

**Grand Metropolitan Estates Limited**

**FINANCIAL STATEMENTS**

**30 JUNE 2000**

**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 2000.

### **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 on 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 shown on page 7 are for the year ended 30 June 2000.

No dividends were declared for the year (1999 -£145,000,000).

### **Directors**

The directors who served during the year were as follows:

P S Binning  
S M Bunn  
D C Carter  
J J Corbett  
R H Myddelton  
M D Peters

Subsequent to year end, J J Corbett and M D Peters resigned as directors on 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.

# **DIRECTORS' REPORT (continued)**

The directors who held office at the end of the financial year had the following beneficial interests in ordinary shares of 28 <sup>101</sup>/<sub>108</sub> pence of the ultimate parent company Diageo plc:-

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

	<u>Ordinary shares</u>		<u>Conditional rights to ordinary shares</u>				
	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	6,720	14,381	30,200	38,113	5,880	(4,620)	63,693
S M Bunn	2,061	682	4,650	0	0	0	4,650
D C Carter	0	2,389	14,100	0	(2,856)	(2,244)	9,000
J J Corbett	3,859	3,121	7,250	0	(2,800)	(2,200)	2,250
R H Myddelton	19,519	22,780	53,449	5,919	10,125	(7,956)	51,412
M D Peters	4,744	6,957	4,650	0	0	0	4,650

The directors were granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under certain long term incentive plans (The Grand Metropolitan Restricted Share Plan ('GrandMet RSP'), the Share Incentive Plan and the Total Shareholder Return Plan ('TSR')). The GrandMet RSP vested during the year and the directors received 56% of their conditional rights to ordinary shares. P S Binning and R H Myddelton did not have their shares released until September 2000, these are shown under the "vested in year" column above. 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	<u>Exercised</u>	
					Option price (pence)	Market price (pence)
P S Binning	4,121	41,023	0	45,144	-	-
S M Bunn	4,021	5,032	(977)	8,076	353	635
D C Carter	59,500	11,045	0	70,545	-	-
J J Corbett	59,803	3,978	0	63,781	-	-
R H Myddelton	204,354	33,808	(1,954)	236,208	353	635
M D Peters	12,730	5,824	(961) (550)	17,043	359 354	438

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

The directors held the above options under Diageo plc share option schemes at prices between 314p and 518p per ordinary share exercisable by 2009. 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.

The mid-market share price of Diageo plc shares fluctuated between 384p and 696.5p during the year. The mid-market share price on 30 June 2000 was 593p.

At 30 June 2000, P S Binning, D C Carter, J J Corbett and R H Myddelton had an interest in 159,475 shares and 8,551,299 shares subject to call options held by trusts to satisfy grants made under ex-Grandmet incentive plans; and the directors had an interest in 22,068,050 shares and 2,296,087 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes.

A new Diageo plc Senior Executive Share Option Plan ('SESOP') was introduced with effect from 1 January 2000. The combined benefits provided under the TSR and the SESOP are expected to be the same as those previously provided under the TSR. Options granted under the 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 parent company, Diageo plc.

Options granted during the year for P S Binning and R H Myddelton are principally options granted under SESOP, which are subject to performance conditions, as detailed above.

### **Secretary**

M D Peters resigned as Secretary on 10 November 2000 and S M Bunn was appointed in his stead.



S M Bunn  
Secretary

8 Henrietta Place, London, W1G 0NB  
25 April 2001

**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 auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company at the end of the financial period and of the result of the company for the financial period.

The directors, in preparing the financial statements on pages 6 to 16 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 AUDITORS  
TO THE MEMBERS OF GRAND METROPOLITAN ESTATES LIMITED**

We have audited the financial statements on pages 6 to 16.

**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. 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 our 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 2000 and of its loss 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  
26 April 2001  
London

## **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 exception 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.

### **Tangible fixed assets**

Fixed assets are stated at cost less depreciation and provisions.

The profit or loss on sale of a property is the difference between the disposal proceeds and the net book value.

No depreciation is provided on freehold land. Leaseholds are depreciated over the unexpired period of the lease.

### **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.

### **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.

### **Turnover**

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

### **Post employment benefits**

The majority of employees of the company are members of a group pension scheme operated by Diageo plc. The scheme is of the defined benefit type funded by payments to trustee administered funds. The cost of providing pensions and other post employment benefits is charged against profits on a systematic basis, with pension surpluses and deficits allocated on a straight line basis 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. Particulars of the valuations of the group schemes are contained in the financial statements of Diageo plc.

**PROFIT AND LOSS ACCOUNT**

	Notes	Year ended 30 June 2000 £000	Year ended 30 June 1999 £000
Turnover	1	8,139	6,636
Operating costs (including exceptional item of £21,645,000 (1999 - £nil))	2-4	(35,199)	(10,663)
<b>Operating loss</b>		<b>(27,060)</b>	<b>(4,027)</b>
Profit on disposal of fixed assets	5	83	50
Interest receivable	6	16,269	70,388
<b>(Loss) / profit on ordinary activities before taxation</b>	1	<b>(10,708)</b>	<b>66,411</b>
Tax on profit on ordinary activities	7	(2,382)	(19,109)
<b>(Loss) / profit on ordinary activities after taxation</b>		<b>(13,090)</b>	<b>47,302</b>
Dividend		-	(145,000)
<b>Transferred from reserves</b>	15	<b>(13,090)</b>	<b>(97,698)</b>

The notes on pages 10 to 16 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 and the historical result for the year and consequently no note of the historical cost result has been presented as part of the financial statements.




**BALANCE SHEET**

	Notes	<u>30 June 2000</u> £000	<u>30 June 1999</u> £000
<b>Fixed assets</b>			
Tangible assets	8	6,983	9,088
Investments	9	680	680
		<u>7,663</u>	<u>9,768</u>
<b>Current assets</b>			
Debtors - due after one year	10	4,638	4,638
Debtors - due within one year	10	1,187,814	1,142,366
Cash at bank and in hand	11	14,547	893
		<u>1,206,999</u>	<u>1,147,897</u>
<b>Creditors - due within one year</b>			
Other creditors	12	(1,142,605)	(1,095,726)
		<u>(1,142,605)</u>	<u>(1,095,726)</u>
<b>Net current assets</b>		<u>64,394</u>	<u>52,171</u>
<b>Total assets less current liabilities</b>		72,057	61,939
<b>Provisions for liabilities and charges</b>	13	(35,618)	(12,410)
		<u>36,439</u>	<u>49,529</u>
<b>Capital and reserves</b>			
Called up share capital	14	2	2
Other reserve	15	41	41
Profit and loss account	15	36,396	49,486
Reserves attributable to equity shareholders		36,437	49,527
<b>Shareholders' funds</b>		<u>36,439</u>	<u>49,529</u>

The notes on pages 10 to 16 form part of these financial statements.

The financial statements on pages 6 to 16 were approved by the board of directors on 25 April 2001 and signed on its behalf by:

  
R H Myddelton  
Director

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<b>Year ended 30 June 2000 £000</b>	<b>Year ended 30 June 1999 £000</b>
(Loss) / profit for the year	(13,090)	47,302
Ordinary dividend	-	(145,000)
	<hr/>	<hr/>
Net decrease to shareholders' funds	(13,090)	(97,698)
Shareholders' funds at beginning of the year	49,529	147,227
	<hr/>	<hr/>
Shareholders' funds at end of the year	<u>36,439</u>	<u>49,529</u>

## 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 the one activity, that of property management, all of which is carried out in the United Kingdom.

### 2. Operating costs

	Year ended 30 June 2000 £000	Year ended 30 June 1999 £000
Operating lease rentals	9,605	7,966
Staff costs	257	337
Depreciation of tangible fixed assets	50	43
Other operating costs	3,642	2,317
Exceptional item	21,645	-
	<u>35,199</u>	<u>10,663</u>

Total operating costs include irrecoverable VAT of £121,000 (1999 - £271,000). Auditors' remuneration was paid on behalf of the company by a group undertaking.

The exceptional item included in the operating loss for the year ended 30 June 2000 represents 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 2000	Year ended 30 June 1999
Full time	<u>3</u>	<u>3</u>

The aggregate remuneration of all employees comprised:

	Year ended 30 June 2000 £000	Year ended 30 June 1999 £000
Wages and salaries	229	308
Employer's social security costs	28	29
	<u>257</u>	<u>337</u>

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

**4. Directors' emoluments**

	<u>Year ended</u> <u>30 June 2000</u> £000	<u>Year ended</u> <u>30 June 1999</u> £000
Emoluments (including pension contributions)	<u>170</u>	<u>168</u>

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

All of the directors are members of the UK Diageo Group Pension Fund which is a defined benefit scheme. The Fund has a substantial surplus and during the period no company contributions were made to it.

	<u>Year ended</u> <u>30 June 2000</u>	<u>Year ended</u> <u>30 June 1999</u>
Number of directors who exercised share options	3	5
Number of directors who were granted share options	6	3
Number of directors in respect of whose services shares were received or receivable under long term incentive schemes	-	5

Further information on share interests is included in the directors' report on page 2.

**5. Disposal of fixed assets**

	<u>Year ended</u> <u>30 June 2000</u> £000	<u>Year ended</u> <u>30 June 1999</u> £000
Profit on sale of properties	<u>83</u>	<u>50</u>

The tax charge on property profits amounted to £nil (1999 -£nil).

**6. Interest receivable**

	<u>Year ended</u> <u>30 June 2000</u> £000	<u>Year ended</u> <u>30 June 1999</u> £000
On cash at bank	186	67
Loans to group undertakings	<u>16,083</u> <u>16,269</u>	<u>70,321</u> <u>70,388</u>

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

**7. Tax on profit on ordinary activities**

	<u>Year ended</u> <u>30 June 2000</u> £000	<u>Year ended</u> <u>30 June 1999</u> £000
UK corporation tax payable at 30% (30.75%) on the profits of the year	-	20,018
Deferred taxation	790	(1,018)
Overseas corporate taxation	276	-
Adjustment to prior years tax	1,316	109
	<u>2,382</u>	<u>19,109</u>

Companies in the Diageo plc group generally apply group relief rules in administering their taxation positions. From 1 July 1999 the company has agreed to change its policy from paying/charging for group relief so that group relief is effected for nil consideration. As a consequence the company has neither a current tax charge nor a credit for the year ended 30 June 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 or valuation:</b>	
At 30 June 1999	9,629
Disposals	(2,082)
At 30 June 2000	<u>7,547</u>
<b>Depreciation:</b>	
At 30 June 1999	(541)
Provided during the year	(50)
Depreciation on disposals	27
At 30 June 2000	<u>(564)</u>
<b>Net book value:</b>	
At 30 June 2000	<u>6,983</u>
At 30 June 1999	<u>9,088</u>

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

(i) The net book value of land and buildings comprises:

	<u>30 June 2000</u> £000	<u>30 June 1999</u> £000
Freehold	5,958	7,533
Long leasehold	675	1,156
Short leasehold	350	399
	<u>6,983</u>	<u>9,088</u>

**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 Estates 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	England & Wales	Investment holding company	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 Ltd 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)

In accordance with Financial Reporting Standard No 8 'Related Party Transactions' the company is exempt from disclosing details of arrangements with other companies in the Diageo group.

### 10. Debtors

	30 June 2000		30 June 1999	
	Due within one year £000	Due after one year £000	Due within one year £000	Due after one year £000
Trade debtors	1,418	-	964	-
Amounts owed by holding and fellow subsidiary undertakings	1,180,604	-	1,134,767	-
Amounts owed by subsidiary undertakings	2,249	-	1,569	-
Group relief due from holding company	-	-	749	-
Deferred taxation	-	-	518	-
Other debtors	125	-	116	-
Pension prepayments	-	4,638	-	4,638
Other prepayments and accrued income	3,418	-	3,683	-
	<u>1,187,814</u>	<u>4,638</u>	<u>1,142,366</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

	30 June 2000 £000	30 June 1999 £000
Amounts owed to fellow subsidiary undertakings	1,116,179	1,078,174
Amounts owed to subsidiary undertakings	13,701	13,682
Corporate taxation	5,982	-
Deferred taxation	272	-
Other creditors	85	577
Accruals and deferred income	6,386	3,293
	<u>1,142,605</u>	<u>1,095,726</u>

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

**13. Provisions for liabilities and charges**

	<u>Disposal provisions</u> £000	<u>Other provisions</u> £000	<u>Total provisions</u> £000
At 30 June 1999	1,089	11,321	12,410
Utilised	(77)	(334)	(411)
Transfers and reclassifications	267	1,707	1,974
Profit and loss account charge	-	21,645	21,645
At 30 June 2000	<u>1,279</u>	<u>34,339</u>	<u>35,618</u>

Other provisions include £32,851,000 for the estimated discounted rental shortfall in respect of vacant properties.

**14. Share capital**

	<u>30 June 2000</u> £	<u>30 June 1999</u> £
<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. Movements in shareholders' funds**

	<u>Other reserve</u> £000	<u>Profit and loss account</u> £000	<u>Total</u> £000
At 30 June 1999	41	49,486	49,527
Retained loss for year	-	(13,090)	(13,090)
At 30 June 2000	<u>41</u>	<u>36,396</u>	<u>36,437</u>



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

**16. Commitments**

At 30 June 2000, the company had minimum annual commitments under non-cancellable operating leases as follows:

	<u>30 June 2000</u>	<u>30 June 1999</u>
	Land and buildings £000	Land and buildings £000
<i>Operating leases</i>		
<i>which expire:</i>		
After five years	8,563	7,589
From one to five years	642	675
Within one year	32	317
	<u>9,237</u>	<u>8,581</u>

**17. Immediate and ultimate parent undertaking**

The company's immediate holding company is Grand Metropolitan Public Limited Company, a company incorporated and registered in England. The company's ultimate parent company is Diageo plc, a company incorporated and registered in England.

The consolidated financial statements of Diageo plc, can be obtained from the Registered Office at 8 Henrietta Place, London W1G 0NB.