

**Grand Metropolitan Estates Limited**

**FINANCIAL STATEMENTS**

**30 JUNE 2001**

**Company Registration No. 367551**



## **DIRECTORS' REPORT**

The directors have pleasure in submitting their annual report, together with the audited financial statements, for the year ended 30 June 2001.

### **Activities**

The principal activity of the company was the holding and management of property interests for the Diageo group in the United Kingdom. The directors foresee no changes in the company's activities.

### **Euro**

The directors do not anticipate that there will be any implications on the activities of the company as a result of the introduction of the euro. There are no costs associated with the introduction of the euro for Grand Metropolitan Estates Limited. A statement explaining the impact of the introduction of the euro, and the programme put in place to deal with this along with associated costs, for the Diageo group is disclosed in the annual report of the ultimate parent undertaking, Diageo plc.

### **Financial**

The results for the year ended 30 June 2001 are shown on page 6. The directors do not recommend the payment of a dividend (2000 -£nil).

The profit for the year retained in the company is £18,574,000 (2000 -loss of £13,090,000 transferred from reserves)

### **Directors**

The directors who served during the year were as follows:

P S Binning	
S M Bunn	
D C Carter	
R H Myddelton	
J J Corbett	(resigned 10 November 2000)
M D Peters	(resigned 10 November 2000)

### **Emoluments**

The emoluments of the directors are detailed in note 4 of these financial statements.

### **Directors' interests**

No directors 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. The directors who held office at the end of the financial year had the following

# **DIRECTORS' REPORT (continued)**

beneficial interests in ordinary shares of 28 <sup>101</sup>/<sub>100</sub> pence of the ultimate parent company, Diageo plc:-

## **(i) Ordinary shares and conditional rights to ordinary shares**

	Ordinary shares		Conditional rights to ordinary shares				
	At beginning of year	At end of year	At beginning of year	Granted in year	Vested in year	Lapsed in year	At end of year
P S Binning	14,381	21,099	63,693	13,937	(12,601)	(4,279)	60,750
S M Bunn	682	1,790	4,650	0	(1,374)	(876)	2,400
D C Carter	2,839	5,847	14,100	0	(5,758)	(4,092)	4,250
R H Myddelton	22,780	33,411	51,412	6,919	(21,443)	(7,206)	29,682

The directors were granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under certain long term incentive plans. The conditional rights to ordinary shares are subject to share performance criteria of Diageo plc ordinary shares. Full details of the performance criteria are disclosed in the annual report of the ultimate holding company, Diageo plc.

## **(ii) Options**

	At beginning of year	Granted in year	Exercised in year	At end of year
P S Binning	45,144	68,526	(1,098)	112,572
S M Bunn	8,076	9,824	(1,098)	16,802
D C Carter	70,545	9,729	0	80,274
R H Myddelton	236,208	30,829	(122,139)	144,898

The directors held the above options under Diageo plc share option schemes at prices between 402p and 710p per ordinary share exercisable between 13 September 2010 and 13 March 2011. The options are granted at market value on the date the option is granted and the option price is payable when the option is exercised.

Options granted under the Senior Executive Share Option Plan ('SESOP') may not normally be exercised unless a performance condition is satisfied. The performance condition applicable to the first grant of options under the SESOP is linked to the increase in earnings per share and is initially applied over the three year period commencing on the date the options are granted. Full details of the performance condition are disclosed in the annual report of the ultimate holding company, Diageo plc.

## **DIRECTORS' REPORT (continued)**

The mid-market share price of Diageo plc shares fluctuated between 560p and 792p during the year. The mid-market share price on 30 June 2001 was 780p.

At 30 June 2001, P S Binning and D C Carter had an interest in 154,100 shares and 2,017,451 shares subject to call options, and R H Myddelton had an interest in 46,480 shares and 2,077,419 shares subject to call options, held by trusts to satisfy grants made under ex-Grandmet incentive plans. Also at that date all the directors had an interest in 9,831,421 shares (and P S Binning, S M Bunn and D C Carter each had an additional interest in 10,484,114 shares and 4,074,020 shares subject to call options) held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes.

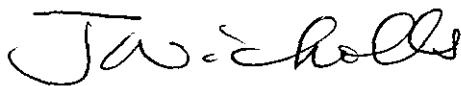
### **Secretary**

S M Bunn resigned as Secretary on 15 March 2002 and was replaced by J Nicholls.

### **Auditors**

The company has taken advantage of section 386(1) of the Companies Act 1985, as amended, to dispense with the obligation to appoint auditors annually. The auditors, KPMG Audit Plc, are willing to continue in office and will be deemed to be re-appointed on the expiry of their term in office in respect of the year ended 30 June 2001.

By order of the board



J Nicholls  
Secretary

8 Henrietta Place, London, W1G 0NB  
26 April 2002

**DIRECTORS' RESPONSIBILITIES  
IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS**

The following statement, which should be read in conjunction with the report of the auditors, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors 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 at the end of the financial year and of the profit or loss of the company for the financial year.

The directors, in preparing the financial statements, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards they consider to be applicable have been followed, and that it is appropriate to prepare the financial statements on the going concern basis.

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 that are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**REPORT OF THE INDEPENDENT AUDITORS  
TO THE MEMBERS OF GRAND METROPOLITAN ESTATES LIMITED**

We have audited the financial statements on pages 6 to 15.

**Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for an audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

**Basis of audit 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 company'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 the company's affairs as at 30 June 2001 and of its profit 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

26 April 2002

**PROFIT AND LOSS ACCOUNT**

	Notes	Year ended 30 June 2001 £000	Year ended 30 June 2000 £000
<b>Turnover</b>	1	8,079	8,139
Operating costs (including exceptional costs of £3,535,000 (2000 -£21,645,000))	2-4	(12,411)	(35,199)
<b>Operating loss</b>		<u>(4,332)</u>	<u>(27,060)</u>
Profit on disposal of fixed assets	5	213	83
Interest receivable	6	<u>20,863</u>	<u>16,269</u>
<b>Profit / (loss) on ordinary activities before taxation</b>	1	<b>16,744</b>	<b>(10,708)</b>
Tax on profit on ordinary activities	7	<u>1,830</u>	<u>(2,382)</u>
<b>Transferred to / (from) reserves</b>	15	<u><b>18,574</b></u>	<u><b>(13,090)</b></u>

The notes on pages 9 to 15 form part of these financial statements.

There are no recognised gains or losses other than the result for the year and consequently a statement of total recognised gains and losses has not been presented as part of the financial statements.

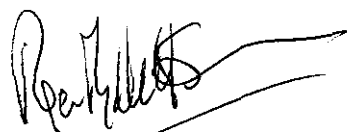
There is no difference between the result for the year shown in the profit and loss account and the result for the relevant years restated on an historical cost basis.

**BALANCE SHEET**

	Notes	<u>30 June 2001</u> £000	<u>30 June 2000</u> £000
<b>Fixed assets</b>			
Tangible assets	8	5,646	6,983
Investments	9	<u>680</u>	<u>680</u>
		6,326	7,663
<b>Current assets</b>			
Debtors - due after one year	10	4,638	4,638
Debtors - due within one year	10	1,007,208	1,187,814
Cash at bank and in hand	11	<u>22,408</u>	<u>14,547</u>
		<u>1,034,254</u>	<u>1,206,999</u>
<b>Creditors - due within one year</b>			
Other creditors	12	<u>(951,821)</u>	<u>(1,142,605)</u>
		<u>(951,821)</u>	<u>(1,142,605)</u>
<b>Net current assets</b>		<u>82,433</u>	<u>64,394</u>
<b>Total assets less current liabilities</b>		<u>88,759</u>	<u>72,057</u>
<b>Provisions for liabilities and charges</b>	13	(33,746)	(35,618)
		<u>55,013</u>	<u>36,439</u>
<b>Capital and reserves</b>			
Called up share capital	14	2	2
Other reserve	15	41	41
Profit and loss account	15	<u>54,970</u>	<u>36,396</u>
Reserves attributable to equity shareholders		55,011	36,437
<b>Shareholders' funds</b>		<u>55,013</u>	<u>36,439</u>

The notes on pages 9 to 15 form part of these financial statements.

The financial statements on pages 6 to 15 were approved by the board of directors on 26 April 2002 and signed on its behalf by:



RH Myddelton  
Director



## **ACCOUNTING POLICIES**

### **Basis of preparation**

The financial statements are prepared under the historical cost convention and comply with applicable UK accounting standards.

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996). The company is also exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions (but not balances) with entities that are part of the Diageo plc group or investees of the Diageo plc group.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

### **Tangible fixed assets**

Fixed assets are stated at cost less depreciation and provisions. Freehold land is not depreciated. Leaseholds are depreciated over the unexpired period of the lease. The profit or loss on sale of a property is the difference between the disposal proceeds and the net book value.

### **Fixed asset investments**

Income from fixed asset investments, is credited to the profit and loss account when it is declared by the paying company. Investments are stated individually at cost less, where appropriate, provision for diminution in values where such diminution is expected by the directors to be permanent.

### **Leases**

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

### **Turnover**

Turnover represents the net invoice value of goods and services to third parties. It comprises rents and excludes value added tax.

### **Pensions and other post employment benefits**

The employees of the company are members of a group scheme managed by Diageo plc. 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 pension or other plans are treated as assets or liabilities in the balance sheet. Particulars of the valuations of the group schemes are contained in the financial statements of Diageo plc.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Analysis of turnover and profit before taxation

The turnover and profit on ordinary activities before taxation are attributable to one class of business, that of property management, all of which is carried out in the United Kingdom.

### 2. Operating costs

	Year ended 30 June 2001 £000	Year ended 30 June 2000 £000
Operating lease rentals	5,361	9,605
Staff costs	343	257
Depreciation of tangible fixed assets	51	50
Other operating costs	3,121	3,642
Exceptional costs	<u>3,535</u>	<u>21,645</u>
	<u>12,411</u>	<u>35,199</u>

Total operating costs include irrecoverable VAT of £225,000 (2000 - £121,000). Auditors' remuneration was paid on behalf of the company by a group undertaking.

The exceptional costs included in the operating loss for the year ended 30 June 2001 represent the reduction in the holding value of a property to its net realisable value and a write-off of a subsidiary balance which is no longer considered recoverable. The exceptional costs included in the operating loss for the year ended 30 June 2000 represent an increase in the provision for the estimated discounted rental shortfall in respect of vacant properties.

### 3. Staff costs

The average number of employees, including directors, during the year was:

	Year ended 30 June 2001	Year ended 30 June 2000
Full time	<u>4</u>	<u>3</u>

The aggregate remuneration of all employees comprised:

	Year ended 30 June 2001 £000	Year ended 30 June 2000 £000
Wages and salaries	304	229
Employer's social security costs	<u>39</u>	<u>28</u>
	<u>343</u>	<u>257</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**4. Directors' emoluments**

	<u>Year ended</u> <u>30 June 2001</u> £000	<u>Year ended</u> <u>30 June 2000</u> £000
Emoluments (including pension contributions)	<u>209</u>	<u>170</u>

Only one director received emoluments for their services to the company during the year.

All of the directors are members of the Diageo plc UK group pension fund which is a defined benefit scheme. The fund has a substantial surplus and during the year no company contributions were made to it.

	<u>Year ended</u> <u>30 June 2001</u>	<u>Year ended</u> <u>30 June 2000</u>
Number of directors who exercised share options	3	3
Number of directors who were granted share options	4	6
Number of directors in respect of whose services shares were received or receivable under long term incentive schemes	2	-

Details of the directors' share interests are included in the directors' report on pages 1 to 3.

**5. Disposal of fixed assets**

	<u>Year ended</u> <u>30 June 2001</u> £000	<u>Year ended</u> <u>30 June 2000</u> £000
Profit on sale of properties	<u>213</u>	<u>83</u>

The tax charge on property profits amounted to £nil (2000 -£nil).

**6. Interest receivable (net)**

	<u>Year ended</u> <u>30 June 2001</u> £000	<u>Year ended</u> <u>30 June 2000</u> £000
On cash at bank	1,179	186
Loans to group undertakings	<u>20,874</u>	<u>16,083</u>
	22,053	16,269
Less: Interest charge on vacant property provision	<u>(1,190)</u>	-
	<u>20,863</u>	<u>16,269</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**7. Tax on profit / (loss) on ordinary activities**

	<u>Year ended</u> <u>30 June 2001</u> £000	<u>Year ended</u> <u>30 June 2000</u> £000
Deferred taxation	(332)	(790)
Overseas corporate taxation	-	(276)
Adjustment to prior periods tax	<u>2,162</u>	<u>(1,316)</u>
	<u>1,830</u>	<u>(2,382)</u>

Companies in the Diageo plc group generally apply group relief rules in administering their taxation positions. Group relief is effected for nil consideration. As a consequence the company has neither a current tax charge nor a credit for the years ended 30 June 2001 and 2000. The prior year adjustment principally results from a reassessment of group relief in respect of earlier periods.

**8. Fixed tangible assets**

	<u>Land and</u> <u>buildings</u> £000
<b>Cost:</b>	
At 30 June 2001 and 2000	7,547
<b>Depreciation:</b>	
At 30 June 2000	564
Provided during the year	51
Writedown of freehold property	<u>1,286</u>
At 30 June 2001	<u>1,901</u>
<b>Net book value:</b>	
At 30 June 2001	<u>5,646</u>
At 30 June 2000	<u>6,983</u>

The net book value of land and buildings comprises:

	<u>30 June 2001</u> £000	<u>30 June 2000</u> £000
Freehold	4,671	5,958
Long leasehold	675	675
Short leasehold	<u>300</u>	<u>350</u>
	<u>5,646</u>	<u>6,983</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**9. Fixed assets - investments**

The principal subsidiary and associated undertakings and the percentage of equity owned are as follows:

<u>Subsidiary undertakings</u>	<u>Country of incorporation</u>	<u>Principal activity</u>	<u>Class and percentage of shares held</u>
Grand Metropolitan Estate Holdings Limited	England & Wales	Investment holding company	100 % ordinary shares
Grand Metropolitan Estates (Developments) Limited	England & Wales	Property development	100 % ordinary shares
Grand Metropolitan Gibraltar Limited	Gibraltar	Non Trading	100 % ordinary shares
GMEI Property Management Limited	England & Wales	Dormant	100 % ordinary shares
Grand Metropolitan Estates Property Management Services Limited	England & Wales	Dormant	100 % ordinary shares
<u>Associated undertakings</u>			
Trafalgar Metropolitan Homes Limited	England & Wales	Property development	50 % ordinary shares
Phoenix Inns Management Limited	England & Wales	Property management	50 % ordinary shares

The investments in subsidiary and associated undertakings are held at cost. In the opinion of the directors, the investment in and amounts due from the company's subsidiary undertakings are worth at least the amount at which they are stated in the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**10. Debtors**

	<u>30 June 2001</u>		<u>30 June 2000</u>	
	Due within one year £000	Due after one year £000	Due within one year £000	Due after one year £000
Trade debtors	1,563	-	1,418	-
Amounts owed by holding and fellow subsidiary undertakings	996,145	-	1,180,604	-
Amounts owed by subsidiary undertakings	-	-	2,249	-
Corporate taxation	5,021	-	-	-
Other debtors	402	-	125	-
Pension prepayment	-	4,638	-	4,638
Other prepayments and accrued income	4,077	-	3,418	-
	<u>1,007,208</u>	<u>4,638</u>	<u>1,187,814</u>	<u>4,638</u>

**11. Cash at bank and in hand**

The company has entered into a joint and several guarantee with certain other Diageo plc UK subsidiary undertakings such that any balance on the company's bank accounts within the cashpool may be offset against the bank balances or overdrafts of those companies included in the cashpool.

**12. Other creditors – due within one year**

	<u>30 June 2001</u> £000	<u>30 June 2000</u> £000
Amounts owed to holding and fellow subsidiary undertakings	930,214	1,116,179
Amounts owed to subsidiary undertakings	14,844	13,701
Corporate taxation	-	5,982
Deferred taxation	604	272
Other creditors	26	85
Accruals and deferred income	6,133	6,386
	<u>951,821</u>	<u>1,142,605</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**13. Provisions for liabilities and charges**

	<b>Disposal provisions £000</b>	<b>Other provisions £000</b>	<b>Total provisions £000</b>
At 30 June 2000	1,279	34,339	35,618
Utilised	(7)	(4,264)	(4,271)
Profit and loss account charge	-	2,399	2,399
At 30 June 2001	<u>1,272</u>	<u>32,474</u>	<u>33,746</u>

Other provisions include £30,785,000 for the estimated discounted rental shortfall in respect of vacant properties.

**14. Share capital**

	<b>30 June 2001 £</b>	<b>30 June 2000 £</b>
<b>Authorised, allotted, called up and fully paid</b>		
Equity - 1,200 ordinary shares of £1 each	1,200	1,200
Non-equity - 1,200 7 % cumulative preference shares of £1 each	1,200	1,200
	<u>2,400</u>	<u>2,400</u>

**15. Reserves**

	<b>Other reserve £000</b>	<b>Profit and loss account £000</b>	<b>Total £000</b>
At 30 June 2000	41	36,396	36,437
Retained profit for year	-	18,574	18,574
At 30 June 2001	<u>41</u>	<u>54,970</u>	<u>55,011</u>

**16. Reconciliation of movements in shareholders funds**

	<b>30 June 2001 £000</b>	<b>30 June 2000 £000</b>
Profit / (loss) for the year	18,574	(13,090)
Shareholders funds at the beginning of the year	<u>36,439</u>	<u>49,529</u>
Shareholders funds at the end of the year	<u>55,013</u>	<u>36,439</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**17. Commitments**

At 30 June 2001, the company had minimum annual commitments under non-cancellable operating leases as follows:

	<u>30 June 2001</u>	<u>30 June 2000</u>
	Land and buildings	Land and buildings
	£000	£000
<i>Operating leases which expire:</i>		
After five years	8,311	8,563
From one to five years	91	642
Within one year	-	32
	<u>8,402</u>	<u>9,237</u>

**18. Immediate and ultimate parent undertaking**

The immediate parent undertaking is Grand Metropolitan Public Limited Company, a company incorporated and registered in England.

The ultimate parent undertaking of the company is Diageo plc, a company incorporated and registered in England. The consolidated financial statements of Diageo plc for the year ended 30 June 2001, can be obtained from the Registered Office at 8 Henrietta Place, London W1G 0NB.