

Grand Metropolitan Investments Limited

FINANCIAL STATEMENTS

30 June 1999

Registered Number: 1732518



Grand Metropolitan Investments Limited

DIRECTORS' REPORT

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

Activities

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

Year 2000

The Year 2000 problem refers to the inability of some information systems and computerised equipment to handle four-digit years, causing them to generate inaccurate information and potentially to fail. The Diageo group established a compliance programme in each of its main business units (UDV, Pillsbury, Guinness, Burger King) and subsidiaries to investigate and manage potential impacts. The programmes were coordinated at Group level with regular status reports to the Diageo board.

All critical systems and processes were declared Year 2000 Ready in September 1999, and to date no major issues have been identified. Procedures are in place to monitor developments and will continue for as long as the Year 2000 risk remains.

The full cost of managing the Year 2000 problem for Grand Metropolitan Investments Ltd has not been identified separately, but is included within the overall programme cost shown in the annual report of the ultimate parent company, Diageo plc.

Euro

In accordance with the Treaty on European Union, signed at Maastricht on 7 February 1992, the third stage of Economic and Monetary Union (EMU) commenced on 1 January 1999. The Diageo Group's euro-readiness is being managed as a discrete business project. The Group expects to have systems and procedures in place, which will enable it to conduct euro transactions appropriate to local market requirements.

The Diageo Group is also working actively with key business suppliers, joint distribution arrangement partners and customers. In addition, monetary union may have a significant impact on macroeconomic factors, including interest and foreign exchange rates.

Key commercial risks, such as pricing transparency, have been analysed, with a view to reducing any impact through active management over the transition period and beyond. However, there can be no assurance that the euro will not have a negative impact. The impact of future entry to EMU of other European countries (particularly the United Kingdom) is being similarly analysed.

The cost associated with the euro-readiness project for Grand Metropolitan Investments Limited has not been identified separately but is included within the overall project cost in the annual report of the ultimate parent company, Diageo plc.

Financial

The results for the period shown on page 8 are for the year from 1 July 1998 to 30 June 1999.

An ordinary dividend of £269,000,000 (1998: £nil) was paid during the year.

Grand Metropolitan Investments Limited

DIRECTORS' REPORT (Continued)

The retained deficit for the period of £54,693,000 (1998: surplus of 21,448,000) after equity and non-equity dividends of £333,428,000 (1998: £48,321,000) was transferred from reserves.

Directors' and directors' interests

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

P K Bentley
S M Bunn
R H Myddelton
M D Peters

Emoluments

None of the directors received any remuneration during the year 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 year in any significant contract with the company.

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

Shares and Awards over ordinary shares

Name of Director	Ordinary shares of 28 101/108p (1)	Ordinary shares of 28 101/108p (1)	RSP Awards (2)	Guinness LTIP (2)	Diageo LTIP (3)	Diageo LTIP (3)
	1.7.98 or date of appointment	30.6.99	30.6.99	30.6.99	Performance cycle commencing 1.1.98	1.1.99
P K Bentley	-	10,000	15,625	-	25,000	22,630
S M Bunn	-	2,061	-	-	2,250	2,400
R H Myddelton	20,049	19,519	18,081	-	18,524	16,844
M D Peters	3,693	4,744	-	-	2,250	2,400

Options

Name of Director	1.7.98 or date of appointment	Granted during year	Exercised during year	30.6.99
P K Bentley	27,138	-	-	27,138
S M Bunn	14,672	433	11,084	4,021
R H Myddelton	207,522	-	3,168	204,354
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 and no awards vested during the year.

The mid-market share price of Diageo plc shares fluctuated between 480.5p and 778.5p per share during the year. The mid-market share price on 30 June 1999 was 662.5p.

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DIRECTORS' REPORT (Continued)

At 30 June 1999 the directors had an interest in 21,897,568 shares and 3,123,181 shares subject to call options held by trusts to satisfy grants made under ex-Grand Metropolitan 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 July 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 Guinness LTIP and 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. Following the merger, performance targets attached to the Guinness awards granted in 1996 were waived. The 1997 awards granted by Grand Metropolitan and Guinness are now dependent upon the performance of Diageo's TSR against comparator groups 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.

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DIRECTORS' REPORT (Continued)

Secretary

On 17 August 1999 V A Lynch resigned as Secretary of the Company and S M Bunn was appointed in her place.

By Order of the Board

A handwritten signature in black ink, appearing to read 'S M Bunn', with a wavy, cursive style.

S M Bunn
Secretary

8 Henrietta Place, London W1M 9AG
20 April 2000

Grand Metropolitan Investments Limited

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, 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 of the company for the financial year.

The directors, in preparing the financial statements on pages 7 to 14, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, that all accounting standards which 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 as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Grand Metropolitan Investments Limited

**REPORT OF THE AUDITOR, KPMG AUDIT PLC,
TO THE MEMBERS OF GRAND METROPOLITAN INVESTMENTS LIMITED**

We have audited the financial statements on pages 7 to 14.

Respective responsibilities of directors and auditor

As described on page 5 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 judgments 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 1999 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,²⁰ April 2000

Grand Metropolitan Investments Limited

ACCOUNTING POLICIES

Basis of preparation

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

During the previous financial period, the financial period end was changed to 30 June. Accordingly the comparative accounting period runs from 1 October 1997 to 30 June 1998.

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 from the requirement to prepare group accounts under section 228 of the Companies Act 1985 as its results are included in the consolidated accounts of Diageo plc. These financial statements present information about Grand Metropolitan Investments Limited as an individual undertaking and not about its group.

Investments

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

Foreign currencies

The functional currency of the company is determined as the currency to which predominately all of its transactions and balances are effectively exposed. In 1999 and 1998 the functional currency was sterling.

Transactions in foreign currencies, other than the functional currency, are translated into the functional currency at the rate of exchange on the date of the transaction. Assets and liabilities in foreign currencies are translated into the functional currency at the financial period end exchange rates or, if hedged forward, at the rate of exchange derived from the related forward currency contracts. Any resulting net foreign exchange gains or losses are recognised in the profit and loss account.

Taxation

The credit for taxation is based on the taxable profit for the period 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 deferred taxation if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

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PROFIT AND LOSS ACCOUNT

For the year ended 30 June 1999

	Notes	12 months ended 30 June 1999 £'000	9 months ended 30 June 1998 £'000
Income from fixed asset investments	1	376,458	151,093
Interest receivable	2	269,205	206,618
Interest payable and similar items	3	(410,832)	(324,479)
Profit on ordinary activities before taxation	4	234,831	33,232
Taxation on profit on ordinary activities	6	43,904	36,537
Profit for the financial period		278,735	69,769
Equity and non-equity dividends paid and accrued	7	(333,428)	(48,321)
Transferred from/to reserves	12	(54,693)	21,448

The results for the current period and preceding year relate entirely to continuing operations.

There are no recognised gains or losses other than the profit for the period 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 profit for the period and the historical cost profit for the period and consequently no note of historical cost profits has been presented as part of the financial statements.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 30 June 1999

	12 months ended 30 June 1999 £'000	9 months ended 30 June 1998 £'000
Profit for the financial period	278,735	69,769
Non-equity dividends paid and accrued	(64,428)	(48,321)
Equity dividends paid	(269,000)	-
Net reduction/increase to shareholders' funds	(54,693)	21,448
Shareholders' funds at beginning of the period	1,429,172	1,407,724
Shareholders' funds at end of the period	1,374,479	1,429,172

Grand Metropolitan Investments Limited

BALANCE SHEET

	Notes	30 June 1999 £'000	30 June 1998 £'000
Fixed assets			
Investments	8	3,567,781	3,567,781
Current assets			
Debtors	9	2,813,592	2,955,050
Creditors - due within one year	10	(2,124)	(92,426)
Net current assets		2,811,468	2,862,624
Total assets less current liabilities		6,379,249	6,430,405
Creditors - due after more than one year	10	(5,004,770)	(5,001,233)
		1,374,479	1,429,172
Capital and reserves			
Called up share capital - non-equity	11	1,095,000	1,095,000
Profit and loss account	12	279,479	334,172
		1,374,479	1,429,172

Debtors and net current assets include amounts recoverable after more than one year of £2,679 million (1998: £2,764 million).

The financial statements on pages 7 to 14 were approved by the board of directors on 20 April 2000 and signed on its behalf by:


 R H Myddelton, Director

Grand Metropolitan Investments Limited

NOTES TO THE FINANCIAL STATEMENTS

1 Income from fixed asset investments

	12 months ended 30 June 1999 £'000	9 months ended 30 June 1998 £'000
Income from shares in subsidiary undertakings	375,000	150,000
Income from other fixed asset investments – unlisted	1,458	1,093
	376,458	151,093

2 Interest receivable

	12 months ended 30 June 1999 £'000	9 months ended 30 June 1998 £'000
Loans to group undertakings	269,205	206,618

3 Interest payable and similar items

	12 months ended 30 June 1999 £'000	9 months ended 30 June 1998 £'000
Loans from group undertakings	320,400	258,052
Other interest	47	35
Foreign exchange losses	90,385	66,392
	410,832	324,479

4 Profit on ordinary activities before taxation

The company has no employees. The auditor's remuneration was borne by a group company.

5 Directors' interests

Details of directors' interests are included in the Directors' Report on page 3.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Taxation on profit on ordinary activities

	12 months ended 30 June 1999 £'000	9 months ended 30 June 1998 £'000
UK corporation tax credit at 30.75% (1998: 31%)	43,904	36,537

The credit for UK Corporation tax includes amounts that may be received from other companies in the Diageo group in return for the surrender of tax losses. The taxation credit for the year is affected by the tax treatment of dividends receivable from group companies that are not subject to taxation.

7 Dividends

	12 months ended 30 June 1999 £'000	9 months ended 30 June 1998 £'000
<i>Equity:</i>		
Ordinary Shares	269,000	-
<i>Non-Equity:</i>		
5.9% "C" Cumulative Redeemable Preference Shares of £1 each	41,187	30,890
5.9% "D" Cumulative Redeemable Preference Shares of £1 each	23,241	17,431
	333,428	48,321

8 Fixed assets - investments

	Shares in subsidiary undertakings £'000	Other Investments £'000	Total £'000
Cost/valuation at beginning and end of the year	3,547,681	20,100	3,567,781

(i) Shares in subsidiary undertakings:

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.

The company's subsidiary undertakings and their activities, all of which are wholly owned and registered in England, are set out below:

Grand Metropolitan Second Investments Limited - an investment holding company.

Grand Metropolitan Third Investments Limited - an investment holding company.

Grand Metropolitan Investments Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

GrandMet Limited - a dormant company.

(ii) Other investments:

The company owns the entire issued cumulative participating redeemable preference share capital of Minneapolis (Holdings) Limited, an investment holding company, which is registered in England.

9 Debtors

	30 June 1999	30 June 1998
	£'000	£'000
Amount owed by group undertakings	2,362,047	2,356,937
Group relief receivable	43,919	100,312
Other debtors	407,626	497,801
	2,813,592	2,955,050

Amounts due from parent and fellow subsidiary undertakings include £2,362 million (1998:£2,357 million due after more than one year. Other debtors include £317 million (1998: £407 million) due after more than one year.

10 Creditors

	30 June 1999		30 June 1998	
	Due within one year £'000	Due after more than one year £'000	Due within one year £'000	Due after more than one year £'000
Amount owed to group undertakings	2,124	5,004,770	92,426	5,001,233

The amounts due to group undertakings are scheduled for repayment between 2003 and 2004.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Share capital

	30 June 1999	30 June 1998
	£	£
<i>Authorised:</i>		
Equity		
305,000,000 unclassified shares of £1 each	305,000,000	305,000,000
4,300,000,000 ordinary shares of £1 each	4,300,000,000	4,300,000,000
	4,605,000,000	4,605,000,000
Non-equity		
700,000,000 5.9% "C" Cumulative Redeemable Preference Shares of £1 each	700,000,000	700,000,000
395,000,000 5.9% "D" Cumulative Redeemable Preference Shares of £1 each	395,000,000	395,000,000
	1,095,000,000	1,095,000,000
<i>Allotted and called up:</i>		
Equity		
2 unclassified shares of £1 each	2	2
Non-equity		
700,000,000 5.9% "C" Cumulative Redeemable Preference Shares of £1 each	700,000,000	700,000,000
395,000,000 5.9% "D" Cumulative Redeemable Preference Shares of £1 each	395,000,000	395,000,000
	1,095,000,000	1,095,000,000

The unclassified and ordinary shares are entitled to one vote each. Preference shares carry no voting rights other than at a class meeting of preference shareholders.

The "C" preference shares are redeemable at the shareholders' option, by giving written notice to the company, up to 29 October 2001. They will be redeemed by the company on 29 October 2001 unless the company exercises its option to redeem them at an earlier date. The "C" preference shares are redeemable at par.

The "D" preference shares are redeemable at the shareholders' option, by giving written notice to the company, up to 29 October 2001. They will be redeemed by the company on 29 October 2001 unless the company exercises its option to redeem them at an earlier date.

The "D" preference shares are redeemable at par. The "D" preference shares rank *pari passu* with the "C" preference shares.

Grand Metropolitan Investments Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Reserves

	30 June 1999 £'000	30 June 1998 £'000
<i>Profit and loss account:</i>		
Balance brought forward	334,172	312,724
Retained profit/(loss) for the financial period	(54,693)	21,448
Balance carried forward	279,479	334,172

13 Ultimate parent undertaking

The company is a wholly owned subsidiary of Diageo plc, a company incorporated and registered in England. The company has an accounting period end of 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.