the value of intangible assets. Internally generated brands, such as Baileys and Malibu, and brands acquired prior to 1985, such as J&B Rare, are not capitalised, despite representing considerable value to GrandMet.

As part of the annual review process, the directors have appraised the value of the group's capitalised brands and consider that no permanent diminution in value of any brand has occurred.

Operating and financial review

Treasury activities and control
The group's funding, liquidity and exposure to interest rate and foreign exchange rate risks are managed by the group's treasury department. Treasury operations are conducted within a framework of policies and guidelines authorised by the board of directors, and are reported regularly to the board. This framework provides flexibility for the best execution of board-approved strategies. The group uses several conventional derivative instruments, which are transacted for risk management purposes only, by specialist treasury personnel.

The internal control environment is reviewed regularly by the group's internal auditors.

Funding and liquidity
Subject to local country restrictions, the group treasury department raises funds centrally and lends on to group companies at commercial rates. The funding is substantially long term, with sufficient short term liquidity to meet the needs of the business. Borrowings due after more than five years amounted to £1,565m at 30th September 1996.

The group's net borrowings of £2,688m at 30th September 1996 comprised total borrowings of £4,439m, offset by cash and bank deposits of £1,003m; short term investments of £641m and interest rate/foreign exchange swaps of £107m. The short term investments comprised amounts held under external management at 30th September 1996. The external managers provide enhanced returns, whilst operating within strict credit guidelines.

During the year, the group took on new short term bank borrowings, structured to optimise the group's tax position and improve liquidity. Some of these borrowings matured prior to the year end. At 30th September 1996, net borrowings included £1,000m of guaranteed preference shares with an interest rate of under 5% and a two year maturity, which were issued by a subsidiary in February 1996.

The group has unused standby borrowing facilities with 26 relationship banks totalling £1,280m for the period up to 2001. The group had no material commercial paper in issue throughout the year.

Interest rate risk management
The group manages its proportion of fixed to variable debt, within limits approved by the board of directors. This serves to increase the accuracy of the business planning process and helps to manage the interest cover ratio. At 30th September 1996, after taking account of interest rate swaps, approximately two-thirds of the group's debt was fixed for one year or more, with a weighted average interest rate of 7.5% and a weighted average term of 10.2 years. A one percentage point rise in interest rates for all currencies in which the group has borrowings would affect profits before exceptional items and tax by less than 1%.

Foreign exchange risk management
GrandMet's reported results have always been sensitive to exchange rate movements, particularly movements in the US dollar. The acquisition of Pet, which is largely a US business, and the reduction in net borrowings denominated in US dollars has increased the translation exposure and therefore the volatility of reported profits. Every one cent movement costs approximately £4m at the profit before tax level, assuming no hedging.

The group therefore now hedges its US dollar translation exposure, using currency option cylinders, to reduce the volatility of rates at which US dollar profits are translated into sterling. For those profits hedged, the group is only exposed to exchange rate movements within a specified range. The impact of exchange rate movements outside that range is taken by the counterparty to the hedge. At 5th December 1996, the date of signing the accounts, there were hedges for approximately 80% of the forecast US dollar profits before tax for the year ending 30th September 1997 leaving the group with the translation risk broadly between £1 = $1.50 and £1 = $1.60.

The group's strategy is to hedge an appropriate proportion of its foreign currency assets in order to minimise the volatility of key financial indicators, including gearing, interest cover and the absolute debt level, to exchange rate movements. The percentage of US net assets hedged by US dollar borrowings averaged over 50% during 1996.

80% of foreign currency cash flows in respect of trading transactions are hedged, for up to 18 months.

Financial strategy
The directors do not believe that, in the long term, low levels of debt are in the best interests of shareholders as they raise the weighted average cost of capital. Over time it is intended to manage the group's capital structure actively. However, it is not expected that interest cover will be reduced below 5 times and the group will seek to maintain its A+ long term credit rating.

Directors' report

The directors have pleasure in submitting to shareholders their annual report together with the audited financial statements for the year ended 30th September 1996.

Business activities and development

A statement by the Chairman and the Group Chief Executive of the performance during the year and the future development of the group's businesses is included on pages 3 to 5 of the Annual Review. Detailed comments on the activities, developments and future of the group's businesses are set out in the Operating and Financial Review on pages 1 to 6 and in the review of brands and markets on pages 6 to 11 of the Annual Review.

The group carried out research and development in support of existing activities, specific new product development and the improvement of production processes. Details of environmental practices are on pages 12 and 13 of the Annual Review.

Dividend

The directors recommend a final dividend of 10.05p per share. If approved, dividends for the year will total 15.9p per share, an increase of 6.7%. Subject to approval by members, the final dividend will be paid on 7th April 1997 to ordinary shareholders on the register on 14th January 1997. A share dividend alternative will be offered.

Annual General Meeting

The AGM will be held at 11.15am in the Great Room, Grosvenor House, Park Lane, London W1 on 4th March 1997.

Directors

The directors are listed on pages 14 and 15 of the Annual Review. D P Nash and Prof Dr G Höhler resigned on 17th October 1995 and 31st December 1995, respectively. Lord Sheppard retired on 29th February 1996. G M N Corbett, R V Giordano and M L Hepher retire by rotation at the AGM in accordance with the articles and, being eligible, offer themselves for re-election. P S Walsh and C F St Mark were appointed on 17th October 1995 and 1st January 1996, respectively. J M J Keenan who was appointed on 4th March 1996 will retire in accordance with the articles and, being eligible, offers himself for election.

Auditor

The auditor, KPMG Audit Plc, is willing to continue in office and a resolution for its re-appointment as auditor of the company will be submitted to the AGM.

Corporate governance

The company has complied with all provisions of the Code of Best Practice of the Cadbury Committee on Financial Aspects of Corporate Governance. A statement by the directors on internal control is set out below.

Internal control

The directors acknowledge that they are responsible for the company's system of internal financial control. The objective of this system is to provide reasonable assurance of:

- the safeguarding of assets against unauthorised use or disposition; and
- the maintenance of proper accounting records and reliability of financial information used within the businesses or for publication.

It should be noted that such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The company's system of internal financial control includes:

Standards

- Guidelines which indicate the minimum level of financial control that each of the company's businesses should exercise over specified processes and which require annual compliance sign-off by business management.
- Policies and procedures, applicable to individual businesses, with mechanisms for reporting weaknesses and for monitoring corrective action.
- Codes of business ethics, with procedures for reporting compliance therewith.

Processes

- Appointment of experienced and professional staff, both by recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities.
- Comprehensive budgets, requiring board and business sector approval, reviewed and revised on a regular basis, with performance monitored against them and explanations sought for significant variances.
- A detailed investment approval process requiring board authorisation for major projects.

Review

- An internal audit department which assesses risks, undertakes periodic examinations of business processes, recommends improvements and disseminates best practice on controls throughout the group.
- Detailed post investment appraisals of the results of acquisitions and major capital expenditure projects.
- Business audit committees which monitor the control environment and, specifically, measure progress on control improvements.
- An audit committee of the board, comprising non-executive directors, with both internal and external auditors reporting to it on audit results, special reviews and specific aspects of internal controls. On occasion, the audit committee requests business management to review their operations and controls.

The directors confirm that they have reviewed the effectiveness of the system of internal financial control utilising the process set out above.

Going concern

The directors, having made appropriate enquiries, consider that the company and the group have adequate resources to continue in operational existence for the foreseeable future, and that therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

Employment policies

GrandMet's employment policies are designed to ensure that the company is able to attract the highest calibre of employee from all sections of the communities within which it operates. The company values diversity in the work place and is committed to providing equality of opportunity to all employees and potential employees. It actively encourages continuous training and skills development in all its businesses.

Employment policies and training programmes have been developed to attract and retain the best people on the basis of their skills and abilities. This ensures that the company offers people with disability the same opportunities for

Employment policies – *continued*
employment, training and career progression as other employees. If an employee becomes disabled when in the company's employment, full support is given through the provision of training, special equipment or other resources to facilitate continued employment wherever possible.

To support the company's commitment to open communication with employees, a senior manager has been appointed to be responsible for designing management processes and media which encourage employee involvement and foster team working. At the same time, significant progress is being made to develop an intranet – 'MetWeb' – from which all employees with access to a computer will be able to obtain timely and accurate news and information.

The company encourages the establishment of savings-related share option schemes for employees. A plan was launched in Germany during the year and the plans in the United Kingdom, United States, Canada, France and Ireland continued to be promoted.

Supplier payment policies
The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

Community relations and charitable donations
Approximately £13m was contributed to the group's community investment programme in the form of cash donations, social sponsorship and product donations. A further £4m of community contributions arose from commercial initiatives such as sponsorship, cause-related marketing and support for trade related organisations. During the year, UK group companies made cash donations of £1,905,000 *(1995 – £3,434,000)* to charitable organisations. In the United States, group companies made charitable donations of £5,738,000 *(1995 – £5,560,000)*. Details of community programmes are set out on page 12 of the Annual Review. The group made no political donations in the United Kingdom.

Shareholdings in the company
At 5th November 1996, the following substantial interests (3% or more) in the company's ordinary share capital had been notified to the company:
Morgan Guaranty Trust Company of New York – 3.44%.

By Order of the Board
Roger H Myddelton
Secretary

5th December 1996

Appraisal and remuneration committee report

The company's appraisal and remuneration committee (the committee) is responsible for the determination of remuneration policy as applied to Grand Metropolitan's executive directors and senior executives. Its members are the non-executive directors, chaired by P J D Job. The committee's composition, responsibilities and operation comply with section A of the best practice provisions annexed to the listing rules of the London Stock Exchange. In framing remuneration policy, the committee has given full consideration to section B of the best practice provisions. This report sets out the committee's policy and disclosures on directors' and senior executives' remuneration.

1. Executive remuneration policy

GrandMet's continuing success depends on the delivery of quality performance that generates long term returns to the shareholder. Its remuneration policy directly supports this goal through ensuring that:

- rewards and incentives are directly aligned to the performance of the group and the creation of shareholder value;
- total remuneration is maintained at a competitive level in order to attract and retain management of the highest quality; and
- reward structures recognise the international diversity of its business.

(a) Monitoring the competitiveness of remuneration All elements of the compensation and benefits package for senior executives are reviewed against external market data with particular focus on the competitiveness of total remuneration.

It is policy to position the total remuneration of executives at or near the median for those companies with whom the company is competing for executive talent. For executives well established in their roles and performing strongly, total remuneration may be positioned up to the third quartile.

Grand Metropolitan co-sponsors a UK Top Management Remuneration Survey which provides a complete breakdown of the remuneration of executive jobs, including main board positions. The survey is run by independent consultants, William M Mercer. In the United States, the company conducts an annual review with Hewitt Associates who provide an analysis of market competitiveness of base salary, annual bonus and long term incentives.

(b) Base salary The committee sets the base salary of each executive director by reference to individual performance and external market data.

(c) Annual performance related bonus In addition to base salary, all senior executives are eligible for an annual performance related bonus, which is non-pensionable. For the year ended 30th September 1996, the UK executive directors had a target bonus of 45% and the US directors a target bonus of 60% of base salary. This bonus was weighted as follows: a third linked to the achievement of key strategic objectives, both short and long term; a third based on the achievement of business profit and operational cash flow targets; and a third based on the company's earnings per share growth against a competitor index. An additional bonus opportunity of 5% in the United Kingdom and 10% in the United States was linked to superior performance on the EPS measure. GrandMet's EPS performance for the year ended 30th September 1996 has been compared with the agreed peer group excluding the effect of exceptional items. GrandMet's year on year increase was 4.0% while the peer group weighted average was 2.9%. The additional bonus opportunity therefore became payable. The EPS measure has been replaced with economic profit targets for the current financial year.

The bonus paid for the year to the UK executive directors averaged 47% of salary. This compares with 27% of salary in the previous year. An average of 69% of salary was paid to the two US executive directors. There were no US executive directors in the previous year. Details are shown in the table on page 11.

(d) Long term incentive plans The following section describes long term incentive arrangements in place at 30th September 1996. However, it should be noted that consideration is being given to discontinuing all executive share option schemes with effect from January 1997. In their place a restricted share plan would be introduced. The performance requirement for this plan would be the achievement of total shareholder return targets as compared to the other FTSE 100 companies. Details of the plan are being finalised and are expected to be submitted for shareholder approval at the AGM in March 1997.

(i) Executive share option schemes Subject to the introduction of a restricted share plan, no further grants will be made under the various share option schemes, but executives who currently hold options will continue to be covered by the rules of each scheme on exercise.

The schemes which are currently in existence are as follows: an executive share option scheme (ESOS), which was approved by shareholders in 1993; a supplemental scheme for senior executives (the Supplemental Scheme), which was approved by the committee in 1994; and a share option plan for US executives (USSOP), approved by the board in 1991 and amended in 1994.

Options issued under all three executive share option schemes may be exercised between three and ten years after the date granted. Since June 1993 in the United Kingdom and January 1994 in the United States, all grants under the executive share option plans have been subject to the performance criterion described in (iv) below. Options issued under the previous ESOS approved in 1982 and under the USSOP prior to 1994, may be exercised between three and seven years after the date of grant.

Ordinary shares issued under ESOS are allotted under the same terms as existing ordinary shares at the market price of the ordinary share at the time the option was granted. Ordinary shares issued under the Supplemental Scheme and American Depository Shares (ADSs) issued under the USSOP are existing shares sourced through the employee share trusts, as described in (v) below.

(ii) Senior executive phantom share option scheme (SEPSOS) This share price related bonus scheme was established in 1988 and has been applied to a small number of senior executives, including executive directors. Exercise is not possible before the fifth anniversary of the date of grant (the date of vesting). Once exercised, payments (which can also be taken in the form of the company's shares) are then spread over the period from exercise to the tenth anniversary of the date of grant. The exercise of options granted after January 1993 is subject to satisfying the company performance criterion detailed in (iv) below.

(iii) Grant policy under ESOS, USSOP and SEPSOS for executive directors For executive directors the policy is to grant options at market value at the date of grant each year up to a value of either one times base salary under ESOS or 2.7 times base salary under USSOP (as appropriate) and, in either case, up to one times base salary under SEPSOS.

(iv) Achievement of performance criterion In summary, this requires that the company's share price must have outperformed the FTSE 100 Index over a period of three years or more from the date of grant for six successive months. Thereafter, the option may be exercised for the rest of its ten year life without further test. At this stage, no grant has yet passed the performance criterion.

(v) Employee share trusts Employee share trusts have been established in order to hedge the obligations of the group in respect of options issued under the Supplemental Scheme, USSOP and SEPSOS. The trustees have purchased options from third parties which give them the right to obtain shares, as required, at the same exercise price as the employee share options.

(vi) Savings-related share option schemes The group operates savings-related share option schemes which provide a long term savings and investment opportunity for employees in the United Kingdom, United States and other countries.

The UK scheme is open to employees at all levels who have been with the group for at least one year and who work 8 hours or more a week. The options may be exercised normally after five or seven years, at a price equivalent to not less than 80% of the market value of the shares at the time of the grant. The US scheme is open to all employees who have been with the group for a least one year and who work 20 hours or more a week. The options may be exercised after 27 months at a price equivalent to 85% of the market value of the shares at the time of the grant. The other international schemes have eligibility and discount criteria devised in accordance with local conditions and practices but within the parameters agreed by shareholders.

(vii) Business based medium term incentive plans (MTIP) The company encourages its subsidiaries to develop medium term plans to support business strategies. These plans therefore focus on delivering longer term business goals, in particular sustained improvements in the economic profit of each business. The awards from medium term incentive plans are not incremental to total remuneration – the introduction of these plans in 1995 resulted in a reduction of 50% in all subsequent share option grants for MTIP participants. With the exceptions of P S Walsh, who is a member of the Pillsbury MTIP and J M J Keenan who is a member of the IDV MTIP, none of the executive directors participates in a medium term plan.

(e) Directors' contracts The executive directors have two year rolling contracts. A number of senior executives in the United Kingdom and overseas below main board level also have two year rolling contracts, and many in the United States are covered by *Employee Retirement Income Security Act of 1974* severance plans which make provision for a payment of up to two years' pay on termination of employment initiated by the company. Against this background, and the need to retain and motivate the directors and senior executives in a most competitive international environment, the committee believes it is appropriate for some senior executives, including executive directors, to continue to be on two year rolling contracts. The non-executive directors have contracts which can be terminated without compensation.

(f) Non-executive directorships of executive directors In order to broaden their experience, the company normally permits each executive director to accept one external appointment as a non-executive director of another company, for which the director may retain the fees.

(g) Non-executive directors The fees of the non-executive directors are determined by the board of directors in the absence of the non-executive directors.

2. Directors' emoluments and other payments

(a) Base salary, annual bonus, benefits and SEPSOS and other payments

Executive directors	Basic salary (1),(5) £000	Annual performance bonus £000	Benefits (2) £000	SEPSOS payments (3) £000	Other payments £000	Total 1996 £000	Total 1995 £000
G J Bull (appointed Chairman 1.3.96 at a salary of £500,000)	468	235	31	–	–	734	529
J B McGrath (appointed Group Chief Executive 1.3.96 at a salary of £410,000)	383	195	34	–	–	612	422
P E B Cawdron	266	122	24	23	–	435	358
G M N Corbett	285	134	32	–	–	451	368
J M J Keenan (appointed Chief Executive IDV 4.3.96 at a salary of $750,000)	290	334	148	–	–	772	–
D E Tagg	329	156	25	86	–	596	448
P S Walsh (appointed to the board 17.10.95 at a salary of $910,000)	569	411	33	28	–	1,041	–
Lord Sheppard (until 29.2.96)	313	–	18	784	–	1,115	907
D P Nash (until 17.10.95 see 2(c) below)	16	–	2	326	791	1,135	544
Former executive director	–	–	–	–	–	–	557
	2,919	1,587	347	1,247	791	6,891	4,133

Non-executive directors (2),(4)	Fees 1996 £000	Fees 1995 £000
R V Giordano	101	106
M L Hepher	37	25
Prof Dr G Höhler (until 31.12.95)	23	45
P J D Job	34	25
C F St Mark (appointed to the board 1.1.96)	21	–
Sir David Simon	32	39
Former non-executive directors	–	28
	248	268

Notes:

(1) Figures for J M J Keenan and P S Walsh represent the sterling equivalent of their US dollar remuneration.

(2) Benefits include company cars, fuel, financial counselling, medical insurance and life insurance premiums. Additional payments made to or on behalf of J M J Keenan, who is an expatriate, are treated as benefits in the above table. They include allowances for working overseas and the provision of accommodation. Non-executive directors' benefits are included in their fees.

(3) SEPSOS payments relate to exercises in the current year and previous years. See 1d(ii).

(4) On 1st April 1996, P J D Job replaced R V Giordano as chairman of the appraisal and remuneration committee, and on 1st January 1996, M L Hepher replaced Sir David Simon as chairman of the audit committee. These changes in responsibility are reflected in their respective fees.

(5) The executive directors' basic salaries were increased by an average of 3.3% with effect from 1st October 1996.

The total emoluments of the directors of £6,392,000 *(1995 – £3,883,000)* comprise executive directors' basic salaries, annual performance bonuses, benefits and SEPSOS payments, and non-executive directors' fees, together with pension contributions in respect of executive directors of £44,000 *(1995 – £39,000)*. Reasons for the increase include the appointments of J M J Keenan and P S Walsh on US remuneration packages, bonuses based on performance, and SEPSOS payments in respect of options exercised in the current year and previous years.

(b) Gains made on directors' share options The gains from the exercise of share options under ESOS and the UK savings-related share option scheme were as follows:

	1996 £000	1995 £000
G J Bull	137	7
J B McGrath	50	54
P E B Cawdron	13	2
P S Walsh	22	–
Lord Sheppard (until 29.2.96)	1	7
D P Nash (until 17.10.95)	4	–

Details of options giving rise to these gains can be found in section 3(a). The gains are calculated as at the date of exercise although the shares may have been retained.

(c) Directors who left during the year As reported in last year's Report and Accounts, D P Nash ceased to be a director on 17th October 1995 and he received a compensation payment of £791,000. He continued to receive salary and benefits of £111,000 as an employee for the period from 18th October 1995 to 31st January 1996.

Following Lord Sheppard's retirement on 29th February 1996, the company entered into a consultancy agreement with a company controlled by him. Under its terms, Lord Sheppard will continue to provide advice and assistance to the board until 28th February 1998, for which he will receive £45,000 per annum and be provided with administrative assistance.

The company moved its headquarters in May 1996 and certain surplus items were offered to all employees, including directors, at prices based on professional external valuations. Lord Sheppard's purchases on this basis totalled £46,000.

(d) Directors' pension provision The UK based executive directors are members of the Directors' Pension Plan of the Group Pension Fund except for J M J Keenan, who does not participate in any company pension arrangement, and G M N Corbett, who is affected by the Inland Revenue earnings cap on approved pension benefits. G M N Corbett has been promised by the company broadly equivalent benefits to the other directors. These are partly funded through personal pension plans and the total amount paid in 1996 was £16,000.

Current directors accrue pension rights at the rate of one-thirtieth of basic salary per annum with a guarantee that the pension at normal pension age of 62 will not be less than two-thirds of salary in the twelve months prior to retirement. No actuarial reduction is applied to pensions payable from the age of 57. Bonus payments are not included in pensionable pay under the Directors' Pension Plan. The Group Pension Fund has a substantial surplus and as a result no company contributions have been paid into it since 1st December 1992. The company is not expected to make any contributions in the foreseeable future.

Pensions in payment are increased in line with inflation up to 5%, but with a guarantee that the increase will not be less than 3%.

The pension entitlements earned by the continuing directors during the year were as follows:

	Age at 30th September 1996	Years of service at 30th September 1996	Increase in accrued pension since 30th September 1995 £000	Total accrued annual pension at 30th September 1996 £000	Total accrued annual pension at 30th September 1995 £000
G J Bull	60	39	69	444	375
J B McGrath	58	11	39	191	152
P E B Cawdron	53	13	13	115	102
G M N Corbett	45	2	10	24	14
D E Tagg	56	16	17	184	167
P S Walsh	41	14	32	141	109

The figures for P S Walsh relate to his participation in the Pillsbury Retirement Plan. He also contributes to the Pillsbury savings plan, which is a defined contribution plan with a limited company match. The company contribution to the plan was £28,000.

(e) SEPSOS The following table shows for the directors who held office during the year, the number of options held under SEPSOS which were granted between 1988 and 1996 at prices between 223p and 480p.

		Holding at 30th September 1995 or date of appointment	Granted during the year	Exercised during the year	Holding at 30th September 1996 or date of leaving	Option price pence	Market price pence	Option period
G J Bull								
Exercisable		149,632			225,186	292(i)		Dec 93 – Jan 01
Not yet exercisable		488,886			505,707	440(i)		Jan 97 – Jan 06
	Total	638,518			730,893			
			92,375			459		Jan 01 – Jan 06
J B McGrath								
Exercisable		100,066			151,916	290(i)		Dec 93 – Jan 01
Not yet exercisable		355,827			379,358	437(i)		Jan 97 – Jan 06
	Total	455,893			531,274			
			75,381			459		Jan 01 – Jan 06
P E B Cawdron								
Exercisable		43,888			92,776	329(i)		Jan 95 – Jan 01
Not yet exercisable		284,122			293,186	433(i)		Jan 97 – Jan 06
	Total	328,010			385,962			
			57,952			459		Jan 01 – Jan 06
G M N Corbett								
Not yet exercisable		71,990			134,082	418(i)		Jan 00 – Jan 06
	Total	71,990			134,082			
			62,092			459		Jan 01 – Jan 06
D E Tagg								
Exercisable		62,696			–			
Not yet exercisable		401,599			405,129	440 (i)		Jan 97 – Jan 06
	Total	464,295			405,129			
			71,678			459		Jan 01 – Jan 06
				62,696		319	456	
				68,148		338	450	
P S Walsh								
Exercisable		34,414			15,988	319(i)		Jan 95 – Jan 01
Not yet exercisable		294,720			422,340	427(i)		Jan 97 – Jan 06
	Total	329,134			438,328			
			127,620			459		Jan 01 – Jan 06
				18,426		233	480	
Lord Sheppard (4)								
Exercisable		197,492			–			
Not yet exercisable		987,215			779,809	433(i)		Jan 97 – Jan 01
	Total	1,184,707			779,809			
				197,492		319	446	
				207,406		338	435	
D P Nash (5)								
Exercisable		183,098			–			
Not yet exercisable		443,321			136,842	475(i)		Jan 99 – Jan 04
	Total	626,419			136,842			
				183,098		319	439	
				80,000		338	456	

(i) Weighted average price of options held at 30th September 1996.

Notes:

(1) The option price under SEPSOS is based on the average share price for the three trading days prior to the date of grant. All 1996 options were granted on 4th January 1996 at an option price of 459p.

(2) The mid-market price of the shares at 30th September 1996 was 476p *(1995 – 445p)*. The highest mid-market price during the year was 491p and the lowest mid-market price was 412p.

(3) All SEPSOS grants after January 1993 are subject to a performance criterion and, to date, none has passed the test.

(4) In accordance with scheme rules governing normal retirement, Lord Sheppard will be able to exercise all his outstanding options for a period of 12 months from date of vesting of each grant.

(5) 226,479 of D P Nash's options lapsed during the year as a result of his leaving. He will be able to exercise his remaining options, once they vest, subject to the performance criterion being satisfied.

3. Share interests

(a) Executive share options and savings-related share options The following tables show for the directors who held office during the year, the number of options held under the executive and savings-related schemes, which were granted, for UK schemes, between 1990 and 1996 at prices between 243p and 474p, and for US schemes, between 1993 and 1996 at prices between US$21.46 and US$29.38 per ADS (each ADS represents four ordinary shares).

(i) United Kingdom

		Holding at 30th September 1995 or date of appointment	Granted during the year	Exercised during the year	Holding at 30th September 1996 or date of leaving	Option price pence	Market price pence	Option period
G J Bull								
Exercisable		479,685			353,539	390(i)		June 93 – June 99
Not yet exercisable		327,557			444,107	419(i)		Oct 96 – June 06
	Total	807,242			797,646			
			116,550			429		June 99 – June 06
				126,146		319	428	
J B McGrath								
Exercisable		264,767			294,914	407(i)		June 93 – Dec 99
Not yet exercisable		388,446			402,762	419(i)		Oct 96 – June 06
	Total	653,213			697,676			
			95,571			429		June 99 – June 06
				35,108		319	415	
				16,000		319	423	
P E B Cawdron								
Exercisable		130,048			117,548	429(i)		June 94 – June 99
Not yet exercisable		270,916			323,620	426(i)		Oct 96 – June 06
	Total	400,964			441,168			
			52,704			429		June 99 – June 06
				12,500		380	484	
G M N Corbett								
Not yet exercisable		237,900			294,368	415(i)		July 97 – June 06
	Total	237,900			294,368			
			56,468			429		June 99 – June 06
D E Tagg								
Exercisable		153,211			187,499	437(i)		June 94 – Dec 99
Not yet exercisable		430,571			472,972	423(i)		Oct 96 – June 06
	Total	583,782			660,471			
			76,689			429		June 99 – June 06
P S Walsh								
Exercisable		274,089			252,931	383(i)		June 93 – June 99
	Total	274,089			252,931			
				21,158		319	422	

(i) United Kingdom – *continued*	Holding at 30th September 1995 or date of appointment	Granted during the year	Exercised during the year	Holding at 30th September 1996 or date of leaving	Option price pence	Market price pence	Option period
Lord Sheppard (3)							
Exercisable	432,230			984,032	420(i)		June.94 – Jan 98
Not yet exercisable	556,936			–			
Total	989,166			984,032			
			1,299(ii)		408	452	
			573(ii)		314	452	
D P Nash (3)							
Exercisable	41,842			41,842	427(i)		June 94 – Jan 97
Not yet exercisable	555,781			550,349	427(i)		Oct 96 – Dec 98
Total	597,623			592,191			
			3,244(ii)		313	428	
			1,293(ii)		408	428	

(i) Weighted average price of options held at 30th September 1996
(ii) Savings-related share options

(ii) United States	Holding at date of appointment	Granted during the year	Exercised during the year	Holding at 30th September 1996(ii)	Equivalent option price(ii) $	Option period
P S Walsh						
Exercisable	–			63,756	6.52(i)	July 96 – July 00
Not yet exercisable	715,512			853,708	6.69(i)	Jan 97 – Jan 06
Total	715,512			917,464		
		201,952			7.35	Jan 99 – Jan 06
J M J Keenan						
Not yet exercisable	–			294,340	6.63(i)	June 99 – June 06
Total	–			294,340		
		294,340			6.63	June 99 – June 06

(i) Weighted average price of options held at 30th September 1996.
(ii) Options are granted over ADSs; the above option holdings and prices are stated as ordinary share equivalents.

Notes:

(1) The option price of executive options is based on the average share price for the three trading days prior to the date of grant. For savings-related share options the option price is calculated in the same way and discounted by 20% for UK options and 15% for US options.

(2) All executive option grants from 1st October 1993 are subject to a performance criterion and, to date, no grant has passed the test.

(3) Lord Sheppard and D P Nash both exercised savings-related share options before the end of their savings contract, which resulted in a reduction in entitlement of 3,262 and 895 options respectively.

(4) Under the rules of the 1993 ESOS, the performance criterion is waived at normal retirement. This applies to Lord Sheppard.

(b) Ordinary shares The beneficial interests of the directors at 30th September 1996 in the ordinary shares of the company at 30th September 1996 and 1995 (or date of appointment) were as follows:

Executive directors	1996	1995
G J Bull	70,701	53,861
J B McGrath	17,000	15,776
P E B Cawdron	16,079	12,462
G M N Corbett	2,500	2,500
J M J Keenan	40,000	–
D E Tagg	21,574	21,574
P S Walsh	53,995	38,667
Non-executive directors		
R V Giordano	2,181	2,107
M L Hepher	7,208	5,000
P J D Job	5,185	5,185
C F St Mark	5,000	–
Sir David Simon	2,271	2,194

G J Bull also had a non-beneficial interest at 30th September 1996 in 471,162 *(1995 – 471,162)* ordinary shares.

On 6th November 1996, each of the interests of the directors was unchanged from 30th September 1996, except for the following increases in ordinary shares: G J Bull – 882, J B McGrath – 212, P E B Cawdron –166, P S Walsh – 4,480, R V Giordano – 28, M L Hepher – 87, C F St Mark – 62 and Sir David Simon – 29.

(c) Other share interests As potential beneficiaries of the Number 2 Employee Share Trust, the executive directors had an interest at 30th September 1996 in 263,794 shares registered in the name of the trustees, Hill Street Trustees Limited, and 9,345,601 shares which were the subject of call options purchased by the trustees from SBC Warburg and National Westminster Bank. They have an interest in these shares to satisfy grants made under the various share option schemes described in this report.

Other than the above, no director had any interest, beneficial or non-beneficial, in the share capital of the company or had a material interest during the year in any significant contract with the company or any subsidiary or any associate.

Directors' responsibilities

in relation to the financial statements

The following statement, which should be read in conjunction with the report of the auditor set out opposite, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group at the end of the financial year and of the profit or loss for the financial year. The directors, in preparing the financial statements on pages 18 to 43, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors, having prepared the financial statements, have requested the auditor to take whatever steps and undertake whatever inspections it considers to be appropriate for the purpose of enabling it to give an audit report.

Report of the auditor

to the members of Grand Metropolitan Public Limited Company

We have audited the financial statements on pages 18 to 43. We have also examined the amounts disclosed relating to the emoluments, share options and long term incentive schemes of the directors which form part of the appraisal and remuneration committee report on pages 9 to 16.

Respective responsibilities of the directors and auditor As described opposite, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30th September 1996 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

London, 5th December 1996

Review report by the auditor

to Grand Metropolitan Public Limited Company on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statement within the directors' report on the group's compliance with the paragraphs of the Code of Best Practice specified for our review by the Listing Rules. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which are not disclosed.

Basis of opinion We carried out our review in accordance with Bulletin 1995/1 *Disclosures Relating to Corporate Governance* issued by the Auditing Practices Board. That Bulletin does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the company's system of internal financial control or corporate governance procedures, or on the ability of the company or the group to continue in operational existence.

Opinion With respect to the directors' statements on internal financial control and on going concern included within the directors' report, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement included within the directors' report appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

London, 5th December 1996

Accounting policies

Basis of preparation The financial statements are prepared under the historical cost convention, modified by the revaluation of certain land and buildings, and comply with applicable UK accounting standards. Assets and liabilities are recognised in the financial statements where, as a result of past transactions or events, the group has rights or other access to future economic benefits controlled by the group, or obligations to transfer economic benefits.

Basis of consolidation The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings (subsidiaries) made up to 30th September. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from, the date control passes.

Acquisitions and disposals On the acquisition of a business, fair values, reflecting conditions at the date of acquisition, are attributed to the net tangible assets and significant owned brands acquired. Where the cost of acquisition exceeds the values attributable to the group's share of such net assets, the difference is treated as purchased goodwill and is written off direct to reserves in the year of acquisition. Reorganisation and integration costs resulting from the acquisition are charged to the profit and loss account.

The profit or loss on the disposal of a previously acquired business reflects the attributable amount of purchased goodwill relating to that business.

A business is classified as a discontinued operation if it is clearly distinguishable, has a material effect on the nature and focus of the group's activities, represents a material reduction in the group's operating facilities and its sale is completed prior to the approval of the financial statements.

Intangible assets Significant owned brands, acquired since 1st January 1985, the value of which is not expected to diminish in the foreseeable future, are recorded at cost, less appropriate provisions, as fixed intangible assets. No annual amortisation is provided on these assets but their value is reviewed annually by the directors and the cost written down as an exceptional item where permanent diminution in value has occurred.

Fixed assets Fixed assets are stated at cost or at professional valuation, less appropriate depreciation and provisions.

No depreciation is provided on freehold land. Leaseholds are depreciated over the unexpired period of the lease. Other fixed assets are depreciated to residual values over their estimated useful lives within the following ranges:

Industrial and other buildings	15 to 50 years
Plant and machinery	5 to 25 years
Fixtures and fittings	3 to 10 years

Profit or loss on sale of property is the difference between the disposal proceeds and the net book value, including any revaluation, of the asset. Any amount in the revaluation reserve relating to such an asset is transferred directly to the profit and loss account reserve and is not included in the profit for the financial year.

Leases Where the group has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Other leases are treated as operating leases.

Future instalments payable under finance leases, net of finance charges, are included in creditors with the corresponding asset values treated as fixed tangible assets. Payments are apportioned between the finance element, which is charged to the profit and loss account as interest, and the capital element, which reduces the outstanding obligation for future instalments.

Amounts receivable under finance leases are included in debtors with income credited to the profit and loss account in proportion to the funds invested.

Operating lease payments and receipts are taken to the profit and loss account on a straight line basis over the life of the lease.

Investments in associates An associated undertaking (associate) is one in which the group has a long term equity interest, usually from 20% to 50%, and over which it exercises significant influence.

The group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets, other than goodwill, is included in investments in the consolidated balance sheet.

Investments Fixed asset investments, other than in associates, are stated individually at cost less, where appropriate, provision for diminution in value where such diminution is expected by the directors to be permanent. Current asset investments are stated at the lower of cost and net realisable value. Cost includes, where appropriate, accrued interest.

Stocks Stocks are valued at the lower of cost and net realisable value. Cost includes, where appropriate, production and other direct overhead expenses.

Foreign currencies Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities in foreign currencies, including the group's interest in the underlying net assets of associates, are translated into sterling at the financial year end exchange rates or, if hedged forward, at the rate of exchange under the related forward currency contract.

Profits and losses of overseas subsidiaries and associates are translated into sterling at weighted average rates of exchange during the year, other than material exceptional items which are translated at the rate on the date of the transaction. The adjustment to financial year end rates is taken to reserves.

Gains and losses arising on the translation of the opening net assets of overseas subsidiaries and associates are taken to reserves, less exchange differences arising on related foreign currency borrowings and financial instruments. Other exchange differences are taken to the profit and loss account.

The results, assets and liabilities of operations in hyper-inflationary economies are translated using an appropriate relatively stable currency as the functional currency. The exchange translation movement arising from this process is taken to the profit and loss account.

Turnover Turnover represents the net invoice value of goods and services provided to third parties and includes excise duties, rents and royalties receivable, but excludes VAT.

Franchising Franchising generates initial franchise fees, as well as profits or losses arising from the franchising of developed or purchased outlets previously operated by the group, and ongoing royalty revenues based on sales made by franchisees. Income from franchising is included in operating profit, apart from any property element which is treated as a disposal of fixed assets.

Research and development Research and development expenditure is written off in the year in which it is incurred.

Post employment benefits The cost of providing pensions and other post employment benefits is charged against profits on a systematic basis, with pension surpluses and deficits allocated over the expected remaining service lives of current employees.

Differences between the amounts charged in the profit and loss account and payments made to the plans are treated as assets or liabilities in the balance sheet. Deferred tax is accounted for on these assets and liabilities. The unfunded post employment medical benefit liability is included in provisions in the balance sheet.

Exceptional items Exceptional items are those that need to be disclosed by virtue of their size or incidence. Such items are included within the profit and loss account caption to which they relate, and are separately disclosed either in the notes or on the face of the profit and loss account.

Taxation The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for taxation deferred if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

Advance corporation tax (ACT) recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors.

Consolidated profit and loss account

for the year ended 30th September 1996

	Notes	1996 Before exceptional items £m	1996 Exceptional items £m	1996 Total £m	1995 Before exceptional items £m	1995 Exceptional items £m	1995 Total £m
Turnover							
Continuing operations		8,727		8,727	7,733		7,733
Discontinued operations		247		247	292		292
Total turnover	3	8,974		8,974	8,025		8,025
Operating costs	4	(7,866)		(7,866)	(6,993)	(122)	(7,115)
Operating profit							
Continuing operations		1,096		1,096	1,009	(122)	887
Discontinued operations		12		12	23	–	23
Total operating profit		1,108		1,108	1,032	(122)	910
Share of profits of associates	5	47	(24)	23	48	(15)	33
		1,155	(24)	1,131	1,080	(137)	943
Continuing operations							
Disposal of fixed assets			(3)	(3)		(9)	(9)
Sale of businesses	6		27	27		(44)	(44)
Provisions for losses on sale of businesses	6		(250)	(250)		–	–
Discontinued operations							
Sale of businesses	6		(327)	(327)		198	198
			(553)	(553)		145	145
Interest payable (net)	7	(190)	–	(190)	(168)	–	(168)
Profit on ordinary activities before taxation		965	(577)	388	912	8	920
Taxation on profit on ordinary activities	8	(270)	(22)	(292)	(255)	(29)	(284)
Profit on ordinary activities after taxation		695	(599)	96	657	(21)	636
Minority interests							
Equity		(8)	–	(8)	(4)	–	(4)
Non-equity		(38)	–	(38)	(31)	–	(31)
Profit for the financial year		649	(599)	50	622	(21)	601
Ordinary dividends	9			(334)			(312)
Transferred to reserves				(284)			289
Earnings per share	10	31.0p	(28.6)p	2.4p	29.8p	(1.0)p	28.8p

Consolidated balance sheet

at 30th September 1996

	Notes	1996 £m	1996 £m	1995 £m	1995 £m
Fixed assets					
Intangible assets	13		3,884		3,840
Tangible assets	14		1,716		1,725
Investments	15		533		735
			6,133		6,300
Current assets					
Stocks	17	1,158		1,208	
Debtors (see note below)	18	2,283		2,503	
Investments	19	641		163	
Cash at bank and in hand		1,003		969	
		5,085		4,843	
Creditors – due within one year					
Borrowings	20	(346)		(1,361)	
Other creditors	21	(2,406)		(2,482)	
		(2,752)		(3,843)	
Net current assets (see note below)			2,333		1,000
Total assets less current liabilities			8,466		7,300
Creditors – due after more than one year					
Borrowings (including convertible debt)	20	(4,093)		(3,127)	
Other creditors	22	(201)		(92)	
			(4,294)		(3,219)
Provisions for liabilities and charges	23		(525)		(587)
			3,647		3,494
Capital and reserves					
Equity share capital			525		523
Non-equity share capital			12		12
Called up share capital	25		537		535
Share premium account		685		667	
Revaluation reserve		88		94	
Goodwill reserve		(3,210)		(3,579)	
Profit and loss account		5,111		5,386	
Reserves attributable to equity shareholders	26		2,674		2,568
			3,211		3,103
Minority interests					
Equity		46		42	
Non-equity	27	390		349	
			436		391
			3,647		3,494

Debtors and net current assets include debtors recoverable after more than one year of £807m *(1995 – £684m).*

The financial statements on pages 18 to 43 were approved by a duly appointed and authorised committee of the board of directors on 5th December 1996 and were signed on its behalf by:

G J Bull, *Director*

G M N Corbett, *Director*

Consolidated cash flow statement
for the year ended 30th September 1996

	Notes	1996 £m	1996 £m	1995 £m	1995 £m
Net cash inflow from operating activities	30		1,131		1,070
Returns on investments and servicing of finance					
Interest received		134		102	
Interest paid		(291)		(221)	
Prior year interest received from IPCL		–		71	
Dividends received from associates		10		9	
Dividends paid to minority interests		(43)		(31)	
Ordinary dividends paid		(298)		(280)	
Net cash outflow from returns on investments and servicing of finance			(488)		(350)
Taxation					
UK corporation tax paid		(112)		(129)	
Overseas corporate tax paid		(212)		(131)	
Total tax paid			(324)		(260)
Investing activities					
Purchase of tangible fixed assets		(277)		(219)	
Purchase of subsidiaries	31	(159)		(1,875)	
Purchase of associates		(4)		(37)	
Purchase of fixed asset investments		(102)		(144)	
Sale of tangible fixed assets		38		101	
Sale of subsidiaries	32	526		37	
Loan repayment from IPCL		–		289	
Sale of associates and fixed asset investments		307		241	
Acquisition and disposal provision payments		(36)		(50)	
Net cash inflow/(outflow) from investing activities			293		(1,657)
Net cash inflow/(outflow) before financing			612		(1,197)
Financing					
Issue of ordinary share capital		(20)		(13)	
Issue of guaranteed preferred securities		(36)		(343)	
Issue costs in respect of loans and guaranteed preferred securities		1		26	
Proceeds of loans		(3,774)		(1,794)	
Repayment of loans		3,926		809	
Capital element of finance lease payments		5		7	
Net cash outflow/(inflow) from financing	33		102		(1,308)
Increase in cash and cash equivalents	34		510		111
			612		(1,197)

Consolidated statement of total recognised gains and losses

for the year ended 30th September 1996

	1996 £m	1995 £m
Profit for the financial year	50	601
Exchange adjustments	(17)	10
Total recognised gains and losses for the financial year	33	611

Note of consolidated historical cost profits and losses

for the year ended 30th September 1996

	1996 £m	1995 £m
Profit on ordinary activities before taxation	388	920
Realisation of property revaluation gains of prior years	4	36
Asset provisions not required on an historical cost basis	–	(18)
Historical cost profit on ordinary activities before taxation	392	938
Historical cost result for the year retained after taxation, minority interests and ordinary dividends	(280)	307

Movements in consolidated shareholders' funds

for the year ended 30th September 1996

	1996 £m	1995 £m
Profit for the financial year	50	601
Ordinary dividends	(334)	(312)
	(284)	289
Other recognised gains and losses	(17)	10
New share capital issued	20	13
Adjustment in respect of share dividend	14	10
Goodwill written off	(123)	(790)
Goodwill transferred to the profit and loss account in respect of disposals of businesses	498	31
Net movement in shareholders' funds	108	(437)
Shareholders' funds at beginning of year	3,103	3,540
Shareholders' funds at end of year	3,211	3,103

Notes

1 Adoption of new accounting standard

These financial statements comply with the new accounting standard issued by the Accounting Standards Board: FRS 8 – Related party disclosures. The objective of FRS 8 is to ensure that financial statements contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them.

2 Segment analysis

	1996 Turnover £m	1996 Profit £m	1996 Net assets £m	1995 Turnover £m	1995 Profit £m	1995 Net assets £m
Class of business:						
Continuing operations						
Food – Pillsbury	3,770	431	2,899	3,145	331	3,031
– Other European	540	27	63	518	27	186
– Burger King	859	167	1,137	760	196	1,179
Drinks – IDV	3,558	471	1,717	3,310	455	1,860
	8,727	1,096	5,816	7,733	1,009	6,256
Discontinued operations	247	12	92	292	23	138
	8,974		5,908	8,025		6,394
Operating profit before exceptional items		1,108			1,032	
Associates before exceptional items		47	427		48	421
Exceptional items		(577)			8	
Interest payable/net borrowings		(190)	(2,688)		(168)	(3,321)
Profit before taxation		388			920	
Net assets			3,647			3,494
Geographical area by country of operation:						
United Kingdom	856	66	122	805	85	399
Rest of Europe	1,926	201	518	1,807	185	583
United States	5,232	762	4,977	4,630	705	5,026
Rest of North America	222	21	97	195	19	128
Africa and Middle East	154	10	35	175	6	43
Rest of World	584	48	159	413	32	215
	8,974		5,908	8,025		6,394
Operating profit before exceptional items		1,108			1,032	
Associates before exceptional items		47	427		48	421
Exceptional items		(577)			8	
Interest payable/net borrowings		(190)	(2,688)		(168)	(3,321)
Profit before taxation		388			920	
Net assets			3,647			3,494

Profit before interest relates to the following activities and geographical areas: Pillsbury £437m; Other European £(188)m; Burger King £163m; IDV £481m; and discontinued businesses £(315)m *(1995 – £385m; £17m; £191m; £472m and £23m respectively)*; United Kingdom £(155)m; Rest of Europe £148m; United States £478m; Rest of World £107m *(1995 – £84m; £178m; £750m and £76m respectively)*.

The group interest expense is arranged centrally and is not attributable to individual activities or geographical areas. The analysis of capital employed by activity and geographical area is calculated on net assets excluding associates and net borrowings.

Turnover between the above classes of business is not material.

Other European businesses comprise the national food businesses in Europe that have been, or are in the process of being, sold. Pillsbury comprises the balance of the former Food – Packaged segment. Discontinued operations comprise Pearle and, in 1995 only, Alpo Petfoods; both companies operated primarily in the United States.

2 Segment analysis – *continued*

The weighted average exchange rate used in translation of US dollar profit and loss accounts was £1 = $1.54 *(1995 – £1 = $1.58)*. The exchange rate used to translate US dollar assets and liabilities at the balance sheet date was £1 = $1.56 *(1995 – £1 = $1.58)*.

3 Turnover

			1996			1995
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Geographical area by destination:						
United Kingdom	837	–	837	795	–	795
Rest of Europe	1,834	41	1,875	1,742	38	1,780
United States of America	4,925	200	5,125	4,279	249	4,528
Rest of North America	243	6	249	216	5	221
Africa and Middle East	171	–	171	185	–	185
Rest of World	717	–	717	516	–	516
	8,727	247	8,974	7,733	292	8,025

4 Operating costs

			1996			1995
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Raw materials and consumables	2,616	73	2,689	2,194	90	2,284
Other external charges	3,840	86	3,926	3,377	92	3,469
Staff costs (note 11)	1,019	65	1,084	966	73	1,039
Depreciation of tangible fixed assets	175	11	186	172	15	187
Decrease in stocks of finished goods and work in progress	33	–	33	98	–	98
Other operating income	(52)	–	(52)	(83)	(1)	(84)
Integration and reorganisation costs	–	–	–	122	–	122
	7,631	235	7,866	6,846	269	7,115

Total operating costs include: US excise duties of £307m *(1995 – £310m)*; other excise duties of £513m *(1995 – £532m)*; operating lease rentals for plant and machinery of £22m *(1995 – £15m)* and for other leases (mainly of properties) of £119m *(1995 – £118m)*; and research and development expenditure of £50m *(1995 – £43m)*. Other operating income includes profits arising from the franchising of outlets of £2m *(1995 – £30m)* and income from operating leases of £19m *(1995 – £19m)*. Operating costs for continuing operations include advertising, marketing and promotion of £1,232m *(1995 – £1,060m)*.

Fees in respect of services provided by the auditor were: statutory audit of the group £4,677,000 *(1995 – £4,381,000)*; other services to UK group companies £1,916,000 *(1995 – £3,597,000)*; and other services to non-UK subsidiaries £2,618,000 *(1995 – £1,988,000)*.

5 Associates

The group's share of the results of associates was as follows:

	1996 £m	1995 £m
Share of profits before exceptionals and taxation	47	48
Exceptional items (note 16)	(24)	(15)
Share of taxation (note 8)	(7)	(19)
Share of profits after taxation	16	14
Dividends received by the group	(10)	(9)
Retained by associates	6	5

Group turnover includes sales to associates of £61m *(1995 – £50m)* and operating costs include purchases from associates of £124m *(1995 – £101m)*.

Notes

6 Sale of businesses

	1996 Profit/(loss) on sale of businesses £m	1996 Provisions set up for businesses to be sold £m	1995 Profit/(loss) on sale of businesses £m
Continuing operations			
National food businesses in Europe (note (a))	35	(250)	–
Green Giant processing	–	–	(42)
Other	(8)	–	(2)
	27	(250)	(44)
Discontinued operations			
Pearle (note (b))	(291)	–	–
Betting and gaming (note (c))	(36)	–	–
Alpo Petfoods	–	–	198
	(327)	–	198

(a) The sale of the German food business, Erasco, was completed on 30th September for a consideration of £134m; provisions of £250m have been set up in respect of the remaining national food businesses in Europe. The profit on sale and the provisions are after charging goodwill previously written off attributable to the businesses of £222m.

(b) The sale of Pearle for a consideration of £138m was agreed on 25th September 1996 and was completed on 15th November 1996. The loss on sale was after charging goodwill previously written off attributable to Pearle of £270m.

(c) The £36m in respect of betting and gaming relates to a £118m downward adjustment to the consideration for the group's former retail betting operation, which was sold in December 1989 for £685m, offset by £82m which remained outstanding from The William Hill Group Ltd in relation to the sale. This disposes of the major aspect of a dispute with the purchaser, but there are other ongoing claims arising from the sale which have yet to be resolved.

7 Interest payable (net)

	1996 £m	1996 £m	1995 £m	1995 £m
On bank loans, overdrafts and other loans repayable wholly within five years		167		168
On all other loans		129		109
		296		277
Less: Interest receivable from associates	–		(10)	
Income from currency swaps (net)	(13)		(21)	
Other interest receivable	(93)		(78)	
		(106)		(109)
		190		168

8 Taxation

	1996 £m	1995 £m
UK corporation tax payable at 33% *(1995 – 33%)*	106	90
UK deferred taxation	6	18
Overseas corporate taxation	235	137
Overseas deferred taxation	(16)	32
Taxation on the group's share of profits of associates	7	19
	338	296
Adjustments to prior year taxation charges	(46)	(12)
	292	284

The taxation charge includes tax on exceptional items of £22m *(1995 – £29m)* comprising a charge of £44m for continuing operations and a credit of £22m for discontinued operations *(1995 – credit of £74m and a charge of £103m respectively).*

8 Taxation – ***continued***

The table below reconciles the notional charge at the UK corporation tax rate for the year to the actual charge for taxation:

	1996 £m	1995 £m
Profit on ordinary activities before taxation	388	920
Notional charge at UK corporation tax rate 33% *(1995 – 33%)*	128	304
Differences in effective overseas tax rates	(2)	5
Exceptional items	212	26
Adjustments to prior years	(46)	(12)
Other items	–	(39)
Actual charge for taxation	292	284

9 Ordinary dividends

	1996 £m	1995 £m
Interim of 5.85p per share *(1995 – 5.5p)*	123	115
Proposed final of 10.05p per share *(1995 – 9.4p)*	211	197
	334	312

10 Earnings per share

	1996 pence	1995 pence
Earnings per share	2.4	28.8
Adjustment in respect of exceptional items	28.6	1.0
Earnings per share before exceptional items	31.0	29.8

Earnings per share is calculated by reference to earnings of £50m *(1995 – £601m)* and the weighted average number of ordinary shares in issue during the year of 2,096m shares *(1995 – 2,087m shares)*. The dilutive effect of unexercised options and convertible loan notes on earnings per share is not material. Earnings per share is also shown calculated by reference to earnings before exceptional items and related tax of £649m *(1995 – £622m)* since the directors consider that this gives a useful additional indication of underlying performance.

11 Employees

The average number of employees during the year was:

	1996			1995		
	Full time	Part time	Total	Full time	Part time	Total
Continuing operations						
Food – Pillsbury	14,878	1,085	15,963	14,722	1,388	16,110
– Other European	5,715	116	5,831	5,589	416	6,005
– Burger King	17,378	12,549	29,927	17,104	9,711	26,815
Drinks – IDV	10,034	461	10,495	10,815	331	11,146
	48,005	14,211	62,216	48,230	11,846	60,076
Discontinued operations	2,834	649	3,483	3,018	733	3,751
	50,839	14,860	65,699	51,248	12,579	63,827

The aggregate remuneration of all employees comprised:	1996 £m	1995 £m
Wages and salaries	982	948
Employer's social security costs	117	111
Employer's pension costs	(30)	(33)
Other post employment costs	15	13
	1,084	1,039

11 Employees – *continued*

(i) Pension plans

The group operates a number of pension plans throughout the world, devised in accordance with local conditions and practices. The plans generally are of the defined benefit type funded by payments to separately administered funds or insurance companies.

Valuations of all significant plans were carried out during the past two years by qualified independent actuaries to determine pension costs. The actuarial method used for these valuations was the projected unit method. For accounting purposes the major assumptions were: rate of return on assets 10% *(1995 – 10%)*; wages and salaries increase 7% to 7.5% *(1995 – 7% to 7.5%)*; and future dividend growth for UK equities 5.25% *(1995 – 5.25%)*. Surpluses or deficits on the pension plans arising from the actuarial valuations are spread over the average service lives of the members of the relevant fund on a straight line basis. The market values of the funds at the date of the latest actuarial valuations totalled approximately: UK funds £816m *(1995 – £816m)*; US funds £760m *(1995 – £666m)*. The actuarial value of the assets of all the significant plans was sufficient to cover approximately 133% *(1995 – 136%)* of the benefits that had accrued to members after allowing for expected future increases in wages and salaries.

The UK and Irish pension funds are recharged with the cost of administration and professional fees by the company. The total amount recharged for the year to 30th September 1996 was £2.8m *(1995 – £2.7m)*.

(ii) Other post employment plans

The group also operates a number of plans, primarily in the United States, which provide employees with other post employment benefits in respect of medical costs. The plans are generally unfunded. The liability in respect of these benefits is assessed by qualified independent actuaries under the projected unit method and is included in provisions. The major assumptions were: liability discount rate 10% *(1995 – 10%)*; assumed medical inflation for beneficiaries aged under 65 – 13% reducing by 1% per year to 6%, and for beneficiaries aged 65 and over – 10% reducing by 0.5% per year to 6%.

12 Directors

The total emoluments of the directors, including pension contributions, were as follows:

	1996 £000	1995 £000
Executive directors – remuneration including bonuses	4,853	3,423
– payments under SEPSOS	1,247	153
– pension contributions	44	39
Fees to non-executive directors	248	268
	6,392	3,883

The emoluments, including pension contributions, of the two chairmen, Lord Sheppard and G J Bull, for the periods during which they held office were £1,115,000 and £458,000 respectively *(1995 – Lord Sheppard, £907,000)*.

A compensation payment of £791,000 was paid to a former director, D P Nash, on the termination of his employment *(1995 – £557,000 to I A Martin)*.

The following table shows the number of directors whose emoluments, excluding pension contributions, fell into the ranges below:

£	£	1996	1995	£	£	1996	1995
10,001 –	15,000	–	2	435,001 –	440,000	1	–
20,001 –	25,000	2	–	445,001 –	450,000	–	1
25,001 –	30,000	–	2	450,001 –	455,000	1	–
30,001 –	35,000	2	–	525,001 –	530,000	–	1
35,001 –	40,000	1	1	540,001 –	545,000	–	1
40,001 –	45,000	–	1	595,001 –	600,000	1	–
100,001 –	105,000	1	–	610,001 –	615,000	1	–
105,001 –	110,000	–	1	730,001 –	735,000	1	–
340,001 –	345,000	1	–	770,001 –	775,000	1	–
355,001 –	360,000	–	1	905,001 –	910,000	–	1
365,001 –	370,000	–	1	1,040,001 –	1,045,000	1	–
420,001 –	425,000	–	1	1,115,001 –	1,120,000	1	–

Further information on directors' emoluments and share interests is included in the appraisal and remuneration committee report.

13 Fixed assets – intangible assets

	Brands £m
Cost	
At 30th September 1995	3,840
Exchange adjustments	44
At 30th September 1996	3,884

The brands are stated at fair value on acquisition, denominated in the currencies of their principal markets. An annual review is carried out by the directors to consider whether any brand has suffered permanent diminution in value. Although the current aggregate value significantly exceeds the book value, no increase is made to the original value. The principal brands included above are Smirnoff, Pillsbury, Green Giant, Burger King, Häagen-Dazs, Old El Paso and Progresso.

14 Fixed assets – tangible assets

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost or valuation					
At 30th September 1995	1,271	1,047	132	128	2,578
Exchange adjustments	2	(2)	(2)	–	(2)
Additions	40	81	39	119	279
New subsidiaries	30	28	–	–	58
Disposals	(87)	(124)	(41)	(16)	(268)
Transfers	21	40	1	(62)	–
At 30th September 1996	1,277	1,070	129	169	2,645
Depreciation					
At 30th September 1995	319	466	68	–	853
Exchange adjustments	1	1	(1)	–	1
Provided during the year	57	114	15	–	186
Disposals	(23)	(68)	(20)	–	(111)
At 30th September 1996	354	513	62	–	929
Net book value					
At 30th September 1996	923	557	67	169	1,716
At 30th September 1995	952	581	64	128	1,725

(a) The net book value of land and buildings comprises freeholds of £754m *(1995 – £812m)*, long leaseholds of £34m *(1995 – £19m)* and short leaseholds of £135m *(1995 – £121m)*. Depreciation was not charged on £254m *(1995 – £265m)* of land.

(b) Included in the total net book value of tangible assets is £71m *(1995 – £63m)* in respect of assets under finance leases; depreciation for the year on these assets was £7m *(1995 – £7m)*. Cost included £162m *(1995 – £164m)* in respect of assets held for the purpose of leasing out under operating leases; accumulated depreciation on these assets was £31m *(1995 – £28m)* and depreciation for the year was £4m *(1995 – £5m)*.

(c) The total at cost or valuation for land and buildings comprises £303m *(1995 – £306m)* at 1988 professional valuation and £974m *(1995 – £965m)* at cost. The valuations were made on an open market existing use basis except for specialised properties which were valued on a depreciated replacement cost basis.

(d) The historical cost of land and buildings, i.e. the original cost to the group of all land and buildings, was £1,137m *(1995 – £1,128m)* and the related accumulated depreciation was £279m *(1995 – £247m)*.

15 Fixed assets – investments

	Investment in associates £m	Other investments £m	Loans £m	Total £m
Cost				
At 30th September 1995	423	269	82	774
Exchange adjustments	(10)	–	1	(9)
Additions and share of retained profits	10	96	16	122
Disposals	–	(309)	(7)	(316)
Transfer	–	5	(5)	–
At 30th September 1996	423	61	87	571
Provisions				
At 30th September 1995	2	12	25	39
Utilisation in the year	–	–	(1)	(1)
At 30th September 1996	2	12	24	38
Net book value				
At 30th September 1996	421	49	63	533
At 30th September 1995	421	257	57	735

Investment in associates of £421m *(1995 – £421m)* comprises cost of shares, less goodwill written off on acquisition, of £607m *(1995 – £613m)* less the group's share of post-acquisition reserves deficit of £186m *(1995 – £192m)*. Investment in associates includes £203m *(1995 – £220m)* in respect of Inntrepreneur Pub Company Limited (see note 16).

Other investments include £4m *(1995 – £217m)* in respect of 1,208,084 *(1995 – 53,428,489)* ordinary shares of 25p each in Grand Metropolitan Public Limited Company with an aggregate nominal value of £0.3m *(1995 – £13m)*. The shares are held for the sole purpose of satisfying obligations under employee share option schemes operated by the group. On 1st December 1995, 51,879,015 shares were sold to an independent third party, and employee share trusts simultaneously purchased options from the third party which gave them the right to obtain the shares, as required, at the same price as the employee share options.

The net book value of investments listed on UK stock exchanges was £20m *(1995 – £237m)*. At 30th September 1996 these investments had a market value of £23m *(1995 – £257m)*.

16 Inntrepreneur Pub Company Limited

The group has a 50% equity interest in Inntrepreneur Pub Company Limited (IPCL), formerly Inntrepreneur Estates Limited. IPCL is a property joint venture in which the group and Foster's Brewing Group Limited (Fosters) combined their UK tenanted pub estates. It is accounted for as an associated company of the group. Summarised accounts for the year ended 30th September 1996 based on the audited accounts of IPCL and its subsidiaries are as follows:

(i) Profit and loss account	1996 £m	1995 £m
Operating profit before exceptional items	58	88
(Loss)/profit on disposal of property	(1)	2
Exceptional items (note a)	(13)	(8)
Interest payable (net)	(56)	(75)
(Loss)/profit before taxation	(12)	7

(ii) Balance sheet	1996 £m	1995 £m
Investment properties (note b)	950	1,207
Other net liabilities	(19)	(21)
	931	1,186
Loans from shareholders	(12)	–
Bank loan (note c)	(491)	(746)
Net assets	428	440

16 Inntrepreneur Pub Company Limited – *continued*

(iii) Notes

(a) Exceptional items comprise a £13m loss on the disposal of 1,410 pubs to a related company of the Grand Metropolitan group for net proceeds of £248m. In addition to its share of the exceptional item reported by IPCL, the group provided an additional £17m for costs which may arise from the onsale of the pubs to a third party. The 1995 exceptional costs related to interest rate swaps no longer required by IPCL costing £21m, which were partly offset by a profit on the disposal of pubs let to The Chef & Brewer Group. In addition to its share of these items, the group incurred costs of £11m relating to the disposal of IPCL's free of tie estate to a third party through a related company of the Grand Metropolitan group.

(b) IPCL's investment properties are stated at directors' valuation as at 30th September 1996 which was supported by a detailed review of the value of a sample of properties on an open market existing use basis consistent with the previous year. On the basis of this review and having taken professional advice, IPCL's directors considered that the valuation of the properties as at 30th September 1996 was unchanged from the 1995 valuation.

(c) IPCL's bank loan is repayable in 2000 and is secured on its investment properties. The group and Fosters have several and equal obligations in the event that IPCL is unable to maintain certain specified loan to asset value and interest cover ratios required by the financing arrangements.

(d) The group provided IPCL with certain business and consultancy services, for which £4.4m was charged *(1995 – £8.8m)*.

17 Stocks

	1996 £m	1995 £m
Raw materials and consumables	192	182
Work in progress	403	393
Finished goods and goods for resale	563	633
	1,158	1,208

18 Debtors

	1996 £m	1995 £m
Trade debtors	996	996
Amounts owed by associates	3	21
Amounts receivable under finance leases	112	117
Other debtors	382	631
Pension prepayments	435	382
Other prepayments and accrued income	198	240
Deferred taxation (note 24)	85	69
ACT recoverable	72	47
	2,283	2,503

Debtors include £807m *(1995 – £684m)* which is recoverable after more than one year. This comprises pension prepayments of £435m *(1995 – £382m)*, amounts receivable under finance leases of £106m *(1995 – £112m)*, other debtors of £158m *(1995 – £108m)*, deferred taxation of £71m *(1995 – £59m)* and ACT recoverable of £37m *(1995 – £23m)*. Other debtors in 1995 included £323m of loan notes in respect of the Alpo Petfoods disposal which were repaid on 2nd October 1995.

19 Net borrowings and risk management

	1996 £m	1995 £m
Borrowings (note 20)	4,439	4,488
Less: Cash at bank and in hand	(1,003)	(969)
Current asset investments	(641)	(163)
Interest rate/foreign exchange swaps	(107)	(35)
Net borrowings	2,688	3,321

During the year, the group took on short term bank borrowings, some of which matured during the year. The proceeds raised were invested in short term investments.

19 Net borrowings and risk management – *continued*

(i) Current asset investments and interest rate/foreign exchange swaps

The current asset investments of £641m comprise amounts placed with external fund managers, the majority of which could be converted into cash within 7 days and the remainder within 30 days *(1995 – current asset investments of £163m which comprised marketable unlisted commercial paper with an original maturity of less than three months)*. The investments are with counterparties with strong credit ratings. The interest rate swaps included in net borrowings comprise interest accruals on the swaps relating to the zero coupon bonds. The foreign exchange swaps comprise the net difference on translation of the group's foreign exchange swap and cross currency interest rate swap principal amounts. The interest rate and foreign exchange swaps are included in other debtors.

(ii) Interest risk management

The group's underlying borrowings are predominantly fixed rate. The group uses interest rate swaps to manage the level of floating rate debt to a pre-defined proportion of net borrowings. In addition, where appropriate, the group uses forward rate agreements to manage short term interest rate exposures.

At 30th September 1996, the group had a portfolio of US dollar denominated interest rate swaps with an aggregate notional principal of £1,867m, which have been entered into at various times during the last five years. £640m of these contracts have the effect of fixing the rate of interest. Of these, £160m were in operation at the year end at a weighted average rate of 6.3% for a weighted average term of 1.9 years. The remaining £480m are forward starting, the earliest starting in April 1998 and the latest maturing in August 2004. These have the effect of fixing the rate of interest at a weighted average rate of 7.4% for a weighted average term of 3.8 years. £1,140m of the US dollar interest rate swaps have the effect of converting fixed to variable rate for a weighted average term of 5.9 years from the year end. In addition, £87m of the US dollar interest rate swaps adjust the payment dates and the basis of the interest calculations on existing floating rate debt. The group also has sterling denominated interest rate swaps fixing £150m of debt at a rate of 8.6% with a weighted average maturity of 3.0 years, and further sterling denominated swaps that effectively convert £1,200m of fixed rate borrowings to floating rate, with a weighted average maturity of 2.6 years.

At 30th September 1996, after taking account of interest rate swaps (current and forward starting), and currency and cross currency interest rate swaps (see below), the group's net borrowings were largely denominated in US dollars. Approximately two-thirds of the group's net borrowings bear fixed rate interest, with a weighted average interest rate of 7.5% and weighted average term of 10.2 years.

(iii) Exchange risk management

The group hedges its exposure to gains and losses on the translation of foreign currency net assets using foreign currency borrowings, currency swaps, and cross currency interest rate swaps. These swaps have the same effect as depositing sterling and borrowing, for example, US dollars. At 30th September 1996, over 80% of the group's capital employed was denominated in US dollars and, including the impact of currency swaps, the group had net borrowings denominated in US dollars of £2,304m, thereby hedging approximately 50% of the US dollar denominated capital employed.

The group hedges the translation of a proportion of its future profits denominated in US dollars using currency option cylinders which limit the translation exposure of the group's US dollar profits before tax to movements in the dollar/sterling exchange rate. For those profits hedged, the group is only exposed to exchange rate movements within a specified range. The impact of exchange rate movements outside that range is taken by the counterparty to the hedge. At 30th September 1996, these options limited the exchange impact on approximately 60% of the estimated US dollar profits before tax for the year ending 30th September 1997 to within the range £1=$1.46 to £1=$1.61. At 5th December 1996, the date of signing the accounts, further transactions had increased the proportion hedged to 80% with an approximate range of £1=$1.50 to £1=$1.60.

The group hedges approximately 80% of its estimated foreign currency transactional cash flows over an 18 month timeframe using foreign exchange contracts.

At 30th September 1996, as a result of the translational and transactional exposure cover outlined above, the group had outstanding gross foreign exchange contracts equivalent to approximately £2,780m *(1995 – £3,800m)* and cross currency interest rate swaps equivalent to £714m *(1995 – £nil)*. Of the total, approximately 45% *(1995 – 40%)* were to sell US dollars. They have maturities ranging to November 1999, but the majority mature within 18 months of the balance sheet date.

19 Net borrowings and risk management – *continued*

(iv) Fair values

The estimated fair values of borrowings, the guaranteed preferred securities and the associated derivative financial instruments are set out below. The fair values of quoted borrowings and the guaranteed preferred securities are based on year end mid-market quoted prices. The fair values of other borrowings and the derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end.

	1996		1995	
	Net carrying amount £m	Estimated fair value £m	Net carrying amount £m	Estimated fair value £m
Borrowings	(4,439)	(4,657)	(4,488)	(4,742)
Foreign exchange contracts and swaps:				
Transaction	–	1	–	(1)
Balance sheet translation	71	72	42	40
Foreign exchange options – profit translation	–	4	–	–
Interest rate contracts:				
Positive fair values	115	176	37	198
Negative fair values	(70)	(97)	(20)	(59)
Forward rate agreements	–	–	–	–
Guaranteed preferred securities	(390)	(432)	(349)	(397)

The estimated fair values of cash at bank and in hand and current asset investments are not materially different from their carrying values.

The difference between net carrying amount and estimated fair value reflects unrealised gains or losses inherent in the instrument based on valuations at 30th September 1996. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

(v) Credit risk

A large number of major international financial institutions are counterparties to the interest rate swaps, forward exchange contracts and term deposits. The group continually monitors its positions and the credit ratings of its counterparties and, by policy, limits the amount of agreements or contracts it enters into with any one party. While the group may be exposed to credit losses in the event of nonperformance by these counterparties, because of these control procedures it does not expect any losses.

20 Borrowings

	1996			1995		
	Bank loans and overdrafts £m	Other loans £m	Total £m	Bank loans and overdrafts £m	Other loans £m	Total £m
Analysis by year of repayment:						
After five years	18	1,547	1,565	24	1,630	1,654
From two to five years	59	1,372	1,431	197	1,169	1,366
From one to two years	10	1,087	1,097	13	94	107
Due after more than one year	87	4,006	4,093	234	2,893	3,127
Due within one year	260	86	346	379	982	1,361
	347	4,092	4,439	613	3,875	4,488

£87m *(1995 – £263m)* of borrowings due after more than one year and £17m *(1995 – £64m)* of borrowings due within one year were secured on assets of the group.

The aggregate of non-instalment loans that fall due for repayment after five years and instalment loans some of which fall due for payment after five years was £1,597m *(1995 – £1,725m)*.

20 Borrowings – *continued*

	Currency	Year end interest rates %	1996 £m	1995 £m
Other loans comprise:				
Guaranteed preference shares 1995	Sterling	–	–	700
Guaranteed notes 1996	US dollar	–	–	189
Guaranteed preference shares 1998	Sterling	4.993	1,000	–
Convertible notes 1998/2000	US dollar	6.5	448	442
Guaranteed notes 1999	US dollar	6.5	192	189
Guaranteed notes 1999	US dollar	7.0	381	376
Guaranteed notes 2001	US dollar	8.625	191	188
Zero coupon bonds 2004	US dollar	8.13	440	401
Guaranteed notes 2004	US dollar	7.125	128	127
Guaranteed bonds 2005	Sterling	9.0	200	200
Guaranteed notes 2005/2035	US dollar	7.45	256	253
Guaranteed debentures 2011	US dollar	9.0	187	187
Guaranteed debentures 2022	US dollar	8.0	190	188
Medium term notes	Various	Various	168	206
Others	Various	Various	311	229
			4,092	3,875

The interest rates shown in the table above are those contracted on the underlying borrowings before taking into account any interest rate protection (see note 19).

The finance costs associated with the zero coupon bonds are amortised over the life of the bonds. The bonds are stated at net issue proceeds plus finance costs amortised to date. Unamortised finance costs were approximately £345m *(1995 – £374m)*.

The group had available unused committed bank facilities at 30th September 1996 of approximately £1,280m *(1995 – £1,950m)*. The facilities are generally available to provide additional finance for the period up to 2001.

21 Other creditors – due within one year

	1996 £m	1995 £m
Trade creditors	619	657
Bills of exchange payable	12	14
Amounts owed to associates	8	16
Corporate taxation	397	467
Other taxation including social security	110	113
Net obligations under finance leases	6	5
Other creditors	339	272
Ordinary dividends payable	334	312
Accruals and deferred income	581	626
	2,406	2,482

22 Other creditors – due after more than one year

	1996 £m	1995 £m
Gross obligation under finance leases due:		
After five years	40	20
From one to five years	30	22
	70	42
Less: Future finance charges	(34)	(14)
	36	28
Corporate taxation	50	17
Other creditors	115	47
	201	92

23 Provisions for liabilities and charges

	Post employment provisions £m	Restructuring and integration provisions £m	Disposal provisions £m	Deferred taxation £m	Other £m	Total £m
At 30th September 1995	168	243	53	18	105	587
Exchange adjustments	1	3	1	–	1	6
Transfers from profit and loss account	18	–	72	9	20	119
Utilised	(8)	(152)	(23)	–	(5)	(188)
Movement in ACT recoverable	–	–	–	(15)	–	(15)
Movement in deferred tax asset	–	–	–	16	–	16
At 30th September 1996	179	94	103	28	121	525

Provisions at 30th September 1996 comprise:

(a) Post employment provisions of £179m, comprising £161m *(1995 – £154m)* post employment benefits in respect of US medical costs and £18m *(1995 – £14m)* in respect of unfunded pension liabilities.

(b) Restructuring and integration provisions of £94m, comprising £29m *(1995 – £90m)* for the integration and reorganisation costs arising on the restructuring of acquired businesses and £65m *(1995 – £153m)* in respect of the 1993 and 1994 exceptional restructuring costs. £53m *(1995 – £51m)* of the £122m provided in 1995 in respect of the integration of Pet Incorporated was utilised in the year.

(c) Disposal provisions of £103m *(1995 – £53m)* arising from commitments and provisions against assets in respect of businesses sold or being sold, comprising £21m set up in 1996 relating to Pearle, £45m set up in 1996 relating to national food businesses in Europe, £22m relating to other former Food businesses, and £15m relating to other discontinued businesses.

(d) Deferred tax of £28m (see note 24).

(e) Other provisions of £121m, including £80m *(1995 – £64m)* for potential insurance claims.

24 Deferred taxation

	1996 £m	1995 £m
Accelerated depreciation	72	96
Pension prepayments	134	108
Post employment benefits other than pensions	(57)	(52)
Restructuring and integration costs	(26)	(72)
Other timing differences	(137)	(103)
ACT recoverable	(43)	(28)
Net asset	(57)	(51)
US and other overseas deferred tax assets (note 18)	85	69
UK deferred tax liability (note 23)	28	18

24 Deferred taxation – *continued*

Provision for tax on capital gains payable on the disposal of revalued properties is made only when it is decided in principle to dispose of the asset. The tax effect if all properties had been sold at their book values, and without taking advantage of the law relating to rollover relief, is estimated to be £38m *(1995 – £45m)*. Other deferred taxation not provided, principally in respect of accelerated depreciation, amounted to £26m *(1995 – £30m)*. Deferred tax is not generally provided in respect of liabilities which might arise on the distribution of unappropriated profits of overseas subsidiaries and associates, except where distributions of such profits are planned.

25 Called up share capital

The authorised share capital of the company was £660m *(1995 – £660m)*.

During the year 4,121,063 ordinary shares (aggregate nominal value £1m) were allotted under the share option schemes for an aggregate consideration of £15m *(1995 – 3,859,109 shares, nominal value £1m, consideration £13m)*.

3,378,382 ordinary shares (aggregate nominal value £1m) were allotted during the year to shareholders who opted for shares instead of cash for dividends *(1995 – 2,605,934 shares, nominal value £1m)*.

During the year 1,297,613 *(1995 – 62,478)* ordinary shares were issued to holders of options granted in connection with a joint venture acquisition at a price of IR£3.30 per share for an aggregate consideration of £5m.

The allotted and fully paid share capital at 30th September 1996 was as follows:

		1996		1995
	Shares	£m	Shares	£m
Equity share capital				
Ordinary shares of 25p each	2,099,800,034	525	2,091,002,976	523
Non-equity share capital				
Cumulative £1 preference shares:				
4¾% (now 3.325% plus tax credit)	1,217,250	1	1,217,250	1
6¼% (now 4.375% plus tax credit)	3,278,454	3	3,278,454	3
5% (now 3.5% plus tax credit)	7,739,411	8	7,739,411	8
		12		12
		537		535

The following potential issues of ordinary shares have not been dealt with in these financial statements:

(a) Under the share option schemes for executives, directors and executives hold options to subscribe for up to 29,495,505 *(1995 – 29,509,853)* ordinary shares at prices ranging between 319p and 474p per share exercisable by 2006.

(b) Under the savings-related share option schemes for employees, employees hold options to subscribe for up to 7,981,829 *(1995 – 7,632,415)* ordinary shares at prices between 243p and 408p per share exercisable by 2004.

(c) The holders of the £448m 6.5% US dollar convertible notes have the option of converting the notes into ordinary shares at a conversion price of 437p per share and with a fixed rate of exchange on conversion of £1 = $1.57, subject to adjustment in certain circumstances. The company may redeem the notes at par at any time after January 1998, provided that for a set period the market price of the shares, translated into US dollars at the rate of exchange at the time, exceeds $8.23. The notes will mature, unless earlier redeemed or converted, in January 2000. These conversion rights could give rise to the issue of up to 103,485,000 ordinary shares.

(d) The holders of £1m 9% unsecured convertible loan notes issued by the company have the option of converting the notes into ordinary shares at a price of 250p per share exercisable by 1998. These conversion rights could give rise to the issue of up to 464,686 *(1995 – 464,686)* ordinary shares.

26 Reserves attributable to equity shareholders

	Share premium £m	Revaluation £m	Goodwill £m	Profit and loss £m	Total £m
At 30th September 1995	667	94	(3,579)	5,386	2,568
Profit for the financial year	–	–	–	50	50
Ordinary dividends	–	–	–	(334)	(334)
Exchange adjustments	–	–	(6)	(11)	(17)
Premiums on share issues, less expenses	18	–	–	–	18
Adjustment in respect of share dividend	–	–	–	14	14
Goodwill written off	–	–	(123)	–	(123)
Transfer of goodwill on disposal	–	–	498	–	498
Realisation of revaluation reserve	–	(6)	–	6	–
At 30th September 1996	685	88	(3,210)	5,111	2,674

Goodwill is stated net of £62m of merger reserve and £426m of special reserve. The merger reserve arose in 1992 on the issue of shares at a premium in connection with an acquisition. The special reserve was created, with shareholder and court approval, in 1988 by a transfer from the share premium account. Aggregate goodwill written off, net of disposals, is £3,698m *(1995 – £4,067m).*

The £123m goodwill written off during the year included £68m on the acquisition of Pillsbury businesses, principally Pasta House in Australia and Frescarini in Brazil, and £36m on Burger King acquisitions.

Included in the revaluation reserve is £23m *(1995 – £23m)* representing the unrealised reserve on the transfer of the tenanted pub estate to Inntrepreneur Pub Company Limited.

The exchange adjustments include losses of £23m in respect of local currency borrowings by overseas companies and £6m in respect of other currency borrowings.

27 Minority interests – non-equity

Non-equity minority interests of £390m *(1995 – £349m)* comprise £354m of 9.42% and £36m of 7.973% cumulative guaranteed preferred securities issued by subsidiaries. The holders of these securities have no rights against group companies other than the issuing entity and, to the extent prescribed by the guarantee, the company. The guarantee in relation to these securities has been structured so as to place the holders of the securities in the same position in relation to the company as are the holders of the most senior preference shares of the company. To the extent that payments due under the guarantee are not made because the company has insufficient distributable profits, the company has covenanted that it will not make any distribution on any share capital which ranks junior to these securities.

28 Contingent liabilities

The group has given performance guarantees and indemnities to third parties of £80m *(1995 – £104m)*, mainly comprising letters of credit arising in the normal course of business, and has severally and equally guaranteed the £254m bank loan of a related company. In addition, the group has certain obligations with regard to Inntrepreneur Pub Company Limited (see note 16).

There are a number of other legal claims or potential claims against the group, the outcome of which cannot at present be foreseen. Provision is made in these financial statements for all liabilities which are expected to materialise.

Notes

29 Commitments

(a) Capital expenditure commitments not provided for in these financial statements are estimated at £39m *(1995 – £24m)*.

(b) At 30th September 1996, the group had minimum annual commitments under non-cancellable operating leases as follows:

	1996 Land and buildings £m	1996 Other £m	1996 Total £m	1995 Land and buildings £m	1995 Other £m	1995 Total £m
Operating leases which expire:						
After five years	64	1	65	69	1	70
From one to five years	25	6	31	42	11	53
Within one year	5	8	13	5	3	8
	94	15	109	116	15	131

30 Reconciliation of operating profit to net cash inflow from operating activities

	1996 £m	1995 £m
Operating profit	1,108	910
Exceptional operating costs	–	122
Cash payments in respect of restructuring and integration	(121)	(112)
Depreciation charge	186	187
Other items	13	29
Decrease in stocks	6	108
Increase in debtors	(53)	(81)
Decrease in creditors and provisions	(8)	(93)
Net cash inflow from operating activities	1,131	1,070

31 Purchase of subsidiaries

	1996 Balance sheets at acquisition £m	1996 Accounting policy conformity £m	1996 Fair value balance sheets £m	1995 Fair value balance sheets £m
Brands	–	–	–	1,067
Tangible fixed assets	46	12	58	154
Businesses held for sale	–	–	–	161
Working capital	(8)	(14)	(22)	16
Net borrowings	–	–	–	(322)
Minority interests	–	–	–	(1)
Net assets	38	(2)	36	1,075
Goodwill			123	776
Purchase consideration			159	1,851
Adjustments for deferred consideration			–	24
Purchase consideration paid			159	1,875

Subsidiaries acquired during the year include Pasta House, Frescarini and a Burger King franchisee in Florida. In 1995, subsidiaries acquired included Pet Incorporated.

32 Sale of subsidiaries

	1996 £m	1995 £m
Tangible fixed assets	73	146
Working capital and provisions	74	57
Net borrowings	9	(3)
Goodwill	20	28
(Loss)/profit on sale	(9)	154
Sale consideration	167	382
Adjustment for Alpo Petfoods deferred consideration	327	(327)
Adjustments for other deferred consideration	41	(21)
Cash and cash equivalents	(9)	3
Sale consideration received	526	37

33 Analysis of changes in financing

	1996 £m	1996 £m	1995 £m	1995 £m
At beginning of year		5,908		4,273
Net cash (outflow)/inflow from financing	(102)		1,308	
Borrowings of subsidiary acquired	–		322	
Dividends payable in respect of non-equity minority interests	1		8	
New finance leases	14		2	
Exchange adjustments	30		(5)	
		(57)		1,635
At end of year		5,851		5,908

Financing comprises share capital, share premium, the merger reserve, non-equity minority interests and borrowings due after more than one year, together with finance lease obligations of £42m *(1995 – £33m)* and borrowings due within one year with an original maturity of more than 90 days of £149m *(1995 – £1,170m)* net of interest rate/foreign exchange swaps of £107m *(1995 – £35m).*

34 Analysis of changes in cash and cash equivalents

	1996 £m	1996 £m	1995 £m	1995 £m
At beginning of year		927		816
Increase in cash and cash equivalents	510		111	
Exchange adjustments	(2)		–	
		508		111
At end of year		1,435		927

Cash and cash equivalents comprise cash and short term investments, less bills of exchange of £12m *(1995 – £14m)* and borrowings from banks due within one year with an original maturity of less than 90 days (including borrowings repayable on demand) of £197m *(1995 – £191m).*

Company balance sheet
at 30th September 1996

	Notes	1996 £m	1996 £m	1995 £m	1995 £m
Fixed assets					
Tangible assets	36		12		3
Investments	37		6,735		3,728
			6,747		3,731
Current assets					
Debtors (see note below)	38	3,800		5,992	
Cash at bank		16		2	
		3,816		5,994	
Creditors – due within one year					
Borrowings	39	(4)		(58)	
Other creditors	40	(5,023)		(4,079)	
		(5,027)		(4,137)	
Net current (liabilities)/assets (see note below)			(1,211)		1,857
Total assets less current liabilities			5,536		5,588
Creditors – due after more than one year					
Borrowings (including convertible debt)	39	(448)		(613)	
Amounts owed to subsidiaries	41	(393)		(352)	
			(841)		(965)
Provisions for liabilities and charges	42		(21)		(30)
			4,674		4,593
Capital and reserves					
Equity share capital			525		523
Non-equity share capital			12		12
Called up share capital	25		537		535
Share premium account		685		667	
Other reserves		488		488	
Profit and loss account		2,964		2,903	
Reserves attributable to equity shareholders	43		4,137		4,058
			4,674		4,593

Debtors and net current (liabilities)/assets include debtors recoverable after more than one year of £1,054m *(1995 – £892m)*.

The financial statements on pages 18 to 43 were approved by a duly appointed and authorised committee of the board of directors on 5th December 1996 and were signed on its behalf by:

G J Bull, *Director*
G M N Corbett, *Director*

35 Company profit and loss account

The company's results are included in the consolidated profit and loss account so a separate profit and loss account is not presented.

36 Fixed assets – tangible assets

	Fixtures and fittings £m
Cost	
At 30th September 1995	10
Additions	13
Disposals	(10)
At 30th September 1996	13
Depreciation	
At 30th September 1995	7
Provided during the year	2
Disposals	(8)
At 30th September 1996	1
Net book value	
At 30th September 1996	12
At 30th September 1995	3

37 Fixed assets – investments

	Investment in associates £m	Investment in own shares £m	Shares in subsidiaries £m	Loans to associates £m	Total £m
Cost					
At 30th September 1995	260	217	3,359	–	3,836
Additions	–	–	3,249	6	3,255
Disposals	–	(213)	(40)	–	(253)
At 30th September 1996	260	4	6,568	6	6,838
Provisions					
At 30th September 1995	–	–	108	–	108
Utilisation in the year	–	–	(5)	–	(5)
At 30th September 1996	–	–	103	–	103
Net book value					
At 30th September 1996	260	4	6,465	6	6,735
At 30th September 1995	260	217	3,251	–	3,728

Details of the principal group companies are given on pages 44 and 45.

38 Debtors

	1996 £m	1995 £m
Amounts owed by subsidiaries	3,577	5,872
Other debtors	121	17
Pension prepayment	11	9
Deferred taxation	11	18
ACT recoverable	80	76
	3,800	5,992

Debtors include £1,054m *(1995 – £892m)* which is recoverable after more than one year. This comprises amounts owed by subsidiaries of £924m *(1995 – £808m)*, other debtors of £39m *(1995 – £nil)*, pension prepayment of £11m *(1995 – £9m)* and ACT recoverable of £80m *(1995 – £75m)*.

39 Borrowings

	1996	1995		
	Other loans £m	Bank loans £m	Other loans £m	Total £m
Analysis by year of repayment:				
From two to five years	448	143	442	585
From one year to two years	–	28	–	28
Due after more than one year	448	171	442	613
Due within one year	4	58	–	58
	452	229	442	671

	Currency	Year end interest rates %	1996 £m	1995 £m
Borrowings comprise:				
Convertible notes 1998/2000	US dollar	6.5	448	442
Other loans	Sterling	Various	4	229
			452	671

In 1995 bank loans included loans of £226m related to the employee share trusts, which were repaid on 1st December 1995.

40 Other creditors – due within one year

	1996 £m	1995 £m
Amounts owed to subsidiaries	4,460	3,637
Corporate taxation	80	74
Other creditors	126	34
Ordinary dividends payable	334	312
Accruals and deferred income	23	22
	5,023	4,079

41 Amounts owed to subsidiaries

The £393m *(1995 – £352m)* owed to subsidiaries comprises £357m of 9.42% and £36m of 7.973% unsecured cumulative capital interests. These securities are subordinated to all other liabilities of the company and rank *pari passu* with the company's most senior preference shares. The securities are redeemable only at the option of the company in or after 2004 or in the event of certain fiscal or legal changes in the United States or the United Kingdom. Interest and redemption payments may only be made to the extent that the company has adequate distributable profits or, in the case of a redemption, out of the proceeds of an issue of shares. To the extent that dividend or redemption payments have not been made when due, the company has covenanted that it will not make any distribution on any share capital which ranks junior to these securities.

42 Provisions for liabilities and charges

	Disposal and restructuring provisions £m	Other £m	Total £m
At 30th September 1995	25	5	30
Utilised	(9)	–	(9)
At 30th September 1996	16	5	21

43 Reserves attributable to equity shareholders

	Share premium £m	Other £m	Profit and loss £m	Total £m
At 30th September 1995	667	488	2,903	4,058
Profit for the financial year	–	–	381	381
Ordinary dividends	–	–	(334)	(334)
Premiums on share issues, less expenses	18	–	–	18
Adjustment in respect of share dividend	–	–	14	14
At 30th September 1996	685	488	2,964	4,137

Other reserves comprise a merger reserve of £62m and a special reserve of £426m. The merger reserve arose in 1992 on the issue of shares at a premium in connection with an acquisition. The special reserve was created, with shareholder and court approval, in 1988 by a transfer from the share premium account.

44 Contingent liabilities

The company has guaranteed certain borrowings, liabilities and commitments of subsidiaries which at 30th September 1996 amounted to £3,525m, £69m and £48m respectively *(1995 – £3,361m, £71m and £56m respectively)* and has severally and equally guaranteed the £254m bank loan of a related company. The liabilities and commitments of subsidiaries include irrevocable guarantees of the liabilities of certain of its Irish and Dutch subsidiaries. In addition, the company has certain obligations with regard to Inntrepreneur Pub Company Limited (see note 16) and the group's non-equity minority interests (see note 27).

Principal group companies

The companies listed on these two pages include those which principally affect the profits and assets of the group. A full list of subsidiaries will be included in the company's next annual return.

	Country of incorporation	Country of operation	Percentage of equity owned	Business description
Food – Pillsbury				
The Pillsbury Company	USA	USA	100%	Manufacturing, marketing and distribution of refrigerated dough products, breakfast and dessert products, frozen pizza, frozen and canned vegetables, Mexican foods, canned soups, superpremium ice cream, and foodservice baking mixes and frozen products.
Gigante Verde, SA	Spain	Spain	100%	Manufacturing and marketing of fresh and shelf-stable vegetables.
Häagen-Dazs Japan Inc	Japan	Japan	50%	Marketing and distribution of superpremium ice cream.
Pillsbury Canada Ltd	Canada	Canada	100%	Manufacturing and marketing and distribution of vegetables, dough products, pizza snacks and Mexican foods.
Pillsbury UK Limited	Scotland	UK	100%	Manufacturing, marketing and distribution of dough, pastry and potato products; marketing and distribution of vegetables, ice cream and Mexican foods.
Food – Burger King				
Burger King Corporation§	USA	Worldwide	100%	Fast food retailing.
Drinks – IDV				
International Distillers & Vintners Ltd§	England	Worldwide	100%*	Production, distribution, marketing, exporting and importing of spirits, wines and other adult beverages.
AED SA	Spain	Spain	100%	Importing, distribution and marketing of spirits and wines.
R&A Bailey & Company	Ireland	Ireland – exporting worldwide	100%	Production, distribution, marketing and exporting of cream liqueurs.
Buton SpA	Italy	Italy – exporting worldwide	100%	Production, distribution and marketing of spirits and wines.
Carillon Importers Ltd	USA	USA	100%	Importing, distribution and marketing of spirits, wines and other adult beverages.
Francesco Cinzano & CIA SpA§	Italy	Worldwide	100%	Production, distribution and marketing of vermouth and wines; local distribution of spirits and wines.
Croft & Companhia Lda	Portugal	Portugal – exporting worldwide	100%	Production, distribution, marketing and exporting of port wine.
Croft Jerez SA	Spain	Spain – exporting worldwide	100%	Production, distribution, marketing and exporting of sherry.
Gilbey Canada Inc§	Canada	Canada	100%	Production, distribution, marketing and wholesaling of spirits and wines.
W&A Gilbey (SA) (Pty) Ltd	South Africa	South Africa	51%	Production, distribution, marketing and retailing of spirits and wines.

	Country of incorporation	Country of operation	Percentage of equity owned	Business description
Drinks – IDV – *continued*				
Heublein Inc§	USA	Worldwide	100%	Production, importing and marketing of spirits and wines.
Heublein do Brazil Comercial e Industrial Limitada	Brazil	Brazil	70%	Production, distribution and marketing of spirits and wines.
The Paddington Corporation	USA	USA	100%	Importing, distribution and marketing of spirits and wines.
The Pierre Smirnoff Company Limited	England	Worldwide	100%	Production, distribution, marketing and exporting of spirits.
Justerini & Brooks Ltd	England	UK – exporting worldwide	100%	Distillation, marketing and exporting of Scotch whisky.
S&E&A Metaxa ABE§	Greece	Greece – exporting worldwide	100%	Production, distribution and marketing of spirits, local distribution of wines.
Sovedi France SA	France	France	100%	Importing, distribution and marketing of spirits and wines.
Weltmarken Import Spirituosen und Weine GmbH	Germany	Germany	100%	Importing, distribution and marketing of spirits and wines.
Corporate				
Grand Metropolitan Finance PLC	England	UK	100%*	Financing company for the group.
Grand Metropolitan Incorporated	USA	USA	100%	Investment holding company.
Grand Metropolitan Investment Corporation	USA	USA	100%	Financing company for the US group.
Inntrepreneur Pub Company Limited	England	UK	50%*	Property investment company.
Selviac Nederland BV	Holland	Worldwide	100%	Investment holding company.

* Directly owned by Grand Metropolitan PLC

§ Carries on the business described in the countries listed in conjunction with its subsidiaries and other group companies.

All percentages relate to holdings of ordinary share capital, and are equivalent to the percentages of voting rights held by the group.

Pearle Inc (eye care products and services) has been sold since the year end.

Reconciliation to US accounting principles

The group's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) applicable in the United Kingdom, which differ in certain significant respects from those applicable in the United States. The approximate effects of such differences on net income and shareholders' equity are set out below.

Approximate effect on net income of differences between UK and US GAAP

	Notes	1996 £m	1995 £m
Net income in accordance with UK GAAP		50	601
Adjustment in respect of discontinued operations	*(a)*	295	(9)
		345	592
Adjustments in respect of continuing operations:			
Brands	*(b)*	(97)	(85)
Goodwill and other intangibles	*(b)*	(58)	(100)
Depreciation of certain buildings	*(d)*	(8)	–
Property disposals	(e)	–	75
Sale of assets to an associated company	*(f)*	5	80
Acquisition accounting	*(g)*	(2)	54
Restructuring and integration costs	*(h)*	(89)	(16)
Pensions and other post employment benefits	*(i)*	(8)	(5)
Other items		19	(6)
Deferred taxation – on above adjustments		25	(20)
– other	*(j)*	58	55
Approximate net (loss)/income in accordance with US GAAP			
Continuing operations*		190	624
Income/(loss) from discontinued operations	*(a)*	7	(2)
Loss on sale of discontinued operations	*(a)*	(207)	–
Net (loss)/income before cumulative effect of accounting changes		(10)	622
Cumulative effect of changes in accounting:			
For post employment costs from 1st October 1994 (net of income taxes of £2m)		–	(4)
Net (loss)/income		(10)	618

(Loss)/earnings per ordinary share in accordance with US GAAP	*(k)*	pence	pence
Continuing operations*		9.0	29.9
Discontinued operations		(9.5)	(0.1)
Net (loss)/income before cumulative effect of accounting changes		(0.5)	29.8
Cumulative effect of accounting changes		–	(0.2)
Net (loss)/income		(0.5)	29.6
Earnings per American Depositary Share			
Continuing operations*		36.0	119.6

*US GAAP net income from continuing operations for the year ended 30th September 1996 includes a loss of £171m (8.2p per ordinary share) on the disposal of the national food businesses in Europe *(1995 – a gain on the disposal of Alpo Petfoods of £129m; 6.2p per ordinary share)*. US GAAP net income from continuing operations for the year ended 30th September 1995 also includes restructuring and integration costs of £48m (2.3p per ordinary share) and a net gain of £130m (6.2p per ordinary share) following the refinancing of IPCL and the disposal of its free of tie estate.

Approximate cumulative effect on shareholders' equity of differences between UK and US GAAP

	Notes	1996 £m	1995 £m
Shareholders' equity in accordance with UK GAAP		3,211	3,103
Adjustments:			
Brands	*(b)*	(631)	(528)
Goodwill and other intangibles	*(b)*	4,051	4,364
Revaluation of land and buildings	*(c)*	(88)	(94)
Depreciation of certain buildings	*(d)*	(51)	(43)
Sale of assets to an associated company	*(f)*	(355)	(360)
Restructuring and integration costs	*(h)*	22	112
Pensions and other post employment benefits	*(i)*	(132)	(123)
Ordinary dividends	*(l)*	211	197
Other differences in accounting principles		2	(188)
Deferred taxation – on above adjustments		(14)	(57)
– other	*(j)*	(1,077)	(1,087)
Shareholders' equity in accordance with US GAAP		5,149	5,296

Notes on differences between UK and US GAAP

(a) Discontinued operations UK and US GAAP have different criteria for determining discontinued operations. The adjustment in respect of discontinued operations represents the operations which, under US GAAP, have been treated as discontinued operations and comprises the UK GAAP gain/(loss) on sale aggregated with the net income/(loss) attributable to the businesses up to the date of disposal. This amount, after giving effect to certain of the adjustments described in (b) to (j) below, is presented for US GAAP purposes as income/(loss) from discontinued operations and gain/(loss) on sale of discontinued operations in the net income reconciliation.

(b) Brands, goodwill and other intangibles Significant owned brands acquired by the group after 1st January 1985 are recorded on the balance sheet. The group does not provide amortisation on these assets. Under US GAAP, these assets would be amortised through the statement of income over a period not exceeding 40 years. Under UK GAAP, the group writes off certain intangible assets, which include goodwill and lease, management and franchise agreements, direct to reserves in the year of acquisition. Under US GAAP, these intangible assets would be capitalised in the balance sheet and amortised through the statement of income over a period not exceeding 40 years.

For the purposes of calculating the effect of capitalising the goodwill on the balance sheet and amortising the goodwill and brands through the statement of income, a life of 40 years has generally been assumed. However, the value of the brands, goodwill and other intangibles is reviewed annually by reference to historic and forecast contributions to operating income and an additional charge to the statement of income is made where a permanent diminution in net book value is identified.

(c) Revaluation of land and buildings UK GAAP allows the periodic revaluation of land and buildings. Professional valuations of the group's properties were carried out at 30th September 1988; the investment properties of IPCL are revalued annually. Under US GAAP, such revaluations of property would not be reflected in the financial statements.

(d) Depreciation of certain buildings The investment properties of IPCL are not depreciated under UK GAAP. This policy does not conform to US GAAP. For the purposes of the reconciliations a life of 60 years has been assumed for these assets.

(e) Property disposals Applying the differences between UK and US general accounting principles may result in changes to the carrying values for property. Because of these differences a different gain or loss may arise on the disposal of property under UK GAAP from that determined under US GAAP.

(f) Sale of assets to an associated company Under UK GAAP, where an asset is sold to an associated company, the proportion of the gain or loss relating to the group's share of the equity in the associated company is generally accounted for as unrealised. Under US GAAP, the timing of and accounting treatment for, the sale of assets to an associated company may differ from UK GAAP as it depends on the amount of cash realised and the extent of guarantees given in respect of the associated company's indebtedness.

Reconciliation to US accounting principles

(g) Acquisition accounting Under UK GAAP, the fair value balance sheet of an acquired company cannot include provisions for integration and reorganisation costs set up by the acquiring company. Under US GAAP, certain integration and reorganisation costs may be considered liabilities assumed and included in the allocation of the acquisition cost.

(h) Restructuring and integration costs Under UK GAAP, when a decision has been taken to restructure part of the group's business, provisions are made for the impairment of asset values together with severance and other costs. US GAAP requires a number of specific criteria to be met before such costs can be recognised as an expense. Among these is the requirement that all the significant actions arising from a restructuring and integration plan and their expected completion dates must be identified by the balance sheet date. US GAAP also requires the recognition of the estimated net present value of future net lease obligations of vacant properties.

(i) Pensions and other post employment benefits The group accounts for the costs of pensions and other post employment benefits under the rules set out in UK accounting standards. US GAAP is more prescriptive in respect of actuarial assumptions and the allocation of costs to accounting periods.

(j) Deferred taxation UK GAAP requires that no provision for deferred taxation should be made if there is reasonable evidence that such taxation will not be payable within the foreseeable future. US GAAP requires full provision for deferred taxation liabilities and permits deferred tax assets to be recognised if their realisation is considered more likely than not.

(k) (Loss)/earnings per ordinary share Under UK GAAP, basic earnings per ordinary share is computed using the weighted average number of shares in issue during the year. US GAAP also includes in the computation for earnings per ordinary share the dilutive effect of all outstanding share options and common share equivalents under the treasury stock method. Under UK GAAP, the weighted average number of shares for prior years is restated to reflect the bonus element of rights issues. Under US GAAP, no restatement is made.

(Loss)/earnings per American Depositary Share are calculated on the basis of four ordinary shares representing one American Depositary Share.

(l) Ordinary dividends Under UK GAAP, the proposed dividends on ordinary shares, as recommended by the directors, are deducted from shareholders' equity and shown as a liability in the balance sheet at the end of the period to which they relate. Under US GAAP, such dividends are only deducted from shareholders' equity at the date of declaration of the dividend.

	1996	1995
Operating highlights	£m	£m
Turnover		
Continuing operations	8,727	7,733
Discontinued operations	247	292
	8,974	8,025
Operating profit before exceptional items		
Continuing operations	1,096	1,009
Discontinued operations	12	23
	1,108	1,032
Profit before exceptional items and taxation	965	912
Exceptional items before taxation	(577)	8
Profit before taxation	388	920
	pence	pence
Earnings per share before exceptional items	31.0	29.8
Earnings per share including exceptional items	2.4	28.8
Dividends per ordinary share	15.9	14.9

Operating profi from continuinc operations befo exceptional iten £m

Profit before exceptional iten and taxation £m

highlights

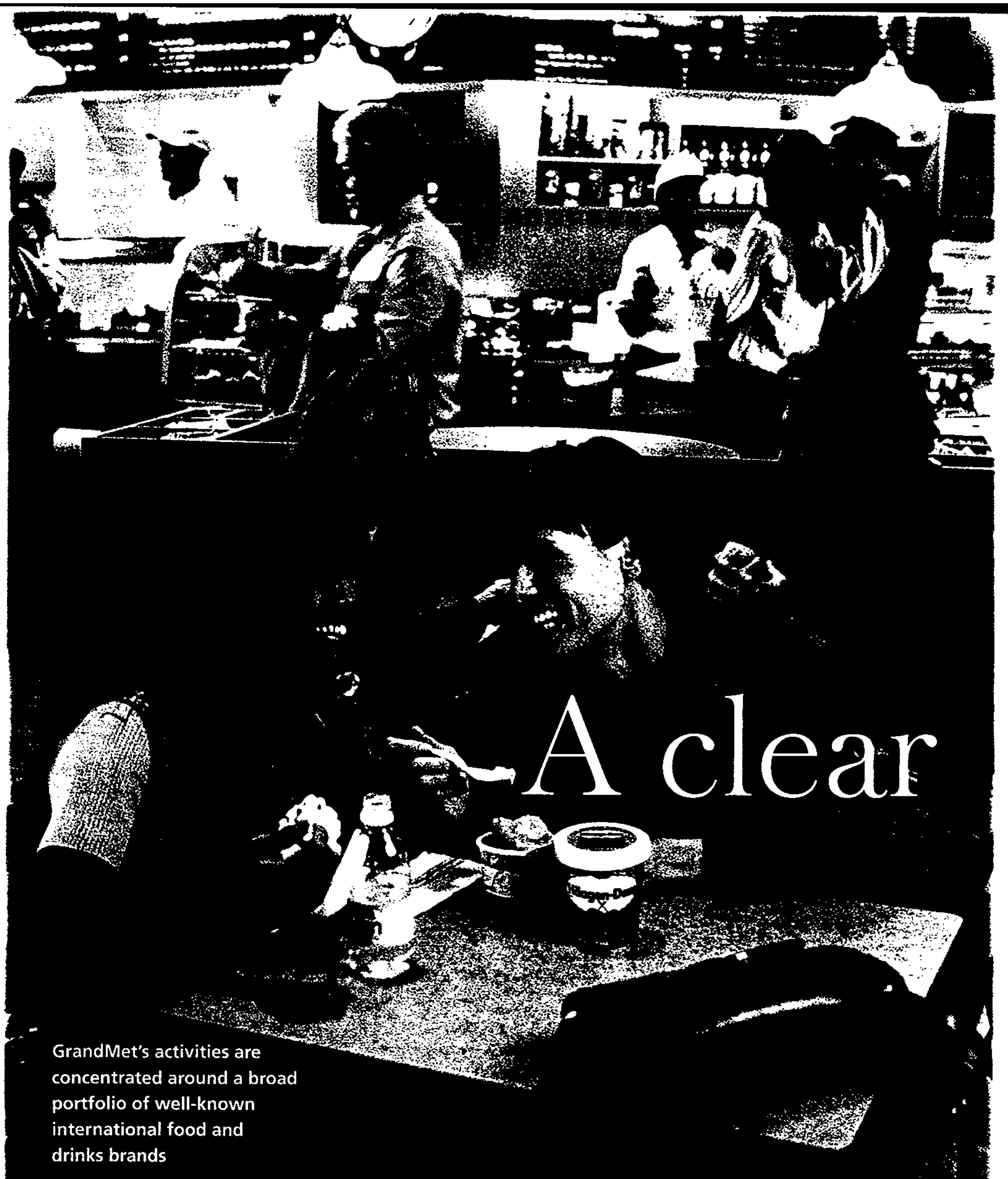
Pillsbury increased operating profit by 30% – organic growth of 10%. Organic sales growth was 7%, benefiting from a 6% increase in comparable marketing spend. Over 180 new products were launched in the year. In North America, organic volume growth was 4% and price rises averaging 3% were achieved.

IDV saw operating profit increase 4%, with comparable volumes up 4% and prices up 2%. Marketing expenditure was up 6%. Net price rises were achieved in the US and Europe on most major brands. Emerging markets now comprise 25% of IDV's total volume.

Burger King's worldwide system sales reached $9 billion. Operating profit, excluding refranchising, was maintained. A record number of over 750 stores opened in the year. Burger King's US quick service restaurant market share reached an all time high.

Dividends per ordinary share pence

Free cash flow £m



A clear

GrandMet's activities are concentrated around a broad portfolio of well-known international food and drinks brands

Chairman's and Group Chief Executive's statement

In the key areas of our business, we are outperforming the competition in profitability and in the marketplace

Dear Shareholder

In the Chief Executive's Review last year, we explained how the fundamental re-shaping that had taken place at GrandMet over the past few years had positioned the company well to achieve long term sustainable growth.

The major restructuring programmes we introduced in 1993 and 1994 were fundamental in improving the operations and cost base of the company. The cost savings we envisaged are being achieved

strategic vision

and have been invested largely in increased marketing support behind our key food and drinks brands. The decision to reinvest heavily in marketing was taken ahead of many of our competitors and our performance over the last year is clearly reflecting the benefits of these initiatives.

On taking up our new appointments earlier this year, and together with the other members of the Board, we have defined our governing task as being to build value-enhancing brand equity and generate profitable organic growth, in order to improve and maximise the return to shareholders. To achieve this we have focused on our clearly-defined strategies for growth – growing our existing brands; developing new brands; entering new markets; and making relevant add-on acquisitions.

We are making solid progress. Organic growth has been stimulated by increased marketing spend, which reached a record level of £1.2 billion in 1996.

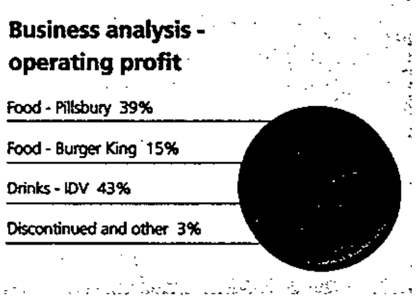
Both IDV and Pillsbury continue to be industry leaders in the introduction of new, successful innovative brands and products. Our expansion into new and emerging markets continues to grow, providing increased volume and operating profits over last year. We give further details of GrandMet's marketing-led approach to brand growth and new market penetration on pages 6 to 11 of this Review.

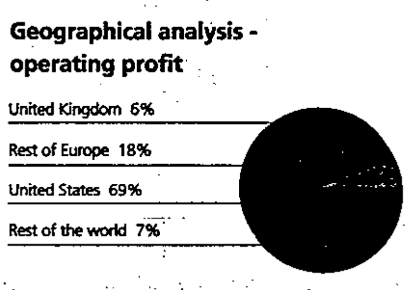
Another key element of maximising shareholder value requires that we improve the return on total invested capital from our businesses. We have therefore introduced a more rigorous discipline for resource allocation throughout GrandMet, to ensure that resources are focused only on investments that produce a return greater than the cost of capital. It is vital that no resources are expended on business activities that cannot grow long term shareholder returns.

Examples of the application of this approach during the year include the disposals of Pearle and the national food businesses in Europe, operations with low capital returns and limited growth potential.

We have also set demanding financial targets for add-on acquisitions, to ensure that such investments generate returns above the cost of capital and create shareholder value. Large acquisitions, which can take many years to provide a return which exceeds the cost of capital, are no longer part of our strategy.

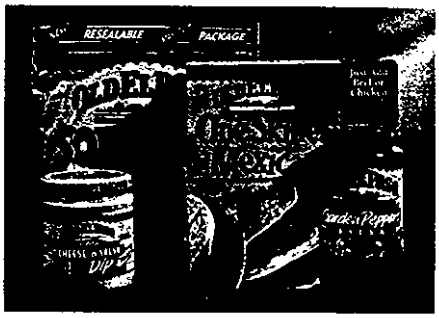
The results this year have begun to reflect the benefits of the above strategies. Group profit before exceptionals and tax improved some 6% to £965 million. Cash generation was again strong, with free cash flow of £420 million. This was however, less than last year, due mainly to higher capital expenditure for rationalisation of the Pet businesses and lower proceeds from fixed asset sales. Net borrowings have reduced significantly, from £3.3 billion to £2.7 billion. The Board has recommended a dividend increase for the full year of 6.7% to 15.9 pence.

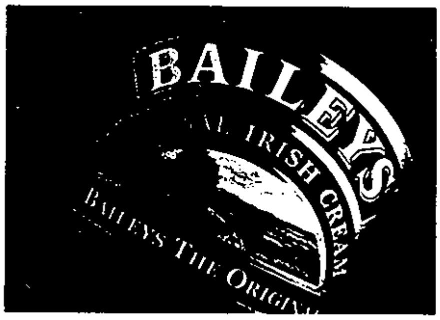




Chairman's and Group Chief Executive's statement

We continue to reduce costs and to reinvest the savings behind the marketing of our brands. Our marketing expenditure increased by 16% to £1.2 billion





Management changes As we have announced, Lord Sheppard retired at the end of February 1996 and was succeeded as Chairman by George Bull. John McGrath, previously Chairman and Chief Executive of IDV, succeeded George Bull as Group Chief Executive, with effect from 1st March 1996.

Jack Keenan was appointed Chief Executive of IDV in March 1996. He also joined the Board of Grand Metropolitan. Jack has considerable experience in managing highly successful consumer products businesses in international markets, having worked for over 30 years for General Foods and Kraft Foods International. His marketing-led philosophy and broad international experience enable him to build on the restructuring and brand-building initiatives that have been taking place in IDV over the last few years.

Among our non-executives, Carole St Mark, President and Chief Executive Officer of US-based Pitney Bowes Business Services, became a non-executive director on 1st January 1996, succeeding Professor Dr Gertrud Höhler, who left the Board after three years' service. In addition, Sir David Simon, who has been a non-executive director of Grand Metropolitan since 1989, will be retiring from the Board at the end of December 1996. We thank David for his valued guidance and commitment over what has been a period of enormous change and challenge, particularly his contribution as Chairman of the Audit Committee.

New corporate offices During 1996, the group relocated its three principal central London offices into one new head office building, serving both GrandMet and IDV. The new location at 8 Henrietta Place, in the West End, accommodates GrandMet and IDV's corporate staffs, together with IDV's brands and marketing support functions and houses over 400 people. The benefits of the much closer working relationships between the operations and the increased sharing of best practice are already apparent.

Corporate citizenship At GrandMet we take the need to be, and to be seen to be, a good corporate citizen very seriously. We believe business success cannot be defined solely in terms of earnings, sales growth and the balance sheet. A truly successful company is sensitive to the concerns of all those on whom it depends – investors, employees, trading partners, consumers and the countries and communities in which it does business.

Corporate citizenship and community involvement as business activities are assuming increasing importance all over the world and are attracting ever closer public attention. Consumers increasingly want to know more about the company behind the brands – about its policies and practices; how it treats its employees; the extent to which it positively contributes to communities; and whether it has a good environmental track record. GrandMet continues to be committed to play a leadership role in corporate citizenship and details of some of our initiatives are covered later in this Annual Review.

Employees and associates We thank all our employees and business associates for the effort and hard work they have contributed over the past year. We have continued the process of refining and reshaping our businesses, which has resulted in a reduction in staff numbers. This is difficult for everybody concerned, but we would express our sincere appreciation for the support and understanding we have received and the enthusiastic commitment from staff in facing future challenges.

Maximising

Operating performance During the year, we have continued to improve the underlying performance of our businesses and to refine the focus on branded food and branded drinks.

Pillsbury, including the first full year's contribution from the Pet businesses acquired in February 1995, continues to outperform the US food industry and deliver strong, profitable growth. Organic operating profit growth was 10%, the fourth consecutive year of double digit growth. Pillsbury recorded further gains in volume, market share and cash generation. Marketing investment behind Pillsbury's brands increased to over $1 billion, up 6% on last year. Price increases averaging 3% were achieved on most major brands.

IDV's results were ahead of its major

We have adopted a strategy of focusing on value creation. While there is still some way to go, the early signs are that it is delivering the results we envisaged

Everything we do is geared towards building the brand equity of our brands, but in a manner consistent with building shareholder returns

shareholder value

competitors, with operating profit up 4%, comparable volume up 4% and average price rises of 2%. These results benefited from increased marketing support, up 6% on last year. In North America, spirit volumes were level with last year and market share grew, although profits were down slightly. In Europe, operating profit rose 7% and total volume grew 4%; while in the Rest of the World, operating profit grew 9%, with total volume growing 11%.

Burger King's worldwide system sales were almost £6 billion, reflecting a 9% increase in dollar terms. During the year, a record number of 756 new restaurants were opened, taking the worldwide network to some 8,700 outlets. In the United States, comparable store sales continued to grow – up 16% in the last three years – and Burger King's market share of quick service restaurants reached a record 17%. Total profits, however, were affected by reduced refranchising profit in the United States and difficult trading in Europe, due primarily to public concern about BSE.

New developments Small strategic food and drinks acquisitions were made, principally in selected emerging markets, and joint venture arrangements established. These included Pillsbury's acquisition of Pasta House in Australia; Frescarini in Brazil; and, after the year end, Deli France in Argentina. IDV acquired a majority shareholding in Navarro Correas, a wine distributor in Argentina.

New joint ventures include Burger King's partnership with Japan Tobacco to expand and develop Burger King's restaurant network in Japan and IDV's partnership with Qufu Distillery to produce and distribute both local and international spirits brands in China

The disposals of Erasco and, after the year end, Pearle and Hofmann Menu, were further important steps in refining our portfolio, improving return on invested capital and releasing cash from areas of low return and limited growth potential. The process of selling our remaining national food businesses in Europe is well underway and should be completed by spring 1997.

Prospects We have demonstrated the success of the strategy of investing behind our brands to build brand equity in order to improve volume and margins. It is a winning formula in the marketplace. In addition, action has been taken on our asset base, to improve the return on invested capital, by disposing of non-core and low return businesses.

All our core businesses are capable of delivering strong, organic growth. We will therefore continue to invest behind existing brands and maintain innovative programmes of new brand and product development. We will be disciplined in allocating investment resources, always recognising the need to improve the overall returns on invested capital, and we will continue to maintain our low cost structure.

The recent strengthening of the pound will have an effect on the translation of our overseas profits into sterling. Approximately 90% of the company's profit is derived from outside the United Kingdom.

The current year has begun satisfactorily. The strength of our food and drinks businesses and the clear focus of management give us confidence that we will continue to make good progress.

George J Bull
Chairman

John McGrath
Group Chief Executive

5th December 1996

Growing

Increased investment behind our brands has been the key to success in 1996, with Pillsbury, IDV and Burger King all increasing market share over last year

Building brand equity

The strong performances of Pillsbury, IDV and Burger King are attributable to the successful application of consistent brand-building strategies – growing and revitalising existing brands; developing new brands; and entering new and emerging markets

Grand Metropolitan's portfolio of food and drinks brands represents its major assets. Brands such as Pillsbury, Häagen-Dazs, Burger King, J&B Rare and Smirnoff are a storehouse of value for the company and its shareholders. Indeed, it is these established brands that offer the best opportunities to create additional value.

To ensure that GrandMet generates maximum value from existing brands, the company is becoming increasingly selective in targeting the £1.2 billion it spends on marketing to strengthen the brand equity of its leading brands in their key markets. What is brand equity? It is a brand's ability to generate value – income and cash flow – for the brand owner, because of its powerful consumer appeal.

GrandMet believes the most efficient way to strengthen the equity of its brands is by maintaining and where necessary increasing marketing investment, and particularly increasing advertising spend to build long term consumer loyalty.

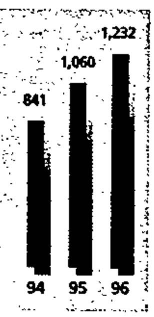
The company's commitment to building brand equity is a long term one. Over three years ago, major restructuring programmes were initiated to take out costs from all the GrandMet businesses. The majority of these cost savings were used to increase the marketing support behind the brands. This put GrandMet ahead of its major competitors and the process continues today, with the ongoing attack on costs helping fund increased brand investment on a carefully prioritised market basis. ■

existing brands

A brand with strong brand equity creates value either by achieving a greater market share or by commanding a higher retail price than a less well-supported competitor

Marketing investment
£m

Marketing spend following the cost reduction programmes of 1993 and 1994

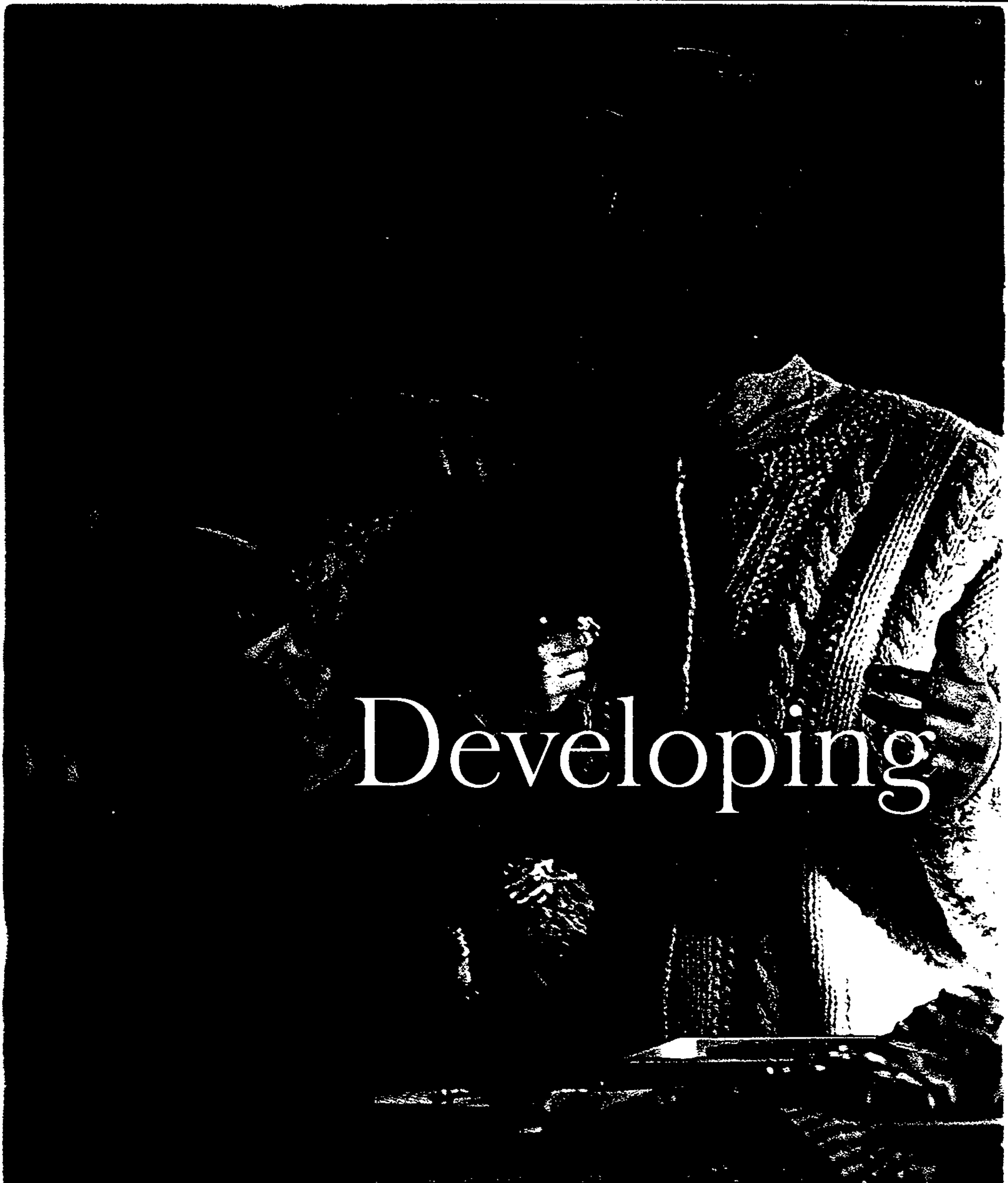


High performers include Baileys, which saw worldwide volumes reach their highest ever levels. In the United States, volume and market share increased and in the United Kingdom market share grew by over 10%, with sales of over half a million cases – another record. Smirnoff achieved its fourth consecutive year of volume growth, with market share up in all its key markets, following a 10% increase in worldwide advertising investment.

At Pillsbury, Grands! – the original refrigerated biscuit introduced 6 years ago – continued to grow sales at over 15%, with the total Grands! brand now generating some $225 million in annual retail sales. Green Giant Create a Meal! starters grew nearly 70% last year, with annual retail sales of $120 million. ■

A revitalising approach There is tremendous strategic advantage to be gained by revitalising existing brands through repositioning, improved formulation, new packaging and innovative marketing. Old El Paso and Progresso are good examples of this process. Acquired by Pillsbury in 1995, and with strong consumer loyalty, both brands had suffered from inadequate support and were losing share. However, major product improvements, brighter packaging and distinctive new advertising, have seen both brands begin to improve their overall position during 1996.

At IDV, the launch of Cinzano Orancio has given the brand a significant boost. Sales of Orancio exceeded expectations and the original Cinzano Vermouth brand has achieved new momentum. ■



Developing

New brands maintain consumer and customer interest, generate additional sales and enhance the market leading position of our businesses

Pillsbury new product introductions

Pillsbury has introduced over 460 new products in the last three years

New brands – new value

Pillsbury and IDV are leaders in their industries in the development and introduction of new products

GrandMet is firmly focused on the continued growth of its existing brands as these form the bedrock of its current business. However, the development and introduction of new and innovative brands represent the future lifeblood of the group. And it is in the introduction of new brands that our businesses excel.

In the period 1991-1995, Pillsbury introduced more "big idea" brands – those with annual retail sales of $50 million or more – than any other US food company. These new introductions contributed over 13% of sales in that five year period.

Over 21% of Pillsbury's current sales come from products that are five years old or less, and 75% of products introduced in the last five years are still in the market place. Green Giant Create a Meal!, Toaster Strudel and Grands! Biscuits are brands all now generating sales of over $100 million a year. These are outstanding successes.

IDV's record of new product introductions is unparalleled within the drinks industry, with new brands launched within the last five years accounting for 10% of today's total IDV volumes. In the drinks industry, new brands take much longer to develop, but they last. The average age of the top 100 spirits brands is nearly 100 years.

IDV also recognises the opportunity provided by developing markets to introduce new local brands. Spey Royal Whisky, introduced into Thailand only last year, has already sold over 300,000 cases. ■

new brands

New brands and new products fire the consumer's imagination, they create excitement and provide opportunities to compete even more effectively in established markets

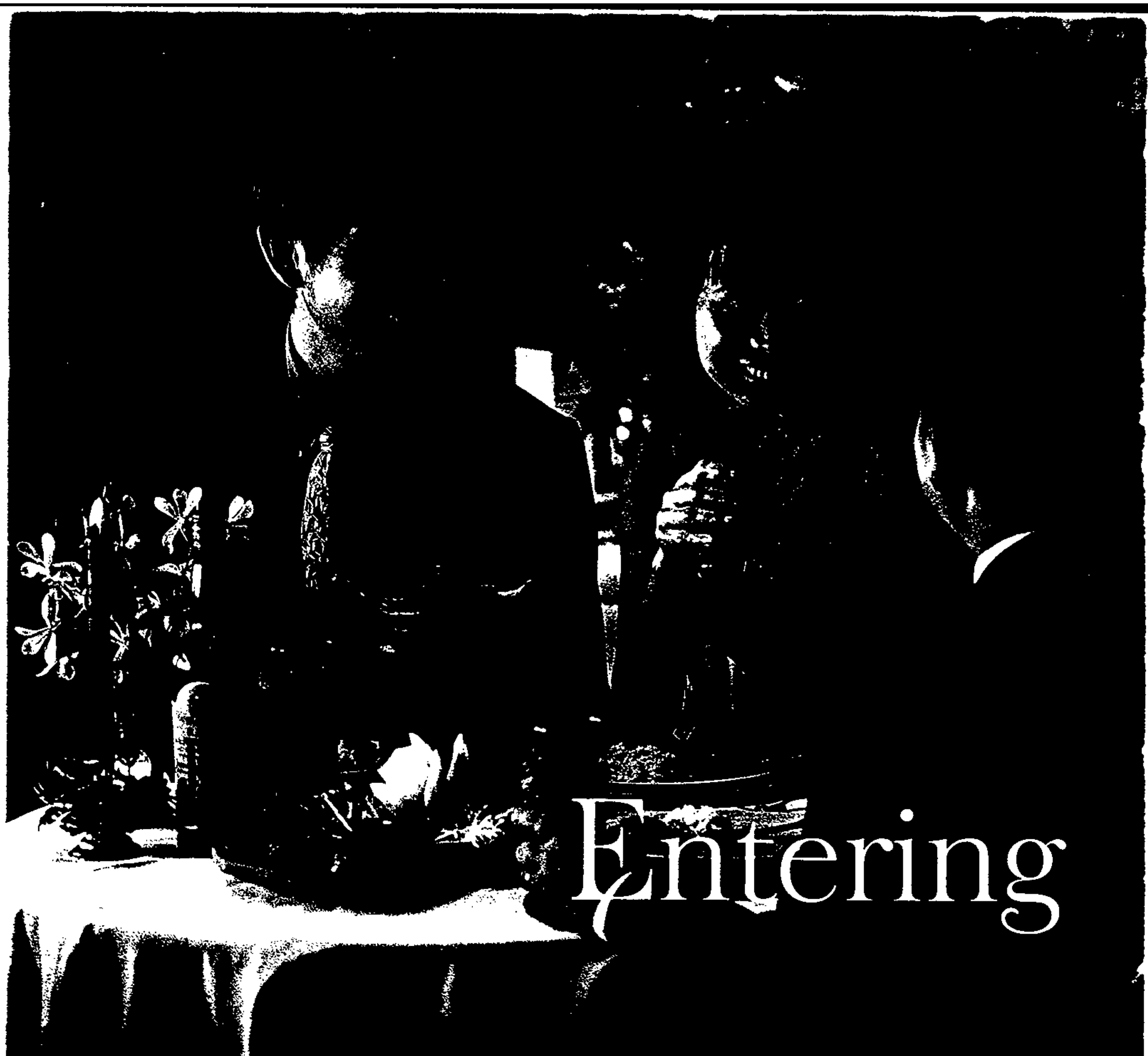
Burger King has been active with new products, testing a new french fry in the United States and introducing the Veggie Whopper – the first ever 100% fast food vegetarian burger in the United Kingdom

New in 1996 Pillsbury introduced over 180 new products during 1996. These included Grands! Sweet Rolls, which exceeded $50 million retail sales in its first year. Häagen-Dazs benefited from the full year impact of the new sorbet range and from continued new product introductions such as the Ice Cream Sandwich. Progresso increased retail sales and market share, aided by new product launches, notably white meat chicken soups.

IDV's Smirnoff Mule sold over half a million cases in the United Kingdom and was launched in Ireland. Sheridans and Archers grew strongly and in the United States, TGIF, the range of pre-mixed cocktails and frozen drinks, sold well over a million cases. ■

Commitment to brand development
Successful new brands don't just happen. GrandMet invests heavily to be at the forefront of new brand development in the food and drinks industries. This is recognised by the establishment of a new brand development centre for IDV, rehoused in new premises near Harlow in the United Kingdom and by Pillsbury's plans to expand its new product development facilities at its headquarters in Minneapolis during 1997. Both companies are working on hundreds of projects, some of which will ultimately emerge as new brands.

GrandMet's 'freedom to experiment' culture within its businesses encourages creativity and innovation, in the belief that finding other successes similar to Baileys or Grands! will generate major additional value. ■

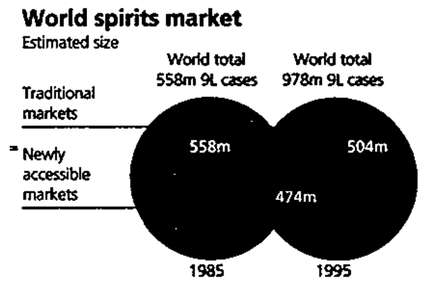


Entering

Pillsbury achieved volume increases of 68% in new and emerging markets; these markets now represent 25% of IDV's total volume

New market opportunities

New and emerging markets present significant growth opportunities for GrandMet, as growing populations and increasing affluence place the company's brands within reach of millions of new consumers



GrandMet defines emerging markets as all markets outside North America, Western Europe, Japan and Australia/New Zealand.

IDV, over the years, has gained wide distribution of its brands into accessible world markets. The limitations were the 'closed' communist economies and countries with strict regulations and high tariffs on alcohol imports. However, the enormous political changes started in the late 80s/early 90s and on-going, have opened up the large, previously unavailable markets of Central and Eastern Europe, the Former Soviet Union, China, India and Latin America.

Food, on the other hand, comprises businesses acquired within the last 10 years, which have concentrated on the well-established western markets of North America and Europe. Until recently there were few significant GrandMet food operations outside these markets. As the penetration of domestic appliances within emerging markets improves and the distribution infrastructure develops, so the opportunities for Pillsbury's brands increase.

The strategic approach to entering into new markets is broadly similar for all GrandMet businesses. It is to start small and targeted, often with specially created brands and with modest capital investment, sometimes in joint venture partnership with a local producer/distributor. As brand awareness begins to develop, international brands are introduced with significantly higher levels of investment. ■

new markets

Our food and drinks businesses may view market opportunities from a different perspective. A new market for Pillsbury or Burger King might already be an established one for IDV

New market entry successes
Pillsbury's international expansion strategy is focused on Latin America, Asia Pacific, India and Russia – areas of the world where a growing middle class is rapidly changing its consumption patterns. Applying Pillsbury's US developed and highly-rated food skills linked to targeted acquisitions of high margin, market leading businesses, has become a successful formula in emerging markets. By the end of 1996, Pillsbury was generating annual sales, on a systemwide basis, of approaching $1 billion from markets outside the United States and Europe.

During the year, the acquisitions of Pasta House in Australia and Frescarini in Brazil were completed. They are already trading ahead of expectations.

Pillsbury continues to build awareness of its major international brands in new and emerging markets. The first Häagen-Dazs ice cream store was opened in Shanghai, China during the year, achieving outstanding sales success. In Europe, the new focus on Pillsbury, Green Giant, Old El Paso and Häagen-Dazs, will see these brands entering some European countries for the first time in 1997.

IDV's expansion into new and emerging markets was particularly impressive in 1996. Significant volume growth and operating profit increases were achieved, with emerging markets now representing one quarter of IDV's total volume and generating some 10% of total operating profit.

Although Africa and Latin America currently represent the majority of IDV's emerging market volumes, resources are increasingly targeted at markets with the largest growth potential, such as India, Asia and Russia. There have been many success stories. Gilbey's Gin sold over 1 million cases in the Philippines last year; Gilbey's Whisky in India saw volumes exceed 1 1/2 million cases; and in Central Europe, total volumes increased by 25%.

Burger King's presence in Japan has to date been restricted to a handful of stores. However, a joint venture partnership with Japan Tobacco plans to open some 50 stores over the next 18 months, in and around Tokyo. In addition, Latin America, Mexico and Asia Pacific are expected to be strong growth markets for Burger King. ■

Volunteers and young students from the John Keble School on the first worksite visit to GrandMet's new London headquarters

Creating a caring

Contributing to communities
GrandMet's definition of success goes beyond earnings growth and a strong balance sheet. Lasting commercial success requires stable markets, highly skilled and motivated employees, healthy communities and prosperous consumers.

Community involvement is a vital part of corporate citizenship because it is pro-active. It shows that the company is not content just to comply with high standards of behaviour; we also want to contribute actively to the community.

The focus of our community involvement is empowerment: helping people to help themselves through education, training and enterprise programmes and partnerships, which offer opportunities, especially to young people, to achieve the self-respect that leads to self-sufficiency.

GrandMet commits approximately 1½% of pre-tax profit to community support in the form of cash donations, social sponsorships, donations in kind, employee community assignments and volunteering.

While the thinking and approach is global, implementation is local. The company's community involvement is developing to reflect the international business base while recognising that the social and community needs in emerging markets may differ from those in the more established regions.

India is a major growth market for GrandMet and a sensitive one for international business. Research carried out by GrandMet in 1995 highlighted youth enterprise as a major social issue. Working with International Distillers India, the Bharatiya Yuva Shakti Trust was established near the Pune factory where our local managers and employees can also contribute their business skills as mentors.

Other examples of involvement include:
Kids and the Power of Work (KAPOW) – a GrandMet initiated programme providing young children with a 'window on the world of work' through which they can see the links between school work and success in adult life. It has a long track record, operating in the United States for six years and in the United Kingdom since 1994. GrandMet volunteers and teachers are jointly trained to deliver lessons including job skills, team work, decision making and diversity awareness.

Cities in Schools/Burger King Academies – work with young people with schools attendance and behavioural problems to re-integrate them into mainstream education and training.

Tomorrow's People – formerly GrandMet Trust, Tomorrow's People is one of the top 100 UK charities and provides job counselling and training for young and unemployed people. With its increased independence, but with continuing support from GrandMet, the charity is able to attract the involvement of other companies to help address social issues of particular importance to business.

Evaluation Measuring the impact of programmes both in the community and on the business is vital. It helps us assess our own progress and ensures that we apply resources as effectively as possible.

GrandMet has recently published a Corporate Citizenship Report. Designed for employees and corporate partners, it sets out the company's guiding principles and provides feedback on performance as well as practical examples of our community commitment through a range of case studies. The Report is available on request from the company's Henrietta Place office*.

Environmental programmes With the company's increased focus on value-based management, the emphasis behind GrandMet's environmental programmes has also been adjusted. The group has streamlined its environmental management structure, focusing on environmental risk avoidance and cost reduction as its core strategies.

GrandMet's continued growth in international markets has prompted development of environmental principles and standards to be applied to all of its businesses worldwide. These standards define minimum environmental expectations for all operations and compliance with these requirements is compulsory.

Efforts to communicate GrandMet's

GrandMet was the inaugural winner of the 1996 Social Commitment Award, launched by the Institute of Grocery Distribution, for our community relations work both in the UK and India

RECOGNISING ACHIEVEMENT

the FOOD INDUSTRY awards

organisation

commitment to the protection of the environment have also expanded. GrandMet employees have received details of the company's initiatives through a new environmental brochure. In addition, advantage has been taken of the company's successful employee volunteering programmes, to add and involve staff in a number of environment-based projects.

GrandMet continues to monitor and measure its environmental programmes and the results this past year show good progress. Infrastructure improvements at major IDV facilities have enhanced effluent controls. Burger King continues its packaging waste reduction and energy savings programmes. Pillsbury has reduced manufacturing wastes and their associated costs by nearly 25% in the past year. Worldwide programmes are in place to help eliminate both regulatory burdens and risk issues by "designing out" any hazardous manufacturing processes. For example, emphasis continues towards ensuring our operations are free of chlorofluorocarbons, asbestos and underground tanks.

GrandMet remains committed to the application of consistent, worldwide environmental programmes in its production operations and encouraging all employees to become involved in community environmental efforts.

Advocates of moderation While most people enjoy a drink or two, everyone knows that excessive alcohol consumption causes problems. IDV, the world's largest alcoholic beverages company, takes the responsibility seriously. Its marketing stringently avoids appealing to underage consumers and the company does not manufacture or market "alcopops". It was a founder member of such organisations as the Portman Group in the United Kingdom, the Century Council in the United States and The Amsterdam Group in Europe.

J&B Care For The Rare is a global conservation programme aimed at saving rare and endangered species. One project involves work to protect the Snow Leopard

These work with policy makers to reduce the incidence of reckless drinking and contribute to high profile consumer education programmes on drink driving and the underage purchase of alcohol.

An ethical approach GrandMet's corporate citizenship programmes also emphasise good business conduct. The company recognises that an essential element of being in tune with its environment is to be honest, ethical and responsive to the various concerns of its shareholders, customers, employees and the general public. The company's aim, locally and globally, is to operate within the highest ethical standards and in accordance with best business practices. Codes of Business Conduct are used by all the group's businesses and GrandMet complies with all the provisions of the Code of Best Practice of the Cadbury Committee on the Financial Aspects of Corporate Governance.

Social audits In addition to ongoing process controls such as environmental audits and attitudinal surveys of key audiences, GrandMet is piloting social impact studies, with its food and drinks businesses working with external consultants to create a model of broader measurement and evaluation reporting.

*Grand Metropolitan PLC
Community Relations Department
8 Henrietta Place, London W1M 9AG

Board of directors

George J Bull

Chairman

Joined International Distillers & Vintners in 1958, prior to its acquisition by Grand Metropolitan, and became Chief Executive of IDV in 1984. Appointed to the Board of Grand Metropolitan in 1985 and became Chairman of IDV in 1987 (in addition to Chief Executive). In July 1992, he became Chairman and Chief Executive of GrandMet's Food sector and in December 1993 he was appointed Group Chief Executive. He became Chairman of the Board on 1st March 1996. He is also a non-executive director of United News & Media plc and President of the Advertising Association. Age 60 (Committees 3*, 4*).

John B McGrath

Group Chief Executive

Joined Watney Mann & Truman Brewers as Group Director in 1985 and was appointed Managing Director in 1986. He was appointed to the Board of Grand Metropolitan in 1992 and was subsequently appointed Chairman and Chief Executive of the Drinks sector in September 1993 He became Group Chief Executive on 1st March 1996. He was a prime mover in the Portman Group and is a non-executive director of the Cookson Group PLC and Chairman of the Scotch Whisky Association. Age 58 (Committee 3).

Richard V Giordano KBE (USA)

Deputy Chairman

Appointed Chairman of British Gas PLC in 1994 and was Chief Executive of the BOC Group PLC from 1979 to 1991, Chairman from 1985 to 1992 and was non-executive Chairman until January 1996 He is also a non-executive director of RTZ Corporation. He was appointed a non-executive director of Grand Metropolitan in 1984 and became Deputy Chairman in 1991. Age 62 (Committees 1, 2, 4).

Peter E B Cawdron

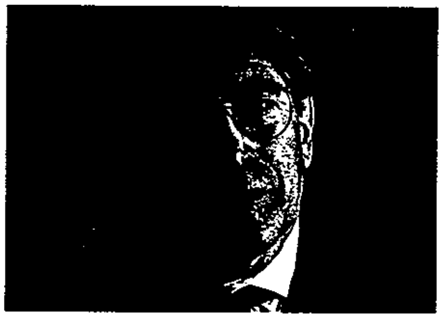
Group Strategy Development Director

Joined Grand Metropolitan in 1983 as Group Planning Director, became Group Strategy Development Director in 1987 and was appointed to the Board in September 1993. He is responsible for the development of group strategy and for the business development of GrandMet and its subsidiaries. He is a non-executive director of Compass Group PLC. Age 53 (Committee 3).

Gerald M N Corbett

Group Finance Director

Joined Grand Metropolitan as Group Finance Director in April 1994, having been Finance Director of Redland PLC since 1987. Prior to joining Redland, he held senior positions with Dixons Group PLC and the Boston Consulting Group. He is also a non-executive director of MEPC Plc. Age 45 (Committee 3).



John M J Keenan

Chief Executive,

International Distillers & Vintners

Joined IDV and appointed to the Board of Grand Metropolitan in March 1996. Prior to this he spent over thirty years with the General Foods Group and Kraft Foods International, subsidiaries of the Philip Morris Companies. His final position was that of Chairman, Kraft Foods International. Age 60 (Committee 3).

Board Committees

1. Appraisal and Remuneration
2. Audit
3. Executive
4. Nomination

* Chairman

David E Tagg

Group Services Director

Joined Watney Mann & Truman Brewers as Personnel Director in 1980 and was appointed to the Board of Grand Metropolitan in 1988. He is responsible for the group's human resources, information systems, corporate affairs, property, legal and company secretarial functions. He is Chairman of the Group Pension Fund and represents the Board on various charitable trusts and organisations. He is a non-executive director of Storehouse PLC and Chairman of the Institute for Citizenship Studies. Age 56 (Committee 3).

Paul S Walsh

Chief Executive Officer, The Pillsbury Company

Joined GrandMet's brewing division in 1982 and became Finance Director in 1986. Appointed Chief Financial Officer of Inter-Continental Hotels in 1987, Chief Financial Officer of GrandMet Food sector in 1989 and Division Chief Executive of Pillsbury in 1990. He became Chief Executive Officer of The Pillsbury Company in 1992. In October 1995 he was appointed to the Board of Grand Metropolitan, assuming the additional responsibility for GrandMet's European food operations. He is a non-executive director of Ceridian Corporation and the Federal Express Corporation based in USA. Age 41 (Committee 3)

Michael L Hepher

Chief Executive of Charterhouse plc

Appointed Chief Executive of Charterhouse plc in July 1996. Formerly Group Managing Director of British Telecommunications PLC, Chairman and Chief Executive of Lloyds Abbey Life plc, a director of Lloyds Bank PLC and President and Chief Executive of Maritime Life Assurance Company of Canada. He was appointed a non-executive director of Grand Metropolitan in November 1994. Age 52 (Committees 1, 2*, 4).

Peter J D Job

Chief Executive, Reuters Holdings PLC

Joined Reuters in 1963 as a trainee journalist and subsequently developed an international management career spanning Latin America, the Middle East, Africa and Asia Pacific. He was appointed a non-executive director of Grand Metropolitan in November 1994. Age 55 (Committees 1*, 2, 4).

Sir David Simon CBE

Chairman, The British Petroleum Company p.l.c.

Joined BP in 1961 and in 1982 became Chief Executive of BP Oil International, BP's worldwide oil refining and marketing group. In 1986, he was appointed Managing Director, BP Group, joining the main board with responsibility for finance and Europe. He was appointed Chairman of BP in July 1995. He was appointed a member of Court of the Bank of England in March 1995 and a non-executive director of RTZ Corporation in September 1995. He is a member of the International Advisory Council of Deutsche Bank, and Allianz AG. He was appointed a non-executive director of Grand Metropolitan in 1989. Age 57 (Committees 1, 2, 4).

Ms Carole F St Mark

President & Chief Executive Officer, Pitney Bowes Business Services, a division of Pitney Bowes Inc.

Joined Pitney Bowes in 1980 as Director, Human Resources Development. In 1988 she was made President, Pitney Business Supplies & Services Group and President of Pitney Bowes Management Services. In May 1990 she was elected President, Logistics Systems & Business Services. She is also a board director of Supervalu Inc, an international food wholesaler. She was appointed a non-executive director of Grand Metropolitan on 1st January 1996. Age 53 (Committees 1, 2, 4)

Summary financial statement

The directors have pleasure in presenting to shareholders their summary financial statement for the year ended 30th September 1996 on pages 16 to 18. A summary financial statement is only a summary of information in the company's annual accounts and the directors' report; it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the company or group as is provided by the full annual accounts and reports. The full financial statements, directors' report and auditor's report (which is unqualified and did not contain any statement under section 237 of the Companies Act 1985) are included in a separate document entitled 1996 Annual Report and Accounts, which is available to shareholders free of charge. That document and this Annual Review together comprise the full annual reports and accounts of Grand Metropolitan Public Limited Company.

Summary directors' report

Business activities and development An overview by the Chairman and the Group Chief Executive of the performance during the year and the future development of the group's businesses is included on pages 3 to 5.

Dividend The directors recommend a final dividend of 10.05p per ordinary share. If approved, dividends for the year will total 15.9p per share, an increase of 6.7%. Subject to approval by members, the final dividend will be paid on 7th April 1997 to shareholders on the register on 14th January 1997. A share dividend alternative will be offered.

Annual General Meeting The AGM will be held at 11.15am in the Great Room, Grosvenor House, Park Lane, London W1 on 4th March 1997.

Directors The directors are listed on pages 14 and 15. D P Nash and Prof Dr G Höhler resigned on 17th October 1995 and 31st December 1995, respectively. Lord Sheppard retired on 29th February 1996. J M J Keenan, who was appointed on 4th March 1996, G M N Corbett, R V Giordano and M L Hepher will retire in accordance with the articles and, being eligible, offer themselves for election/re-election.

Auditor The auditor, KPMG Audit Plc, is willing to continue in office and a resolution for its re-appointment as auditor of the company will be submitted to the AGM.

Corporate governance The company has complied with all provisions of the Code of Best Practice of the Cadbury Committee on Financial Aspects of Corporate Governance.

Auditor's statement

to the shareholders of Grand Metropolitan Public Limited Company

We have examined the summary financial statement set out on pages 16 to 18.

Respective responsibilities of directors and auditors The summary financial statement is the responsibility of the directors. Our responsibility is to report to you on its preparation and consistency with the full financial statements and directors' report.

Basis of opinion We conducted our examination in accordance with Auditing Guideline *The auditor's statement on the summary financial statement* adopted by the Auditing Practices Board. Our report on the group's full financial statements describes the basis of our audit opinion on those financial statements.

Opinion In our opinion the summary financial statement on pages 16 to 18 is consistent with the financial statements and directors' report of Grand Metropolitan Public Limited Company for the year ended 30th September 1996 and complies with the requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

London, 5th December 1996

Summary consolidated profit and loss account

for the year ended 30th September 1996

	1996			1995		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Turnover	8,974		8,974	8,025		8,025
Operating profit	1,108	–	1,108	1,032	(122)	910
Share of profits of associates	47	(24)	23	48	(15)	33
Disposal of fixed assets and businesses	–	(553)	(553)	–	145	145
Interest payable (net)	(190)	–	(190)	(168)	–	(168)
Profit before taxation	965	(577)	388	912	8	920
Taxation	(270)	(22)	(292)	(255)	(29)	(284)
Profit after taxation	695	(599)	96	657	(21)	636
Minority interests	(46)	–	(46)	(35)	–	(35)
Profit for the financial year	649	(599)	50	622	(21)	601
Ordinary dividends			(334)			(312)
Transferred to reserves			(284)			289
Earnings per share	31.0p	(28.6)p	2.4p	29.8p	(1.0)p	28.8p

Directors' emoluments amounted to £6,392,000 *(1995 – £3,883,000)* Details are set out in the summary appraisal and remuneration committee report on pages 19 to 21.

Summary consolidated balance sheet

at 30th September 1996

	1996 £m	1996 £m	1995 £m	1995 £m
Fixed assets		6,133		6,300
Current assets	5,085		4,843	
Creditors – due within one year	(2,752)		(3,843)	
Net current assets		2,333		1,000
Total assets less current liabilities		8,466		7,300
Creditors – due after more than one year		(4,294)		(3,219)
Provisions for liabilities and charges		(525)		(587)
		3,647		3,494
Capital and reserves		3,211		3,103
Minority interests		436		391
		3,647		3,494

The summary financial statement on pages 16 to 18 was approved by a duly appointed and authorised committee of the board of directors on 5th December 1996 and was signed on its behalf by:

G J Bull, *Director*

Summary consolidated cash flow and movements in net borrowings

for the year ended 30th September 1996

	1996 £m	1995 £m
Net cash inflow from operating activities	1,131	1,070
Returns on investments and servicing of finance	(190)	(70)
Taxation	(324)	(260)
Investing activities – capital and provision expenditure	(275)	(168)
	342	572
Investing activities – acquisitions and disposals	568	(1,489)
Ordinary dividends paid	(298)	(280)
Net cash inflow/(outflow) before financing	612	(1,197)
Free cash flow	420	501
Movements in net borrowings		
Net cash inflow/(outflow) before financing	612	(1,197)
Borrowings of subsidiary acquired	-	(322)
Exchange movement	(29)	3
Shares issued and other movements	50	349
Decrease/(increase) in net borrowings	633	(1,162)
Net borrowings at beginning of year	(3,321)	(2,159)
Net borrowings at end of year	(2,688)	(3,321)

Segment analysis

for the year ended 30th September 1996

	1996			1995		
	Turnover £m	Operating profit £m	Capital employed £m	Turnover £m	Operating profit £m	Capital employed £m
Class of business						
Continuing operations						
Food – Pillsbury	3,770	431	2,899	3,145	331	3,031
– Other European	540	27	63	518	27	186
– Burger King	859	167	1,137	760	196	1,179
Drinks – IDV	3,558	471	1,717	3,310	455	1,860
	8,727	1,096	5,816	7,733	1,009	6,256
Discontinued operations	247	12	92	292	23	138
	8,974	1,108	5,908	8,025	1,032	6,394
Geographical area by country of operation						
United Kingdom	856	66	122	805	85	399
Rest of Europe	1,926	201	518	1,807	185	583
United States	5,232	762	4,977	4,630	705	5,026
Rest of North America	222	21	97	195	19	128
Africa and Middle East	154	10	35	175	6	43
Rest of World	584	48	159	413	32	215
	8,974	1,108	5,908	8,025	1,032	6,394

Operating profit is before exceptional items. Capital employed is net assets excluding associates and net borrowings.

Summary appraisal and remuneration committee report

The company's appraisal and remuneration committee (the committee) is responsible for the determination of remuneration policy as applied to Grand Metropolitan's executive directors and senior executives. Its members are the non-executive directors, chaired by P J D Job. The committee's composition, responsibilities and operation comply with section A of the best practice provisions annexed to the listing rules of the London Stock Exchange. In framing remuneration policy, the committee has given full consideration to section B of the best practice provisions This report sets out a summary of the committee's policy and major disclosures on directors' and senior executives' remuneration Further information is available in the Annual Report and Accounts.

1. Executive remuneration policy

GrandMet's continuing success depends on the delivery of quality performance that generates long term returns to the shareholder. Its remuneration policy directly supports this goal through ensuring that

- rewards and incentives are directly aligned to the performance of the group and the creation of shareholder value;
- total remuneration is maintained at a competitive level, to attract and retain management of the highest quality; and
- reward structures recognise the international diversity of its business

(a) Monitoring the competitiveness of remuneration All elements of the compensation and benefits package for senior executives are reviewed against external market data with particular focus on the competitiveness of total remuneration. It is policy to position the total remuneration of executives at or near the median for those companies with whom the company is competing for executive talent. For executives well established in their roles and performing strongly, total remuneration may be positioned up to the third quartile.

(b) Base salary The committee sets the base salary of each executive director by reference to individual performance and external market data.

(c) Annual performance related bonus In addition to base salary, all senior executives are eligible for an annual performance related bonus, which is non-pensionable. For the year ended 30th September 1996, the UK executive directors had a target bonus of 45% and the US directors a target bonus of 60% of base salary. This bonus was weighted as follows: a third linked to the achievement of key strategic objectives, both short and long term; a third based on the achievement of business profit and operational cash flow targets; and a third based on the company's earnings per share growth against a competitor index. An additional bonus opportunity of 5% in the United Kingdom and 10% in the United States was linked to superior performance on the EPS measure. GrandMet's EPS performance for the year ended 30th September 1996 has been compared with the agreed peer group excluding the effect of exceptional items. GrandMet's year on year increase was 4.0% while the peer group weighted average was 2.9%. The additional bonus opportunity therefore became payable. The EPS measure has been replaced with economic profit targets for the current financial year.

The bonus paid for the year to the UK executive directors averaged 47% of salary. This compares with 27% of salary in the previous year. An average of 69% of salary was paid to the two US executive directors. There were no US executive directors in the previous year. Details are shown in the table on page 20.

(d) Long term incentive plans Full details of long term incentive arrangements in place at 30th September 1996 are described in the Annual Report and Accounts. They comprise executive share option schemes, the senior executive phantom share option scheme (SEPSOS), savings-related share option schemes and business based medium term incentive plans. However, it should be noted that consideration is being given to discontinuing all executive share option schemes with effect from January 1997. In their place a restricted share plan would be introduced. The performance requirement for this plan would be the achievement of total shareholder return targets as compared to the other FTSE 100 companies. Details of the plan are being finalised and are expected to be submitted for shareholder approval at the AGM in March 1997.

(e) Directors' contracts The executive directors have two year rolling contracts. A number of senior executives in the United Kingdom and overseas below main board level also have two year rolling contracts, and many in the United States are covered by *Employee Retirement Income Security Act of 1974* severance plans which make provision for a payment of up to two years' pay on termination of employment initiated by the company. Against this background, and the need to retain and motivate the directors and senior executives in a most competitive international environment, the committee believes it is appropriate for some senior executives, including executive directors, to continue to be on two year rolling contracts. The non-executive directors have contracts which can be terminated without compensation.

(f) Non-executive directors The fees of the non-executive directors are determined by the board of directors in the absence of the non-executive directors.

Summary appraisal and remuneration committee report

2. Directors' emoluments and other payments

(a) Base salary, annual bonus, benefits and SEPSOS and other payments

Executive directors	Basic salary (1),(5) £000	Annual performance bonus £000	Benefits £000	SEPSOS payments £000	Other payments £000	Total 1996 £000	Total 1995 £000
G J Bull (appointed Chairman 1.3.96 at a salary of £500,000)	468	235	31	-	-	734	529
J B McGrath (appointed Group Chief Executive 1.3.96 at a salary of £410,000)	383	195	34	-	-	612	422
P E B Cawdron	266	122	24	23	-	435	358
G M N Corbett	285	134	32	-	-	451	368
J M J Keenan (appointed Chief Executive IDV 4.3.96 at a salary of $750,000)	290	334	148	-	-	772	-
D E Tagg	329	156	25	86	-	596	448
P S Walsh (appointed to the Board 17.10.95 at a salary of $910,000)	569	411	33	28	-	1,041	-
Lord Sheppard (until 29.2.96)	313	-	18	784	-	1,115	907
D P Nash (until 17.10.95 see 2(b) below)	16	-	2	326	791	1,135	544
Former executive director	-	-	-	-	-	-	557
	2,919	1,587	347	1,247	791	6,891	4,133

Non-executive directors (2),(4)	Fees 1996 £000	Fees 1995 £000
R V Giordano	101	106
M L Hepher	37	25
Prof Dr G Höhler (until 31.12.95)	23	45
P J D Job	34	25
C F St Mark (appointed to the Board 1.1.96)	21	-
Sir David Simon	32	39
Former non-executive directors	-	28
	248	268

Notes:

(1) Figures for J M J Keenan and P S Walsh represent the sterling equivalent of their US dollar remuneration.

(2) Benefits include company cars, fuel, financial counselling, medical insurance and life insurance premiums. Additional payments made to or on behalf of J M J Keenan, who is an expatriate, are treated as benefits in the above table. They include allowances for working overseas and the provision of accommodation. Non-executive directors' benefits are included in their fees.

(3) SEPSOS payments relate to exercises in the current year and previous years.

(4) On 1st April 1996, P J D Job replaced R V Giordano as chairman of the appraisal and remuneration committee, and on 1st January 1996, M L Hepher replaced Sir David Simon as chairman of the audit committee. These changes in responsibility are reflected in their respective fees.

(5) The executive directors' basic salaries were increased by an average of 3.3% with effect from 1st October 1996.

The total emoluments of the directors of £6,392,000 *(1995 – £3,883,000)* comprise executive directors' basic salaries, annual performance bonuses, benefits and SEPSOS payments, and non-executive directors' fees, together with pension contributions in respect of executive directors of £44,000 *(1995 – £39,000)*. Reasons for the increase include the appointments of J M J Keenan and P S Walsh on US remuneration packages, bonuses based on performance, and SEPSOS payments in respect of options exercised in the current year and previous years.

(b) Directors who left during the year As reported in last year's Report and Accounts, D P Nash ceased to be a director on 17th October 1995 and he received a compensation payment of £791,000. He continued to receive salary and benefits of £111,000 as an employee for the period from 18th October 1995 to 31st January 1996.

Following Lord Sheppard's retirement on 29th February 1996, the company entered into a consultancy agreement with a company controlled by him. Under its terms, Lord Sheppard will continue to provide advice and assistance to the Board until 28th February 1998, for which he will receive £45,000 per annum and be provided with administrative assistance.

Summary appraisal and remuneration committee report

(c) Directors' pension provision The UK based executive directors are members of the Directors' Pension Plan of the Group Pension Fund except for J M J Keenan, who does not participate in any company pension arrangement, and G M N Corbett, who is affected by the Inland Revenue earnings cap on approved pension benefits. G M N Corbett has been promised by the company broadly equivalent benefits to the other directors. These are partly funded through personal pension plans and the total amount paid in 1996 was £16,000.

Current directors accrue pension rights at the rate of one-thirtieth of basic salary per annum with a guarantee that the pension at normal pension age of 62 will not be less than two-thirds of salary in the twelve months prior to retirement. No actuarial reduction is applied to pensions payable from the age of 57 Bonus payments are not included in pensionable pay under the Directors' Pension Plan. The Group Pension Fund has a substantial surplus and as a result no company contributions have been paid into it since 1st December 1992. The company is not expected to make any contributions in the foreseeable future.

Pensions in payment are increased in line with inflation up to 5%, but with a guarantee that the increase will not be less than 3%.

The pension entitlements earned by the current directors during the year were as follows:

	Age at 30th September 1996	Years of service at 30th September 1996	Increase in accrued pension since 30th September 1995 £000	Total accrued annual pension at 30th September 1996 £000	Total accrued annual pension at 30th September 1995 £000
G J Bull	60	39	69	444	375
J B McGrath	58	11	39	191	152
P E B Cawdron	53	13	13	115	102
G M N Corbett	45	2	10	24	14
D E Tagg	56	16	17	184	167
P S Walsh	41	14	32	141	109

The figures for P S Walsh relate to his participation in the Pillsbury Retirement Plan. He also contributes to the Pillsbury savings plan, which is a defined contribution plan with a limited company match. The company contribution to the plan was £28,000.

3. Directors' SEPSOS options, share interests and option gains

The following table shows: the directors' holdings of SEPSOS options; share interests in, and holdings of options over, ordinary shares at 30th September 1996 (or date of leaving); and gains from the exercise of share options under the executive share option schemes and the UK savings-related share option plan for 1995 and 1996. Full details of options held, granted and exercised under the various share option plans are described in the Annual Report and Accounts. SEPSOS payments are shown in 2(a) above.

	SEPSOS options	Beneficial share interests	Executive and savings-related share options	Executive and savings-related share option gains 1996 £000	1995 £000
G J Bull	730,893	70,701	797,646	137	7
J B McGrath	531,274	17,000	697,676	50	54
P E B Cawdron	385,962	16,079	441,168	13	2
G M N Corbett	134,082	2,500	294,368	–	–
J M J Keenan	–	40,000	294,340	–	–
D E Tagg	405,129	21,574	660,471	–	–
P S Walsh	438,328	53,995	1,170,395	22	–
Lord Sheppard (until 29.2.96)	779,809	250,000	984,032	1	7
D P Nash (until 17.10.95)	136,842	15,917	592,191	4	–
R V Giordano	–	2,181	–	–	–
M L Hepher	–	7,208	–	–	–
P J D Job	–	5,185	–	–	–
C F St Mark	–	5,000	–	–	–
Sir David Simon	–	2,271	–	–	–
Prof Dr G Höhler (until 31.12.95)	–	5,000	–	–	–

Shareholder information

Shareholder analysis at 30th September 1996

	Number of holders	Percentage of total holders	Number of shares	Percentage of ordinary share capital
Classification of shareholders:				
Individuals	75,705	73.60	147,061,501	7.00
Nominee companies and other corporate bodies	27,164	26.40	1,952,738,533	93.00
	102,869	100.00	2,099,800,034	100.00
Shareholding range:				
1 – 500	24,228	23.55	5,520,449	0.26
501 – 1,000	22,842	22.20	17,539,010	0.84
1,001 – 5,000	45,495	44.23	99,560,195	4.74
5,001 – 50,000	8,392	8.16	94,319,546	4.49
50,001 – 100,000	515	0.50	37,799,045	1.80
100,001 – 500,000	895	0.87	207,739,375	9.89
500,001 and over	502	0.49	1,637,322,414	77.98
Total	102,869	100.00	2,099,800,034	100.00

Share dividend plan

The company's share dividend plan was again in operation during 1996. During the seven-year life of the plan, a total of 18,020,247 ordinary shares have been allotted and the present number of participants is 17,024.

Where the price per share used to calculate entitlement to new shares ('Share Price') differs substantially from the market value on the first day of dealings in the new shares on the London Stock Exchange ('Opening Value'), the Opening Value will be taken when calculating gross income for UK taxation purposes. The Inland Revenue normally regards a difference of 15% either way as 'substantial'. For both dividends paid during 1996 the Share Price did not differ from the Opening Value by more than 15%.

The following table shows how the UK taxable income relating to the receipt of each new share under the share dividend plan during 1996 is calculated:

	Share Price	Opening Value	Gross income for UK tax purposes
Final dividend 1995 (9th April 1996)	439.0p	418.5p	548.8p*
Interim dividend 1996 (7th October 1996)	469.0p	475.5p	586.3p*

**Gross income for UK tax purposes equals Share Price grossed up for tax rate of 20%.*

Share sub-division

On 15th April 1992, the ordinary shares of 50p each in issue became two shares of 25p each. All entries on the share register were updated but no new share certificates for 25p shares were issued and existing certificates for 50p shares remain valid and represent the increased number of shares.

UK tax on capital gains

A leaflet for UK capital gains purposes, which includes details of the rights, capitalisation issues and the share division which have occurred since 31st March 1982, is available from the GrandMet Information Centre on request. Telephone (0171) 518 5678.

Annual General Meeting

The AGM will be on Tuesday, 4th March 1997 at 11.15 am in the Great Room, Grosvenor House, Park Lane, London W1.

Investor relations

For investor enquiries contact: Grand Metropolitan Public Limited Company, 8 Henrietta Place, London W1M 9AG.

Shareholder information

Recent dividend history

Ordinary shares					ADSs				
Record date	Payment date	Gross dividend	Imputed tax withheld	Net payment	Record date	Payment date	Gross dividend	Foreign tax withheld	Net payment
7 Aug 92	5 Oct 92	6.13p	1.53p	4.60p	7 Aug 92	9 Oct 92	$.42	$.07	$.35
22 Jan 93	13 Apr 93	9.63p	1.93p	7.70p	22 Jan 93	16 Apr 93	$.60	$.09	$.51
6 Aug 93	4 Oct 93	6.06p	1.21p	4 85p	6 Aug 93	8 Oct 93	$.36	$.05	$.31
28 Jan 94	11 Apr 94	10.19p	2.04p	8.15p	28 Jan 94	18 Apr 94	$.60	$.09	$.51
22 Jul 94	3 Oct 94	6.44p	1.29p	5.15p	22 Jul 94	7 Oct 94	$.41	$.06	$.35
26 Jan 95	10 Apr 95	11.00p	2.20p	8.80p	26 Jan 95	14 Apr 95	$.69	$.10	$.59
25 Jul 95	2 Oct 95	6.88p	1.38p	5.50p	25 Jul 95	6 Oct 95	$.43	$.06	$.37
10 Jan 96	9 Apr 96	11.75p	2.35p	9.40p	10 Jan 96	15 Apr 96	$.72	$.11	$.61
30 Jul 96	7 Oct 96	7.31p	1.46p	5.85p	30 Jul 96	11 Oct 96	$.46	$.07	$.39
14 Jan 97	7 Apr 97	12.56p†	2.51p	10.05p†	14 Jan 97	11 Apr 97	$.78†*	$.12	$.66†*

†Proposed dividend

*Using £1 = $1 56 for illustration purposes. The actual rate of exchange used in determining the dollar payment to ADR holders will be the exchange rate on 7th April 1997.

Low-cost share dealing service
This service offered by Hoare Govett allows shareholders to buy and sell GrandMet shares in a simple and low cost manner. For more details contact: Michelle Savin-Jones or Alison Rickman, Hoare Govett Corporate Finance Limited, 4 Broadgate, London EC2M 7LE. Telephone (0171) 601 0101.

Personal equity plans (PEPs)
In 1992, GrandMet introduced a General PEP and a Single Company PEP. Details may be obtained from, and queries directed to: The Plan Manager, Bradford & Bingley (PEPs) Limited, PO Box 1, Taunton Street, Shipley, West Yorkshire BD18 3YR. Telephone (01274) 555700.

Registrar and transfer office
All administrative enquiries relating to shareholdings should, in the first instance, be directed to The GrandMet Registrar and clearly state the registered shareholder's name and address. Please write to: The GrandMet Registrar, 54 Pershore Road South, Kings Norton, Birmingham B30 3EP. Telephone (0121) 433 4344.

ADSs
The company's ADSs (each representing four ordinary shares) are listed on the New York Stock Exchange. The company files reports and other documents with the Securities and Exchange Commission which are available for inspection and copying at the SEC's public reference facilities.

ADS dividends
Qualifying US and Canadian resident ADR holders are entitled to a refund of the 20/80ths UK tax credit attaching to the 1996 interim and proposed final dividends, less a 15% UK withholding tax charge on the sum of the dividend and the tax credit. The share dividend alternative is available to US and Canadian resident ADR holders.

ADR depositary
Morgan Guaranty Trust Company of New York is the depositary for Grand Metropolitan American Depositary Shares. All enquiries concerning ADR records, certificates or transfer of ordinary shares into ADRs should be addressed to: Morgan Guaranty Trust Company of New York – ADR, PO Box 8205, Boston, MA 02266-8205. Telephone (617) 774 4237.

US shareholder services program
All enquiries should be addressed to: Morgan Guaranty Trust Company of New York, GrandMet Shareholder Services program, PO Box 8205, Boston MA 02266-8205. Telephone helpline (free): (800) 428 4237.

Five year summary

based on consolidated financial statements for years ended 30th September

	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m	1996(2) $m
Profit and loss account						
Turnover	7,913	8,120	7,780	8,025	8,974	13,999
Operating profit before exceptionals	941	1,042	1,023	1,032	1,108	1,728
Share of profits of associates	16	24	45	48	47	73
Interest payable (net)	(107)	(155)	(123)	(168)	(190)	(296)
Profit before exceptionals and taxation	850	911	945	912	965	1,505
Exceptional items:						
Sale of businesses and fixed assets	54	(39)	(11)	145	(553)	(863)
Other	–	(247)	(280)	(137)	(24)	(37)
Profit before taxation	904	625	654	920	388	605
Taxation	(293)	(209)	(197)	(284)	(292)	(455)
Profit after taxation	611	416	457	636	96	150
Minority interests	(2)	(6)	(7)	(35)	(46)	(72)
Profit for the financial year	609	410	450	601	50	78
Ordinary dividends	(256)	(269)	(292)	(312)	(334)	(521)
Transferred to reserves	353	141	158	289	(284)	(443)
Earnings per share						
Before exceptional items	28.1p	29.6p	32.2p	29.8p	31.0p	$0.48
After exceptional items	29.9p	19.9p	21.6p	28.8p	2.4p	$0.04
Dividends per ordinary share	12.3p	13.0p	13.95p	14.9p	15.9p	$0.25
Balance sheet						
Intangible fixed assets	2,492	2,924	2,782	3,840	3,884	6,059
Other fixed assets	3,458	3,538	2,793	2,460	2,249	3,508
Other net assets	419	276	171	515	202	315
	6,369	6,738	5,746	6,815	6,335	9,882
Net borrowings	(2,608)	(3,025)	(2,159)	(3,321)	(2,688)	(4,193)
	3,761	3,713	3,587	3,494	3,647	5,689
Capital and reserves	3,733	3,674	3,540	3,103	3,211	5,009
Minority interests	28	39	47	391	436	680
	3,761	3,713	3,587	3,494	3,647	5,689
Cash flow						
Net cash inflow from operating activities	877	1,338	1,195	1,070	1,131	1,764
Interest (net)	(141)	(173)	(121)	(70)	(190)	(296)
Taxation	(217)	(294)	(210)	(260)	(324)	(505)
Capital expenditure (net)	(268)	(234)	(159)	(118)	(239)	(373)
Acquisition and disposal provision payments	(164)	(127)	(63)	(50)	(36)	(56)
Net disposals/(acquisitions)	260	(19)	218	(1,489)	568	886
Ordinary dividends paid	(218)	(244)	(251)	(280)	(298)	(465)
Net cash flow before financing	129	247	609	(1,197)	612	955
Free cash flow	87	510	642	501	420	655

Notes:

(1) Prior year figures have been restated to reflect subsequent changes in accounting policies.

(2) For the convenience of US readers, the 1996 figures have been translated to US dollars at the rate of £1 = $1.56 (the rate on 30th September 1996).