

## **DIRECTORS**

G M N Corbett, Chairman

G J Bull

P K Bentley

P E B Cawdron

R J Joy

J M J Keenan

J B McGrath

D B Rickard

N C Rose

D C Stainton

P S Walsh

## **Grand Metropolitan Finance PLC**

Secretary and Registered Office

B E Wickham

8 Henrietta Place, London W1M 9AG

Telephone: (0171) 518 5200

Company Registration No. 213393



## DIRECTORS' REPORT

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30 September 1996.

### *Activities*

The company acts as a financing vehicle for the Grand Metropolitan Group. The results of the company and the development of its business are, therefore, influenced to a considerable extent by Group financing requirements.

### *Dividend and profit*

The directors do not recommend the payment of an ordinary dividend (1995 - £nil). The amount transferred from reserves was £(4.7)m (1995 - £23.3m profit), after preference share dividends of £87.8m.

### *Directors*

The directors were as follows:

G J Bull  
P K Bentley  
P E B Cawdron  
G M N Corbett  
D Crowley\*  
R J Joy (appointed 20 November 1996)  
J M J Keenan (appointed 27 March 1996)  
J B McGrath  
D P Nash (resigned 17 October 1995)  
D B Rickard\*  
N C Rose\*  
Lord Sheppard (resigned 29 February 1996)  
D C Stainton  
D M Waddell (resigned 8 May 1996)  
P S Walsh (appointed 20 November 1995)

\*Mr D B Rickard was replaced on 8 May 1996 as an alternate director to Mr J B McGrath. He was then appointed as an alternate director to Mr J M J Keenan on 8 May 1996 and was replaced on 20 November 1996.

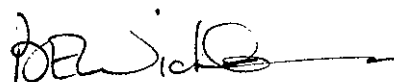
\*Mr D Crowley was appointed as an alternate director to Mr D P Nash and ceased to be so on 17 October 1995 when Mr D P Nash resigned.

\* Mr N C Rose resigned as a director on 18 November 1996. On 20 November 1996 he was appointed as an alternate director to Mr J M J Keenan.

### *Supplier payment policies*

The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

By Order of the Board



**B E Wickham**

*Secretary*

24 January 1997

## **DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS**

The following statement, which should be read in conjunction with the report of the auditors set out on page 4, 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 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 5 to 13, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards which they consider to be applicable have been followed, and that it is appropriate to use 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.

The directors, having prepared the financial statements, have requested the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

**REPORT OF THE AUDITOR, KPMG AUDIT PLC,  
TO THE MEMBERS OF GRAND METROPOLITAN FINANCE PUBLIC  
LIMITED COMPANY**

We have audited the financial statements on pages 5 to 13.

**Respective responsibilities of directors and auditors**

As described on page 3 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 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 1996 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, 24 January 1997**

## ACCOUNTING POLICIES

### **Accounting convention**

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

### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities in foreign currencies are translated into sterling at the financial year end exchange rates, or if hedged forward, at the rate of exchange under the related forward currency contract. Exchange gains and losses are taken to the profit and loss account.

### **Interest rate management**

The company participates in the Grand Metropolitan Group's interest rate management and uses interest rate swaps to manage the proportion of fixed to variable debt within limits set by the board of directors. Interest costs are allocated to periods so as to charge finance costs to the profit and loss account at a constant rate on the carrying amounts. Hedge accounting is applied to swaps and other hedging instruments with interest recognised on an accruals basis with no adjustments made to reflect fluctuations in market values.

### **Current asset investments**

Current asset investments are stated at cost plus, where appropriate, accrued interest.

### **Taxation**

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

**PROFIT AND LOSS ACCOUNT**  
for the year ended 30 September 1996

	Notes	1996 £m	1995 £m
Interest receivable	1	1635.2	678.9
Interest payable	2	(1,526.0)	(653.9)
Net interest receivable		109.2	25.0
Other operating income		15.3	11.1
Operating costs	4	(0.5)	(1.0)
<b>Profit on ordinary activities before taxation</b>		<b>124.0</b>	<b>35.1</b>
Taxation on profit on ordinary activities	6	(40.9)	(11.8)
<b>Profit for the financial year</b>		<b>83.1</b>	<b>23.3</b>
Dividends paid and accrued - non-equity	7	(87.8)	-
<b>Transferred (from)/to reserves</b>	14	<b>(4.7)</b>	<b>23.3</b>

The results in the above profit and loss account relate entirely to continuing operations.

There are no realised gains or losses other than those presented in the above profit and loss account. Accordingly no statement of recognised gains and losses is presented.

There is no material difference between the company's profit and loss account and the historical cost profits and losses. Accordingly no note of the historical profits and losses for the period has been presented.

**RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**  
for the year ended 30 September 1996

	Notes	1996 £m	1995 £m
Profit for the financial year		83.1	23.3
Dividends paid and accrued	7	(87.8)	-
Share issues	13	3,405.0	-
Shareholders' funds at beginning of year		384.6	361.3
Shareholders' funds at end of year		3,784.9	384.6

**BALANCE SHEET**  
at 30 September 1996

	Notes	1996 £m	1995 £m
<b>Current assets</b>			
Debtors (see note below)	8	9,860.6	8,383.1
Investments	9	640.3	162.9
Cash at bank		183.5	300.6
		<b>10,684.4</b>	<b>8,846.6</b>
<b>Creditors - amounts due within one year</b>			
Borrowings	10	(162.3)	(131.5)
Other creditors	11	(3,320.4)	(4,944.0)
		<b>(3,482.7)</b>	<b>(5,075.5)</b>
<b>Net current assets</b> (see note below)		<b>7,201.7</b>	<b>3,771.1</b>
<b>Creditors - amounts due after more than one year</b>			
Borrowings	10	(269.4)	(278.8)
Other creditors	12	(3,147.4)	(3,107.7)
		<b>(3,416.8)</b>	<b>(3,386.5)</b>
		<b>3,784.9</b>	<b>384.6</b>
<b>Capital and reserves</b>			
Called up share capital - equity	13	655.0	255.0
Called up share capital - non-equity	13	3,005.0	-
		<b>3,660.0</b>	<b>255.0</b>
Profit and loss account	14	124.9	129.6
		<b>3,784.9</b>	<b>384.6</b>

Debtors and net current assets include debtors recoverable after more than one year of £4.1 billion (1995: £3.2 billion).

The financial statements on pages 5 to 13 were approved by the Board of Directors on 24 January 1997 and were signed on its behalf by:



G M N Corbett, *Chairman*



P K Bentley, *Director*

## NOTES

<b>1 Interest receivable</b>	<b>1996</b>	<b>1995</b>
	<b>£m</b>	<b>£m</b>
On loans to group undertakings	<b>1,422.9</b>	618.0
Income from currency swaps	<b>15.8</b>	20.5
On other deposits	<b>196.5</b>	40.4
	<b><u>1,635.2</u></b>	<u>678.9</u>

<b>2 Interest payable</b>	<b>1996</b>	<b>1995</b>
	<b>£m</b>	<b>£m</b>
On all bank loans, overdrafts and other loans repayable wholly within five years	<b>1,506.4</b>	645.2
On all other loans	<b>19.6</b>	8.7
	<b><u>1,526.0</u></b>	<u>653.9</u>

Included in the above is interest payable to Group undertakings of £1,426.8m (1995 - £624.2m).

### **3 Operations**

The company is engaged in treasury management for Grand Metropolitan PLC and its subsidiary undertakings. The business and geographical segments that it lends to are as disclosed in the statutory accounts of Grand Metropolitan PLC. The company's operations are based in the United Kingdom. It raises the external funds it requires principally using the London and New York financial markets.

### **4 Operating costs**

The company has no employees. The auditors' remuneration was borne by the ultimate holding company.

### **5 Directors**

#### *Emoluments*

None of the directors received any remuneration during the year in respect of their services as directors of the company (1995 - £nil).



## NOTES

### 5 Directors (continued)

#### *Shareholdings*

The directors who held office at the end of the financial year had the following interests in the share capital of Grand Metropolitan PLC, the ultimate holding company:

	<b>Ordinary Shares</b>		<b>Options</b>			
	<b>1996</b>	<b>1995</b>	<b>1995 or date of appointment</b>	<b>Granted in year</b>	<b>Exercised in year</b>	<b>1996</b>
P K Bentley	-	-	-	<b>66,959</b>	-	<b>66,959</b>
D B Rickard*	<b>2,712</b>	2,712	97,844	<b>17,690</b>	-	<b>115,534</b>
N C Rose	<b>4,005</b>	3,000	197,125	<b>54,195</b>	-	<b>251,320</b>
D C Stainton	-	-	164,972	<b>40,717</b>	-	<b>205,689</b>

The starred director held American Depository Shares (ADS) and/or options over ADS's each representing four Ordinary shares of 25p each. The numbers quoted are in respect of the ADS's.

The directors held the above options under Grand Metropolitan PLC share option schemes at prices between 314p and 474p per share exercisable by 2006. The ADS options are held at prices between US\$24.59 and US\$32.05 per ADS, exercisable by 2006.

The mid-market price of Grand Metropolitan PLC shares fluctuated between 412p and 491p during the year. The mid-market share price on 30th September 1996 was 476p.

G J Bull, P E B Cawdron, G M N Corbett, J M J Keenan, J B McGrath and P S Walsh are directors of the ultimate holding company, Grand Metropolitan PLC, and details of their interests are dealt with in the annual report of that company.

### 6 Taxation

	<b>1996 £m</b>	<b>1995 £m</b>
UK corporation tax at 33% (1995 - 33%)	<b>40.9</b>	11.6
Deferred tax	-	0.2
	<b>40.9</b>	11.8

The charge for taxation includes amounts which may be paid to other companies in the Grand Metropolitan group in return for the surrender of tax losses.

## NOTES

### 7 Dividends

	Paid £m	Accrued £m	1996 Total £m	Paid £m	Accrued £m	1995 Total £m
<i>Non-Equity:</i>						
4.75% "A" Cumulative Redeemable Preference Shares of £1 each	1.9	0	1.9	-	-	-
4.75% "B" Cumulative Redeemable Preference Shares of £1 each	39.1	0	39.1	-	-	-
5% "C" Cumulative Redeemable Preference Shares of £1 each	21.2	8.5	29.7	-	-	-
4.55% "D" Cumulative Redeemable Preference Shares of £1 each	17.1	0	17.1	-	-	-
	<b>79.3</b>	<b>8.5</b>	<b>87.8</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 8 Debtors

	1996 £m	1995 £m
Amounts owed by parent company and fellow subsidiary undertakings	9,779.5	8,306.5
Accrued income and prepayments	80.8	76.5
Other debtors	0.3	0.1
	<b>9,860.6</b>	<b>8,383.1</b>

Amounts owed by parent company and fellow subsidiary undertakings include £4.1 billion due after more than one year (1995 : £3.2 billion).

### 9 Investments

	1996 £m	1995 £m
Externally managed funds	640.3	-
Certificates of deposit and Euro commercial paper	-	162.9
	<b>640.3</b>	<b>162.9</b>

### 10 Borrowings

	Bank loans and overdrafts £m	Other loans £m	1996 Total £m	Bank loans and overdrafts £m	Other loans £m	1995 Total £m
<i>Analysis by year of repayment</i>						
Greater than 5 years: by instalment	-	14.0	14.0	-	19.2	19.2
: other	-	198.8	198.8	-	198.7	198.7
From one to five years	40.5	16.1	56.6	45.3	15.6	60.9
<b>Due after more than one year</b>	<b>40.5</b>	<b>228.9</b>	<b>269.4</b>	<b>45.3</b>	<b>233.5</b>	<b>278.8</b>
<b>Due within one year</b>	<b>117.0</b>	<b>45.3</b>	<b>162.3</b>	<b>121.2</b>	<b>10.3</b>	<b>131.5</b>
	<b>157.5</b>	<b>274.2</b>	<b>431.7</b>	<b>166.5</b>	<b>243.8</b>	<b>410.3</b>
Amount repayable by instalment part of which falls due after five years	-	33.4	33.4	-	35.6	35.6

## NOTES

### 10 Borrowings (continued)

Other loans comprise:

	Currency	Year end interest rates %	1996 £m	1995 £m
Guaranteed bonds 2005	Sterling	9	198.8	198.7
Commercial paper	US dollars	-	-	5.8
Commercial paper	Sterling	-	-	3.7
Others	Various	Various	75.4	35.6
			<b>274.2</b>	<b>243.8</b>

None of the company's borrowings is secured.

The company, together with other group companies, has access to a number of committed bank facilities (£1,346 million) of which none was used at 30 September 1996.

The company has arranged interest rate swaps and forward rate agreements to manage the Grand Metropolitan Group's interest rate exposure. The interest rates shown above are those contracted on the underlying borrowings before taking into account any interest rate protection.

### 11 Other creditors - amounts due within one year

	1996 £m	1995 £m
Amounts owed to fellow subsidiary undertakings	3,231.8	4,884.6
Accrued expenses	48.8	48.1
Corporation tax	39.8	11.3
	<b>3,320.4</b>	<b>4,944.0</b>

### 12 Other creditors - amounts due after more than one year

	1996 £m	1995 £m
Amounts owed to fellow subsidiary undertakings	3,141.0	3,107.7
Deferred Income	6.4	-
	<b>3,147.4</b>	<b>3,107.7</b>

The amount due to fellow subsidiary undertakings is repayable on 31 October 1997 (1995: repayable 31 October 1996) and bears interest at variable rates.

### 13 Called up share capital

	Authorised		Allotted, called up and fully paid			
	1996 Number (m)	1995 Number (m)	1996 Number (m)	1996 £m	1995 Number (m)	1995 £m
Ordinary shares 5p each	13,100	5,100	13,100	655.0	5,100	255.0
Cumulative Redeemable Preference shares of £1 each	3,005	-	3,005	3,005.0	-	-

## NOTES

### 13 Called up share capital (continued)

On 24 October 1995, the authorised and issued share capital of the company was increased to £655,000,000 by the creation of 8,000,000,000 ordinary shares of 5p each.

On 8 December 1995, the authorised and issued share capital increased from £655,000,000 to £1,760,000,000 by the creation of 50,000,000 4.75% non-voting "A" Cumulative Redeemable Preference Shares of £1 each and 1,055,000,000 4.75% non-voting "B" Cumulative Redeemable Preference Shares of £1 each.

On 27 February 1996, the authorised and issued share capital increased from £1,760,000,000 to £2,760,000,000 by the creation of 1,000,000,000 5% non-voting "C" Cumulative Redeemable Preference Shares of £1 each.

On 1 May 1996, the authorised and issued share capital increased from £2,760,000,000 to £3,660,000,000 by the creation of 900,000,000 4.55% non-voting "D" Cumulative Redeemable Preference Shares of £1 each.

All the shares authorised during the year were issued for a cash consideration at par in order to finance the company's activities.

The holders of the "A", "B", "C" and "D" Cumulative Redeemable Preference Shares are entitled, in priority to the payment of dividends to the holders of any other class of shares, to be paid a cumulative preferential dividend, in respect of each dividend period at the dividend rate on the nominal value.

The "A", "B" and "D" Cumulative Redeemable Preference Shares were redeemable by the company on 30 October 1996 or on the giving of not less than two business days notice, in writing, to the holder.

The "C" Cumulative Redeemable Preference Shares, can either be redeemed by the company on 20th February 1998 or on the giving of not less than two business days notice in writing to the holder, or by the holder giving not less than thirty days notice in writing to the company.

On redemption, the amount paid up on the "A", "B", "C" and "D" Cumulative Redeemable Preference Shares together with a sum equal to all arrears and accruals (if any) of the preferential dividend, are payable.

On a winding up, the holders of the "A", "B", "C" and "D" Cumulative Redeemable Preference Shares shall rank *pari passu* to receive an amount in respect of each Cumulative Redeemable Preference Share, equal to the nominal amount paid up, together with all arrears and accruals (if any) of the dividend payable thereon, whether or not such dividend has become due and payable.

The rights attached to the "A", "B", "C" and "D" Cumulative Redeemable Preference Shares may only be varied with consent in writing of the holder of holders of the preference shares.