

GRAND METROPOLITAN INTERNATIONAL HOLDINGS LIMITED

Registered in England No. 970624

FINANCIAL STATEMENTS

30 SEPTEMBER 1999



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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 GrandMet 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.

Financial

The results for the year shown on page 6 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 £23,475,026 (1998 - loss of £119,000,000).

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)

Emoluments

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

DIRECTORS' REPORT (continued)

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.

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.

Notes (continued):

(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.

(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
W1M 9AG

20 April 2000

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 5, 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 6 to 12, 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.

**REPORT OF THE AUDITORS, KPMG AUDIT PLC,
TO THE MEMBERS OF GRAND METROPOLITAN INTERNATIONAL
HOLDINGS LIMITED**

We have audited the financial statements on pages 6 to 12.

Respective responsibilities of the directors and auditor

As described on page 5, the company's directors are responsible for the preparation of 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 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

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

20th April, 2000

PROFIT AND LOSS ACCOUNT

	Notes	1999 £	1998 £
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>(158,730)</u>	<u>-</u>
Profit on ordinary activities before taxation		139,476,165	118,800,000
Tax on profit on ordinary activities		<u>48,809</u>	<u>-</u>
Profit on ordinary activities after taxation		139,524,974	118,800,000
Dividends	4	<u>(163,000,000)</u>	<u>(237,800,000)</u>
Loss transferred from reserves		<u>(23,475,026)</u>	<u>(119,000,000)</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.

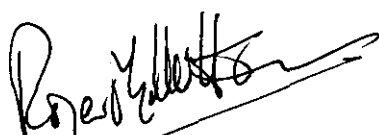
There is no difference between the loss for the year and the historical loss for the year and consequently no note of historical cost losses has been presented as part of the financial statements.

BALANCE SHEET

AS AT 30 SEPTEMBER 1999

	Notes	1999 £	1998 £
Fixed assets			
Investments in subsidiary undertakings at cost	5	<u>8,619,537,970</u>	<u>8,619,537,970</u>
Current assets			
Debtors due within one year	6	86,478	271,583
Creditors - due within one year	7	<u>(4,304,148,918)</u>	<u>(8,530,858,997)</u>
Net current liabilities		<u>(4,304,062,440)</u>	<u>(8,530,587,414)</u>
		<u><u>4,315,475,530</u></u>	<u><u>88,950,556</u></u>
Capital and reserves (all equity)			
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>(10,367,611)</u>	<u>13,107,415</u>
		<u><u>4,315,475,530</u></u>	<u><u>88,950,556</u></u>

The financial statements on pages 6 to 12 were approved by the board of directors on 20 April 2000 and were signed on its behalf by:


R H Myddelton
Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £	1998 £
Profit for the financial year	139,524,974	118,800,000
Dividends	<u>(163,000,000)</u>	<u>(237,800,000)</u>
	(23,475,026)	(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>4,315,475,530</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.

3. Exceptional operating costs

The £10,180,000 shown in the profit and loss account as exceptional operating costs represents part of the £250,000,000 payment made by Diageo plc to LVMH Moët Hennessy Louis Vuitton SA ("LVMH") in 1997 to ensure completion of the proposed Grand Metropolitan group/Guinness group merger and to strengthen the worldwide co-operation of the Diageo group and LVMH. The principal elements of the agreement were to attain co-operation in achieving the merger as proposed, to modify the manner in which some of the distribution arrangements with LVMH were managed and to extend the number of brands, which were formerly owned by the Grand Metropolitan group, to be distributed through the former Guinness group-LVMH joint network. The balance of the exceptional operating costs is in respect of merger integration costs and includes redundancies, consultancy and systems costs.

NOTES (continued)

4. Dividends

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

5. Investments

<u>Cost</u>	Subsidiary undertakings £
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	<u>-</u>	<u>185,105</u>
	<u>86,478</u>	<u>271,583</u>

7. Creditors - due within one year

	1999 £	1998 £
Amounts owed to group undertakings	<u>4,304,148,918</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	-	(23,475,026)	(23,475,026)
At 30 September 1999	<u>4,283,127,947</u>	<u>(10,367,611)</u>	<u>4,272,760,336</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 W1M 9AG.