

AMENDED.

**GRAND METROPOLITAN INTERNATIONAL HOLDINGS LIMITED**

**Registered in England No. 970624**

**FINANCIAL STATEMENTS**

**30 SEPTEMBER 1999**



## **DIRECTORS' REPORT**

The directors have pleasure in submitting their annual report, together with the audited financial statements, for the year ended 30 September 1999.

### **Activities**

The company is an investment holding company. The directors foresee no material changes in the nature of the company's activities.

### **Year 2000 and euro**

The directors do not anticipate that there will be any implications on the activities of the company from the Year 2000 or the introduction of the euro. No issues have arisen since 1 January 2000.

The cost of managing the Year 2000 problem and the introduction of the euro for Grand Metropolitan International Holdings Limited has not been identified separately, but is included within the overall programme cost shown in the annual report of the ultimate parent undertaking, Diageo plc.

### **Re-issue of financial statements for the year ended 30 September 1999**

The statutory accounts for the year ended 30 September 1999 were initially issued with the omission of the interest charges, amounting to £27 million, relating to the £1.7 billion loan from group companies. The error was noted only after the accounts had been approved and filed with Companies House.

In order to rectify the errors in the financial statements, the company has opted to re-issue the accounts for the financial year ended 30 September 1999 after making the necessary adjustments for the omission of interest.

### **Financial**

The results for the year shown on page 7 are for the year from 1 October 1998 to 30 September 1999.

The directors do not recommend the payment of a final dividend (1998 - £118,800,000). An interim dividend of £163,000,000 (1998 - £119,000,000) was paid on 30 June 1999. After deducting the total ordinary dividends of £163,000,000 (1998 - £237,800,000 ) the loss transferred from reserves is £50,772,935 (1998 - loss of £119,000,000).

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

### **Directors**

The directors who served during the period were as follows:-

P K Bentley  
R H Myddelton  
M D Peters  
D E Tagg (resigned 31 July 1998)

Subsequent to the year end, P K Bentley resigned on 30 June 2000 and I S Cray was appointed in his stead; M D Peters resigned on 10 November 2000 and SM Bunn was appointed in his stead; and I S Cray resigned on 12 January 2001 and R J Moore was appointed in his stead on 15 January 2001.

### **Emoluments**

None of the directors received any remuneration during the period in respect of their services as directors of the company (1998 - £nil).

### **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 period in any significant contract with the company or any subsidiary.

The directors who held office at the end of the financial period had the following beneficial interests in the shares of the ultimate parent company, Diageo plc:-

### **Shares and awards over ordinary shares**

	Ordinary shares of 28 101/108p (1)	Ordinary shares of 28 101/108p (1)	RSP Awards (2)	Diageo LTIP (3)	Diageo LTIP (3)
	1.10.98	30.9.99	30.9.99	Performance cycle commencing 1.1.98	1.1.99
P K Bentley	-	10,000	15,625	25,000	22,630
R H Myddelton	20,049	21,473	18,081	18,524	16,844
M D Peters	3,693	4,744	-	2,250	2,400

### **Options**

	1.10.98	Granted during period	Exercised during period	30.9.99
P K Bentley	27,138	-	-	27,138
R H Myddelton	207,522	-	5,122	202,400
M D Peters	13,348	433	1,051	12,730

The directors held the above options under Grand Metropolitan PLC and Diageo plc share option schemes at prices between 314p and 494p per share exercisable by 2007. No options lapsed during the year.

**Notes (continued):**

The mid-market share price of Diageo plc shares fluctuated between 741.5p and 527.5p per share during the year. The mid-market share price on 30 September 1999 was 620.5p.

At 30 September 1999 the directors had an interest in 9,236,144 shares and 9,076,653 shares subject to call options held by trusts to satisfy grants made under ex-GrandMet incentive plans, ex-Guinness incentive plans and Diageo incentive plans and savings-related share option schemes.

**Notes:**

**(1) Ordinary Shares**

Interests in ordinary shares at 1 October 1998, or date of appointment where applicable, include B shares converted at a rate of 70.993915 ordinary shares to every 100 B shares, although the conversion actually occurred on 1 August 1998.

**(2) The Grand Metropolitan Restricted Share Plan (RSP)**

Awards over shares were granted to senior executives, with eventual transfer dependent on the performance of total shareholder return (TSR) against a comparator group of companies at the end of three years after the date of grant. The awards are now dependent upon the performance of Diageo's TSR against the comparator group of companies.

Notes (continued):

(3) **The Diageo LTIP (LTIP)**

Under the Diageo LTIP, approved in August 1998, eligible senior executives are granted a conditional right to receive shares or, exceptionally, a cash sum. The rights vest after the end of a three year period following the date of grant (the "performance cycle") provided a performance test is achieved and subject to the discretion of the trustees who operate the LTIP. The performance test is a comparison of the annualised percentage growth in Diageo's share price (assuming all dividends and capital distributions are re-invested) known as total shareholder return (TSR) with the TSRs of a defined peer group of 20 companies over a three year period. The remuneration committee will not recommend the release of awards if there has not been an underlying improvement in the financial performance of Diageo. The first LTIP performance cycle runs from 1 January 1998 to 31 December 2000 and the second from 1 January 1999 to 31 December 2001. Awards of shares will be released, subject to the performance test and the discretion of the trustees, in March 2001 and March 2002 respectively. The number of awards shown will only be released if Diageo reaches position five within the peer group (upper quartile). At position four 125% of the original awards will vest and, at position three or above, 150%. At position ten (median position), 50% of the awards will vest. Between median and upper quartile, vesting will be calculated on a straight line basis. Awards will lapse if Diageo does not reach position ten.

By order of the board



S M Bunn  
Secretary  
8 Henrietta Place  
London  
W1G 0NB

30 July 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 auditor set out on page 6, 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 as 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 7 to 13, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all applicable accounting standards have been followed, and that it is appropriate to prepare the financial statements on a 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 as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITORS REPORT**  
**TO THE SHAREHOLDERS OF GRAND METROPOLITAN INTERNATIONAL**  
**HOLDINGS LIMITED**

We have audited the financial statements of Grand Metropolitan International Holdings Limited for the year ended 30 September 1999 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

**Respective responsibilities of the directors and auditor**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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 September 1999 and of the result for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



**KPMG Audit Plc**  
Registered Accountants  
30 July 2001

**PROFIT AND LOSS ACCOUNT**

	<b>Notes</b>	<b>1999</b> <b>£</b>	<b>1998</b> <b>£</b>
Operating costs		(185,105)	
Exceptional operating costs	3	(10,180,000)	-
Income from shares in group companies		150,000,000	118,800,000
Interest payable		<u>(27,456,639)</u>	<u>-</u>
<b>Profit on ordinary activities before taxation</b>		112,178,256	118,800,000
Tax on profit on ordinary activities		<u>48,809</u>	<u>-</u>
<b>Profit on ordinary activities after taxation</b>		112,227,065	118,800,000
Dividends	4	<u>(163,000,000)</u>	<u>(237,800,000)</u>
<b>Loss transferred from reserves</b>		<u><u>(50,772,935)</u></u>	<u><u>(119,000,000)</u></u>

The above is in respect of continuing operations.

There are no recognised gains or losses other than those disclosed in the profit and loss account and accordingly a statement of total recognised gains and losses is not presented.

There is no difference between the loss for the year and the historical loss for the year and consequently no note of historical cost losses has been presented as part of the financial statements.

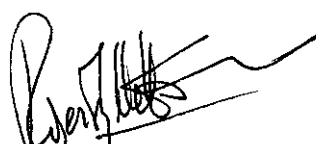


**BALANCE SHEET**

**AS AT 30 SEPTEMBER 1999**

	Notes	1999 £	1998 £
<b>Fixed assets</b>			
Investments in subsidiary undertakings at cost	5	<u>8,619,537,970</u>	<u>8,619,537,970</u>
<b>Current assets</b>			
Debtors due within one year	6	86,478	271,583
<b>Creditors - due within one year</b>	7	<u>(4,331,446,827)</u>	<u>(8,530,858,997)</u>
<b>Net current liabilities</b>		<u>(4,331,360,349)</u>	<u>(8,530,587,414)</u>
		<u>4,288,177,621</u>	<u>88,950,556</u>
<b>Capital and reserves (all equity)</b>			
Called up share capital	8	42,715,194	215,194
Share premium account	9	4,283,127,947	75,627,947
Profit and loss account	9	<u>(37,665,520)</u>	<u>13,107,415</u>
		<u>4,288,177,621</u>	<u>88,950,556</u>

The financial statements on pages 7 to 13 were approved by the board of directors on 30 July 2001 and were signed on its behalf by:

  
**R H Myddelton**  
**Director**

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	1999 £	1998 £
Profit for the financial year	112,227,065	118,800,000
Dividends	<u>(163,000,000)</u>	<u>(237,800,000)</u>
	(50,772,935)	(119,000,000)
New share capital issued	42,500,000	285
Share premium on issue of shares	4,207,500,000	9,590,017
Shareholders' funds at beginning of year	<u>88,950,556</u>	<u>198,360,254</u>
Shareholders' funds at end of year	<u><u>4,288,177,621</u></u>	<u><u>88,950,556</u></u>

**NOTES (forming part of the financial statements)**

**1. Accounting Policies**

***Basis of preparation***

The financial statements of the company are prepared under the historical cost convention and comply with applicable UK accounting standards. The bases used are consistent with those used in the previous year. The company has not presented group financial statements by virtue of section 228 of the Companies Act 1985.

The company is 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.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

***Foreign currencies***

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the financial year end exchange rate. All exchange gains and losses are taken to the profit and loss account.

***Investments***

Fixed asset investments are stated individually at cost less, where appropriate, provision for any impairment.

**2. Profit and loss**

None of the directors received any remuneration during the year in respect of their services to the company (1998 - £nil). Auditor's remuneration was paid on behalf of the company by a group undertaking. Operating costs in the year comprised the write-off of a debtor balance, on which the tax relief was £nil. Dividends from group companies are paid under a group income election and consequently income from shares in group companies is not subject to tax. As a consequence of a change in group policy during the year, group relief is thereafter effected for nil consideration.

**3. Exceptional operating costs**

The £10,180,000 operating charge is in respect of a payment to LVMH in relation to the avoidance of the demerger of the non-spirits business of Diageo plc, the ultimate parent undertaking. The tax relief associated with this charge was £nil.

**NOTES (continued)**

**4. Dividends**

	1999 £	1998 £
Equity interim dividends paid	<u>163,000,000</u>	<u>237,800,000</u>

**5. Investments**

	Subsidiary undertakings £
<u>Cost</u>	
At beginning and end of the year	<u>8,619,537,970</u>

The company's principal subsidiary undertakings as at 30 September 1999, which are all wholly owned are as follows:

	Country of incorporation	Principal activities
<u>Direct subsidiaries</u>		
St. James's Gate Holdings Limited	England	Holding company
<u>Indirect subsidiaries</u>		
Diageo Incorporated	USA	Holding company
Diageo Nederland BV	Holland	Holding company
UDV North America, Inc	USA	Production, importing and marketing of spirits and wines
Burger King Corporation	USA	Fast food retailing
Diageo Investment Corporation	USA	Financing company for the US group
The Pillsbury Company	USA	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
Guinness America, Inc.	USA	Production, importing and marketing of beer, spirits and wines

**NOTES (continued)**

**6. Debtors – due within one year**

	1999 £	1998 £
Amounts owed by group undertakings	86,478	86,478
Other debtors	-	185,105
	<u>86,478</u>	<u>271,583</u>

**7. Creditors - due within one year**

	1999 £	1998 £
Amounts owed to group undertakings	<u>4,331,446,827</u>	<u>8,530,858,997</u>

**8. Share capital**

	1999 £	1998 £
<u>Authorised</u>		
43,000,000 unclassified shares of £1 each	<u>43,000,000</u>	<u>250,000</u>
<u>Allotted, called up and fully paid</u>		
42,715,194 unclassified shares of £1 each	<u>42,715,194</u>	<u>215,194</u>

On 30 June 1999, the authorised share capital was increased by 42,750,000 shares to 43,000,000 unclassified shares of £1 each.

On 30 June 1999, the company issued 42,500,000 unclassified shares of £1 each with a total share premium of £4,207,500,000, for cash.

**9. Reserves**

	Share premium account £	Profit and loss account £	Total £
At 30 September 1998	75,627,947	13,107,415	88,735,362
Premium on issue of share capital	4,207,500,000	-	4,207,500,000
Retained loss for the year	-	(50,772,935)	(50,772,935)
At 30 September 1999	<u>4,283,127,947</u>	<u>(37,665,520)</u>	<u>4,245,462,427</u>

**NOTES (continued)**

**10. Immediate and ultimate parent undertaking**

The immediate parent undertaking is Grand Metropolitan Holdings Limited, a company registered in England.

The ultimate parent undertaking of the company is Diageo plc, a company registered in England. Diageo plc's accounting period end is 30 June. The consolidated accounts of Diageo plc for the year ended 30 June 1999, can be obtained from the Registered Office at 8 Henrietta Place, London W1G 0NB.