1995 Annual Report

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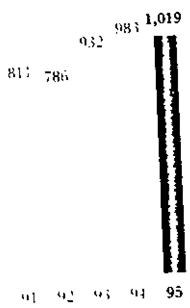
....adding value

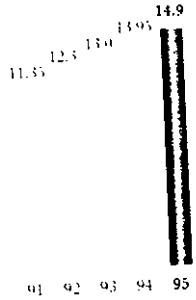
Financial Highlights

OPERATING HIGHLIGHTS	1995 £m	1994 £m
TURNOVER		
Continuing operations	7,965	7,464
Discontinued operations	60	316
	8,025	7,780
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS		
Continuing operations	1,019	983
Discontinued operations	13	40
	1,032	1,023
Profit before exceptional items and taxation	912	945
Exceptional items before taxation	8	(291)
Profit before taxation	920	654
	pence	*pence*
Earnings per share before exceptional items	29.8	32.2
Earnings per share including exceptional items	28.8	21.6
Dividends per share	14.9	13.95

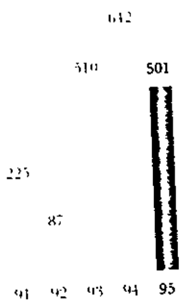


Operating profit from continuing operations before exceptional items
£ million

Profit before exceptional items and taxation
£ million



Ordinary dividends per share
pence



Free cash flow
£ million

Contents

Grand Metropolitan is one of the world's leading branded consumer goods businesses, with a portfolio of international brands which includes Pillsbury, Burger King, Häagen-Dazs, Smirnoff, J&B Rare and Baileys. It is a market led organisation with particular skills in brand marketing and the management of worldwide operations. The group builds its worldwide business through a consistent strategy of supporting existing brands, developing new brands, entering new markets, and making relevant add-on acquisitions and alliances. Consistent with this strategy, marketing expenditure was increased to over £1 billion during the year, the highest level ever. In February, GrandMet increased its brand strength through the acquisition of Pet Incorporated, with its leading Old El Paso and Progresso brands. All major businesses in the group – International Distillers & Vintners (IDV), Pillsbury and Burger King – increased market shares. Whilst building its well known brands in developed markets, the group continued its international expansion into India, Vietnam, China, Argentina, the former Soviet Union and other emerging markets, which are highly receptive to value-added brands.

Chairman's Statement

Dear Shareholder,

In 1987, the year I took over as your Chairman, GrandMet was a predominantly British based conglomerate made up of over thirty discrete businesses. Over the years, GrandMet has been transformed into a highly focused international branded Food and Drinks business.

Our sales of non-core businesses for approximately £6 billion have been well timed. For example, we exited the hotel business at the peak of the property market and sold our dairies just before the deregulation of that industry. Over the same period, we acquired strategically relevant businesses like Heublein, Pillsbury, Burger King, Cinzano and Pet, all of which add significant value to GrandMet.

By 1993 we had fundamentally reshaped the group into a business with excellent potential for future growth. At this point we recognised the need to take decisive action to realise this growth fully. We therefore initiated two major restructuring programmes, which allowed us to reduce our cost base significantly and consequently increase the investment behind our brands.

As a result of these actions, GrandMet is today a well shaped, well honed business, achieving encouraging results in both market shares and volumes. It is firmly positioned for long term growth.

Our performance over the past year has started to reflect the benefits of these initiatives. This good performance was offset by the loss of two IDV agency brands, a reduction in refranchising at Burger King and adverse currency movements, causing profit before exceptionals to decline by 3 per cent. Profit after exceptionals was up from £654 million to £920 million. We once again demonstrated the cash generative power of the group, with free cash flow of over £500 million, bringing the three year total to £1.6 billion. Based on the strength of our businesses, the Board has recommended a dividend increase for the full year of 6.8 per cent to 14.9 pence.

Corporate governance We comply with all the provisions of the Code of Best Practice of the Cadbury Committee on Financial Aspects of Corporate Governance. In accordance with the recommendations of the Greenbury Committee, we have published a report of our Appraisal and Remuneration Committee, which provides very extensive information on the remuneration of our directors and senior executives.

Management changes As announced, George Bull, Group Chief Executive, will become Chairman when I retire at the end of February 1996. In addition to his many business building achievements over the past 30 years, first with IDV and more recently with Food, George has also spearheaded our successful restructuring and brand investment programmes.

John McGrath, Chief Executive of IDV, will succeed George as Group Chief Executive. Whilst at IDV, John has strengthened our worldwide drinks business and has led IDV's entry into the emerging markets.

Paul Walsh, Chief Executive Officer of Pillsbury, joined the Board in October. Paul has very successfully developed Pillsbury into a leading US food company with annual sales of approximately $5 billion.

GrandMet is approaching the 21st century with a clear strategic vision, well supported brands and a first rate management team.

As a result of the elimination of the sector structures, David Nash withdrew from his executive duties and resigned from the Board. During his six years with GrandMet, David made major contributions, first as Finance Director and more recently as head of our worldwide Food operations.

Among our non-executive directors, Professor Dr Gertrud Höhler, who has brought valuable international perspective to the group, is leaving the Board after three years. Carole St. Mark, President and Chief Executive Officer of US-based Pitney Bowes Business Services, becomes a non-executive director, effective 1st January 1996. Carole will bring extensive knowledge of the US market, as well as the customer service industry to our Board.

We have an exceptionally powerful team in place to lead GrandMet forward. George Bull's immense knowledge of our businesses and his well known leadership skills, teamed with John McGrath's broad general management and strategic experience, will make a winning partnership.

Corporate responsibility GrandMet continues to take a leadership role in community involvement, protection of the environment and social responsibility. The group spends over 1½ per cent of its operating profit on community action programmes, with a focus on empowerment – helping people to help themselves. In addition to our numerous programmes throughout the developed world, we have created the GrandMet International Foundation which supports charitable projects in emerging markets.

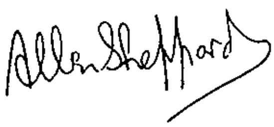
Employees and business associates
I would like to thank my fellow employees for another year of extremely hard work. We have again reduced our work force in many of the businesses. I realise this is difficult for everyone involved, including those employees who assume additional responsibilities. I would also like to express my appreciation to all of our business associates for their continuing commitment to GrandMet.

Prospects As I write to you for the last time as your Chairman, I am pleased to say that our record over the past nine years is reassuring: dividend growth of over 12 per cent per annum; profit growth of nearly 10 per cent per annum, and market capitalisation growth of nearly £5 billion, which is ahead of the FTSE 100 Index growth.

GrandMet is in the best strategic shape in its history, approaching the 21st century with a clear strategic vision, an efficient cost base, well supported brands and a first rate management team.

I would like to thank all of you for your continued support and confidence. I look forward to meeting you for many years to come, as a fellow shareholder of GrandMet. The next few years will, I am confident, be rewarding ones for Grand Metropolitan and therefore for its shareholders.

Most sincerely,



The Lord Sheppard of Didgemere
30th November 1995

A Conversation with Lord Sheppard

After almost nine years as Chairman of GrandMet, Allen Sheppard will stand down in February. George Bull, Chairman elect, asks him about the group.

George You will leave a company that is almost unrecognisable compared to the GrandMet of 1987 when you took over. Are you satisfied with the shape of the group?

Allen The GrandMet we took over in the mid-80s was a successful, largely UK conglomerate. Looking out at the marketplace ahead, we had to decide whether our future remained as a niche UK company, or if we needed to become international and globally competitive. We had to decide whether conglomerates would prosper in the 90s. You'll remember how we challenged ourselves with a whole load of questions: Should we exist? What shape should GrandMet be? How could we make sure to be winners in the year 2000? As you know, we decided our strengths lay in marketing brands and in our ability as worldwide operators. We chose branded food and drinks as the sectors in which to operate. With hindsight, this may seem obvious, but at the time it was a bold move and it took some time to convince the City.

Once our vision was formed, we had to decide how to focus a group with over 30 discrete businesses. We then, as you know, radically transformed the group through a series of calculated risks. We exited businesses, acquired or reorganised others, developed new products, and entered new geographical areas, all in the pursuit of our goal of building a strongly branded global Food and Drinks business.

George What have been your guiding principles in bringing GrandMet into the 1990s?

Allen The need to add value by following a clear vision and building a first class team; all this handled with common sense and courage.

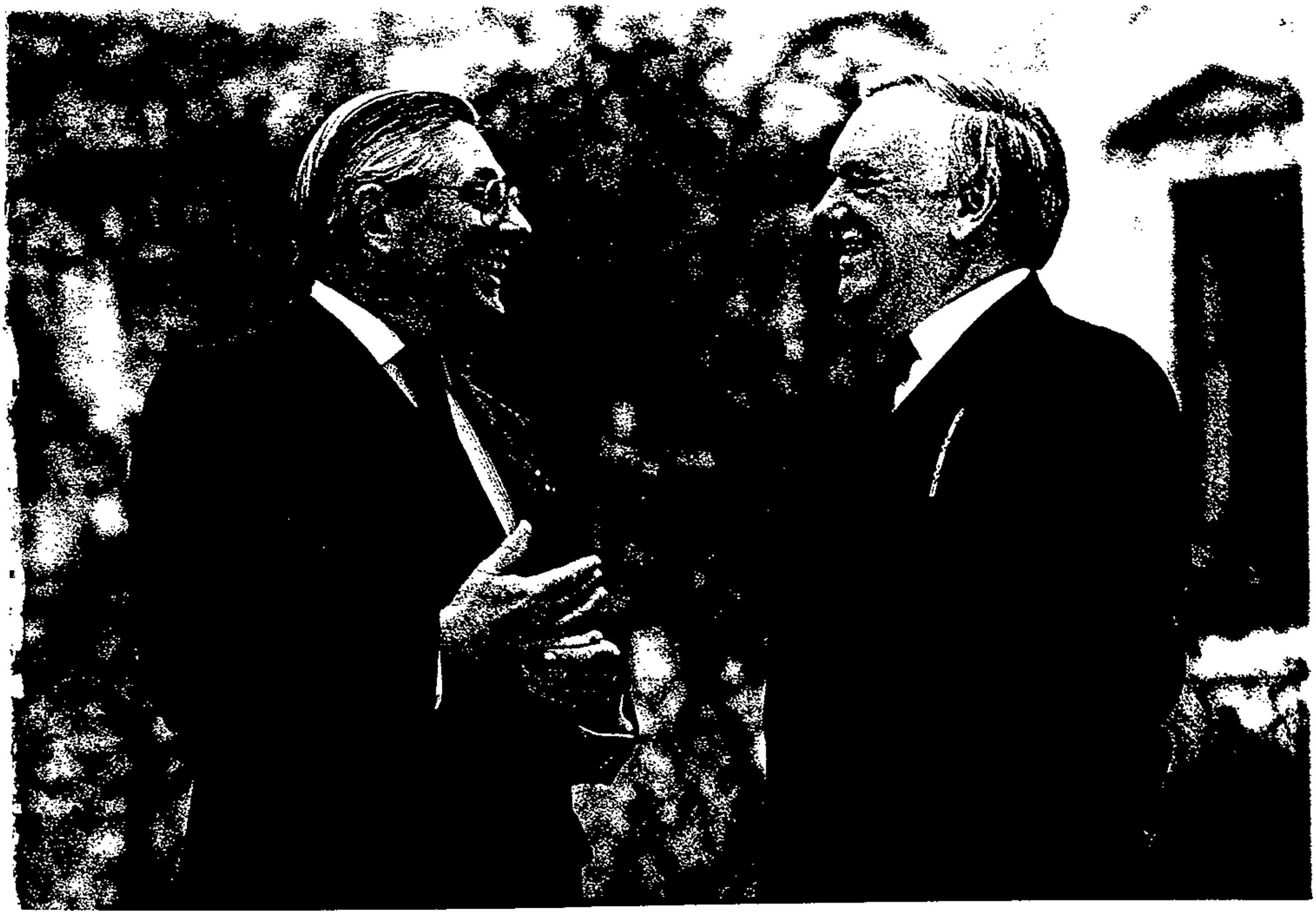
Having decided that GrandMet must be a genuinely world class business, we needed to be determined about achieving this vision. I think I can honestly say that the Board never lacked courage to do big things, like acquiring Pillsbury (which John Harvey-Jones pointed out was 'betting the management, not the company'), or selling hotels, which were the origin of GrandMet, but which, strategically, no longer fitted. As soon as we decided something was right for the group, we tended to move fast and get on with it, which sometimes concerned our watchers!

George Looking back, what were the major achievements of the past years and what – if anything – would you have changed or done differently?

Allen The development of IDV as a truly worldwide business, together with the turnaround of Pillsbury and of Burger King have been the great successes. My greatest disappointment was, of course, that the world went into recession before we had time to complete the reshaping of GrandMet. This put back the time when we could realise our true profit potential. Under your Chairmanship, George, it will soon be apparent!

Speaking of things we might have done differently, I regret not acquiring Martell in 1988. You and I worked closely together on that project and we both knew Martell would have been a wonderful addition to our brand portfolio, albeit that it was extremely pricey! On the disposal side, government enquiries into the industry held up our exit from brewing by two years.

In general, however, our timing worked out well: we usually sold businesses at the top of the market, like hotels, dairies and our non-food and drink US portfolio.



George One area where our reputation is consistently positive is our community activity. As the architect of these programmes, you must be pleased with the progress we've made.

Allen Yes, I am, George. I was the first person in my family to go to university and to have a business career. Based on my own good fortune, I am passionate about equality of opportunity and helping people to help themselves. This philosophy of self empowerment is, as you know, the root of our group community programmes. And, like everything else at GrandMet, it makes good commercial sense. The link between a company and the communities it operates in is critical to the success of each. I rank setting up GrandMet's community programmes as one of our most remarkable achievements. We succeeded because we believed in what we were doing and applied our full professional skills.

George Many people ask, 'what will GrandMet be like without Allen Sheppard?' What do you think?

Allen Much better! Seriously, George, my view is that GrandMet is in the best shape it's ever been in – in terms of its people, its clarity of vision and its determination to grow. The important thing is to keep it simple; to carry on doing what GrandMet does well – investing in the brands, keeping the cost base down, and following your lead in staying as close as possible to the consumer. Each of these is paramount.

But I also hope GrandMet will continue to retain some of the best qualities of its early years. Maxwell Joseph and Stanley Grinstead, our two former Chairmen, are alive and well in GrandMet's culture today. The culture of any business is a combination of its past achievements and its ambitions for the future. GrandMet is a small company that got big, but I hope it will always retain its challenge culture, its belief in people, its entrepreneurial spirit and its resolve to move quickly and take sensible risks. I hope it will be a world class battleship – that remembers it was once a frigate.

Chief Executive's Review

Dear Shareholder,
In my statement to you last year, I said that I believed GrandMet's foundation to be firm, its direction clear and its ability to achieve long term growth, certain.

In this past year, I am pleased to say that we have made much progress towards achieving our goal of sustainable long term growth. We have further focused our business on branded Food and branded Drinks, highlighted by the acquisition of Pet. We have reaped the benefits of our two restructuring initiatives which have reduced our cost base by £83 million, with more savings to come as we complete the programmes. This has allowed us to increase the investment behind our brands to over £1 billion, our highest level of marketing expenditure ever.

We have once again followed our defined strategies for growth – supporting our leading brands, developing new brands, entering new markets and making relevant add-on acquisitions. Although our profit for the year was adversely affected by certain one-time factors, I believe the performance of our major businesses was good and that the indications for the future are encouraging.

Operating performance Profit before exceptionals and tax declined slightly to £912 million, due to the loss of agency brands at IDV, a reduction in refranchising at Burger King and adverse currency movements. However, the underlying performance of our businesses was strong, reflected in the increase in operating profit from continuing operations of 4 per cent, to £1,019 million. All major businesses increased their market shares.

Pillsbury had an excellent year, increasing operating profit 23 per cent, before the contribution from Pet. This was achieved after a 22 per cent increase in advertising and marketing expenditure. Pillsbury volumes, excluding Pet, increased 11 per cent, with nearly all major brands recording increases in both margins and market share. Pet is trading well, fully realising our financial expectations for the acquisition. Its brands are already responding to improved advertising and registering increases in market share. Excluding Pet, European Foods' operating profit nearly doubled, albeit from a small base. Businesses in the UK and France performed well, as did Häagen-Dazs, where system sales were 20 per cent ahead of last year.

Burger King's operating profit declined 13 per cent, affected by reduced profits from refranchising, a programme which is now complete. Before refranchising profits, operating profit increased 8 per cent, reflecting a growth of worldwide same store sales of 5.7 per cent, well ahead of the fast food industry. In the US, which is Burger King's most significant market, comparable store sales grew 12.9 per cent over the past two years.

Pearle had another year of solid progress, with operating profit up 74 per cent and comparable store sales growth of 2.4 per cent.

IDV's operating profit, which was down 13 per cent, was affected by the loss of the agency brand distribution rights for Absolut and Grand Marnier and an adverse currency impact. Excluding these factors, operating profit increased 2 per cent. The restructuring programme begun last year allowed an increase in comparable advertising and marketing expenditure of 13 per cent. Comparable worldwide spirits volumes increased 2 per cent and IDV's share of the developed world market for spirits

continued to increase. Most encouragingly, comparable volumes for our top five brands – Smirnoff, J&B, Baileys, Jose Cuervo and Malibu – increased 4 per cent, reflecting increased brand investment in key markets.

New brands and new markets We continued our progress in developing new brands and new markets, in both Food and Drinks.

Pillsbury's acquisition of Pet added two excellent brands to the group – Old El Paso and Progresso – as well as operations in Australia, Venezuela and Western Europe. Pillsbury's other major businesses developed over 200 brand varieties during the year, including Grands! Sweet Rolls, Green Giant Create a Meal! with Pasta and Totino's Hearty Pockets, all succeeding well in their first year. Outside North America, Pillsbury acquired La Salteña refrigerated dough products in Argentina and formed a joint venture with Godrej Foods in India. Häagen-Dazs expanded its presence to Thailand, Indonesia, China, Uruguay, Argentina and Chile.

IDV developed a joint venture with Remy Cointreau which owns the trademark of Picon, a leading French bitter aperitif. We also gained worldwide distribution for the brand.

An industry leader in emerging markets, IDV made significant progress in the newly opened world markets for spirits, where it increased volume 37 per cent, and entered Bulgaria, Romania, Slovakia, Vietnam and Lebanon. In India, a particularly successful market, volume grew to over 700,000 cases, led by the range of

The balance of our business today is excellent and positions us well for sustainable, long term growth.

Gilbey's whiskies. IDV also continued to develop new and emerging brands which now represent sales of over 1.6 million cases.

Prospects In summary, I believe these results demonstrate that the strategy we are following is correct and the foundation for long term growth is firmly in place. Looking to the future, I am confident that our reduced cost base will make us highly efficient producers, able to fund a continuing rise in marketing expenditure, with emphasis on the advertising element. This increased marketing expenditure, which has already benefited our Food businesses, and is now being followed by Drinks, will not only increase sales, but will strengthen brand equity. This will allow future price rises, enhanced margins and growth in profitability.

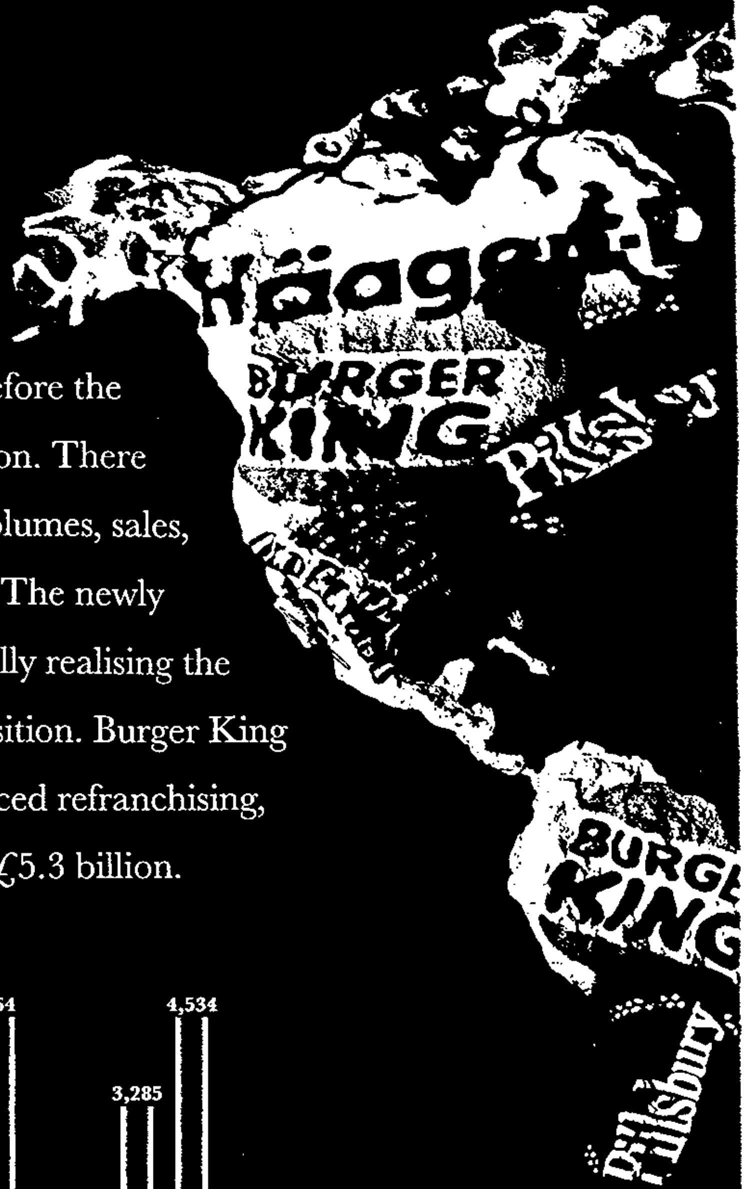
The balance of our business today – split between a recovering and cash generative IDV, a strong and very profitable Pillsbury and a growing Burger King – is excellent and positions us well for sustainable long term growth.

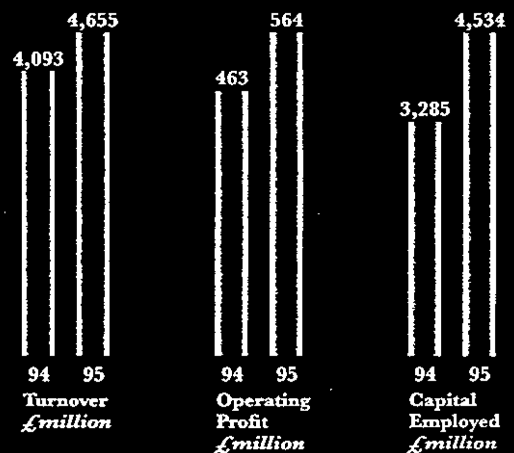
Most sincerely,

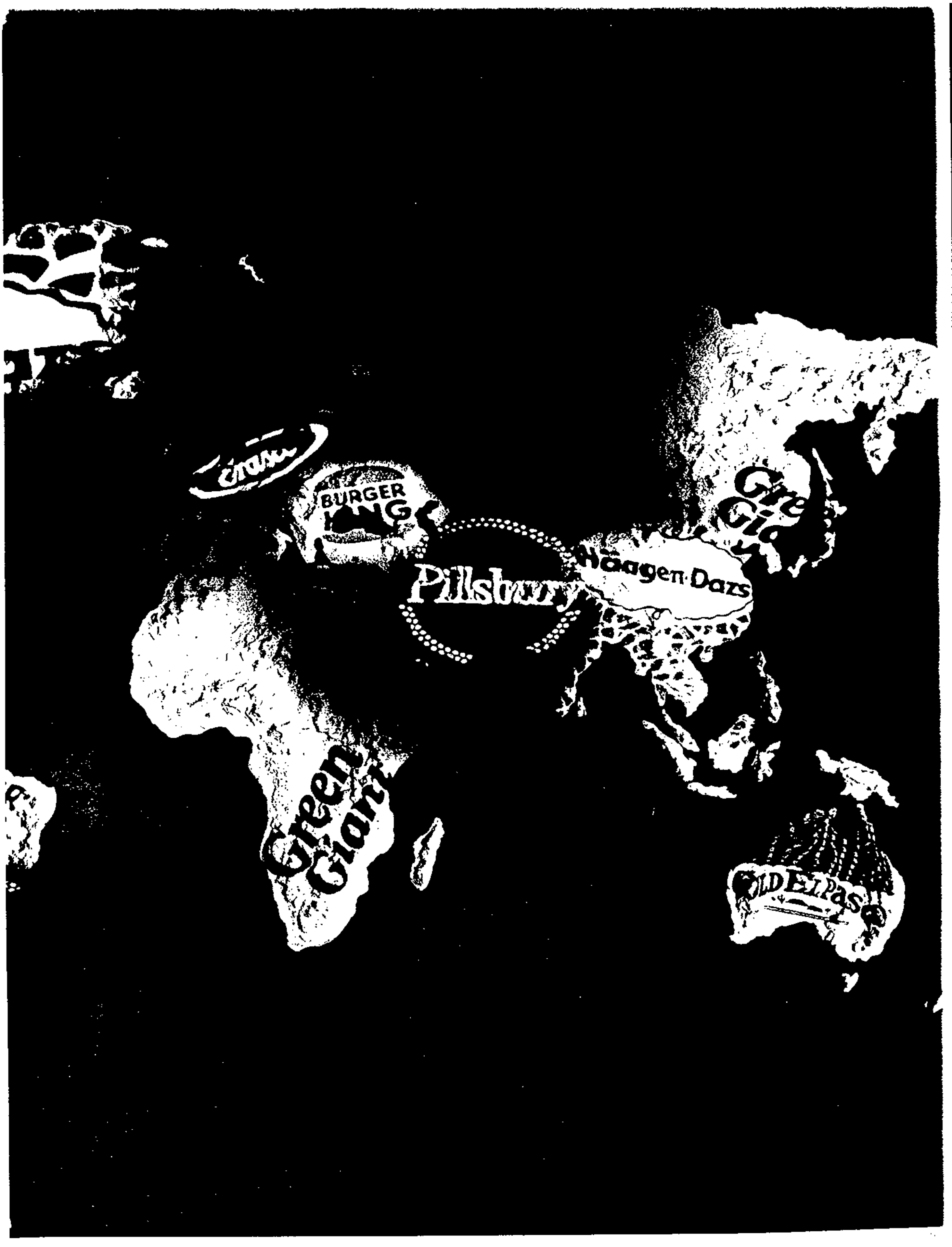
George J Bull
Group Chief Executive

Food

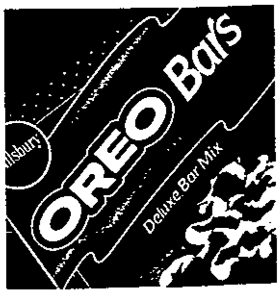
Pillsbury had an excellent year, outperforming the US food industry and achieving record operating profit of £258 million, up 23 per cent in local currency, before the contribution from Pet of £72 million. There were also significant increases in volumes, sales, market share and cash generation. The newly acquired Pet brands traded well, fully realising the financial expectations of the acquisition. Burger King profits declined, as a result of reduced refranchising, but systemwide sales increased to £5.3 billion.

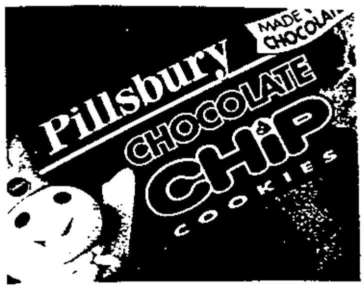





BURGER
Pillsbury
Häagen-Dazs
Green Giant

Pillsbury outperformed the US food industry and achieved significant increases in profits, sales and market share.





Pillsbury Pillsbury includes Pillsbury baked goods and mixes, Green Giant vegetables, Häagen-Dazs frozen desserts, and since the acquisition of Pet Incorporated in February 1995, Old El Paso Mexican foods, Progresso soups and other Italian speciality products.

Including results from businesses acquired with Pet, operating profit increased 49 per cent, from £221 million to £330 million. Also including Pet, sales grew 26 per cent and total volume grew 30 per cent over the prior year. Excluding Pet, sales grew 7 per cent and volume grew 11 per cent. Cash generation was again very strong.

Overall, Pillsbury had an excellent year, benefiting significantly from the initiatives begun in 1993 to reduce the cost base and increase investment behind the brands. Pillsbury's advertising and marketing expenditure, excluding Pet, increased 22 per cent. As a result of these initiatives, Pillsbury outperformed the US food industry and achieved significant increases in profits, sales and market share.

The integration of Pet has progressed well, with cost savings already being achieved. Approximately £160 million has now been realised from the disposal of non-core Pet businesses, including Van de Kamp's and Primo.

Pillsbury's core brands in refrigerated baked goods, frozen and canned vegetables, desserts and breakfast categories showed particular strength. Pillsbury Bakeries and Foodservice performed well and Pillsbury International completed transactions in Argentina and India and opened a representative office in Russia. Overall, during the year, the company's brands either gained or held share in virtually all major categories, with the exception of pizza, which was affected by a difficult trading environment marked by severe price competition.

Pillsbury introduced over 200 new products, with nearly half adding to the range of Pillsbury branded products. Over 22 per cent of current sales comes from products that are five years old or less, and 67 per cent of products introduced in the last five years are still in the marketplace.

Pillsbury branded products in refrigerated baked goods, the company's largest business, grew volume nearly 8 per cent, with strong results in cookies and biscuits, led by the growth of the Grands! biscuit range. Fifteen new products were launched during the year. One of the most successful lines in Pillsbury's history, Grands!, expanded in the northern United States and Reduced Fat Grands! was introduced. Advertising and promotion in this key category increased 49 per cent, driving volume to the highest level in the company's history. Cookie volume alone increased 37 per cent in a successful expansion effort and in response to increased competition in the category.

Performance in desserts, baking mixes and breakfast products was strong. Pillsbury desserts led the category in share gained for the second consecutive year, with operating profit increasing sharply. Highlights included the relaunch of cake

Pillsbury's core category, refrigerated baked goods, increased volume 8 per cent to 76 million cases.


Pillsbury
THE HOME
BAKE SHOP
THE HOME
BAKE SHOP
Pillsbury
Grands!
MOIST

Green Giant, the world's largest branded marketer of frozen, canned and fresh vegetables, increased profit and volume.

and frosting lines and increased volume in two-layer cakes.

Pillsbury breakfast products traded well, although Toaster Strudel volume was suppressed temporarily due to constraints associated with the installation of new production equipment. A new flavour – Toaster Strudel Cream Cheese – was expanded to 35 per cent of the US. Hungry Jack Microwave Pancakes and Hungry Jack Syrup continued to show strength, and the integration of Downyflake frozen waffles acquired with Pet proceeded well. Martha White, the regional baking mix company acquired by Pillsbury in 1994, exceeded overall objectives.

Despite heavy competition, Green Giant, the world's largest branded marketer of frozen, canned and fresh vegetables, increased operating profit significantly over the prior year, with volume increasing 7 per cent. Major contributors to the improved profitability, up 55 per cent, were the strong showing of value-added frozen vegetables, especially Create A Meal! Meal Starters and the results of plant consolidations, partnerships and alliances: for example, the successful production alliance with Seneca Foods in the canned vegetable category.

Pizza volume was adversely affected by vigorous price competition. However, the business was strengthened through the development and relaunch of Totino's Pizza Rolls and the successful test of Totino's Hearty Pockets, which competes in the growing hand-held meals segment. Hearty Pockets was launched in 50 per cent of the US in October 1995.

Häagen-Dazs, the world's leading superpremium ice cream brand, maintained its 51 per cent share of the key North American superpremium ice cream market, with volume up 2 per cent. The US launch of fat free sorbet products exceeded expectations, resulting in strong market share leadership. Two top-selling liqueur flavoured ice creams – Baileys Original Irish Cream and Di Saronno Amaretto – produced in co-operation with IDV, continued to perform well. Joint ventures in Asia Pacific helped improve earnings. Häagen-Dazs is the number one superpremium brand in Japan, with a market share more than four times that of its closest competitor.

Volume and operating profit increased in Pillsbury Canada, with growth led by breakfast and pizza snacks categories.

In Pillsbury Bakeries and Foodservice, volume increased 24 per cent and operating profit 18 per cent. The business continued to benefit from the increasing eating-away-from-home occasions and the further integration of Rudi Foods, Martha White, and Pet Foodservice. A test launch of branded fresh bread, using Pillsbury mixes, was commenced late in the year.

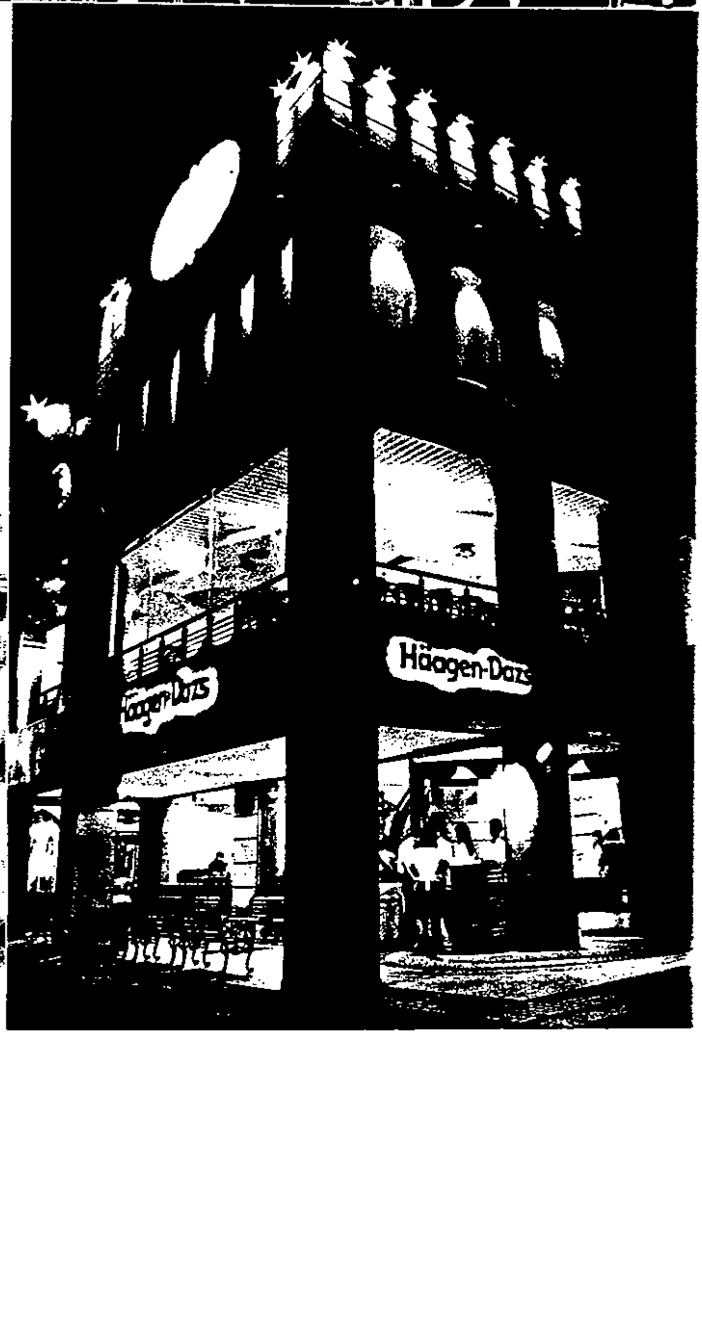
Old El Paso Mexican food and Progresso soups and Italian speciality products showed market share gains in the eight months since the acquisition. The Old El Paso sales increases coincided with the brand's return to television advertising, a strategy consistent with an emphasis on brand building versus short term trade promotion activities. New product activity in

A range of Häagen-Dazs advertising, marketing and merchandising activities, including the highly successful ad campaign in Japan and 'Dedicated to Pleasure' branded CDs


Häagen-Dazs


Häagen-Dazs
Häagen-Dazs
Häagen-Dazs


Häagen-Dazs
OVERS


Häagen-Dazs
Häagen-Dazs


PLEASURE

Old El Paso Mexican food brands and Progresso soups and Italian speciality products showed market share gains since the acquisition.

Progresso was focused on the launch of white-meat chicken soups.

In Pillsbury's Heritage Brands, a diversified portfolio of products acquired with Pet, B&M Baked Beans continued to perform well. Ac'cent seasoning remained a highly profitable business, while Underwood Meat Spreads experienced some volume decline, reflecting category trends.

Pillsbury International, excluding Pet, posted significant increases in volume, up 54 per cent and sales, up 47 per cent, on a base that is relatively small but is growing rapidly. The company acquired La Salteña in Argentina, the leader in prepared dough products, and integrated former Pet businesses in Australia and Venezuela. A joint venture was initiated in India.

Pillsbury Brands Africa was strengthened by the appointment of new management and a test of dough based products for Foodservice was successfully completed. Pacific Star in Mexico, a joint venture that distributes frozen and refrigerated products, achieved improved business results, despite instability created by the devaluation of the peso.

European Foods European Foods produces and markets baked goods, vegetables, ready meals and frozen desserts for European markets. Its brands include Brossard, Erasco, Jus-rol, Pillsbury, Green Giant and Häagen-Dazs.

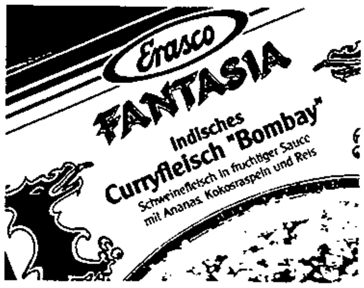
The European Foods business substantially improved its performance in 1995. Operating profit, excluding the contribution from Pet, recovered sharply, from £12 million in 1994 to £23 million in 1995. This represented an increase of 92 per cent, achieved despite the continuing difficult market conditions. The European operations of Pet contributed an additional £5 million of operating profit.

European Foods benefited from the restructuring programmes and cost reduction initiatives commenced in 1994. Advertising and marketing expenditure, excluding Pet, was up 25 per cent on last year, supporting both new and existing brands to build market share.

Erasco, Brossard and Green Giant all achieved market share growth. Häagen-Dazs volume in Europe was up 13 per cent on last year, helped by the launch of Häagen-Dazs Baileys, which exceeded expectations by over 70 per cent. Häagen-Dazs also opened 29 new franchised shops across Europe. Erasco strengthened its number one position in the German ready meal market with several successful new product introductions.

With a volume increase of 14 per cent, Brossard had a record growth year. This was largely driven by the relaunch of the 'mini's' – a range of eight different individual cakes under the Savane brand name. Jus-rol in the UK performed well, with particular success with its range of partially cooked roast potatoes.

The Pet businesses were successfully integrated into European operations. Old El Paso volume increased over 15 per cent, benefiting from increased marketing support.



Burger King Burger King is one of the world's largest fast food restaurant chains. The company and its franchisees operate over 8,000 restaurants in 56 countries and territories around the world.

Burger King reported worldwide system sales at a record level of £5.3 billion, a 12 per cent increase in local currency and operating profit of £196 million. This was down from the previous year, due to a £34 million reduction in refranchising profits and a £9 million adverse currency impact. As the major US refranchising programme begun last year was completed in 1995, refranchising profits will be at significantly lower levels in 1996.

In North America, which accounts for approximately 85 per cent of the Burger King business, comparable store sales for the year were up 6.4 per cent, bringing the two year comparable sales growth increase to 12.9 per cent. In addition, Burger King achieved traffic growth rate increases well above those of McDonald's and Wendy's. For the second consecutive year, US store traffic and market share increases were also recorded.

Although trading in Europe weakened during the year, the Asia Pacific region again showed strong sales performance.

Latin America, despite the peso's devaluation in Mexico, posted positive comparable store sales for the fourth consecutive year. Strong customer traffic performance was due to a refocused marketing programme and an improved kids' promotional programme.

Once again, Burger King's performance was strengthened by a number of marketing and development activities.

Advertising and marketing support behind Burger King's marketing campaigns – Flame Broiling, 'Have It Your Way' and the Value Menu – increased more than 11 per cent over 1994.

In April 1995, the Whopper Invitation programme, featuring the Whopper Sandwich line, invited consumers to Burger King restaurants to try America's most preferred burger. Sales were up 6 per cent during the three month promotion, building on the 9 per cent gain in the same period last year.

Burger King's strong relationship with Walt Disney Pictures in the US produced an extremely successful summer promotional tie-in to Disney's movie, Pocahontas. During this eight week promotion, the Burger King system distributed a record total of 55 million promotional items and Kids' Meals sales increased 70 per cent.

Burger King also launched sports marketing promotional partnerships with college football and car racing in the US. Working with well known sports personalities, the brand message of 'great food at great value' was tied to the strong nationwide support of football and car racing.

Development efforts behind the brand reached a record level as Burger King opened 657 new restaurants in 1995 – over 100 more than last year.

Pillsbury, Green Giant, Old El Paso and Häagen-Dazs will be developed in established and emerging markets.

The achievement was led by 625 franchise restaurant openings and 32 company-owned units. 398 restaurants were opened in North America, 167 in Europe and the Middle East, 30 in Latin America and 62 in the Asia Pacific region.

Pearle Vision Pearle Vision, the retail eyewear and eyecare company, had another year of solid growth, continuing the improved business performance from last year. Systemwide sales were up 3 per cent and operating profit increased over 74 per cent on the previous year.

Comparable store sales showed an increase of 2.4 per cent over last year and for the first time in several years, a new store opening programme was initiated in the US. This programme will continue in 1996.

Future strategy GrandMet's Food businesses performed well during the year by following the group's strategy of brand investment, new brand development, expansion into new and emerging markets, and growth through relevant add-on acquisitions.

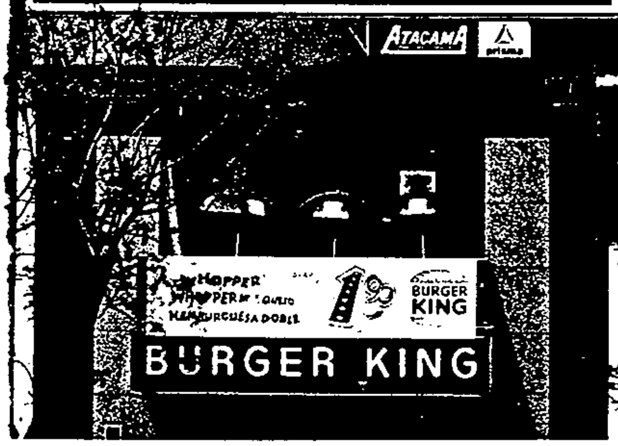
This strategy will continue in the future, with emphasis on growing the Old El Paso and Progresso brands, particularly in the US, developing international brands - Pillsbury, Green Giant, Old El Paso and Häagen-Dazs - in established and emerging markets, and continuing to increase market share, margins and volumes of Pillsbury's highly successful range of products in the North American market.

European Foods will continue to improve profitability through cost reduction, increased brand support and increased contribution from the Pet brands.

Burger King will strengthen its operations and management in Europe and will continue its highly successful marketing programmes and Value Menu in the US. A similar level of new store openings is also planned for the current year.

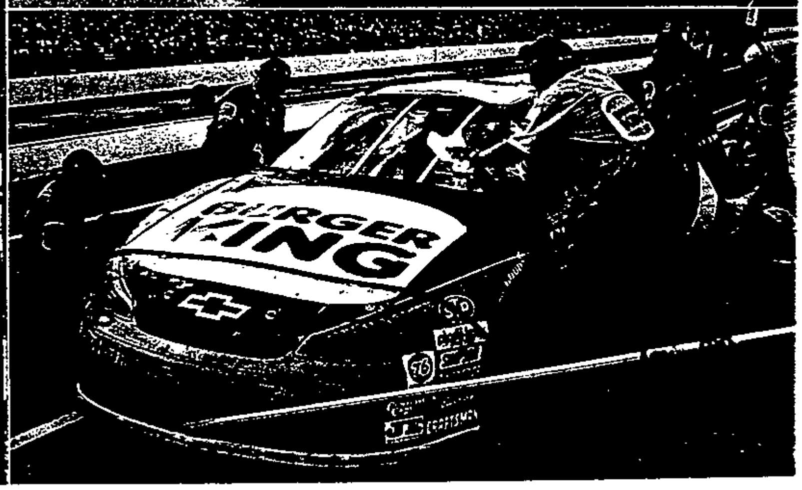
The Burger King logo, prominently displayed around the world, including an electronic billboard in Argentina and on a Nascar race car in the US


Coca-Cola
BURGER KING
BURGER KING
Con más carne.
edilas como te gusten.


ATACAMA
BURGER KING
BURGER KING

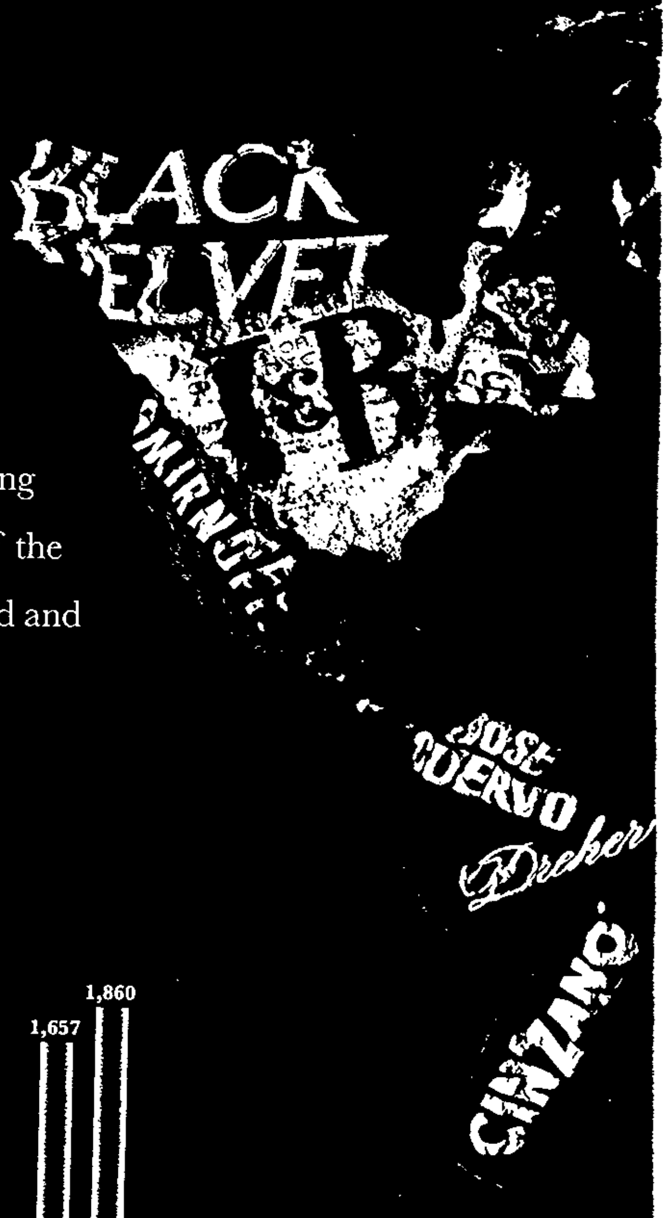

BURGER KING

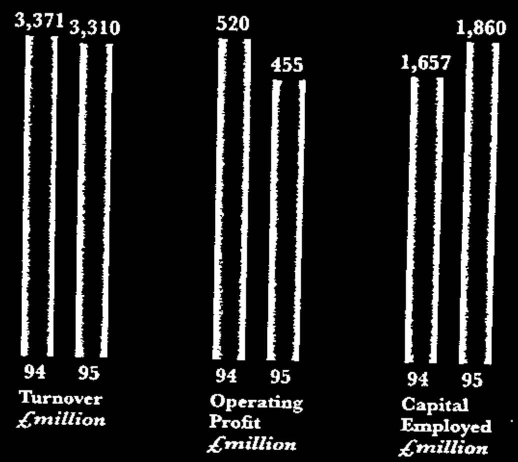

BURGER KING


BURGER KING

Drinks

IDV's operating profit was down 13 per cent to £455 million, principally reflecting the loss of two agency brands. Comparable worldwide spirits volume increased 2 per cent, with the top five brands achieving 4 per cent volume growth. IDV's share of the developed world's spirits market increased and volume in the growing emerging markets increased 37 per cent.






BAILEYS
GILBEY'S
J&B
BAILEYS

IDV owns five of the top 20 spirits brands in the world, including Smirnoff, J&B Rare and Baileys.

International Distillers & Vintners
International Distillers & Vintners reported a 13 per cent decrease in operating profit from £520 million to £455 million, reflecting the loss of agency distribution rights for Absolut Vodka and Grand Marnier and adverse currency movements. Excluding these factors, IDV's operating profit increased 2 per cent. Turnover decreased by £61 million to £3,310 million. Operating cash flow was again strong.

As reported last year, IDV initiated a major restructuring programme to reduce the cost base and allow increased investment behind its portfolio of world class brands. This programme is well under way and produced cost savings of £26 million during the year, £20 million ahead of last year. Advertising and marketing expenditure increased 13 per cent, with the advertising element, the key to long term brand building, increasing 21 per cent.

The major destocking programme implemented in North America last year, which adversely affected 1994 reported profits by £39 million, succeeded in aligning IDV's shipments to the trade with the underlying pattern of consumer demand.

Whilst the worldwide traditional spirits market is predicted to have declined at 1.5 per cent per year over the past five years, IDV's comparable total volume increased 1 per cent. Its spirits volume increased 2 per cent this year. The top five brands, in terms of profitability – J&B, Smirnoff, Baileys, Malibu and Jose Cuervo – increased comparable volumes 4 per cent. IDV's estimated share of the traditional world spirits market held at about 12 per cent.

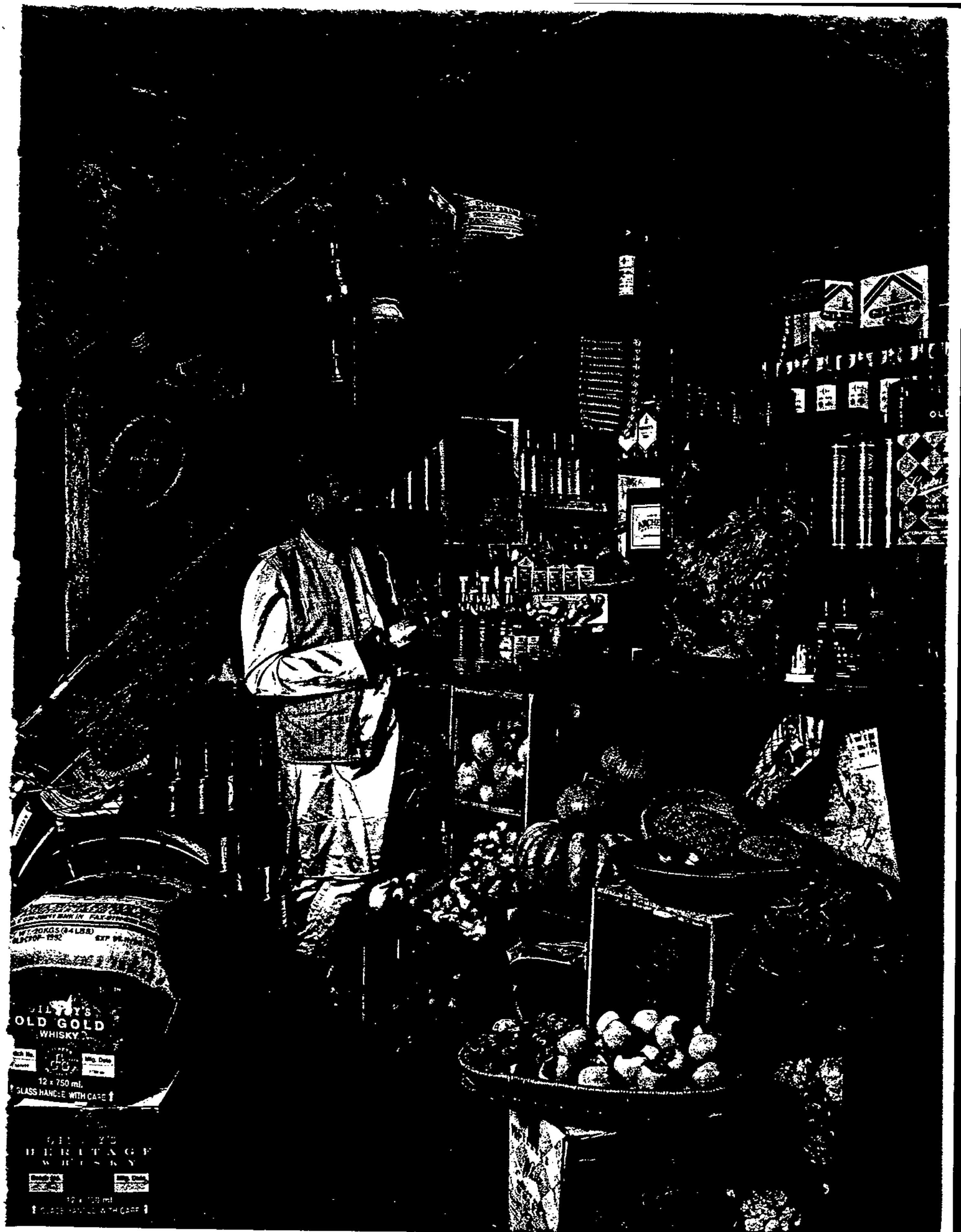
Emerging markets, which IDV defines as those countries which have become accessible due to the relaxation of barriers over recent years, produced approximately 5 per cent of IDV's total spirits volume, with a 37 per cent increase in volume during the year. Despite a continuing difficult retail environment, IDV's average prices increased about 1 per cent.

In line with the clear strategic focus of the group, IDV once again adhered to four key strategies for growth: building existing brands through continued investment; developing new brands; strengthening its presence in new and emerging markets and growing through relevant add-on acquisitions and alliances.

Major brands IDV owns five of the top 20 spirits brands in the world, including Smirnoff, J&B Rare and Baileys.

Smirnoff maintained its position as the world's leading vodka and second largest spirits brand, whilst matching its highest ever volume.
To continue to strengthen Smirnoff's leading world position, advertising and marketing expenditure increased 25 per cent. In the important North American market, Smirnoff volume and market share grew, whilst volumes grew in the UK, Spain and Brazil. Smirnoff continued its advance in the emerging markets. It achieved significant volumes in Poland and the former Soviet Union and made an encouraging start in the important and growing Indian market.

India is one of IDV's fastest growing emerging markets, with both international and national brands, especially the Gilbey's range of whiskies, experiencing significant growth.


OLD GOLD
WHISKY
12 x 750 ml.
GLASS HANDLE WITH CARE

Malibu achieved record volume during the year, led by increasing popularity in the US, the UK and France.

J&B overall volume grew again during the year, with volume and market share gains in virtually all key markets, including the difficult European markets of Spain, France and Italy. J&B Reserve showed growth in Latin America and Europe, notably Spain, whilst J&B JET grew in both Latin America and Asia Pacific.

Baileys had an excellent year, with comparable volume up 7 per cent overall and market share growth in all key markets. In the very important US market, volume growth was restored. The only principal market to show a modest decline was Germany, where consumer spending is still slow, although the past six months have shown a steady recovery in Baileys' volume.

Malibu, also created and developed by IDV, achieved record volume in the year, led by its increasing popularity in established markets like the US, the UK and France. The brand also made great progress in its newer markets, Brazil, the Czech Republic and India, and with the recently introduced Malibu Caribbean Cocktails, Malibu is showing significant growth in virtually all its key markets.

Jose Cuervo, the world's number one tequila, achieved record volume, up 10 per cent, with advances in Latin America, Asia Pacific and also Europe, where IDV assumed distribution for the brand in 1994.

Brand development IDV continued its strategy of developing new brands for both established and emerging markets. This included both brands with international potential and exciting national brands developed particularly for the emerging markets.

The Gilbey's range of whiskies was an outstanding success in India, achieving volume of more than 450,000 cases in the first year of launch.

Malibu Caribbean Cocktails, introduced last year in Australia and the UK, were extended to Ireland with good results this year. This brand extension reinforces the unique equity of the core brand – fun, style and distinctiveness.

Dunhill Cognac was launched initially in Hong Kong. The brand has been progressively introduced into Greater China and Duty Free markets in Asia Pacific, where the Dunhill brand franchise is strong and the cognac category is extremely important.

Godet liqueur, a superpremium cognac-based liqueur with Belgian white chocolate, has been highly successful in test market in the US, where it is now being rolled out nationally. It is being launched in the UK and tested in Italy.

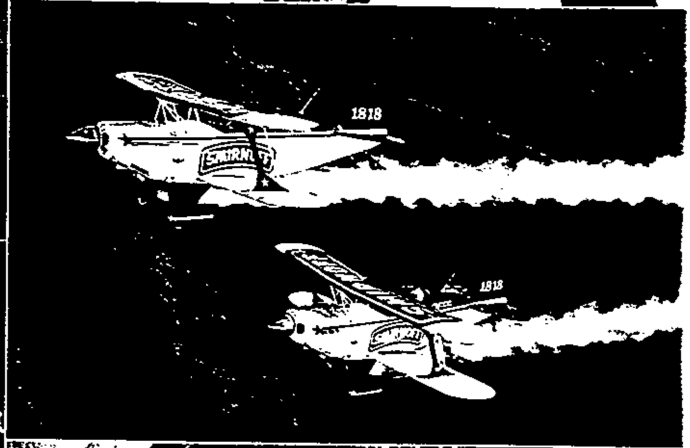
Smirnoff Moscow Mule, a new premium packaged vodka drink, was developed to compete in the growing premium packaged lager market. It has been on test in Scotland, Manchester and London and will be rolled out nationally in the UK in early 1996.

In Brazil, Old Eight Whisky, a national brand, continued to perform well with volume growth in excess of 10 per cent.

Brands introduced over the past few years –

Smirnoff's extensive advertising, marketing and promotional activities, including GoldenEye, the James Bond film and the award winning 'Pure Thrill' advertising campaign


SMIRNOFF
19
95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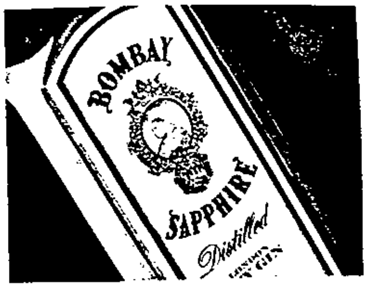
SMIRNOFF

In North America, Smirnoff, Jose Cuervo, Stolichnaya, Baileys, Goldschläger and Bombay Sapphire all gained volume.



Goldschläger in the US, Smirnoff Black in the US and the UK and J&B JET in Asia Pacific and Duty Free, for example – continued their early success.

To measure the effectiveness of the increased investment in its brands, IDV monitors the equity of its leading brand market units, for example J&B in Spain, Smirnoff in the US, Baileys in the UK. This is done on a regular basis and across a number of measures, including volume and market share growth. Seventy-five per cent of the top brand market units which have had enhanced advertising and marketing investment have increased both volume and market share compared to last year.

North America Despite the recovery in the North American economy, the spirits industry continued to decline at a rate of about 2 per cent per year. Within this environment, IDV's operating profit, excluding the loss of agency brands and the benefits of destocking, increased 6 per cent.

Comparable advertising and marketing expenditure increased 15 per cent, leading to comparable volume gains in key brands, Smirnoff, Jose Cuervo, Stolichnaya, Baileys, Goldschläger, Malibu and Bombay Sapphire. Overall spirits volume was maintained, although the lower priced vodkas and Heublein Cocktails lost volume.

Wine volume on a comparable basis increased 2 per cent, led by Beaulieu which increased 13 per cent and Glen Ellen which increased 6 per cent, both value-added wine brands.

Key brand volume growth, sales mix benefits and restructuring savings, which partially funded the increased brand investment, achieved underlying profit growth and provide a solid foundation for the future.

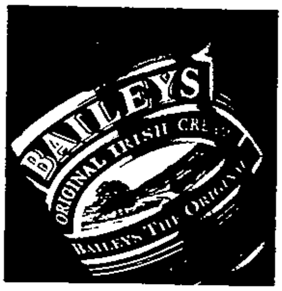
Europe Trading conditions in Europe remained difficult, causing margin pressures and resistance to price increases, which adversely affected profit. Advertising and marketing expenditure increased 8 per cent and there were encouraging performances in some key brand market units.

J&B increased both volume and profit in Spain, its most significant European market, where the strength of the brand achieved a 3 per cent price increase. Other key brands in Spain – Baileys and Malibu, for example – also improved performance in both volume and market share, and Bombay gin and Smirnoff grew in volume.

In the UK, where the economy has improved, IDV volume was up 5 per cent, with Baileys and Malibu achieving significant market share growth.

Asia Pacific IDV continued its investment in the Asia Pacific region, expanding the sales organisation in newly entered markets. It now operates in 15 countries in the region, establishing a joint venture in Vietnam during the year. Gilbey's Gin maintained its strong number one position in the Philippines, with sales in excess of 700,000 cases, a 50 per cent increase over last year.

IDV was the first international drinks company to produce and distribute its own brands in



India. It is making encouraging progress, not only with the Gilbey's range of whiskies, but also with international brands sold there, including Malibu, Archer's and Gilbey's Gin. Smirnoff is also produced in India to IDV's exacting standards.

Together with IDV's specially produced local brand, Kellys Original Cream Liqueur and locally bottled Spey Royal Scotch whisky, total volume in India during the year was in excess of 700,000 cases.

Eastern Europe and former Soviet Union Eastern Europe and the major countries of the former Soviet Union continue to represent a significant opportunity for IDV, particularly for its strong vodka portfolio. In Eastern Europe, IDV markets and distributes its brands in six countries, adding Slovakia, Bulgaria and Romania during the year. Volume increased more than 65 per cent, with a strong performance by Smirnoff in Poland.

In the former Soviet Union, Smirnoff maintained its position as the largest premium imported vodka brand. Metaxa, Cinzano and Baileys are also sold in the former Soviet Union, where total sales of IDV brands are approximately one million cases.

Africa and Latin America Political and economic changes created a climate of uncertainty in some areas, whilst stabilisation positively affected other markets.

The stabilisation of the Brazilian economy resulted in growth in the total spirits market. Combined with the strong preference for international brands, such as Smirnoff, this led to volume growth of 7 per cent.

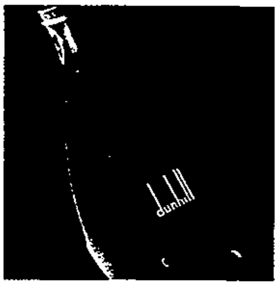
In South Africa, J&B volume grew more than 20 per cent and its market share increased. However, the 1995 results were affected by the cancellation of the agreement to distribute Seagram's brands in South Africa.

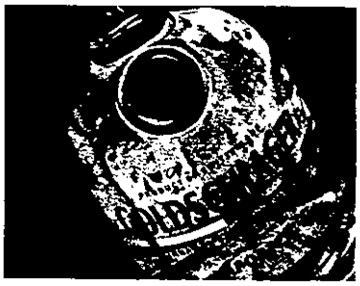
Strategic development The past year was significant for IDV in terms of laying the foundation for sustainable long term growth. The worldwide restructuring programme, which is well under way, and the strategic investment in brand market units were the major priorities for the year. In addition, IDV continued to strengthen its worldwide distribution and augment its international brand portfolio.

During the year, IDV set up a joint venture which owns the trademark of Picon, a leading French bitter aperitif, and now controls the worldwide distribution for the brand. IDV also established a distribution company in Finland and acquired distribution rights for Stolichnaya in Canada and the UK.

In addition to its expansion in Eastern Europe, IDV signed a co-operation agreement with the Russian owners of the Stolichnaya brand, Sojuzplodoimport, in February 1995, which was followed by a joint venture, signed in July, for marketing the brand in additional international markets.

Successful emerging brands like Gilbey's whiskies, Goldschläger and Dunhill Cognac will be supported to increase brand awareness.





Future strategy In 1996, IDV will continue to pursue its established strategy, building on the benefits of the restructuring programmes and the increased investment behind its brands. The significant cost reductions already attained and the increased volume and market share provide a foundation for future growth.

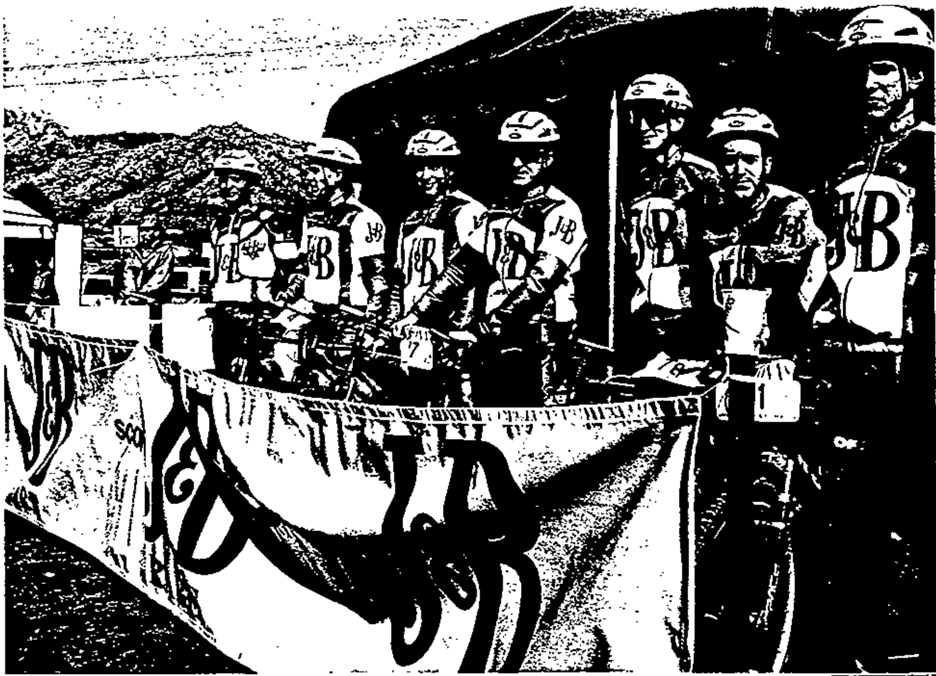
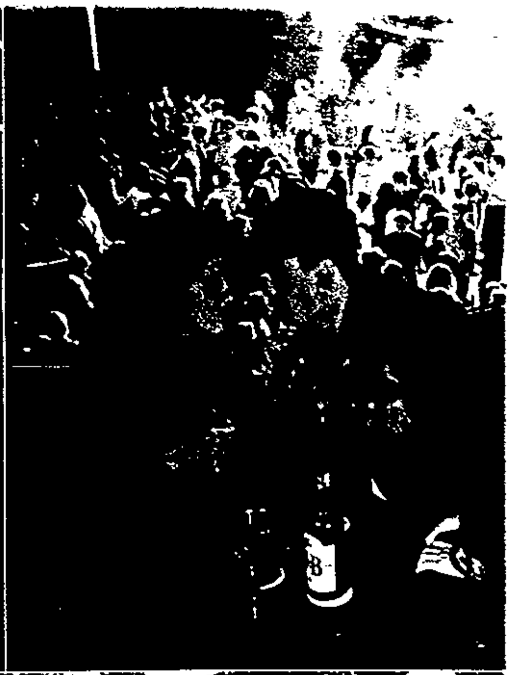
IDV will continue its marketing investment in its well established international brands – Smirnoff, J&B, Baileys and others. The highly successful emerging brands – Gilbey's whiskies in India, Goldschläger in the US, and Dunhill Cognac in Asia, for example – will also be supported to increase awareness and broaden distribution.

Whilst traditional spirits markets in North America and some parts of Western Europe are still experiencing some decline, IDV's development in the emerging markets will continue, with international and national brands introduced to consumers who are enthusiastic about value-added branded products.

Finally, IDV will strengthen its worldwide presence through strategic add-on acquisitions and alliances whenever an appropriate brand or market opportunity arises.

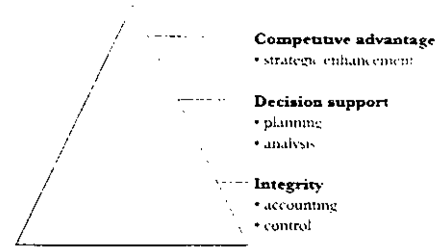
IDV's restructured organisation and strongly supported brand portfolio position it well to compete in the changing world spirits market. Early signs in the current year indicate a satisfactory start to continued cash generation and improved performance.

J&B's worldwide advertising and promotional activities, including the J&B European Rafting Championship and the J&B Kona Mountain Bike team in Spain




Financial Review



The GrandMet Finance Paradigm

Finance function vision

During the year, further progress was made in implementing the functional vision for finance in GrandMet. This vision is best described in the GrandMet Finance paradigm. The basic objective is to ensure integrity, to support the businesses and ultimately assist in developing competitive advantage. The aim is to move each of the finance teams around the world up the paradigm bringing the finance function closer to the vision of world-class finance, with fully re-engineered financial systems, using sophisticated planning and analytical techniques, acting as a true business partner and championing change in the eternal quest for best practice.

1995's major financial events

There have been several events during the year which have had a major financial impact on the group.

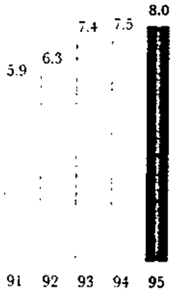
The most significant of these events was the purchase of Pet Incorporated in February 1995 for £1.8 billion.

Including the debt acquired with Pet, this had the effect of increasing the group's net borrowings by £2.1 billion. Brands with a total value of £1.1 billion have been capitalised as part of this acquisition in accordance with the group's accounting policy. The goodwill arising was £690 million which has been written off directly to reserves.

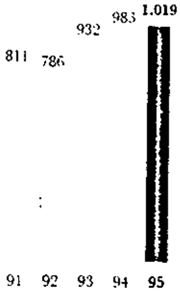
The sale of Alpo Petfoods, completed in December 1994 for £327 million, realised a profit before taxation of £198 million. The cash proceeds in respect of this sale were received on 2nd October 1995 and are therefore not included in year end net borrowings.

The refinancing of Inntrepreneur Estates Limited (IEL), the group's pub joint venture, was successfully

OPERATING HIGHLIGHTS	*1995* £m	*1994* £m
TURNOVER		
Continuing operations	7,965	7,464
Discontinued operations	60	316
	8,025	7,780
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS		
Continuing operations	1,019	983
Discontinued operations	13	40
	1,032	1,023
Profit before exceptional items and taxation	912	945
Exceptional items before taxation	8	(291)
Profit before taxation	920	654
	pence	*pence*
Earnings per share before exceptional items	29.8	32.2
Earnings per share including exceptional items	28.8	21.6
Dividends per share	14.9	13.95



Turnover from continuing operations
£ billion



Operating profit from continuing operations before exceptional items
£ million

completed in January 1995. This resulted in the repayment to GrandMet of its £360 million loan and a further injection of £28 million of new equity capital, a net release of cash of £332 million.

Review of results and shareholders' return

This year's profit and loss account (see page 58) has been presented in a similar format to last year. The directors believe that this format gives a clear presentation, on a comparable basis, of the group's underlying performance.

Adoption of new accounting standards

In September 1994, the Accounting Standards Board issued FRS 6 – Acquisitions and Mergers and FRS 7 – Fair Values in Acquisition Accounting. In complying with these reporting standards, GrandMet has adopted their requirements in advance of their mandatory implementation date.

FRS 7 sets out new rules to be adopted when establishing the fair values of the assets and liabilities of an acquired entity. These rules require that the assets and liabilities be valued to reflect their condition at the date of acquisition and not reflect any intentions that the acquirer may have. As a result reorganisation and integration costs can no longer be provided for within the fair value balance sheet of an acquired entity. An exceptional charge to operating profit of £122 million was made in respect of the integration of the acquired Pet businesses into Pillsbury and European Foods.

The other main effect on GrandMet of complying with the new standards has been the increased level of disclosure concerning the group's acquisition of Pet. This is set out in the notes to the financial statements.

In compliance with these standards, comparative figures have not been restated.

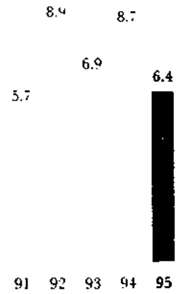
Turnover and operating results Turnover from continuing operations increased 7 per cent, from £7,464 million to £7,965 million, whilst operating profit from continuing operations before exceptional items increased 4 per cent from £983 million to £1,019 million.

Pet contributed £77 million to the group's operating profit. Interest in respect of Pet was £79 million for the period.

The group's operating profit was adversely affected by the loss of the Absolut and Grand Marnier agencies which has reduced this year's profit by £71 million compared to last year. The level of income earned by Burger King from the franchising of company owned stores has fallen from £64 million in 1994 to £30 million in 1995. This represents the balance of last year's major strategic refranchising which is now complete.

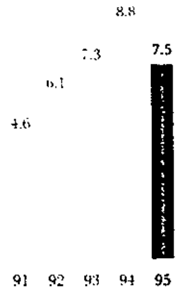
The weakening of the US dollar against sterling had an effect on the reported results compared to last year. The average US dollar/sterling rate moved from \$1.51 to \$1.58. The effect of this and other translation movements was to reduce operating profit before exceptional items by £30 million and profit before tax and exceptional items by £22 million compared to 1994. The year end US dollar/sterling exchange rate was \$1.58, the same as the 1994 year end rate.

A detailed analysis of the group's operating results is given in the Operating Review starting on page 8.



Interest cover
times

Interest cover is defined as the number of times profit before interest, exceptional items and taxation is greater than the net interest charge.



Cash interest cover
times

Cash interest cover is defined as the number of times the group net cash flow from operating activities is greater than its net cash interest payments aggregated with its non-equity minority interest dividend payments.

Income from associates Income from associates before exceptional items increased from £45 million to £48 million. There were increased earnings from Häagen-Dazs Japan benefiting in part from favourable currency translation, but the results from the Jose Cuervo group in Mexico were down on last year primarily as a result of the devaluation of the peso. In addition, there was an improved result from IEL. More details on IEL are given on page 32.

Interest The net interest charge increased from £123 million to £168 million. Borrowings in respect of the acquisition of Pet increased the interest charge by £79 million. Furthermore, net swap income, which is included within interest, fell by £13 million to £21 million. This reflects the reduced sterling/dollar interest differential and the reduction of the dollar asset hedge to 55 per cent. It is likely that swap income will fall further in 1996.

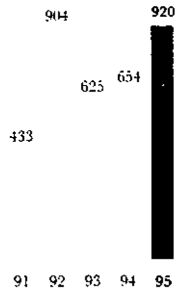
These increases were partly offset by the impact of the issue of the guaranteed preferred securities in November 1994 (the dividend on which is treated as a non-equity minority interest), the interest received on the loan note to Nestlé, the acquirer of Alpo Petfoods, the cash inflow for the year and the impact of exchange rate movements. Interest cover decreased from 8.7 times to 6.4 times. This decrease was anticipated following the increase in borrowings as a direct consequence of the Pet acquisition. However, this is still above the comfort level set by the group of a minimum of five times. The cash interest cover, excluding the interest received on the loan repayment by IEL, decreased from 8.8 times to 7.5 times.

Profit before exceptional items and taxation Profit before exceptional items and taxation decreased by £33 million, 3 per cent, to £912 million. Excluding the effects of currency translation, the decrease was 1 per cent.

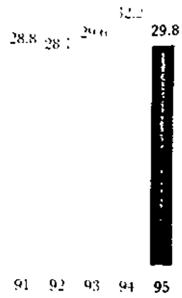
Exceptional items An analysis of exceptional items is set out below.

EXCEPTIONAL ITEMS	*1995* £m	*1994* £m
Pet integration costs	(122)	
Sale of Alpo Petfoods	198	
Disposal of Green Giant processing	(42)	-
Share of associated company exceptional items	(15)	-
Restructuring costs	-	(280)
Sale of US jug wines	-	(37)
Other	(11)	26
TOTAL EXCEPTIONAL ITEMS	8	(291)

Profit before exceptional items and taxation
£ million



Profit before taxation
£ million



Earnings per share before exceptional items
pence per share

The main charge in 1995 related to the costs of integrating the Pet businesses into Pillsbury and European Foods. The major elements are: costs to exit and move Pet's St. Louis headquarters to Minneapolis, including severance of employees; manufacturing plant integration costs; management information systems integration costs; and packaging redesign costs.

The sale of Alpo Petfoods in December 1994 realised a profit of £198 million. This was after taking account of goodwill previously written off of £27 million.

During the year, Pillsbury signed a long term agreement that made Seneca Foods Corporation the primary processor of Green Giant canned vegetables. As part of this agreement Seneca purchased six Pillsbury production facilities. A provision of £42 million has been made to cover the closure of a further four processing facilities.

GrandMet's share of associated company exceptional charges was £15 million, £10 million of which relates to interest rate swap agreements no longer required following the refinancing of IEL.

In 1993 and 1994, provisions were made to restructure the group's businesses. The 1993 restructuring programme at Pillsbury, Burger King and Pearle is now largely complete. The 1994 initiative which concentrated on Drinks and European Foods is progressing well with cost savings already being achieved. The 1993 and 1994 programmes have yielded savings of approximately £83 million in the year, £45 million ahead of last year, which has largely been used to increase the investment in advertising and marketing the group's brands.

Profit before taxation Profit before taxation increased from £654 million to £920 million, reflecting the significant exceptional charges in 1994. Adverse currency movements resulted in a reduction in the translation of overseas profits of £24 million compared to 1994.

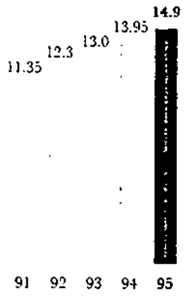
Taxation The effective tax rate on profit excluding exceptional items was 28 per cent, compared with 28.5 per cent last year. The effective tax rate is likely to remain at this level for some time.

Including exceptional items, the rate was 30.9 per cent compared with 30.1 per cent last year. The tax on exceptional items was £29 million. The disproportionately high rate was primarily caused by the level of capital duty on the profit on the sale of Alpo Petfoods.

Earnings per share Earnings per share rose from 21.6p to 28.8p, an increase of 33 per cent, reflecting the significant exceptional charges in 1994. Earnings per share excluding exceptional items decreased 7 per cent from 32.2p to 29.8p.

Minority interests The minority interests charge has increased in 1995 by £28 million to £35 million. The main reason for this increase is the dividends on the guaranteed preferred securities issued in November 1994 which are treated as non-equity minority interests.

Dividends and retained profits Total profit for the financial year after deducting taxation and minority interests was £601 million, compared to £450 million for 1994.



Ordinary dividends per share
pence

The recommended dividend for the year is 14.9p per share, representing an increase of 6.8 per cent over last year. The annual dividend is covered 2.0 times by profit for the year before exceptional items and taxation. The total cost of the dividend is £312 million, leaving £289 million to be transferred to reserves.

Inntrepreneur Estates Limited

GrandMet has a 50 per cent shareholding in IEL, a joint venture company in which GrandMet and Courage merged their former tenanted pub estates.

The group's share of IEL's profit before exceptional items for the year was £7 million compared with £5 million in the previous year. The increase has resulted partly from lower interest costs following its refinancing.

During the year, IEL sold 1,731 free of tie pubs and 320 other pubs for a total cash consideration of approximately £450 million and refinanced its remaining pub estate with a loan from a syndicate of banks which is repayable in 2000. Also in the year, IEL repaid its loan due to GrandMet of £360 million and the group injected £28 million of new equity capital. Whilst still represented on the IEL Board, the group now has no day to day management involvement in IEL.

IEL's directors considered that the valuation of the properties at 30th September 1995 was unchanged from the 1994 valuation.

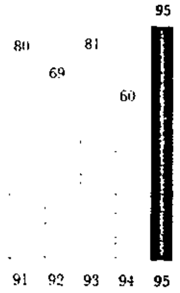
IEL's bank loan is repayable in 2000 and is secured on its investment properties. The group and Fosters Brewing Group Ltd have several and equal obligations in the event that IEL is unable to maintain certain specified loan to asset value and interest cover ratios required by the financing arrangements. The group does not expect to make any contribution in respect of these requirements for the foreseeable future.

Review of balance sheet and financial resources

Net borrowings increased by £1,162 million to £3,321 million. The major part of this relates to the purchase of Pet which increased net borrowings by approximately £2.1 billion. This was partially offset by strong cash generation along with the proceeds of the issue of guaranteed preferred securities of £343 million and from the net receipt of £332 million from IEL described above. Exchange movements on the translation of foreign currency borrowings were not significant. Gearing increased from 60 per cent to 95 per cent. Net borrowings were 36 per cent of the group's market capitalisation at 30th September 1995 compared to 25 per cent last year.

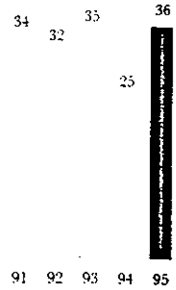
Significant brands acquired since 1st January 1985 are recorded on the balance sheet. As part of the annual review process, the directors have appraised their value and consider that no permanent diminution in value of any brand has occurred. Indeed, the current aggregate value significantly exceeds the book value.

During 1995, the value of brands held on the balance sheet increased by a net £1,058 million. Of this amount, £1,067 million was a result of the Pet brands acquired, of which the most significant are Old El Paso and Progresso. The remainder of the net increase resulted from exchange movements on translation.



Gearing
per cent

Gearing is defined as net borrowings as a percentage of shareholders' equity (share capital, reserves and minority interests)



Net debt as a percentage of market capitalisation
per cent

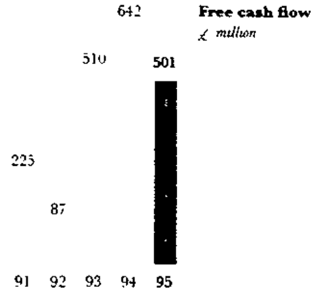
Over 75 per cent of intangible assets on the balance sheet is represented by just five brands: Pillsbury, Burger King, Smirnoff, Old El Paso and Progresso. Since only brands acquired after January 1985 are recorded on the balance sheet, brands such as Baileys and Malibu, which were internally created, and J&B Rare, which was acquired in 1972, are excluded, despite representing considerable value to GrandMet.

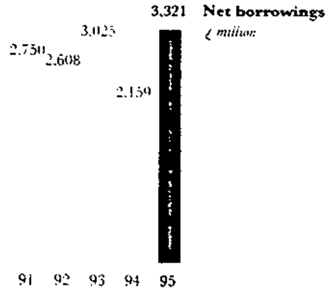
GrandMet believes that its long term future lies with the strength of its brands. Consequently, the cost saving benefits of the 1993 and 1994 restructuring initiatives have been largely invested in promoting its portfolio of brands, with advertising, marketing and promotion expenditure exceeding £1 billion for the first time during 1995.

Review of cash flow The net cash inflow from operating activities decreased from £1,195 million in 1994 to £1,070 million in 1995. This reduction resulted mainly from an increase of £45 million in payments relating to restructuring and integration initiatives. Including the remainder of the Pet integration, a further £160 million of cash cost remains to be incurred on the restructuring, most of which will be incurred during 1996.

Working capital benefited from the Seneca transaction; this was more than offset by the non-cash movement in the pension prepayments and the effects of acquisitions and disposals.

CASH FLOW SUMMARY	*1995* *£m*	*1994* *£m*
Operating profit before exceptional items	1,032	1,023
Depreciation	187	205
Restructuring and integration payments	(112)	(67)
Working capital	(66)	22
Other items	29	12
Net cash inflow from operating activities	1,070	1,195
Interest and taxation	(370)	(331)
Dividends paid to minority interests	(31)	-
Capital expenditure	(219)	(200)
Sale of fixed assets	101	41
Acquisition and disposal provision payments	(50)	(63)
FREE CASH FLOW	501	642
Dividends paid	(280)	(251)
Prior year interest received from IEL	71	
Net (acquisitions)/disposals	(1,811)	284
NET CASH (OUTFLOW)/INFLOW IMPACT ON BORROWINGS	(1,519)	675
Deduct: Borrowings of subsidiaries acquired/(sold)	322	(66)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING	(1,197)	609





Net interest and tax payments, which includes dividends from associates in the summary table, increased from £331 million to £370 million. Taxation payments were higher this year compared to last as the group resumed a more normal level of outflow. Last year's tax payments benefited from the internal restructuring of the group's borrowings.

Dividends paid to minorities totalled £31 million; £23 million of this was in respect of the guaranteed preferred securities issued during the year.

Sales from fixed assets increased £60 million to £101 million largely reflecting the sale of surplus properties from the GrandMet Estates portfolio.

The cash spend relating to acquisition and disposal provisions was at a similar level to last year.

Free cash flow, which represents the cash available for the payment of dividends, net acquisitions and financing items was £501 million, which fell as anticipated from last year's record level of £642 million. Since 1991, the group's free cash flow has improved significantly. In the last three years over £1.6 billion of free cash flow has been generated.

Acquisitions amounted to £2,378 million which included Pet as well as several add-on acquisitions. These were offset by disposal proceeds of £567 million, of which the largest part related to the loan repayment by IEL. After allowing for IEL prior year interest received of £71 million and deducting £280 million paid in respect of dividends, the net cash flow outflow before financing was £1,519 million, compared to a net cash inflow of £675 million in the previous year.

Movement in net borrowings After adding financing items of £349 million, the net cash outflow was £1,170 million, which increased net borrowings to £3,313 million before the effects of exchange. Exchange effects increased borrowings by £8 million, bringing closing net borrowings to £3,321 million.

Funding The group has a policy of being substantially funded with long term debt and maintaining a liquid balance sheet. The group's net borrowings of £3,321 million at 30th September 1995 comprised total borrowings of £4,488 million, offset by cash, bank deposits, interest rate swaps and short term investments of £1,167 million. Borrowings due after more than

NET BORROWINGS MOVEMENT SUMMARY	*1995* £m	*1994* £m
Net cash (outflow)/inflow impact on net borrowings	(1,519)	675
Guaranteed preferred securities issued	343	–
Shares issued	13	31
Capital element of finance leases	(7)	(9)
Net cash (outflow)/inflow	(1,170)	697
Exchange movement	8	169
(INCREASE)/DECREASE IN NET BORROWINGS	(1,162)	866

three years totalled £2,900 million. Surplus cash is invested with counterparties which have high quality credit ratings.

During 1995, group debt has been further diversified in terms of both funding source and maturity profile. Longer term debt raised during the year included a £200 million sterling Eurobond issue, $710 million convertible loan notes and a $400 million redeemable (at investor's option after 10 years) yankee bond. This includes financing required for the purchase of Pet which, on acquisition, had approximately $200 million of long term bonds outstanding. The Euro medium term note programme was extended.

Shorter term funding included £700 million of guaranteed preference shares issued by a subsidiary. The outstanding commercial paper has now been largely paid down.

In November 1994, $560 million of guaranteed preferred securities were issued. These are classified as non-equity minority interests.

Hedging policies Following last year's review of its asset hedging strategy, the group has reduced its dollar denominated debt, so that the dollar assets are now 55 per cent hedged. Although this exposes part of the group's net assets to currency movements, the volatility of the interest charge, the interest cover, the gearing and absolute debt level is reduced.

Eighty per cent of foreign currency cash flows in respect of trading transactions are hedged centrally, within a 12 month timeframe. Future foreign currency profits which are not expected to be remitted are not hedged.

Unless there is an unreasonable cost penalty, GrandMet maintains an appropriate percentage of fixed rate debt through issuing long term fixed rate bonds and utilising interest rate swaps. This serves to increase the accuracy of the business planning process and to help manage the interest cover ratio. At 30th September 1995, including the impact of interest rate swaps, the group had net fixed rate debt of £1,551 million, at effective interest rates ranging from 5.6 per cent to 9.2 per cent and with a weighted average term of 8.5 years. The policy is to reduce the volatility of the interest charge whilst simultaneously funding as effectively as possible.

Going concern The directors, having made appropriate enquiries, consider that the company and the group have adequate resources to continue in operational existence for the foreseeable future, and that therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

Community & Environment

Community
GrandMet's active involvement in the communities where it operates continued during the year, with approximately 1½ per cent of worldwide operating profit contributed to community programmes, in the form of sponsorship, donations in kind, secondments and direct donations to charity. Additionally the number of GrandMet employees involved in volunteer programmes grew to record numbers, and the number of worldwide communities with GrandMet programmes also grew, especially in the new, emerging markets.The strategic focus of the group's community action is 'empowerment' – helping people to help themselves. Most of GrandMet's community work is done through education, training and enterprise programmes which offer opportunities, particularly to young people, to achieve self sufficiency.

During the past year an independent Corporate Community Involvement Study ranked GrandMet as the number one company in this field, amongst UK peer companies. GrandMet's particular skills were highlighted for innovation and leadership, effective use of resources and benefits to the community.

GrandMet community programmes are under way in many parts of the world and include:

USA
KAPOW (Kids and the Power of Work), a business education programme designed by GrandMet to help children see a clear connection between what they learn in class and the skills they need to succeed in a career. Employee volunteers receive professional training and are then assigned to a class, working with the teacher to plan and co-ordinate lessons with visits throughout the academic year. This successful programme now operates in 16 states across the US involving over 4,000 children. The programme has been successfully piloted in the UK – with volunteers from GrandMet Corporate Centre and IDV – and is now being implemented in other UK centres.

REACH (Recognising Employee Actions in Community Help), Pillsbury's employee volunteer programme, involving staff and retired employees in a wide variety of community service projects. Over 45 per cent of all employees are actively involved as volunteers. All of Pillsbury plant facilities have community relations committees and more than half of Pillsbury officers serve on one or more non-profit boards.

Pillsbury Customer Partnerships, community programmes which enable customers and consumers to join forces with the company to support local charitable youth focused organisations.

Burger King Academies, which help young people who have dropped out of school to obtain training and qualifications for work. There are 31 successful Academies in the US and two in the UK.

UK
Cities in Schools, the UK national charity supported by GrandMet which aims to reduce truancy and under achievement by encouraging young people to return to the classroom and rejoin mainstream education.

Pillsbury Golden Ambassador Volunteer assisting in a reading programme at the Children's Home Society's Cedar - Riverside Child Care Centre, Minneapolis

Burger King Academies are part of this initiative and the first London Academy which opened in 1993 has since received one of the Lord Mayor of London's 'Dragon Awards' for its help in the successful regeneration of a local community. Dragon Awards acknowledge the contribution London businesses make to community life and the enhancement of employment opportunities.

The Foyer Federation for Youth, the UK charity for the homeless, founded in 1992 by GrandMet and Shelter. Foyers offer shelter, job search advice and skills training for homeless, unemployed young people, all under one roof.

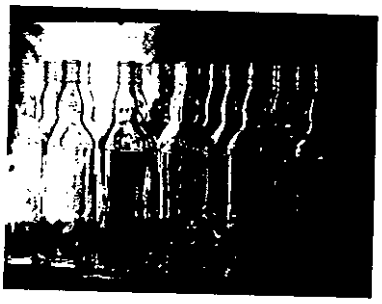
There are now almost 30 Foyers in Britain and over 2,000 young people have received help. GrandMet Trust has played a leading role in establishing the award-winning Gateway Project and now runs and maintains its training programme. After its first year in operation, 78 per cent of residents attending the Gateway Training Centre found jobs or places on further full time training courses, enhancing their opportunities of getting permanent homes.

GrandMet Trust, established 14 years ago and now one of the UK's top 100 charities, which provides job counselling and training for young, unemployed people. Since 1981, more than 150,000 people have been helped, with 450 employees operating from over 80 locations.

As part of the UK government's 'Make A Difference' initiative, the Trust has developed New Steps 1995 - a programme running in East London which brings together teams of volunteers to work on specific projects.

The Trust is recognised as a model example of successful private/public sector partnerships. It was cited as a case study in the Confederation of British Industry's report 'Tackling long term unemployment -- a business agenda'.

Lighter weight glass used in bottling some of IDV's major brands reduces materials and energy consumption.



Rest of World

As GrandMet expands into new and emerging markets around the world, it also plays a leading role in the development of programmes which have a real impact on communities and enhance its reputation as a good corporate citizen. To achieve this objective, the group has developed the GrandMet International Foundation, which supports charitable projects in emerging markets through economic regeneration, education programmes and local community projects. These include:

Russia and Eastern Europe – The Smirnoff Foundation is supporting social, educational and cultural programmes in this area. For example, in October, the Foundation supported a job skills and self development course in Poland to help raise young people's self esteem and increase their chances of finding work.

South Africa – W&A Gilbey is providing bursaries and supporting education and housing projects through a programme called 'Building a Nation'.The programme helps disadvantaged people living and working in the areas in which the company operates.

India – In September, the group became a founder member of the Indian Business Community Partnership (IBCP) which promotes corporate citizenship and aims to increase business involvement in the community. During 1995, GrandMet has undertaken research work with a view to launching new community programmes in 1996.

GrandMet's commitment to community programmes continues to reflect the belief that the group's commercial prosperity is directly linked to the prosperity of the communities in which it operates. As GrandMet expands its commercial presence to developing countries throughout the world, its community involvement will expand as well.

Environment

GrandMet's commitment to sound environmental practice continued during the year, led by the International Environmental Working Group which promotes consistent best practice across the group. This committee brings together the environmental experts from all businesses and ensures that each business understands its role in the protection of the environment. As with all GrandMet's business activities, consistent measures of performance against strict success criteria are essential to managing environmental activities. Considerable progress was made on this during the year, including auditing protocols and employee awareness and involvement programmes in facilities around the world. Similar environmental initiatives among suppliers and co-packers are being developed.

Throughout the businesses a range of environmental initiatives took place.

Pillsbury has completed a five year programme of environmental risk reduction. All sources of polychlorinated biphenyls, gaseous chlorine, underground tanks and process uses of chlorofluorocarbons have now been eliminated, reducing the risks to employees and the environment. All solid wastes were reduced more than 15 per cent and the amount of waste sent to landfills was reduced more than 50 per cent. The successful integration of the newly acquired Pet facilities into Pillsbury included the adoption of

GrandMet environmental policies and programmes. Reporting systems, employee training and risk reduction initiatives were quickly implemented, with minimal disruption to the business.

At IDV, new packaging, which uses lighter glass and lighter cardboard for a number of brands, including Smirnoff and Malibu, has reduced the use of materials and energy consumption in both manufacturing and transportation.

As IDV continues to expand its operations into new markets, the primary focus is on the early identification of potential environmental issues, improvement of systems, procedures and equipment and the application of consistent programmes to minimise and control impact on the local environment.

Burger King has focused on energy conservation and packaging improvements. The fitting of low energy lighting in its restaurants has the potential to save the equivalent of nearly one million gallons of fuel annually. Wherever possible, Burger King uses recycled materials and continues to test packaging materials to develop feasible alternatives, without compromising the primary goal of food safety.

Pearle has improved effluent treatment systems at its lens processing laboratories and eliminated the generation of hazardous waste. It has dramatically reduced the use of landfill disposal with its waste recycling programme, proving that environmental programmes can also reduce costs.

GrandMet continues to focus on the integration and measurement of environmental management systems consistently across all businesses throughout the world. The company remains committed to improved environmental performance as a key business component in adding value and building its brands.

A GrandMet Volunteer on the KAPOW programme working at John Keble School, Harlesden, London

Board of Directors

Lord Sheppard
Chairman

Joined GrandMet as a director in 1975 after 18 years in the motor industry. He became Group Chief Executive of GrandMet in 1986 and Chairman in 1987. In 1993, the roles of Chairman and Chief Executive were separated and he remained as Chairman. He is Chairman of Business in the Community, Chairman of London First, non-executive Chairman of McBride Plc and non-executive Chairman of BrightReasons Group PLC. He will retire on 29th February 1996. Age 62 (Committees 3,4 *).

George J Bull
Group Chief Executive

Joined International Distillers & Vintners in 1958, prior to its acquisition by GrandMet, and became Chief Executive of IDV in 1984. Appointed to the Board of GrandMet in 1985 and became Chairman of IDV in 1987 (in addition to Chief Executive). In July 1992, he became Chairman and Chief Executive of GrandMet's Food sector and in December 1993 he was appointed Group Chief Executive. He is also a non-executive director of United News & Media plc. He will cease to be Group Chief Executive and will become Chairman of the group on 1st March 1996 upon Lord Sheppard's retirement. Age 59 (Committee 3*, 4).

Richard V Giordano KBE (USA)
Deputy Chairman

Appointed Chairman of British Gas PLC in 1994 and was Chief Executive of the BOC Group PLC from 1979 to 1992, Chairman from 1985 to 1992 and is presently non-executive Chairman. He is also a non-executive director of RTZ Corporation. He was appointed a non-executive director of GrandMet in 1984 and became Deputy Chairman in 1991. Age 61 (Committees 1*, 2, 4).

Peter E B Cawdron
Group Strategy Development Director

Joined GrandMet in 1983 as Group Planning Director, became Group Strategy Development Director in 1987 and was appointed to the Board in September 1993. He is responsible for the development of group strategy and for the business development of GrandMet and its subsidiaries. He is a non-executive director of Compass Group PLC. Age 52 (Committee 3).

Gerald M N Corbett
Group Finance Director

Joined GrandMet as Group Finance Director in April 1994, having been Finance Director of Redland PLC since 1987. Prior to joining Redland, he held senior positions with Dixons Group PLC and the Boston Consulting Group. He was appointed a non-executive director of MEPC Plc in May 1995. Age 44 (Committee 3).

John B McGrath
Chairman and Chief Executive, IDV

Joined Watney Mann & Truman Brewers as Group Director in 1985 and was appointed Managing Director in 1986. He was appointed to the Board of GrandMet and made Chief Executive of the Drinks sector in 1992 and was subsequently appointed Chairman of the Drinks sector in September 1993. He was a prime mover in The Portman Group and is a non-executive director of The Cookson Group PLC and Chairman of the Scotch Whisky Association. He will become Group Chief Executive on 1st March 1996 upon George Bull becoming Chairman. Age 57 (Committee 3).

David P Nash
Resigned as a director of GrandMet on 17th October 1995.

David E Tagg
Group Services Director

Joined Watney Mann & Truman Brewers as Personnel Director in 1980 and was appointed to the Board of GrandMet in 1988. He is responsible for the group's human resources, information systems, corporate affairs, property, legal and company secretarial functions. He is Chairman of Grand Metropolitan Community Services and Chairman of the Group Pension Fund. He is a non-executive director of Storehouse PLC, Chairman of the Institute for Citizenship Studies and a director of London First. Age 55 (Committee 3).

Paul S Walsh
Chief Executive Officer, The Pillsbury Company

Joined GrandMet's brewing division in 1982 and became Finance Director in 1986. Appointed Chief Financial Officer of Inter-Continental Hotels in 1987, Chief Financial Officer of GrandMet Food sector in 1989 and Division Chief Executive of Pillsbury in 1990. He became Chief Executive Officer of The Pillsbury Company in 1992.

Lord Sheppard

George J Bull

Richard V Giordano

Peter E B Cawdron

Gerald M N Corbett

John B McGrath

David E Tagg

Paul S Walsh

Michael L Hepher

Professor Dr Gertrud Höhler

Peter J D Job

Sir David Simon

In October 1995 he was appointed to the Board of GrandMet and assumed additional responsibility for GrandMet's European Food operations. He is a non-executive director of Ceridian Corporation (US). Age 40 (Committee 3).

Michael L Hepher

Non-Executive Director

Group Managing Director of British Telecommunications PLC until 31st December 1995. Formerly Chairman and Chief Executive of Lloyds Abbey Life, a director of Lloyds Bank and President and Chief Executive of Maritime Life Assurance Company of Canada. He was appointed a non-executive director of GrandMet in November 1994. Age 51 (Committees 1, 2‡, 4).

Professor Dr Gertrud Höhler (Germany)

Management Consultant, Höhler Consultants

Founded Berlin based management consultants in 1985. Her clients include the majority of the 50 largest companies in Germany. She serves on advisory councils for the German Federal Defence Ministry and the German Federal Ministry for Research and Technology. She has written 14 books and has received the Konrad Adenauer Prize for Literature. She has been a Professor of General Literary Studies and German Studies at the University of Paderborn since 1972. Appointed a non-executive director of GrandMet in 1992, she will leave the Board at the end of December 1995. Age 54 (Committees 1,4).

Peter J D Job

Chief Executive, Reuters Holdings PLC

Joined Reuters in 1963 as a trainee journalist and subsequently developed an international management career spanning Latin America, the Middle East, Africa and Asia Pacific. He was appointed a non-executive director of GrandMet in November 1994. Age 54 (Committees 1, 2, 4).

Sir David Simon CBE

Chairman, The British Petroleum Company p.l.c.

Joined BP in 1961 and in 1982 became Chief Executive of BP Oil International, BP's worldwide oil refining and marketing group. In 1986, he was appointed Managing Director, BP Group, joining the main Board with responsibility for finance and Europe. He was appointed Chairman of BP in July 1995. He was appointed a member of Court of the Bank of England in March 1995 and a non-executive director of RTZ Corporation in September 1995. He is a member of the International Advisory Council of Deutsche Bank, and Allianz AG. He was appointed a non-executive director of GrandMet in 1989. Age 56 (Committees 1, 2+, 4).

Board Committees

1. Appraisal and Remuneration
2. Audit
3. Executive
4. Nomination

* Chairman
\+ Chairman until 31st December 1995
‡ Chairman from 1st January 1996

Directors' Report

The directors have pleasure in submitting to shareholders their annual report together with the audited financial statements for the year ended 30th September 1995.

Business activities and development
An overview by the Group Chief Executive of the performance during the year and the future development of the group's businesses is included on pages 6 and 7. Detailed comments on the activities, developments and future of the group's businesses are set out in the Operating Review on pages 8 to 27.

The group carried out research and development in support of existing activities, specific new product development and the improvement of production processes. Details of environmental practices are on pages 38 and 39.

Financial A financial review of the year is set out on pages 28 to 35. Profit transferred to reserves was £289 million. Summaries of changes in the group's fixed assets during the year are given in notes 13 to 15 of the financial statements.

Dividend The directors recommend a final dividend of 9.4p per share. If approved, dividends for the year will total 14.9p per share, an increase of 6.8 per cent. Subject to approval by members, the final dividend will be paid on 9th April 1996 to ordinary shareholders on the register on 10th January 1996. A share dividend alternative will be offered.

Annual General Meeting The AGM will be held at 11.15 am in the Great Room, Grosvenor House, Park Lane, London W1 on 20th February 1996.

Directors The directors are listed on pages 40 and 41. Sir John Harvey-Jones and Sir Colin Marshall retired on 31st December 1994 and 28th February 1995 respectively, Mr D P Nash resigned on 17th October 1995 and Professor Dr Gertrud Höhler will leave the Board on 31st December 1995. Mr G J Bull, Mr P E B Cawdron and Sir David Simon retire by rotation at the AGM in accordance with the articles and, being eligible, offer themselves for re-election. Mr P S Walsh, who was appointed on 17th October 1995 and Ms C F St Mark, who will join on 1st January 1996, will retire in accordance with the articles and, being eligible, offer themselves for election.

During the year the company maintained liability insurance for its directors and officers.

Auditors On 6th February 1995, the auditors changed their name to KPMG and they have signed their report in their new name. A limited liability company, KPMG Audit Plc, is to assume responsibility for part of their audit business. Accordingly, a resolution for the appointment of KPMG Audit Plc as auditors of the company will be submitted to the AGM.

Corporate governance The company has complied with all provisions of the Code of Best Practice of the Cadbury Committee on Financial Aspects of Corporate Governance. Considerable public interest has been shown in the provision on internal control and a statement by the directors on this subject is set out below.

Internal control The directors acknowledge that they are responsible for the company's system of internal financial control. The objective of this system is to provide reasonable assurance of:

- the safeguarding of assets against unauthorised use or disposition; and
- the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

It should be noted that such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The company's system of internal financial control includes:

Standards

- Guidelines which indicate the minimum level of financial control that each of the company's businesses should exercise over specified processes and which require annual compliance sign-off by business management.
- Policies and procedures, applicable to individual

businesses, with mechanisms for reporting weaknesses and for monitoring corrective action.
- Codes of business ethics, with procedures for reporting compliance therewith.

Processes
- Appointment of experienced and professional staff, both by recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities.
- Comprehensive budgets, requiring Board and business sector approval, reviewed and revised on a regular basis, with performance monitored against them and explanations sought for significant variances.
- A detailed investment approval process requiring Board authorisation for major projects.

Review
- An internal audit department which assesses risks, undertakes periodic examinations of business processes, recommends improvements and disseminates best practice on controls throughout the group.
- Detailed post investment appraisals of the results of acquisitions and major capital expenditure projects.
- Business audit committees which monitor the control environment and, specifically, measure progress on control improvements.
- An audit committee of the Board, comprising non-executive directors with both internal and external auditors reporting to it on audit results, special reviews and specific aspects of internal controls. On occasion, the audit committee requests business management to review their operations and controls.

The directors confirm that they have reviewed the effectiveness of the system of internal financial control utilising the process set out above.

Employment policies GrandMet is committed to providing equality of opportunity to all employees and potential employees.

Innovative training programmes on such subjects as cultural diversity and gender related employment issues are regularly run by operating companies. People with disability are given the same opportunity for employment, training and progression as other employees, dependent only upon their skills and abilities. In the event that an employee becomes disabled when in the company's employment, all possible opportunities for retraining or redeployment are explored. The company is committed to continuous training and skills development in all its businesses and its support in the UK for Investors in People is a good example of this.

GrandMet has procedures for the immediate communication of corporate results and other business information to its operating companies, which in turn quickly communicate this information to all employees.

1995 saw the introduction of a savings-related share option scheme for employees in Germany. The schemes in Canada, France, Ireland, the UK and the US continue to be promoted. In 1995, a scheme was also developed for countries where the group has only an emergent presence.

Community relations and charitable donations Approximately £17 million was contributed to community activities worldwide in the form of sponsorship, donations in kind, secondments and direct donations to charity. During the year, UK group companies made contributions of £3,434,000 *(1994 – £4,755,000)* to charitable organisations. In the US, group companies made charitable donations of £5,560,000 *(1994– £5,828,000)*. Details of community programmes are set out on pages 36 to 38. The group made no political donations.

Shareholdings in the company At 31st October 1995, the following substantial interests (3 per cent or more) in the company's ordinary share capital had been notified to the company: Morgan Guaranty Trust Company of New York – 3.44 per cent.

By Order of the Board
Roger H Myddelton
Secretary

30th November 1995

Appraisal and Remuneration Committee Report

The Appraisal and Remuneration Committee (the Committee) is responsible for the determination of remuneration policy as applied to Grand Metropolitan's executive directors and senior executives. Its members are the non-executive directors, chaired by the Deputy Chairman, R V Giordano. The Committee's principal role in relation to individual terms and conditions is to determine the remuneration of the executive directors. The Committee is advised internally by the Group Compensation and Benefits Director who has independent access to the Committee's Chairman. In addition, the Committee's terms of reference permit it to appoint external advisers. This report sets out the Committee's policy and disclosures on directors' and senior executives' pay. In framing its remuneration policy, the Committee has given full consideration to Section B of the best practice provisions annexed to the listing rules of the London Stock Exchange. The length of this report reflects the need across the world for a competitive reward structure so as to attract and retain top class executives. It also reflects the desire to give shareholders a comprehensive review of all aspects of senior remuneration.

1 Executive remuneration policy
The aim of Grand Metropolitan's remuneration policy is to ensure that executives and directors are rewarded in a way that attracts and retains management of the highest quality, who are incentivised to achieve performance which is better than competitors and serves the best interests of shareholders.

Grand Metropolitan is today a major international company with over 90% of its business, 80% of its employees and 60% of its senior executives based outside the UK. Very few FTSE 100 companies conduct such a high proportion of their business overseas and its remuneration policy for directors and senior executives has to recognise that the group is operating in an international marketplace.

(a) Monitoring the competitiveness of remuneration In monitoring the competitiveness of remuneration, all elements of the compensation and benefits package for senior executives are reviewed against external market data in the UK, continental Europe and the US with particular focus on the competitiveness of the total package. As well as developing executive talent internally, the company recruits 15% to 20% of its senior executives from other international companies. It is essential if the right calibre of executive is to be recruited, and if internal equity is to be maintained, that the company's executive pay policy is market driven based on reliable sources of external data. It is the policy to position the total remuneration of executives at or near the median compared to those companies with whom the company is competing for executive talent. For executives who are well established in their roles and are performing very well, total remuneration may be positioned at or near the 75th percentile.

Since 1987, Grand Metropolitan has sponsored the Top Management Remuneration Survey, co-sponsored by Guinness since 1993, which provides a complete breakdown of the remuneration of executive jobs, including main board positions, in the UK and continental Europe. The survey is run by independent consultants, Mercers, who interview senior human resource professionals in the participating companies to ensure proper evaluation of the jobs and that the various elements of remuneration are understood and correctly valued. The companies which took part in the 1995 survey were:

Allied Domecq	Burton	Rank Xerox	Unilever
Bass	Cadbury Schweppes	Rothmans	Whitbread
BAT	Guinness	Seagram	Zeneca
BOC	ICI	Shell	
BP	Kingfisher	SmithKline Beecham	
BT	Procter & Gamble	Thorn EMI	

In the US, the company conducts an annual review of the market with Hewitt Associates which provides an analysis of competitiveness of base salary, salary plus annual bonus and total compensation. The comparator companies in this year's study of the most senior US roles were:

Adolph Coors	Dial	Kimberley-Clark	Ralston Purina
Anheuser-Busch	Dole Food	Mars	Sara Lee
Armstrong World Industries	General Mills	McCormick	Seagram
Borden	Gillette	McKesson	Scott Paper
Brown-Forman	Griffith Laboratories	R J R Nabisco	J M Smucker
Campbell Soup	H J Heinz	Nestlé USA	A E Staley
Clorox	Helene Curtis Industries	Ocean Spray Cranberries	Stroh's
Colgate-Palmolive	International Multifoods	PepsiCo	Tambrands
ConAgra	S C Johnson	Philip Morris	Unilever US
CPC International	Johnson & Johnson	Procter & Gamble	Wm. Wrigley, Jr.
Del Monte Foods	Kelloggs	Quaker Oats	

(b) Base salary The Appraisal and Remuneration Committee sets the base salary of each executive director by reference to individual performance and external market data.

(c) Annual performance related bonus In addition to base salary, all senior executives, with the exception of the Chairman, are eligible for an annual performance related bonus which is non-pensionable. For the year ended 30th September 1995 the executive directors had a target bonus of 45% of base salary. A bonus of 30% of salary was linked to the achievement of key strategic objectives, both short and long term, with a further 15% based on the achievement of business profit and operational cash flow targets. Bonus beyond target, up to an additional 30%, would have been payable if the group profit target had been exceeded. The bonus paid for the year to each executive director, which averaged 27% of salary, is shown in the table on page 50. This compares with 29% in 1994.

The bonus structure for the executive directors is regularly reviewed to ensure that it develops in line with the changing priorities of the business. For 1996, the Committee has decided for UK based executive directors to reduce the element of bonus that is linked to key strategic objectives from 30% to 15%. The percentage linked to business profit and cash targets remains at 15%. The balance of the target incentive of 15%, making 45% in total, will be based on the company's earnings per share growth against a competitor index. The maximum bonus for the UK based executive directors will be capped at 50% compared to a maximum of 75% for 1995. It is intended that the earnings per share growth measure will build into a three year rolling programme over the next three financial years. No bonus will be paid on this element unless two conditions are met. The company's earnings per share growth must exceed the rate of inflation by at least 0.25% per annum, and at least match the earnings per share growth of the competitor index over the relevant period. The companies included in the competitor index are:

Allied Domecq	General Mills	McDonald's
Campbell Soup	Guinness	Nestlé
CPC International	H J Heinz	Seagram
Danone	Kelloggs	Unilever

For senior executives, other than the UK based executive directors, target bonus percentages range from 35% to 60% in the US and from 20% to 40% outside the US. The structure of annual bonus plans varies from business to business but with the proviso that their design, and in particular the performance measures that trigger payments, must be approved by the Group Chief Executive.

(d) Share option schemes

(i) Executive share option schemes The group operates the following share option schemes for executives: an executive share option scheme (ESOS), which was approved by shareholders on 23rd February 1993; a supplemental scheme for senior executives (the Supplemental Scheme), which was approved by the Appraisal and Remuneration Committee on 10th May 1994; and a share option plan for US executives (USSOP), approved by the Board in 1991 and amended as of 1st January 1994. Options issued currently under all three executive share option schemes may be exercised between three and ten years after the date granted, only if a performance criterion is satisfied. In summary, this requires that the company's share price must have outperformed the FTSE 100 Index over a period of three years or more from the date the option was granted. To avoid an option becoming exerciseable through sudden price fluctuation the test must have been met for six consecutive months at the end of the period. Thereafter, the option may be exercised for the rest of its ten year life without further test. If the criterion has not been met before the fifth anniversary of the date of grant, the period over which such outperformance must occur becomes the five years prior to the test being applied, i.e. a 'five year rolling' basis. In order to receive the full recommended grants under these schemes, directors and senior executives are required to build up a personal holding of Grand Metropolitan ordinary shares.

The ESOS replaced the executive share option scheme approved by shareholders on 4th March 1982, which expired on 31st December 1992. Options granted under the earlier scheme, and under the USSOP prior to 1st January 1994, may be exercised between three and seven years after the date granted.

Ordinary shares issued under ESOS are allotted on the same terms as existing ordinary shares at the market price of the ordinary shares at the time the option is granted. Ordinary shares issued under the Supplemental Scheme and American Depository Shares (ADS's) issued under the USSOP are existing shares sourced through the employee share trusts, as described in *(v)* below.

(ii) Senior executive phantom share option scheme A share price related bonus scheme, the Senior Executive Phantom Share Option Scheme (SEPSOS), was established in 1988. SEPSOS is operated in conjunction with the Executive Share Option Schemes referred to in *(i)* above. It allows a small number of the most senior executives, including executive directors, to benefit over the period between the sixth and tenth year from grant, from movements in the price of the company's shares. SEPSOS is designed to encourage senior executives to align their long term career aspirations with the long term interests of the group. For this reason, in normal circumstances, no payments can be made under SEPSOS before the fifth anniversary of the date of grant. Once exercised, payments (which can also be taken in the form of the company's shares) are then spread with interest added over the period from exercise to the tenth anniversary of the date of grant. The scheme also contains significant forfeiture provisions. The exercise of options granted after 1st January 1993 is subject to satisfying a company performance criterion based on outperforming the FTSE 100 Index over a five year rolling period.

(iii) Grant policy under ESOS, USSOP and SEPSOS The Committee is responsible for approving grants to the executive directors and other executives under ESOS, USSOP and SEPSOS, and for the performance criteria which have to be satisfied as a precondition for the exercise of options. It is policy under these schemes not to grant options at a discount to the market value of the company's ordinary shares at the time of the grant. For the executive directors and for other non-US senior executives immediately below board level it is normal policy to grant options each year up to a value of one times base salary under ESOS and one times base salary under SEPSOS. In the US, the most senior executives have been granted options each year under USSOP normally up to a value of 2.7 times base salary and one times base salary under SEPSOS. The introduction of the medium term incentive plans referred to in *(e)* below will result in a 50% reduction in total share option grants for those executives who participate in a medium term plan.

(iv) Achievement of performance criterion Since June 1993 all grants under the executive share option schemes referred to above have been subject to the FTSE 100 performance criterion. Although none of the grants has yet vested they are at this stage not passing the performance criterion.

(v) Employee share trusts Employee share trusts have been established in order to hedge the obligations of the group in respect of options issued under the Supplemental Scheme, USSOP and SEPSOS. The company's ordinary shares are purchased through the market and are financed and held by independent third parties. The trusts acquire the shares from the third parties so as to be in a position to meet the calls of option holders as and when they are made. The shareholdings are limited to 3% of the company's issued share capital. The company has an obligation to fund the purchases of the shares from the third parties by the trusts at a price which includes the third parties' net financing costs. The shares are included at cost in fixed asset investments and the related financing is included in borrowings.

(vi) Savings-related option schemes The group also operates savings-related share option schemes for UK, US and other international employees which were approved by shareholders on 5th March 1985 (amended 28th February 1995), 25th February 1992 (amended 1st March 1994) and 23rd February 1993, respectively. The schemes provide a long term savings and investment opportunity for employees.

The UK scheme is open to all employees who have been with the group for at least one year and who work eight hours or more a week. Directors participate on equal terms with other employees. The options may be exercised normally after five or seven years, according to the length of the option period chosen, at a price not less than 80% of the market value of the shares at the time of the grant.

The US scheme is open to all employees who have been with the group for at least one year and who work 20 hours or more a week. The options may be exercised after 27 months at a price equivalent to 85% of the market value of the shares at the time of the grant.

The other international schemes have eligibility and discount criteria devised in accordance with local conditions and practices but within the parameters agreed by shareholders.

(e) Medium term incentive plans The company encourages its subsidiaries to develop their own remuneration strategies in support of their business strategies. This means that as long as total remuneration is positioned appropriately against the market, and the performance measures for annual and medium term incentive payments correspond with the operating and strategic plans, then the business can determine the most suitable mix of remuneration. The design of medium term plans and in particular the performance measures are subject to the approval of the Group Chief Executive. With the exception of P S Walsh, who is a member of the Pillsbury Company executive performance plan, none of the directors participates in these medium term plans.

IDV worldwide, Pillsbury in the US and Pearle have launched medium term incentive plans with effect from 1st October 1995. The annualised payments under the plans range at target from 15% to 40% of salary plus target annual bonus. The maximum payments are twice the target. The plans are not incremental to existing remuneration. Their introduction has been offset by a reduction in future share option grants of 50%. The main features of the two principal plans are as follows:

(i) IDV medium term incentive plan Payments under the IDV plan are made at the end of four years with a new cycle of the plan starting every second year. It is designed to support the achievement of IDV's business strategy and to create shareholder value. The performance measures in the plan will be cumulative economic profit (profit less a charge for capital investment) versus the target in the strategic plan, improvement in the brand equity of major brands in major markets, and the achievement of key medium term business initiatives in new brands and/or new markets.

(ii) The Pillsbury Company executive performance plan The Pillsbury plan applies to US executives and focuses on the creation of shareholder value through outperforming competitors in the marketplace. The plan will make payments at the end of a three year period with a new cycle of the plan starting every year. The performance measures are revenue growth and trading profit growth against peer group companies and the achievement of a return on assets target. Participants may elect to take their payments under the plan either in cash or in GrandMet ADS's. The US food companies in the peer group are:

Campbell Soup	H J Heinz
ConAgra	Kelloggs
CPC International	Philip Morris (Kraft Foods)
General Mills	Quaker Oats

(f) Directors' contracts The executive directors' service agreements were reduced from three to two year rolling contracts last year. A number of senior executives in the UK and overseas below main Board level also have two year rolling contracts, and many in the US are covered by ERISA* severance plans which make provision for a payment of up to two years' pay on termination of employment initiated by the company. Against this background and the need to retain and motivate our directors and senior executives in a most competitive international environment, the Committee believes that it is appropriate for the executive directors of Grand Metropolitan, and in consequence many of the senior executives supporting them, to continue to be on two year rolling contracts.

**Employees Retirement Income Security Act of 1974.*

(g) Non-executive directorships of executive directors To broaden the experience of the executive directors, the company normally permits each director to accept one external appointment as a non-executive director of another company for which the executive director may retain the fees.

(h) Directors' pension provision The executive directors are members of the Directors' Pension Plan of the Group Pension Fund in the UK except for G M N Corbett and D P Nash who are affected by the Inland Revenue earnings cap on approved pension benefits. They have been promised by the company broadly equivalent benefits to the other directors. These are partly funded through personal pension plans and the total amount paid in the current year was £39,300 *(1994 – £38,400)*. Since 1st December 1992 no contributions have been paid to the Group Pension Fund in respect of the other directors because the Fund has a significant surplus. The taxable benefits shown below for G M N Corbett and D P Nash include life insurance premiums of £19,812 *(1994 – £15,921)* in respect of cover which cannot be provided through the Directors' Pension Plan because of the earnings cap.

Current directors accrue pension rights at the rate of one thirtieth of basic salary per annum with a guarantee that the pension at normal pension age of 62 will not be less than two thirds of salary in the twelve months prior to retirement. D P Nash's pension promise takes into account his benefits from former employments. Bonus payments are not included in pensionable pay under the Directors' Pension Plan. The Group Pension Fund has a substantial surplus and as a result the company's contribution is estimated to be nil until around 2005. The pension contributions in Note 2 below are therefore shown as nil. However, if there were no surplus in the Group Pension Fund, the rate of contributions in respect of the Directors' Plan would be 54% of salaries. The company intends to report pension expense in future in accordance with the Greenbury recommendations once the basis recommended by the Faculty and the Institute of Actuaries has been agreed.

(i) Non-executive directors The fees of the non-executive directors are determined by the Board in the absence of the non-executive directors.

2 Directors' emoluments

The total emoluments of the directors, including pension contributions, were as follows:

	1995	*1994*
	£	£
Executive directors – remuneration including bonuses	3,423,215	3,595,095
– payments under SEPSOS	153,432	188,786
– pension contributions	39,300	38,400
Fees to non-executive directors	267,588	286,872
	3,883,535	4,109,153

The emoluments, including pension contributions, of Lord Sheppard, the Chairman, were £907,482 *(1994 – £928,958)*. This includes a payment of £97,936 *(1994 – £95,056)* under a SEPSOS grant made in 1988.

The following table shows a breakdown of the remuneration including bonuses, but excluding SEPSOS, of the individual executive directors holding office at 30th September 1995:

	Base salary		*Annual performance related bonus*		*Taxable benefits*		*Totals*	
	1995 £	*1994* £	*1995* £	*1994* £	*1995* £	*1994* £	*1995* £	*1994* £
Lord Sheppard	780,000	810,000	–	–	29,546	23,902	809,546	833,902
G J Bull	410,000	400,000	92,250	105,600	26,584	19,909	528,834	525,509
P E B Cawdron	257,000	250,000	59,753	69,333	19,079	22,545	335,832	341,878
G M N Corbett	275,000	118,590	63,938	58,000	27,351	9,689	366,289	186,279
J B McGrath	334,000	325,000	67,635	80,600	20,868	19,469	422,503	425,069
D P Nash	334,000	325,000	167,000	109,200	40,738	36,250	541,738	470,450
D E Tagg	318,000	310,000	76,320	95,893	19,705	15,510	414,025	421,403

(a) The Chairman does not participate in the annual bonus plan.

(b) Other emoluments paid, not included in the table above, were premiums totalling £4,448 *(1994 – £2,742)* in respect of accidental death cover for D P Nash and G M N Corbett.

(c) Taxable benefits include such items as company cars, fuel, financial counselling, medical insurance, life insurance and product allowances. The level of increase in 1995 was due almost entirely to the change in the tax treatment of company cars.

(d) G M N Corbett's remuneration for 1994 was for the period 11th April 1994 to 30th September 1994.

The executive directors' salaries were increased by an average of 2.5% with effect from 1st October 1995.

The following table shows a breakdown of the fees, including taxable benefits, of the individual non-executive directors holding office at 30th September 1995.

	Fees	
	1995 £	*1994* £
R V Giordano	106,092	104,775
M L Hepher	25,120	–
Prof Dr G Höhler	44,589	61,847
P J D Job	25,120	–
Sir David Simon	39,250	37,250

As already announced a compensation payment of £557,458 was paid on 6th March 1995 to a former director, I A Martin, on the termination of his employment.

The following table shows for the directors at 30th September 1995 the number of options held under SEPSOS (see Note 1 (d)(ii) above for details concerning exercise and payment) which were granted between 1988 and 1995 at prices between 223p and 480p, and payments made under the scheme during the year:

	1994	*Granted in year*	*Exercised in year*	*1995*	*Weighted average of option price p*	*Payments made in year £*
Lord Sheppard	988,372	196,335	–	1,184,707	*397*	*97,936*
G J Bull	531,188	107,330	–	638,518	*385*	–
P E B Cawdron	260,733	67,277	–	328,010	*399*	*21,763*
G M N Corbett	–	71,990	–	71,990	*382*	–
J B McGrath	368,458	87,435	–	455,893	*384*	–
D P Nash	538,984	87,435	–	626,419	*389*	–
D E Tagg	381,049	83,246	–	464,295	*406*	*33,733*

(a) The option price under SEPSOS is based on the average share price for the three trading days prior to the date of grant. All options were granted this year on 12th January 1995 at an option price of 382p.

(b) The mid-market price of the shares at 29th September 1995 (30th September not being a trading day) was 445p *(408p at 30th September 1994)*. The highest mid-market price during the year was 445p and the lowest mid-market price was 355p.

(c) No options lapsed during the year.

D P Nash gave up his executive duties and resigned from the Board on 17th October 1995 and will leave the company on 31st January 1996. The company has announced that he will receive compensation of the order of £790,000 in accordance with his two year contract. Precise details will be disclosed in the 1996 annual report.

With effect from 17th October 1995, P S Walsh was appointed to the Board. He has responsibility for running the Pillsbury business worldwide, including European Foods, from its headquarters in Minneapolis. The Committee have agreed that he should continue to be remunerated on a basis that is competitive in the US marketplace as defined by the US survey referred to in Note 1(a) above. His base salary with effect from the date of his appointment to the Board is $910,000. In addition, he is eligible for an annual bonus on the same structure as applies to the UK based directors, but at a target of 60% of salary with a maximum payment of 70%. He will continue to participate in future grants under the Pillsbury medium term incentive plan with a target payment of 40% of salary plus target bonus. He will also remain eligible for annual grants to a value of one times salary under SEPSOS, and to a value of one times salary plus target bonus under USSOP. His pension and welfare benefits are under Pillsbury's normal plans and he is a member of the Pillsbury executive severance plan under which he would be entitled to a payment of two years' salary if his employment were terminated by the company. In consideration for signing a non-compete and non-disclosure agreement, and to ensure that the terms of the agreement are enforceable under US law, the company has entered into a deferred compensation arrangement with P S Walsh. Under this arrangement a sum of $750,000, plus interest, will be paid to him, either if he is still in the employment of the company in seven years' time, or in various other circumstances, including his death, disability, or redundancy.

3 Directors' share interests

The interests of the directors at 30th September 1995 in the share capital of the company were:

Ordinary shares:	*1995*		*1994*	
Executive directors	*Beneficial*	*Non-beneficial*	*Beneficial*	*Non-beneficial*
Lord Sheppard	236,857	–	216,069	
G J Bull	53,861	471,162	45,811	471,162
P E B Cawdron	12,462	–	8,227	
G M N Corbett	2,500	–		
J B McGrath	15,776	–	10,948	
D P Nash	15,703	–	15,172	
D E Tagg	21,574	–	21,574	–
Non-executive directors				
R V Giordano	2,107	–	2,036	–
M L Hepher	5,000	–	–	–
Prof Dr G Höhler	5,000	–	–	
P J D Job	5,185	–		
Sir David Simon	2,194	–	2,120	

Executive and savings-related options:

	1994	*Granted in year*			*Exercised in year*				*1995*	
		No's	*Date*	*Option price p*	*No's*	*Date*	*Option price p*	*Market price p*		*Weighted average option price p*
Lord Sheppard	990,314	3,296*	*22.6.95*	*314*	4,444*	*1.9.95*	*243*	*409*	793,193	*407*
									195,973†	*474*
G J Bull	706,400	101,990	*13.6.95*	*402*	4,444*	*1.9.95*	*243*	*409*	768,183	*385*
		3,296*	*22.6.95*	*314*					39,059†	*471*
P E B Cawdron	335,219	63,930	*13.6.95*	*402*	1,481*	*1.9.95*	*243*	*409*	316,252	*412*
		3,296*	*22.6.95*	*314*					84,712†	*473*
G M N Corbett	129,795	102,612	*13.6.95*	*402*	–	–	–	–	237,900	*411*
		5,493*	*22.6.95*	*314*						
J B McGrath	599,583	83,084	*13.6.95*	*402*	28,306	*17.3.95*	*215*	*381*	579,954	*396*
		3,296*	*22.6.95*	*314*	4,444*	*1.9.95*	*243*	*409*	73,259†	*471*
D P Nash	514,539	83,084	*13.6.95*	*402*	–	–	–	–	498,269	*416*
									99,354†	*474*
D E Tagg	503,580	79,104	*13.6.95*	*402*	–	–	–	–	446,166	*413*
		1,098*	*22.6.95*	*314*					137,616†	*472*

**Savings-related options.*

†Denotes options for which the exercise price is higher than the 445p mid-market price at 29th September 1995.

Executive options by date of grant:

Date of grant	*Option price p*	*1994*	*Granted in year*	*Exercised in year*	*1995*
20th December 1988	*215*	28,306	–	28,306	–
3rd January 1990	*319*	177,254	–	–	177,254
15th June 1990	*334*	93,806	–	–	93,806
2nd January 1991	*338*	110,778	–	–	110,778
20th June 1991	*380*	582,292	–	–	582,292
2nd January 1992	*441*	299,164	–	–	299,164
24th June 1992	*471*	238,489	–	–	238,489
10th December 1992	*423*	202,830	–	–	202,830
1st October 1993	*418*	386,770	–	–	386,770
6th January 1994	*474*	391,484	–	–	391,484
21st July 1994	*423*	1,234,219	–	–	1,234,219
13th June1995	*402*	–	513,804	–	513,804
Total		3,745,392	513,804	28,306	4,230,890

(a) The option price of executive options is based on the average share price for the three trading days prior to the date of grant. For savings related options the option price is calculated in the same way and discounted by 20%.

(b) No options lapsed during the year.

(c) All options granted prior to 1st October 1993 expire seven years after the date of grant. Options granted on or after 1st October 1993 expire 10 years after the date of grant and are subject to the performance criterion explained above.

The executive directors are potential beneficiaries in respect of 8,109,051 shares bought by Barclays Bank and Toronto Dominion Bank pursuant to an agreement with Hill Street Trustees as trustees of the No. 2 Employee Share Trust. All the corresponding share options are included in the tables in this report.

As stated in Note 2 above, P S Walsh was appointed to the Board on 17th October 1995. His shareholding on that date consisted of 25,475 ordinary shares and 10,812 ordinary shares held as ADS's. He also held 2,380 ordinary shares in the form of ADS's through the Pillsbury 401(k) Savings Plan. He held the following share options: 329,134 options granted under SEPSOS at prices between 223p and 475p; options granted over 274,089 ordinary shares under ESOS at prices between 319p and 471p; options granted over 707,796 ordinary shares (in the form of ADS's) under USSOP at prices between $24.55 and $28.09 and options granted over 7,718 ordinary shares (in the form of ADS's) under the US Employee Stock Purchase Plan at prices between $21.46 and $22.63.

On 1st November 1995, each of the interests of the directors was unchanged from 30th September 1995, 17th October 1995 for P S Walsh, except for the following acquisitions of ordinary shares in respect of the share dividend alternative: Lord Sheppard 3,143, G J Bull 673, P E B Cawdron 150, J B McGrath 154, D P Nash 214, R V Giordano 29, M L Hepher 68 and Sir David Simon 30.

Other than the above, no director 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 associate.

Directors' Responsibilities

in relation to financial statements

The following statement, which should be read in conjunction with the report of the auditors set out opposite, 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 and the group 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 56 to 84, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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 group 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 Auditors

to the members of Grand Metropolitan Public Limited Company

We have audited the financial statements on pages 56 to 84.

Respective responsibilities of the directors and auditors As described opposite, 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 group'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 affairs of the company and the group as at 30th September 1995 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

London, 30th November 1995

Accounting Policies

Basis of preparation The financial statements are prepared under the historical cost convention, modified by the revaluation of certain land and buildings, and comply with applicable UK accounting standards. Assets and liabilities are recognised in the financial statements where, as a result of past transactions or events, the group has rights or other access to future economic benefits controlled by the group, or obligations to transfer economic benefits.

Basis of consolidation The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings (subsidiaries) made up to 30th September. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from, the date control passes.

Acquisitions and disposals On the acquisition of a business, fair values, reflecting conditions at the date of acquisition, are attributed to the net tangible assets and significant owned brands acquired. Where the cost of acquisition exceeds the values attributable to the group's share of such net assets, the difference is treated as purchased goodwill and is written off direct to reserves in the year of acquisition. Reorganisation and integration costs resulting from the acquisition are charged to the profit and loss account.

The profit or loss on the disposal of a previously acquired business reflects the attributable amount of purchased goodwill relating to that business.

A business is classified as a discontinued operation if it is clearly distinguishable, has a material effect on the nature and focus of the group's activities, represents a material reduction in the group's operating facilities and its sale is completed prior to the approval of the financial statements.

Intangible assets Significant owned brands, acquired since 1st January 1985, the value of which is not expected to diminish in the foreseeable future, are recorded at cost, less appropriate provisions, as fixed intangible assets. No annual amortisation is provided on these assets but their value is reviewed annually by the directors and the cost written down as an exceptional item where permanent diminution in value has occurred.

Fixed assets Fixed assets are stated at cost or at professional valuation, less appropriate depreciation and provisions.

No depreciation is provided on freehold land. Leaseholds are depreciated over the unexpired period of the lease. Other fixed assets are depreciated to residual values over their estimated useful lives within the following ranges:

Industrial and other buildings	15 to 50 years
Plant and machinery	5 to 25 years
Fixtures and fittings	3 to 10 years

Profit or loss on sale of property is the difference between the disposal proceeds and the net book value, including any revaluation, of the asset. Any amount in the revaluation reserve relating to such an asset is transferred directly to the profit and loss account reserve and is not included in the profit for the financial year.

Leases Where the group has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Other leases are treated as operating leases.

Future instalments payable under finance leases, net of finance charges, are included in creditors with the corresponding asset values treated as fixed tangible assets. Payments are apportioned between the finance element, which is charged to the profit and loss account as interest, and the capital element, which reduces the outstanding obligation for future instalments.

Amounts receivable under finance leases are included in debtors with income credited to the profit and loss account in proportion to the funds invested.

Operating lease payments and receipts are taken to the profit and loss account on a straight line basis over the life of the lease.

Investments in associates An associated undertaking (associate) is one in which the group has a long term equity interest, usually from 20% to 50%, and over which it exercises significant influence.

The group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets, other than goodwill, is included in investments in the consolidated balance sheet.

Investments Fixed asset investments, other than in associates, are stated individually at cost less, where appropriate, provision for diminution in value where such diminution is expected by the directors to be permanent. Current asset investments are stated at cost plus, where appropriate, accrued interest.

Stocks Stocks are valued at the lower of cost and net realisable value. Cost includes, where appropriate, production and other direct overhead expenses.

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, including the group's interest in the underlying net assets of associates, 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.

Profits and losses of overseas subsidiaries and associates are translated into sterling at weighted average rates of exchange during the year, other than material exceptional items which are translated at the rate on the date of the transaction. The adjustment to financial year end rates is taken to reserves.

Gains and losses arising on the translation of the opening net assets of overseas subsidiaries and associates are taken to reserves, less exchange differences arising on related foreign currency borrowings and financial instruments. Other exchange differences are taken to the profit and loss account.

The results, assets and liabilities of operations in hyper-inflationary economies are translated using an appropriate relatively stable currency as the functional currency. The exchange translation movement arising from this process is taken to the profit and loss account.

Turnover Turnover represents the net invoice value of goods and services provided to third parties and includes excise duties, rents and royalties receivable, but excludes VAT.

Franchising Franchising generates initial franchise fees, as well as profits or losses arising from the franchising of developed or purchased outlets previously operated by the group, and ongoing royalty revenues based on sales made by franchisees. Income from franchising is included in operating profit, apart from any property element which is treated as a disposal of fixed assets.

Research and development Research and development expenditure is written off in the year in which it is incurred.

Post employment benefits The cost of providing pensions and other post employment benefits is charged against profits on a systematic basis, with pension surpluses and deficits allocated 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. Deferred tax is accounted for on these assets and liabilities. The unfunded post employment medical benefit liability is included in provisions in the balance sheet.

Exceptional items Exceptional items are those that need to be disclosed by virtue of their size or incidence. Such items are included within the profit and loss account caption to which they relate, and are separately disclosed either in the notes or on the face of the profit and loss account.

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.

Advance corporation tax (ACT) recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors.

Consolidated Profit and Loss Account

for the year ended 30th September 1995

		1995			1994		
	Notes	Before exceptional items £m	Exceptional items (note 6) £m	Total £m	Before exceptional items £m	Exceptional items (note 6) £m	Total £m
TURNOVER							
Continuing operations		7,475		7,475	7,464		7,464
Acquisitions		490		490			
		7,965		7,965			
Discontinued operations		60		60	316		316
Total turnover	3	8,025		8,025	7,780		7,780
Operating costs	4	(6,993)	(122)	(7,115)	(6,757)	(272)	(7,029)
OPERATING PROFIT							
Continuing operations		938	–	938	983	(272)	711
Acquisitions		81	(122)	(41)			
		1,019	(122)	897			
Discontinued operations		13	–	13	40	–	40
Total operating profit		1,032	(122)	910	1,023	(272)	751
Share of profits of associates	5	48	(15)	33	45	(8)	37
		1,080	(137)	943	1,068	(280)	788
CONTINUING OPERATIONS							
Disposal of fixed assets			(9)	(9)		4	4
Sale of businesses	6		(44)	(44)		(38)	(38)
DISCONTINUED OPERATIONS							
Sale of businesses	6		198	198		18	18
Utilisation of prior year provisions			–	–		5	5
			145	145		(11)	(11)
Interest payable (net)	7	(168)	–	(168)	(123)	–	(123)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		912	8	920	945	(291)	654
Taxation on profit on ordinary activities	8	(255)	(29)	(284)	(269)	72	(197)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		657	(21)	636	676	(219)	457
MINORITY INTERESTS							
Equity		(4)	–	(4)	(7)	–	(7)
Non-equity		(31)	–	(31)	–	–	–
PROFIT FOR THE FINANCIAL YEAR		622	(21)	601	669	(219)	450
Ordinary dividends	9			(312)			(292)
TRANSFERRED TO RESERVES				289			158
EARNINGS PER SHARE	10	29.8p	(1.0)p	28.8p	32.2p	(10.6)p	21.6p

Consolidated Balance Sheet

at 30th September 1995

	Notes	1995 £m	1995 £m	1994 £m	1994 £m
FIXED ASSETS					
Intangible assets	*13*		3,840		2,782
Tangible assets	*14*		1,725		1,795
Investments	*15*		735		998
			6,300		5,575
CURRENT ASSETS					
Stocks	*17*	1,208		1,235	
Debtors (see note below)	*18*	2,503		1,983	
Investments	*19*	163			
Cash at bank and in hand		969		986	
		4,843		4,204	
CREDITORS – due within one year					
Borrowings	*20*	(1,361)		(854)	
Other creditors	*21*	(2,482)		(2,381)	
		(3,843)		(3,235)	
NET CURRENT ASSETS (see note below)			1,000		969
TOTAL ASSETS LESS CURRENT LIABILITIES			7,300		6,544
CREDITORS – due after more than one year					
Borrowings (including convertible debt)	*20*	(3,127)		(2,291)	
Other creditors	*22*	(92)		(82)	
			(3,219)		(2,373)
PROVISIONS FOR LIABILITIES AND CHARGES	*23*		(587)		(584)
			3,494		3,587
CAPITAL AND RESERVES					
Equity share capital			523		521
Non-equity share capital			12		12
Called up share capital	*25*		535		533
Share premium account		667		656	
Revaluation reserve		94		134	
Goodwill reserve		(3,579)		(2,810)	
Profit and loss account		5,386		5,027	
Reserves attributable to equity shareholders	*26*		2,568		3,007
			3,103		3,540
MINORITY INTERESTS					
Equity		42		47	
Non-equity	*27*	349		–	
			391		47
			3,494		3,587

Debtors and net current assets include debtors recoverable after more than one year of £684m *(1994 – £587m)*.

The financial statements on pages 56 to 84 were approved by a duly appointed and authorised committee of the Board of Directors on 30th November 1995 and were signed on its behalf by:

Lord Sheppard, Director

G M N Corbett, Director

Consolidated Cash Flow Statement

for the year ended 30th September 1995

	Notes	1995 £m	1995 £m	1994 £m	1994 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	*30*		1,070		1,195
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		102		116	
Interest paid		(221)		(252)	
Prior year interest received from IEL		71		-	
Dividends received from associates		9		15	
Dividends paid to minority interests		(31)		-	
Ordinary dividends paid		(280)		(251)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			(350)		(372)
TAXATION					
UK corporation tax paid		(129)		(114)	
Overseas corporate tax paid		(131)		(96)	
TOTAL TAX PAID			(260)		(210)
INVESTING ACTIVITIES					
Purchase of tangible fixed assets		(219)		(200)	
Purchase of Pet Incorporated	*31*	(1,774)		-	
Purchase of other subsidiaries	*31*	(101)		(313)	
Purchase of associates		(37)		(147)	
Purchase of investments		(144)		(123)	
Sale of tangible fixed assets		101		41	
Sale of subsidiaries	*32*	37		704	
Loan repayment from IEL		289		-	
Sale of associates and investments		241		97	
Acquisition and disposal provision payments		(50)		(63)	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES			(1,657)		(4)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING			(1,197)		609
FINANCING					
Issue of ordinary share capital		(13)		(21)	
Issue of guaranteed preferred securities		(343)		-	
Issue costs in respect of long term borrowings and guaranteed preferred securities		26		10	
Proceeds of long term borrowings		(1,794)		(1,631)	
Repayment of long term borrowings		809		1,586	
Capital element of finance lease payments		7		9	
NET CASH INFLOW FROM FINANCING	*33*		(1,308)		(47)
INCREASE IN CASH AND CASH EQUIVALENTS	*34*		111		656
			(1,197)		609

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 30th September 1995

	1995 £m	1994 £m
Profit for the financial year	601	450
Deficit on revaluation of properties in associate	–	10
Exchange adjustments	10	47
Total recognised gains and losses for the financial year	611	393

Note of Consolidated Historical Cost Profits and Losses

for the year ended 30th September 1995

	1995 £m	1994 £m
Profit on ordinary activities before taxation	920	654
Realisation of property revaluation gains of prior years	36	430
Asset provisions not required on an historical cost basis	(18)	26
Historical cost profit on ordinary activities before taxation	938	1,110
Historical cost profit for the year retained after taxation, minority interests and ordinary dividends	307	614

Reconciliation of Movements in Consolidated Shareholders' Funds

for the year ended 30th September 1995

	1995 £m	1994 £m
Profit for the financial year	601	450
Ordinary dividends	(312)	(292)
	289	158
Other recognised gains and losses	10	(57)
New share capital issued	13	31
Adjustment in respect of share dividend	10	20
Goodwill written off during year	(790)	(320)
Goodwill transferred to the profit and loss account in respect of disposals of businesses	31	34
Net movement in shareholders' funds	(437)	(134)
Shareholders' funds at 30th September 1994	3,540	3,674
Shareholders' funds at 30th September 1995	3,103	3,540

Notes

1 Adoption of new accounting standards

These financial statements comply with two accounting standards issued in September 1994 by the Accounting Standards Board: FRS 6 – Acquisitions and mergers, and FRS 7 – Fair values in acquisition accounting.

FRS 6 requires the use of acquisition accounting, except in the case of mergers for which specific criteria have been met, and sets out new disclosure requirements for both acquisitions and mergers.

FRS 7 provides rules for the establishment of fair values of the assets and liabilities of an acquired entity reflecting their condition at the date of acquisition. The fair value balance sheet cannot include provisions for reorganisation and integration costs set up by the acquiring company. In compliance with the standard, comparative figures have not been restated.

The principal impact on the results for the year ended 30th September 1995 of complying with FRS 7 is that the provision for the £122m cost of integration and reorganisation of Pet Incorporated, which was acquired in the year, has been treated as an exceptional operating cost in the group's profit and loss account, rather than being part of the fair value balance sheet and, as a result, increasing the goodwill written off.

2 Segment analysis

	1995			*1994*		
	Turnover £m	*Profit £m*	*Net assets £m*	*Turnover £m*	*Profit £m*	*Net assets £m*
Class of business:						
Continuing operations						
Food – Packaged	3,663	358	3,217	2,989	233	1,932
– Retailing	992	206	1,317	1,104	230	1,353
Drinks	3,310	455	1,860	3,371	520	1,657
	7,965	1,019	6,394	7,464	983	4,942
Discontinued operations	60	13	–	316	40	75
	8,025		6,394	7,780		5,017
Operating profit before exceptional items		1,032			1,023	
Associates before exceptional items		48	421		45	729
Exceptional items		8			(291)	
Interest payable/net borrowings		(168)	(3,321)		(123)	(2,159)
Profit before taxation		920			654	
Net assets			3,494			3,587
Geographical area by country of operation:						
United Kingdom	805	85	399	815	101	339
Rest of Europe	1,807	185	583	1,613	180	627
United States of America	4,630	705	5,026	4,644	677	3,714
Rest of North America	195	19	128	173	26	116
Africa and Middle East	175	6	43	183	15	32
Rest of World	413	32	215	352	24	189
	8,025		6,394	7,780		5,017
Operating profit before exceptional items		1,032			1,023	
Associates before exceptional items		48	421		45	729
Exceptional items		8			(291)	
Interest payable/net borrowings		(168)	(3,321)		(123)	(2,159)
Profit before taxation		920			654	
Net assets			3,494			3,587

2 Segment analysis – *continued*

Profit before interest relates to the following activities and geographical areas: Food – Packaged £402m; Food – Retailing £201m; Drinks £472m; and discontinued businesses £13m *(1994 – £180m; £183m; £351m; and £63m respectively)*; United Kingdom £84m; Rest of Europe £178m; United States of America £750m; Rest of World £76m *(1994 – £71m; £81m; £556m; and £69m respectively)*.

The group interest expense is arranged centrally and is not attributable to individual activities or geographical areas. The analysis of capital employed by activity and geographical area is calculated on net assets excluding associates and net borrowings.

Turnover between the above classes of business is not material.

Food – Packaged was formerly entitled Food – branded. Discontinued operations comprise Alpo Petfoods, which operated in the United States, and The Chef & Brewer Group, which operated in the United Kingdom.

The weighted average exchange rate used in translation of US dollar profit and loss accounts was £1 = $1.58 *(1994 – £1 = $1.51)*. The exchange rate used to translate US dollar assets and liabilities at the balance sheet date was £1 = $1.58 *(1994 – £1 = $1.58)*.

3 Turnover

	1995			*1994*		
	Continuing £m	*Discontinued £m*	*Total £m*	*Continuing £m*	*Discontinued £m*	*Total £m*
Geographical area by destination:						
United Kingdom	795	–	795	741	38	779
Rest of Europe	1,780	–	1,780	1,610	–	1,610
United States of America	4,468	60	4,528	4,268	278	4,546
Rest of North America	221	–	221	219	–	219
Africa and Middle East	185	–	185	210	–	210
Rest of World	516	–	516	416	–	416
	7,965	60	8,025	7,464	316	7,780

4 Operating costs

	1995			*1994*		
	Continuing £m	*Discontinued £m*	*Total £m*	*Continuing £m*	*Discontinued £m*	*Total £m*
Raw materials and consumables	2,265	19	2,284	2,558	119	2,677
Other external charges	3,455	14	3,469	2,733	88	2,821
Staff costs (note 11)	1,027	12	1,039	1,102	53	1,155
Depreciation of tangible fixed assets	185	2	187	194	11	205
Decrease in stocks of finished goods and work in progress	98	–	98	79	1	80
Other operating income	(84)	–	(84)	(181)	–	(181)
Restructuring and integration costs (note 6)	122	–	122	272	–	272
	7,068	47	7,115	6,757	272	7,029

Total operating costs include: US excise duties of £310m *(1994 – £345m)*; other excise duties of £532m *(1994 – £423m)*; operating lease rentals for plant and machinery of £15m *(1994 – £24m)* and for other leases (mainly of properties) of £118m *(1994 – £125m)*; and research and development expenditure of £43m *(1994 – £43m)*. Other operating income includes profits arising from the franchising of outlets of £30m *(1994 – £64m)*, income from listed investments of £10m *(1994 – £7m)* and income from operating leases of £19m *(1994 – £18m)*.

Fees in respect of services provided by the auditors were: statutory audit of the group £4,381,000 *(1994 – £3,998,000)*; other services to UK group companies £3,597,000 *(1994 – £4,230,000)*; and other services to non-UK subsidiaries £1,988,000 *(1994 – £1,401,000)*.

4 Operating costs – *continued*

Operating costs for continuing operations in 1995 include advertising, marketing and promotion of £1,073m *(1994 – £901m)* and £531m relating to acquired businesses as follows: raw materials and consumables £147m; other external charges £191m; staff costs £60m; depreciation of tangible fixed assets £11m; and exceptional costs of £122m in respect of the integration and reorganisation of Pet Incorporated.

5 Associates

The group's share of the results of associates, including Inntrepreneur Estates Ltd, was as follows:

	1995	*1994*
	£m	*£m*
Share of profits before exceptionals and taxation	48	45
Exceptional items (note 16)	(15)	(8)
Share of taxation (note 8)	(19)	(18)
Share of profits after taxation	14	19
Dividends received by the group	(9)	(15)
Retained by associates	5	4

6 Exceptional items

(i) Operating costs The £122m shown in the profit and loss account as exceptional operating costs comprises the cost of integration and reorganisation of Pet Incorporated. The major components of this charge are: costs to exit and move Pet's St Louis headquarters to Minneapolis, including severance of employees; manufacturing plant integration costs; management information systems integration costs; and packaging redesign costs.

Operating costs in 1994 included £272m of exceptional costs, comprising: restructuring costs of £143m in respect of Drinks; £55m in respect of the European operations of Food – Packaged; £31m in respect of Burger King to extend the re-engineering programme initiated during 1993; and £43m principally in respect of the write down of group properties and the consolidation and rationalisation of corporate support structures.

(ii) Sale of businesses Losses on the sale of businesses treated as continuing operations include a loss of £42m relating to the disposal of Green Giant processing *(1994 – includes a loss of £37m in respect of the US jug wine operations)*.

Profit on the sale of businesses treated as discontinued operations comprise £198m in respect of the disposal of Alpo Petfoods, which was sold in December 1994.

The net results on sale of businesses were after charging goodwill previously written off attributable to the businesses sold of £27m *(1994 – £29m)*.

7 Interest payable (net)

	1995		*1994*	
	£m	*£m*	*£m*	*£m*
On bank loans, overdrafts and other loans repayable wholly within five years		168		164
On finance leases		3		4
On all other loans		106		70
		277		238
Less: Interest receivable from associates	(10)		(30)	
Income from currency swaps (net)	(21)		(34)	
Other interest receivable	(78)		(51)	
		(109)		(115)
		168		123

8 Taxation

	1995 £m	1994 £m
UK corporation tax payable at 33% *(1994 – 33%)*	90	338
UK deferred taxation	18	(225)
Overseas corporate taxation	137	45
Overseas deferred taxation	32	4
Taxation on the group's share of profits of associates	19	18
	296	180
Adjustments to prior year taxation charges	(12)	17
	284	197

The charge for deferred taxation relates to an interest charge of £3m, accelerated depreciation of £9m and other timing differences of £38m principally in respect of the disposal of Alpo Petfoods partly offset by credits in respect of the integration and reorganisation of Pet Incorporated. The 1994 UK and US taxation charges were affected by an internal restructuring of the group's borrowings in the United Kingdom and the United States, which resulted in a £214m credit to deferred taxation and a corresponding increase in the corporation tax charge.

Tax on exceptional items comprised a credit of £74m for continuing operations and a charge of £103m for discontinued operations *(1994 – credits of £65m and £7m respectively).*

The table below reconciles the notional charge at the UK corporation tax rate for the year to the actual charge for taxation:

	1995 £m	1994 £m
Profit on ordinary activities before taxation	920	654
Notional charge at UK corporation tax rate 33% *(1994 – 33%)*	304	216
Differences in effective overseas tax rates	5	2
Exceptional items	26	24
Adjustments to prior years	(12)	17
Other items	(39)	(62)
Actual charge for taxation	284	197

9 Ordinary dividends

	1995 £m	1994 £m
Interim of 5.5p per share *(1994 – 5.15p)*	115	108
Proposed final of 9.4p per share *(1994 – 8.8p)*	197	184
	312	292

10 Earnings per share

	1995	1994
	pence	*pence*
Earnings per share	28.8	21.6
Adjustment in respect of exceptional items	1.0	10.6
Earnings per share before exceptional items	29.8	32.2

Earnings per share is calculated by reference to earnings of £601m *(1994 – £450m)* and the weighted average number of ordinary shares in issue during the year of 2,087m shares *(1994 – 2,080m shares)*. The dilutive effect of unexercised options and convertible loan notes on earnings per share is not material. Earnings per share is also shown calculated by reference to earnings before exceptional items and related tax of £622m *(1994 – £669m)* since the directors consider that this gives a useful additional indication of underlying performance.

11 Employees

The average number of employees during the year was:

	1995			1994		
	Full time	*Part time*	*Total*	*Full time*	*Part time*	*Total*
Continuing operations:						
Food – Packaged	20,311	1,804	22,115	17,842	1,950	19,792
– Retailing*	19,836	10,436	30,272	22,305	12,082	34,387
Drinks	10,815	331	11,146	11,464	335	11,799
	50,962	12,571	63,533	51,611	14,367	65,978
Discontinued operations	286	8	294	1,827	830	2,657
	51,248	12,579	63,827	53,438	15,197	68,635

*The comparative figures have been restated for a change in definition of part time employees.

The aggregate remuneration of all employees comprised:

	1995	1994
	£m	*£m*
Wages and salaries	948	1,047
Employer's social security costs	111	126
Employer's pension costs	(33)	(31)
Other post employment costs	13	13
	1,039	1,155

(i) Pension plans The group operates a number of pension plans throughout the world, devised in accordance with local conditions and practices. The plans generally are of the defined benefit type funded by payments to separately administered funds or insurance companies. Valuations of all significant plans were carried out during the year by qualified independent actuaries to determine pension costs. The actuarial method used for these valuations was the projected unit method. For accounting purposes, the major assumptions were: rate of return on assets 10% *(1994 – 10%)*; wages and salaries increase 7% to7½% *(1994 – 7% to 7½%)*; and future dividend growth for UK equities 5.25% *(1994 – 5.25%)*. Surpluses or deficits on the pension plans arising from the actuarial valuations are spread over the average service lives of the members of the relevant fund on a straight line basis. The market values of the funds at the date of the latest actuarial valuation totalled approximately: UK funds £816m *(1994 – £833m)*; US funds £666m *(1994 – £509m)*. The actuarial value of the assets of all the significant plans was sufficient to cover approximately 136% *(1994 – 135%)* of the benefits that had accrued to members after allowing for expected future increases in wages and salaries.

11 Employees – *continued*

(ii) Other post employment plans The group also operates a number of plans, primarily in the United States, which provide employees with other post employment benefits in respect of medical costs. The plans are generally unfunded. The liability in respect of these benefits is assessed by qualified independent actuaries under the projected unit method and is included in provisions. The major assumptions were: liability discount rate 10% *(1994 – 10%)*; assumed medical inflation for beneficiaries aged under 65 – 14% reducing by 1% per year to 6%, and for beneficiaries aged 65 and over – 10.5% reducing by 0.5% per year to 6%.

12 Directors

The total emoluments of the directors, including pension contributions, were as follows:

	1995 £	*1994* £
Executive directors – remuneration including bonuses	3,423,215	3,595,095
– payments under SEPSOS	153,432	188,786
– pension contributions	39,300	38,400
Fees to non-executive directors	267,588	286,872
	3,883,535	4,109,153

The emoluments, including pension contributions, of Lord Sheppard, the Chairman, were £907,482 *(1994 – £928,958)*. This includes a payment of £97,936 *(1994 – £95,056)* under a SEPSOS grant made in 1988. Since 1st December 1992, no contributions have been paid to the Group Pension Fund in respect of the Chairman because the Fund has a significant surplus.

A compensation payment of £557,458 was paid on 6th March 1995 to a former director, I A Martin, on the termination of his employment.

The following table shows the number of directors whose emoluments, excluding pension contributions, fell into the ranges below:

	1995	*1994*		*1995*	*1994*
£10,001 – £15,000	2	–	£360,001 – £365,000	–	1
£25,001 – £30,000	2	1	£365,001 – £370,000	1	–
£35,001 – £40,000	1	1	£420,001 – £425,000	1	–
£40,001 – £45,000	1	–	£425,001 – £430,000	–	1
£50,001 – £55,000	–	1	£445,001 – £450,000	1	–
£60,001 – £65,000	–	1	£450,001 – £455,000	–	1
£100,001 – £105,000	–	1	£525,001 – £530,000	1	1
£105,001 – £110,000	1	–	£540,001 – £545,000	1	–
£205,001 – £210,000	–	1	£575,001 – £580,000	–	1
£300,001 – £305,000	–	1	£905,001 – £910,000	1	–
£355,001 – £360,000	1	–	£925,001 – £930,000	–	1

Further information relating to directors' emoluments and directors' share interests is included in the Appraisal and Remuneration Committee Report on pages 44 to 53.

13 Fixed assets – intangible assets

	Brands £m
Cost	
At 30th September 1994	2,782
Exchange adjustments	(9)
New subsidiaries	1,067
At 30th September 1995	3,840

The brands are stated at fair value on acquisition, denominated in the currencies of their principal markets. An annual review is carried out by the directors to consider whether any brand has suffered permanent diminution in value. Although the current aggregate value significantly exceeds the book value, no increase is made to the original value. The principal brands included above are Smirnoff, Pillsbury, Green Giant, Burger King, Häagen-Dazs and, acquired during the year, Old El Paso and Progresso.

14 Fixed assets – tangible assets

	Land and buildings £m	*Plant and machinery* £m	*Fixtures and fittings* £m	*Assets in course of construction* £m	*Total* £m
Cost or valuation					
At 30th September 1994	1,421	1,082	120	96	2,719
Exchange adjustments	8	11	3	–	22
Additions	40	61	18	100	219
New subsidiaries	43	110	1	–	154
Disposals	(253)	(250)	(16)	(17)	(536)
Transfers	12	33	6	(51)	–
At 30th September 1995	1,271	1,047	132	128	2,578
Depreciation					
At 30th September 1994	358	510	56	–	924
Exchange adjustments	3	5	1	–	9
Provided during the year	57	107	23	–	187
Disposals	(99)	(156)	(12)	–	(267)
At 30th September 1995	319	466	68	–	853
Net book value					
At 30th September 1995	952	581	64	128	1,725
At 30th September 1994	1,063	572	64	96	1,795

(a) The net book value of land and buildings comprises freeholds of £812m *(1994 – £900m)*, long leaseholds of £19m *(1994 – £30m)* and short leaseholds of £121m *(1994 – £133m)*. Depreciation was not charged on £265m *(1994 - £258m)* of land.

(b) Included in the total net book value of tangible assets is £63m *(1994 – £72m)* in respect of assets under finance leases; depreciation for the year on these assets was £7m *(1994 – £7m)*. Cost included £164m *(1994 – £158m)* in respect of assets held for the purpose of leasing out under operating leases; accumulated depreciation on these assets was £28m *(1994 – £23m)* and depreciation for the year was £5m *(1994 – £3m)*.

14 Fixed assets – tangible assets – *continued*

(c) The total at cost or valuation for land and buildings comprises £306m *(1994 – £328m)* at 1988 professional valuation and £965m *(1994 – £1,093m)* at cost. The valuations were made on an open market existing use basis except for specialised properties which were valued on a depreciated replacement cost basis.

(d) The historical cost of land and buildings, i.e. the original cost to the group of all land and buildings, was £1,128m *(1994 – £1,251m)* and the related depreciation was £247m *(1994 – £284m)*.

15 Fixed assets – investments

	Investment in IEL (note 16) £m	*Investment in other associates £m*	*Other investments £m*	*Loans £m*	*Total £m*
Cost					
At 30th September 1994	100	185	235	516	1,036
Exchange adjustments	–	7	1	–	8
Additions and share of retained profits	35	17	151	50	253
Disposals	–	(6)	(118)	(399)	(523)
Transfer	85	–	–	(85)	–
At 30th September 1995	220	203	269	82	774
Less: Provisions					
At 30th September 1994	–	1	12	25	38
Increase in the year	–	1	–	–	1
At 30th September 1995	–	2	12	25	39
Net book value					
At 30th September 1995	220	201	257	57	735
At 30th September 1994	100	184	223	491	998

Investment in IEL and other associates of £421m *(1994 – £284m)* comprises cost of shares, less goodwill written off on acquisition, of £613m *(1994 – £491m)* less the group's share of post-acquisition reserves deficit of £192m *(1994 – £207m)*. Loans due from IEL were £nil *(1994 – £445m)*.

Other investments include £217m *(1994 – £172m)* in respect of 53,428,489 *(1994 – 41,944,923)* ordinary shares of 25p each in Grand Metropolitan Public Limited Company with an aggregate nominal value of £13m *(1994 – £10m)*. During the year there were additions of £49m and disposals of £4m. The shares are held by independent third parties for the sole purpose of satisfying obligations under employee share option schemes operated by the group. The company has an obligation to fund purchases of the shares by employee share trusts when the trusts acquire the shares, at a price which includes the net financing costs, from the third parties to meet the calls of option holders as and when they are made. The shares are included at cost in fixed asset investments and the related financing is included in borrowings; dividends on these shares are included in other operating income.

The net book value of investments listed on UK stock exchanges was £237m *(1994 – £196m)*. At 30th September 1995 these investments had a market value of £257m *(1994 – £195m)*.

16 Inntrepreneur Estates Ltd

The group has a 50% shareholding in Inntrepreneur Estates Ltd (IEL), a joint venture company in which the group and Courage merged their former tenanted pub estates. Summarised accounts for the year ended 30th September 1995 based on the audited accounts of IEL and its subsidiaries are as follows:

	1995	*1994*
	£m	*£m*
(i) Profit and loss account		
Operating profit before exceptional items	88	131
Exceptional items (note a)	(8)	(16)
Profit on disposal of property	2	4
Interest payable (net)	(75)	(125)
Profit/(loss) before taxation	7	(6)
(ii) Balance sheet		
Investment properties (note b)	1,207	1,641
Other net (liabilities)/assets	(21)	2
	1,186	1,643
Loans from shareholders (note c)	-	(529)
Bank loan (note d)	(746)	(915)
Net assets	440	199

(iii) Notes

(a) £21m of the 1995 exceptional costs relates to interest rate swap agreements no longer required following a refinancing of IEL in January 1995. This was partly offset by a profit on the disposal of pubs let to The Chef & Brewer Group. In addition to its share of these items, the group incurred £11m of costs relating to the disposal of IEL's free of tie estate through a related company. The 1994 exceptional costs were in respect of restructuring associated with the refinancing.

(b) IEL's investment properties are stated at directors' valuation as at 30th September 1995 which was supported by a detailed review of the value of a sample of properties on an open market existing use basis consistent with the previous year. On the basis of this review and having taken professional advice, IEL's directors considered that the valuation of the properties as at 30th September 1995 was unchanged from the 1994 valuation.

(c) During the year, the share capital of IEL was increased by the conversion of £169m of loans from shareholders, and the injection of £66m of new equity. The group's remaining £360m loan to IEL was repaid.

(d) IEL's bank loan is repayable in 2000 and is secured on its investment properties. The group and Foster's Brewing Group Ltd have several and equal obligations in the event that IEL is unable to maintain certain specified loan to asset value and interest cover ratios required by the financing arrangements. They also have severally and equally guaranteed IEL's obligations under various interest rate agreements.

17 Stocks

	1995	*1994*
	£m	*£m*
Raw materials and consumables	182	181
Work in progress	393	424
Finished goods and goods for resale	633	630
	1,208	1,235

18 Debtors

	1995 £m	1994 £m
Trade debtors	996	918
Amounts owed by associates	21	13
Amounts receivable under finance leases	117	122
Other debtors	631	322
Pension prepayments	382	301
Other prepayments and accrued income	240	161
Deferred taxation (note 24)	69	93
ACT recoverable	47	53
	2,503	1,983

Debtors include £684m *(1994 – £587m)* which is recoverable after more than one year. This comprises pension prepayments of £382m *(1994 – £301m)*, amounts receivable under finance leases of £112m *(1994 – £118m)*, other debtors of £108m *(1994 – £103m)*, deferred taxation of £59m *(1994 – £37m)* and ACT recoverable of £23m *(1994 – £28m)*. Other debtors includes £323m of loan notes in respect of the Alpo Petfoods disposal, which were repaid on 2nd October 1995.

19 Net borrowings

	1995 £m	1994 £m
Current asset investments	163	–
Cash at bank and in hand	969	986
Interest rate swaps	35	–
	1,167	986
Borrowings	(4,488)	(3,145)
Net borrowings	(3,321)	(2,159)

The current asset investments comprise marketable unlisted commercial paper with an original maturity of less than three months invested with counterparties having strong credit ratings. The interest rate swaps are included in other debtors.

20 Borrowings

	1995			1994		
	Bank loans and overdrafts £m	*Other loans £m*	*Total £m*	*Bank loans and overdrafts £m*	*Other loans £m*	*Total £m*
Analysis by year of repayment:						
After five years – by instalment	24	18	42	32	23	55
– other	–	1,612	1,612	–	1,056	1,056
From two to five years	197	1,169	1,366	156	667	823
From one to two years	13	94	107	82	275	357
Due after more than one year	234	2,893	3,127	270	2,021	2,291
Due within one year	379	982	1,361	225	629	854
	613	3,875	4,488	495	2,650	3,145
Amounts repayable by instalment part of which fall due after five years	72	41	113	84	41	125

20 Borrowings – *continued*

	Currency	Year end interest rates %	1995 £m	1994 £m
Other loans comprise:				
Commercial paper	Various	7.6 – 8.0	10	611
Guaranteed preference shares 1995	Sterling	5.65	700	–
Guaranteed notes 1996	US dollar	8.125	189	188
Convertible notes 1998/2000	US dollar	6.5	442	–
Guaranteed notes 1999	US dollar	6.5	189	188
Guaranteed notes 1999	US dollar	7.0	376	376
Guaranteed notes 2001	US dollar	8.625	188	188
Zero coupon bonds 2004	US dollar	8.13	401	358
Guaranteed notes 2004	US dollar	7.125	127	127
Guaranteed bonds 2005	Sterling	9.0	200	–
Guaranteed notes 2005/2035	US dollar	7.45	253	–
Guaranteed debentures 2011	US dollar	9.0	187	187
Guaranteed debentures 2022	US dollar	8.0	188	188
Medium term notes	Various	Various	206	144
Others	Various	Various	219	95
			3,875	2,650

During the year, the group raised approximately £1,700m through the issue of long term bonds, notes and guaranteed preference shares and assumed £322m of Pet Incorporated's borrowings. These issues increased the long term maturity of the group's borrowings and reduced the dependence on commercial paper and bank facilities. The proceeds have been used for general corporate purposes, including, but not limited to, the repayment of short term borrowings.

£263m *(1994 – £265m)* of borrowings due after more than one year and £64m *(1994 – £9m)* of borrowings due within one year were secured on assets of the group.

The group had available unused committed bank facilities at 30th September 1995 of approximately £1,950m *(1994 – £1,350m)*, after allocation to support the commercial paper and certain other borrowings. The facilities are generally available to provide additional finance for the period up to 1999.

(i) Interest risk management The group's underlying borrowings are predominantly fixed rate. The group uses interest rate swaps to manage its proportion of floating rate debt to a pre-defined proportion of total borrowings. In addition, where appropriate the group uses forward rate agreements to manage short term interest rate exposures.

At 30th September 1995, the group had a portfolio of US dollar denominated interest rate swap agreements with an aggregate notional principal of approximately £3,000m, which have been entered into at various times during the last five years. Approximately £1,000m of these contracts have the effect of fixing the rate of interest at a weighted average rate of 7.4% for a weighted average term of 2.2 years and approximately £2,000m have the effect of converting fixed to variable rate for a weighted average term of 5.0 years. The group also has sterling denominated interest rate swaps fixing £150m of debt (at a rate of 8.6% with an average maturity of 4 years) and £200m principal effectively converting the sterling guaranteed bonds 2005 to floating rate.

At 30th September 1995, including the impact of interest rate swaps, the group had net fixed rate borrowings of £1,551m at effective interest rates ranging from 5.6% to 9.2% and with a weighted average term of 8.5 years *(1994 – £1,300m, 5.6% – 9.2% and 10 years, respectively).*

The interest rates shown in the table above are those contracted on the underlying borrowings before taking into account any interest rate protection.

20 Borrowings – *continued*

(ii) Exchange risk management The group hedges its exposure to gains and losses on translation of foreign currency net assets, using foreign currency borrowings and currency swaps. These currency swaps have the same effect as depositing sterling and borrowing, for example, US dollars.

The group hedges approximately 80% of its foreign currency transactional cash flows over a 12 month timeframe.

At 30th September 1995, the group had gross cross border foreign exchange contracts outstanding equivalent to approximately £3,800m *(1994 – £4,900m)*. Of these, approximately 40% were to sell US dollars and approximately 26% were to sell pounds sterling. They have maturities ranging to November 1999, but the majority mature within 18 months of the balance sheet date.

(iii) Fair values The estimated fair values of borrowings, derivative financial instruments and the guaranteed preferred securities are set out below. The fair values of quoted borrowings and the guaranteed preferred securities are based on year end mid-market quoted prices. The fair values of other borrowings and the derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end.

	1995		*1994*	
	Net carrying amount £m	*Estimated fair value £m*	*Net carrying amount £m*	*Estimated fair value £m*
Borrowings	(4,488)	(4,742)	(3,145)	(3,167)
Foreign exchange contracts:				
Transaction	–	(1)	–	–
Translation	42	40	(7)	5
Interest rate contracts:				
Positive fair values	37	198	6	9
Negative fair values	(20)	(59)	–	(36)
Guaranteed preferred securities	(349)	(397)	–	–

The estimated fair values of cash at bank and in hand and current asset investments are not materially different from their carrying values.

A large number of major international financial institutions are counterparties to the interest rate swaps, forward exchange contracts and term deposits. The group continually monitors its positions and the credit ratings of its counterparties and, by policy, limits the amount of agreements or contracts it enters into with any one party. While the group may be exposed to credit losses in the event of non-performance by these counterparties, because of these control procedures it does not expect any losses.

21 Other creditors – due within one year

	1995	*1994*
	£m	*£m*
Trade creditors	657	678
Bills of exchange payable	14	10
Amounts owed to associates	16	15
Corporate taxation	467	498
Other taxation including social security	113	117
Net obligations under finance leases	5	6
Other creditors	272	252
Ordinary dividends payable	312	292
Accruals and deferred income	626	513
	2,482	2,381

22 Other creditors – due after more than one year

	1995	1994
	£m	£m
Gross obligations under finance leases due:		
After five years	20	2[illegible]
From one to five years	22	27
	42	51
Less: Future finance charges	(14)	(20)
	28	31
Corporate taxation	17	1[illegible]
Other creditors	47	41
	92	82

23 Provisions for liabilities and charges

	Post employment provisions	*Restructuring and integration provisions*	*Disposal provisions*	*Deferred taxation*	*Other*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
At 30th September 1994	142	307	28	11	96	584
Exchange adjustments	–	(2)	–	–	–	(2)
Acquisition of subsidiaries	21	–	–	(8)	10	23
Transfers from profit and loss account	16	122	41	50	17	246
Utilised	(11)	(184)	(16)	–	(18)	(229)
Movement in ACT recoverable	–	–	–	(11)	–	(11)
Movement in deferred tax asset	–	–	–	(24)	–	(24)
At 30th September 1995	168	243	53	18	105	587

Provisions at 30th September 1995 comprise:

(a) Post employment provisions of £168m, comprising £154m *(1994 – £129m)* post employment benefits in respect of US medical costs and £14m *(1994 – £13m)* in respect of unfunded pension liabilities.

(b) Restructuring and integration provisions of £243m, comprising £90m *(1994 – £48m)* for the integration and reorganisation costs arising on the restructuring of acquired businesses and £153m *(1994 – £259m)* in respect of other exceptional restructuring costs. £51m of the £122m provision in respect of the integration of Pet Incorporated was utilised in the year.

(c) Disposal provisions of £53m *(1994 – £28m)* arising from commitments in respect of businesses sold, comprising £37m relating to former Food businesses and £16m relating to former retailing businesses.

(d) Deferred tax of £18m – see note 24.

(e) Other provisions of £105m, including amounts for potential employee compensation claims.

24 Deferred taxation

	1995 £m	1994 £m
Accelerated depreciation	96	90
Pension prepayment	108	93
Restructuring and integration costs	(72)	(61)
Other timing differences	(155)	(187)
ACT recoverable	(28)	(17)
Net asset	(51)	(82)
US and other overseas deferred tax assets (note 18)	69	93
UK deferred tax liability (note 23)	18	11

Provision for tax on capital gains payable on the disposal of revalued properties is made only when it is decided in principle to dispose of the asset. The tax effect if all properties had been sold at their book values, and without taking advantage of the law relating to rollover relief, is estimated to be £45m *(1994 – £60m)*. Other deferred taxation not provided, principally in respect of accelerated depreciation, amounted to £30m *(1994 – £40m)*. Deferred tax is not generally provided in respect of liabilities which might arise on the distribution of unappropriated profits of overseas subsidiaries and associates, except where distributions of such profits are planned.

25 Called up share capital

The authorised share capital of the company was £660m *(1994 – £660m)*.

During the year 3,859,109 ordinary shares (aggregate nominal value £1m) were allotted under the share option schemes for an aggregate consideration of £13m *(1994 – 6,315,319 shares, nominal value £1m, consideration £21m)*.

2,605,934 ordinary shares (aggregate nominal value £1m) were allotted during the year to shareholders who opted for shares instead of cash for dividends *(1994 – 4,257,055 shares, nominal value £1m)*.

During the year 62,478 *(1994 – nil)* ordinary shares were issued to holders of options granted in connection with a joint venture acquisition at a price of IR£3.30 per share.

The allotted and fully paid share capital at 30th September 1995 was as follows:

	1995 Shares	1995 £m	1994 Shares	1994 £m
Equity share capital				
Ordinary shares of 25p each	2,091,002,976	523	2,084,475,455	521
Non-equity share capital				
Cumulative £1 preference shares:				
4¾% (now 3.325% plus tax credit)	1,217,250	1	1,217,250	1
6¼% (now 4.375% plus tax credit)	3,278,454	3	3,278,454	3
5% (now 3.5% plus tax credit)	7,739,411	8	7,739,411	8
		12		12
		535		533

25 Called up share capital – *continued*

The following potential issues of ordinary shares have not been dealt with in these financial statements:

(a) Under the share option schemes for executives, directors and executives hold options to subscribe for up to 29,509,853 *(1994 – 28,481,709)* ordinary shares at prices ranging between 270p and 474p per share exercisable by 2005.

(b) Under the savings-related share option schemes for employees, employees hold options to subscribe for up to 7,632,415 *(1994 – 8,880,522)* ordinary shares at prices between 223p and 408p per share exercisable by 2003.

(c) During the year the company issued £442m 6.5% US dollar convertible notes to a large number of international institutional investors. The holders of the notes have the option of converting the notes into ordinary shares at a conversion price of 437p per share and with a fixed rate of exchange on conversion of £1 = $1.57, subject to adjustment in certain circumstances. The company may redeem the notes at par at any time after January 1998, provided that for a set period the market price of the shares, translated into US dollars at the rate of exchange at the time, exceeds $8.23. The notes will mature, unless earlier redeemed or converted, in January 2000. These conversion rights could give rise to the issue of up to 103,485,000 ordinary shares.

(d) The holders of £1m 9% unsecured convertible loan notes issued by the company have the option of converting the notes into ordinary shares at a price of 250p per share exercisable by 1998. These conversion rights could give rise to the issue of up to 464,686 *(1994 – 464,686)* ordinary shares.

(e) Options granted in connection with a joint venture acquisition entitle holders to subscribe for up to 1,828,162 *(1994 – 1,890,640)* ordinary shares at a price of IR£3.30 per share exercisable by 4th April 1996.

26 Reserves attributable to equity shareholders

	Share premium £m	*Revaluation £m*	*Goodwill £m*	*Profit and loss £m*	*Total £m*
At 30th September 1994	656	134	(2,810)	5,027	3,007
Retained profit for year	–	–	–	289	289
Exchange adjustments	–	–	(10)	20	10
Premiums on share issues, less expenses	11	–	–	–	11
Adjustment in respect of share dividend	–	–	–	10	10
Goodwill written off during the year	–	–	(790)	–	(790)
Transfer of goodwill on disposal	–	–	31	–	31
Realisation of revaluation reserve	–	(40)	–	40	–
At 30th September 1995	667	94	(3,579)	5,386	2,568

Goodwill is stated net of £62m of merger reserve and £426m of special reserve. The merger reserve arose in 1992 on the issue of shares at a premium in connection with an acquisition. The special reserve was created, with shareholder and Court approval, in 1988 by a transfer from the share premium account. Aggregate goodwill written off, net of disposals, is £4,067m *(1994 – £3,298m)*.

Of the £790m goodwill written off during the year, £725m arose on the acquisition of Food – Packaged businesses, including £690m on Pet Incorporated, and £51m arose on the acquisition of Drinks businesses.

Included in the revaluation reserve is £23m *(1994 – £38m)* representing the unrealised reserve on the transfer of the tenanted pub estate to Inntrepreneur Estates Ltd.

The exchange adjustments include losses of £3m in respect of local currency borrowings by overseas companies and £5m in respect of other currency borrowings.

27 Minority interests – non-equity

Non-equity minority interests of £349m comprise 9.42% cumulative guaranteed preferred securities issued by a subsidiary during the year. The holders of these securities have no rights against group companies other than the issuing entity and, to the extent prescribed by the guarantee, the company.

The guarantee in relation to these securities has been structured so as to place the holders of the securities in the same position in relation to the company as are the holders of the most senior preference shares of the company. To the extent that payments due under the guarantee are not made because the company has insufficient distributable profits, the company has covenanted that it will not make any distribution on any share capital which ranks junior to these securities.

28 Contingent liabilities

The group has given performance guarantees and indemnities to third parties of £104m *(1994 – £71m)*. These mainly comprise letters of credit arising in the normal course of business. In addition, the group has certain obligations with regard to Inntrepreneur Estates Ltd (see note 16).

The William Hill Group Ltd alleges that the total consideration payable for the sale in 1989 of the group's former retail betting operations should be reduced. As provided in the sale agreement, an independent accountant has been appointed to decide whether any such adjustment should be made. The directors are resisting strongly the allegation made by The William Hill Group Ltd and are satisfied that no provision for it should be made in these financial statements.

There are a number of other legal claims or potential claims against the group, the outcome of which cannot at present be foreseen. Provision is made in these financial statements for all liabilities which are expected to materialise.

29 Commitments

(a) Capital expenditure authorised and commitments not provided for in these financial statements are estimated at:

	1995 £m	*1994* £m
Committed	24	28
Authorised but not committed	61	48

(b) At 30th September 1995, the group had minimum annual commitments under non-cancellable operating leases as follows:

	1995			*1994*		
	Land and buildings £m	*Other £m*	*Total £m*	*Land and buildings £m*	*Other £m*	*Total £m*
Operating leases which expire:						
After five years	69	1	70	68	2	70
From one to five years	42	11	53	40	9	49
Within one year	5	3	8	6	3	9
	116	15	131	114	14	128

30 Reconciliation of operating profit to net cash inflow from operating activities

	1995 *£m*	*1994* *£m*
Operating profit	910	731
Exceptional operating costs	122	272
Cash payments in respect of restructuring and integration	(112)	(67)
Depreciation charge	187	205
Other items	29	12
Decrease in stocks	108	34
Increase in debtors	(81)	(40)
(Decrease)/increase in creditors and provisions	(93)	28
Net cash inflow from operating activities	1,070	1,195

31 Purchase of subsidiaries

(i) Pet Incorporated The fair value balance sheet of Pet Incorporated prior to its acquisition on 9th February 1995, translated at the then exchange rate of £1 = $1.56, has been assessed as follows:

	Pet book values *£m*	*Revaluation* *£m*	*Accounting policy conformity* *£m*	*Businesses held for sale* *£m*	*Fair value balance sheet* *£m*
Goodwill	238	–	(238)	–	–
Brands	–	1,067	–	–	1,067
Tangible fixed assets	210	(37)	(2)	(22)	149
Businesses held for sale	–	–	–	161	161
Stocks	131	(3)	–	(22)	106
Debtors	128	(14)	–	(17)	97
Creditors and provisions	(175)	4	(8)	5	(174)
Net borrowings	(328)	6	–	–	(322)
Net assets	204	1,023	(248)	105	1,084
Goodwill					690
Purchase consideration (wholly cash)					1,774

31 Purchase of subsidiaries – *continued*

The unaudited consolidated statements of income of Pet Incorporated for the period 1st July 1994 to 8th February 1995, translated at the average exchange rate for the period of £1 = $1.57, and the year ended 30th June 1994, translated at the average exchange rate for the year of £1 = $1.49, are set out below. This financial information has been prepared in accordance with US generally accepted accounting principles (US GAAP) and under Pet Incorporated's accounting policies prior to the acquisition.

	1st July 1994 to 8th February 1995 £m	*Year ended 30th June 1994 £m*
Net sales	613	1,062
Cost of goods sold	(320)	(506)
Gross profit	293	556
Selling, general and administrative expenses	(251)	(399)
Amortisation of goodwill	(5)	(8)
Operating income	37	149
Interest	(14)	(20)
Income from continuing operations before income taxes	23	129
Provision for income taxes	(17)	(50)
Income from continuing operations	6	79
Loss on disposal of discontinued operations, net of income taxes	–	(20)
Cumulative effect of accounting change, net of income taxes	–	(1)
Net income	6	58

US GAAP does not incorporate a statement of recognised gains and losses. However, such a statement would include the £6m net income shown above (with the effect of the accounting change separately disclosed) less dividends of £17m, and exchange adjustments of £nil *(1994 – £58m, £21m and £7m respectively)*.

(ii) Other subsidiaries acquired

	1995	*1994*
	Balance sheets at acquisition and fair value £m	*Fair value balance sheets £m*
Tangible fixed assets	5	21
Working capital	(13)	59
Provisions	–	(40)
Minority interests	(1)	-
Net assets	(9)	40
Goodwill	86	278
Purchase consideration	77	318
Adjustments for deferred consideration	24	(5)
Purchase consideration paid	101	313

Other subsidiaries acquired during the year include La Salteña in Food – Packaged.

32 Sale of subsidiaries

	1995	*1994*
	Balance sheets on disposal	
	£m	*£m*
Tangible fixed assets	146	767
Working capital and provisions	57	5
Net borrowings	(3)	(64)
Goodwill	28	28
Profit/(loss) on sale	154	(19)
Sale consideration	382	717
Adjustments for deferred consideration	(348)	(10)
Cash and cash equivalents	3	(3)
	37	704

The adjustments for deferred consideration include £327m *(1994 – £nil)* of loan notes in respect of the disposal of Alpo Petfoods.

33 Analysis of changes in financing

	1995		*1994*	
	£m	*£m*	*£m*	*£m*
At 30th September 1994		4,273		4,488
Net cash inflow from financing	1,308		47	
Borrowings of subsidiary acquired	322		–	
Borrowings of subsidiary sold	–		(66)	
Dividends payable in respect of non-equity minority interests	8		–	
Finance leases sold	–		(1)	
New finance leases	2		–	
Exchange adjustments	(5)		(195)	
		1,635		(215)
At 30th September 1995		5,908		4,273

Financing comprises share capital, share premium, the merger reserve, non-equity minority interests and borrowings due after more than one year, together with finance lease obligations of £33m *(1994 – £37m)* and borrowings due within one year with an original maturity of more than 90 days of £1,170m *(1994 – £694m)* net of interest rate swaps of £35m *(1994 – £nil)*.

Only the net movement in borrowings under the commercial paper programme is reflected in the constituent elements of the net cash inflow from financing.

34 Analysis of changes in cash and cash equivalents

	1995		*1994*	
	£m	*£m*	*£m*	*£m*
At 30th September 1994		816		187
Increase in cash and cash equivalents	111		656	
Exchange adjustments	–		(27)	
		111		629
At 30th September 1995		927		816

Cash and cash equivalents comprise cash and short term investments, less bills of exchange of £14m *(1994 – £10m)* and borrowings from banks due within one year with an original maturity of less than 90 days (including borrowings repayable on demand) of £191m *(1994 – £160m)*.

mpany Balance Sheet

September 1995

	Notes	1995 £m	1995 £m	1994 £m	1994 £m
FIXED ASSETS					
Tangible assets	*36*		3		5
Investments	*37*		3,728		1,696
			3,731		1,701
CURRENT ASSETS					
Debtors (see note below)	*38*	5,992		2,632	
Cash at bank		2		3	
		5,994		2,635	
CREDITORS – due within one year					
Borrowings	*39*	(58)		(6)	
Other creditors	*40*	(4,079)		(1,281)	
		(4,137)		(1,287)	
NET CURRENT ASSETS (see note below)			1,857		1,348
TOTAL ASSETS LESS CURRENT LIABILITIES			5,588		3,049
CREDITORS – due after more than one year					
Borrowings (including convertible debt)	*39*	(613)		(176)	
Amounts owed to subsidiary	*41*	(352)		–	
			(965)		(176)
PROVISIONS FOR LIABILITIES AND CHARGES	*42*		(30)		(37)
			4,593		2,836
CAPITAL AND RESERVES					
Equity share capital			523		521
Non-equity share capital			12		12
Called up share capital	*25*		535		533
Share premium account		667		656	
Other reserves		488		488	
Profit and loss account		2,903		1,159	
Reserves attributable to equity shareholders	*43*		4,058		2,303
			4,593		2,836

Debtors and net current assets include debtors recoverable after more than one year of £892m *(1994 – £69m)*.

The financial statements on pages 56 to 84 were approved by a duly appointed and authorised committee of the Board of Directors on 30th November 1995 and were signed on its behalf by:

Lord Sheppard, Director

G M N Corbett, Director

35 Company profit and loss account

The company's results are included in the consolidated profit and loss account so a separate profit and loss account is not presented.

36 Fixed assets – tangible assets

	Fixtures and fittings *£m*
Cost	
At 30th September 1994 and 1995	10
Depreciation	
At 30th September 1994	5
Provided during the year	2
At 30th September 1995	7
Net book value	
At 30th September 1995	3
At 30th September 1994	5

37 Fixed assets – investments

	Investment in IEL *£m*	*Investment in own shares* *£m*	*Shares in subsidiaries* *£m*	*Loans to IEL* *£m*	*Total* *£m*
Cost					
At 30th September 1994	142	172	1,045	445	1,804
Additions	33	49	6,944	–	7,026
Disposals	–	(4)	(4,630)	(360)	(4,994)
Transfer	85	–	–	(85)	–
At 30th September 1995	260	217	3,359	–	3,836
Less: Provisions					
At 30th September 1994 and 1995	–	–	108	–	108
Net book value					
At 30th September 1995	260	217	3,251	–	3,728
At 30th September 1994	142	172	937	445	1,696

Details of the principal group companies are given on pages 88 and 89.

38 Debtors

	1995 *£m*	*1994* *£m*
Amounts owed by subsidiaries	5,872	2,505
Other debtors	17	25
Pension prepayment	9	8
Deferred taxation	18	24
ACT recoverable	76	70
	5,992	2,632

Debtors include £892m *(1994 – £69m)* which is recoverable after more than one year. This comprises amounts owed by subsidiaries £808m *(1994 – £nil)*, other debtors of £nil *(1994 – £16m)*, a pension prepayment of £9m *(1994 – £8m)* and ACT recoverable of £75m *(1994 – £45m)*.

39 Borrowings

	1995 Bank loans £m	1995 Other loans £m	1995 Total £m	1994 Bank loans £m
Analysis by year of repayment:				
From two to five years	143	442	585	123
From one to two years	28	–	28	53
Due after more than one year	171	442	613	176
Due within one year	58	–	58	6
	229	442	671	182

	Currency	Year end interest rates %	1995 £m	1994 £m
Borrowings comprise:				
Convertible notes 1998/2000	US dollar	6.5	442	–
Bank loans	Sterling	Various	229	182
			671	182

£226m *(1994 – £176m)* of the bank loans relate to the employee share trusts and are secured on assets of the company.

40 Other creditors – due within one year

	1995 £m	1994 £m
Amounts owed to subsidiaries	3,637	890
Corporate taxation	74	70
Other creditors	34	18
Ordinary dividends payable	312	292
Accruals and deferred income	22	11
	4,079	1,281

41 Amounts owed to subsidiary

The £352m owed to subsidiary represents unsecured 9.42% cumulative capital interests. These securities, which are listed on the Luxembourg Stock Exchange, are subordinated to all other liabilities of the company and rank *pari passu* with the company's most senior preference shares. The securities are redeemable only at the option of the company in or after 2004 or in the event of certain fiscal or legal changes in the US or the UK. Interest and redemption payments may only be made to the extent that the company has adequate distributable profits or, in the case of a redemption, out of the proceeds of an issue of shares. To the extent that dividend or redemption payments have not been made when due, the company has covenanted that it will not make any distribution on any share capital which ranks junior to these securities.

42 Provisions for liabilities and charges

	Disposal and restructuring provisions £m	Other £m	Total £m
At 30th September 1994	32	5	37
Utilised	(7)	–	(7)
At 30th September 1995	25	5	30

43 Reserves attributable to equity shareholders

	Share premium £m	*Other £m*	*Profit and loss £m*	*Total £m*
At 30th September 1994	656	488	1,159	2,303
Profit for the financial year	–	–	2,046	2,046
Ordinary dividends	–	–	(312)	(312)
Premiums on share issues, less expenses	11	–	–	11
Adjustment in respect of share dividend	–	–	10	10
At 30th September 1995	667	488	2,903	4,058

Other reserves comprise a merger reserve of £62m and a special reserve of £426m. The merger reserve arose in 1992 on the issue of shares at a premium in connection with an acquisition. The special reserve was created, with shareholder and Court approval, in 1988 by a transfer from the share premium account.

44 Contingent liabilities

The company has guaranteed certain borrowings, liabilities and commitments of subsidiaries which at 30th September 1995 amounted to £3,361m, £71m and £56m respectively *(1994 – £2,640m, £69m and £63m respectively)*. These include irrevocable guarantees of the liabilities of certain of its Irish and Dutch subsidiaries. In addition, the company has certain obligations with regard to Inntrepreneur Estates Ltd (see note 16) and the group's non-equity minority interests (see note 27). Also, it is in dispute with The William Hill Group Ltd (see note 28).

Reconciliation to US Accounting Principles

The group's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) applicable in the UK, which differ in certain significant respects from those applicable in the US. The approximate effects of such differences on net income and shareholders' equity are set out below.

Approximate effect on net income of differences between UK and US GAAP

	Notes	1995 £m	1994 £m
Net income per UK GAAP		601	450
Adjustment in respect of discontinued operations	*(a)*	–	(34)
		601	416
Adjustments in respect of continuing operations:			
Brands	*(b)*	(87)	(72)
Goodwill and other intangibles	*(b)*	(106)	(93)
Depreciation of certain buildings	*(d)*	–	(12)
Property disposals	*(e)*	75	–
Sale of assets to an associated company	*(f)*	80	–
Acquisition accounting	*(g)*	54	(5)
Restructuring and integration costs	*(h)*	(17)	134
Pensions and other post employment benefits	*(i)*	(6)	(20)
Deferred taxation	*(j)*	35	(43)
Other items		(7)	6
Approximate net income per US GAAP			
Continuing operations*		622	311
Income from discontinued operations	*(a)*	–	3
Gain on sale of discontinued operations†	*(a)*	–	303
Net income before cumulative effect of accounting changes		622	617
Cumulative effect of changes in accounting:			
For post employment costs from 1st October 1994 (net of income taxes of £2m)		(4)	–
For income taxes from 1st October 1993		–	290
Net income		618	907

	Notes	1995 pence	1994 pence
Earnings per ordinary share in accordance with US GAAP	*(k)*		
Continuing operations*		29.8	14.9
Discontinued operations†		–	14.7
Net income before cumulative effect of accounting changes		29.8	29.6
Cumulative effect of accounting changes		(0.2)	13.9
Net income		29.6	43.5
Earnings per American Depositary Share			
Income from continuing operations*		119.2	59.6

*US GAAP net income from continuing operations for the year ended 30th September 1995 includes a gain of £129m (6.2p per ordinary share) *(1994 – £nil)* on the disposal of Alpo Petfoods and a net gain of £130m (6.2p per ordinary share) *(1994 – £nil)* following the refinancing of IEL and the disposal of its free of tie estate. It also includes £48m (2.3p per ordinary share) *(1994 – £116m; 5.6p per ordinary share)* restructuring and integration costs.

†The gain on sale of discontinued operations in the year ended 30th September 1994 largely arose on the sale of The Chef & Brewer Group.

Approximate cumulative effect on shareholders' equity of differences between UK and US GAAP

	Notes	1995 £m	1994 £m
Shareholders' equity per UK GAAP		3,103	3,540
Adjustments:			
Brands	*(b)*	(528)	(438)
Goodwill and other intangibles	*(b)*	4,364	3,280
Revaluation of land and buildings	*(c)*	(94)	(134)
Depreciation of certain buildings	*(d)*	(43)	(43)
Sale of assets to an associated company	*(f)*	(360)	(440)
Restructuring and integration costs	*(h)*	112	134
Pensions and other post employment benefits	*(i)*	(123)	(104)
Deferred taxation	*(j)*	(1,144)	(840)
Ordinary dividends	*(l)*	197	189
Other differences in accounting principles		(188)	(165)
Shareholders' equity per US GAAP		5,296	4,979

Notes on differences between UK and US GAAP

(a) Discontinued operations UK and US GAAP have different criteria for determining discontinued operations. The adjustment in respect of discontinued operations represents the operations which, under US GAAP, have been treated as discontinued operations and comprises the UK GAAP gain/(loss) on sale aggregated with the net income attributable to the businesses up to the date of disposal. This amount, after giving effect to certain of the adjustments described in *(b)* to *(j)* below, is presented for US GAAP purposes as income from discontinued operations and gain/(loss) on sale of discontinued operations in the net income reconciliation.

(b) Brands, goodwill and other intangibles Significant owned brands acquired by the group after 1st January 1985 are recorded on the balance sheet. The group does not provide amortisation on these assets. Under US GAAP, these assets would be amortised through the statement of income over a period not exceeding 40 years. Under UK GAAP, the group writes off certain intangible assets, which include goodwill and lease, management and franchise agreements, direct to reserves in the year of acquisition. Under US GAAP, these intangible assets would be capitalised in the balance sheet and amortised through the statement of income over a period not exceeding 40 years.

For the purposes of calculating the effect of capitalising the goodwill on the balance sheet and amortising the goodwill and brands through the statement of income, a life of 40 years has generally been assumed. However, the value of the brands, goodwill and other intangibles is reviewed annually by reference to historic and forecast contributions to operating income and an additional charge to the statement of income is made where a permanent diminution in net book value is identified.

(c) Revaluation of land and buildings UK GAAP allows the periodic revaluation of land and buildings. Professional valuations of the group's properties were carried out at 30th September 1988; the investment properties of IEL are revalued annually. Under US GAAP, such revaluations of property would not be reflected in the financial statements.

(d) Depreciation of certain buildings The investment properties of IEL are not depreciated under UK GAAP. This policy does not conform to US GAAP. For the purposes of the reconciliations a life of 60 years has been assumed for these assets.

(e) Property disposals Applying the differences between UK and US general accounting principles may result in changes to the carrying values for property. Because of these differences a different gain or loss may arise on the disposal of property under UK GAAP from that determined under US GAAP.

(f) Sale of assets to an associated company Under UK GAAP, where an asset is sold to an associated company, the proportion of the gain or loss relating to the group's share of the equity in the associated company is generally accounted for as unrealised. Under US GAAP, the timing of, and accounting treatment for, the sale of assets to an associated company may differ from UK GAAP as it depends on the amount of cash realised and the extent of guarantees given in respect of the associated company's indebtedness.

(g) Acquisition accounting Prior to the adoption of FRS 7, Fair values in acquisition accounting, the group provided for certain costs as part of the purchase accounting adjustments on an acquisition which under US GAAP were included in the statement of income when those costs were incurred. Examples of such items include certain costs in respect of salaries of individuals made redundant, the closure of certain of the group's existing operations and the rectification of inadequate operating systems.

With effect from 1st October 1994, the group adopted FRS 7. This new standard sets out rules for accounting for acquisitions in consolidated financial statements. The fair value balance sheet of the acquired company cannot include provisions for integration and reorganisation costs set up by the acquiring company. In compliance with the standard, comparative figures have not been restated. Under US GAAP, certain integration and reorganisation costs may be considered liabilities assumed and included in the allocation of the acquisition cost.

(h) Restructuring and integration costs Under UK GAAP, when a decision has been taken to restructure part of the group's business, provisions are made for the impairment of asset values together with severance and other costs. US GAAP requires a number of specific criteria to be met before such costs can be recognised as an expense. Among these is the requirement that all the significant actions arising from a restructuring and integration plan and their completion dates must be identified by the balance sheet date. These criteria also apply to the recognition of integration costs not considered liabilities assumed on acquisition.

(i) Pensions and other post employment benefits The group accounts for the costs of pensions and other post employment benefits under the rules set out in UK accounting standards. US GAAP is more prescriptive in respect of actuarial assumptions and the allocation of costs to accounting periods.

(j) Deferred taxation UK GAAP requires that no provision for deferred taxation should be made if there is reasonable evidence that such taxation will not be payable within the foreseeable future. US GAAP requires full provision for deferred taxation liabilities and permits deferred tax assets to be recognised if their realisation is considered more likely than not.

(k) Earnings per ordinary share Under UK GAAP, basic earnings per ordinary share is computed using the weighted average number of shares in issue during the year. US GAAP also includes in the computation for earnings per ordinary share the dilutive effect of all outstanding share options and common share equivalents under the treasury stock method. Under UK GAAP, the weighted average number of shares for prior years is restated to reflect the bonus element of rights issues. Under US GAAP, no restatement is made.

Earnings per American Depositary Share are calculated on the basis of four ordinary shares representing one American Depositary Share.

(l) Ordinary dividends Under UK GAAP, the proposed dividends on ordinary shares, as recommended by the directors, are deducted from shareholders' equity and shown as a liability in the balance sheet at the end of the period to which they relate. Under US GAAP, such dividends are only deducted from shareholders' equity at the date of declaration of the dividend.

Principal Group Companies

The companies listed on these two pages include those which principally affect the profits and assets of the group. A full list of subsidiaries will be included in the company's next annual return.

	Country of incorporation	*Country of operation*	*Percentage of equity owned*	*Business description*
Food – Packaged				
Brossard France, SA	France	France	100%	Manufacturing and marketing of ambient and frozen bakery products.
Gigante Verde, SA	Spain	Spain	100%	Manufacturing and marketing of fresh and shelf-stable vegetables.
The Pillsbury Company	USA	USA	100%	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.
Pillsbury Canada Ltd	Canada	Canada	100%	Manufacturing, marketing and distribution of vegetables, dough products, pizza snacks and Mexican foods.
Pillsbury GmbH +	Germany	Germany	100%	Manufacturing and marketing of ready meals, canned soups, frozen gateaux and savoury products.
Food – Retailing				
Burger King Corporation +	USA	Worldwide	100%	Fast food retailing.
Pearle, Inc +	USA	USA, Netherlands	100%	Retailing of eye care products and services.
Drinks				
AED SA	Spain	Spain	100%	Importing, distribution and marketing of spirits and wines.
R & A Bailey & Company	Ireland	Ireland – exporting worldwide	100%	Production, distribution, marketing and exporting of cream liqueurs.
Buton SpA	Italy	Italy	100%	Production, distribution and marketing of spirits and wines.
Carillon Importers Ltd	USA	USA	100%	Importing, distribution and marketing of spirits, wines and other adult beverages.
Francesco Cinzano & CIA SpA +	Italy	Worldwide	100%	Production, distribution and marketing of vermouth and wines; local distribution of spirits and wines.
Croft & Companhia Lda	Portugal	Portugal – exporting worldwide	100%	Production, distribution, marketing and exporting of port wine.

	Country of incorporation	*Country of operation*	*Percentage of equity owned*	*Business description*
Drinks – *continued*				
Croft Jerez SA	Spain	Spain – exporting worldwide	100%	Production, distribution, marketing and exporting of sherry.
Gilbey Canada Inc †	Canada	Canada	100%	Production, distribution, marketing and wholesaling of spirits and wines.
W & A Gilbey (SA) (Pty) Ltd	South Africa	South Africa	51%	Production, distribution, marketing and retailing of spirits and wines.
Heublein Inc †	USA	Worldwide	100%	Production, importing and marketing of spirits and wines.
Heublein do Brazil Comercial e Industrial Limitada	Brazil	Brazil	70%	Production, distribution and marketing of spirits and wines.
International Distillers & Vintners Ltd †	England	Worldwide	100%*	Production, distribution, marketing, exporting and importing of spirits, wines and other adult beverages.
The Paddington Corporation	USA	USA	100%	Importing, distribution and marketing of spirits and wines.
The Pierre Smirnoff Company Limited	USA	Worldwide	100%	Production, distribution, marketing and exporting of spirits.
Justerini & Brooks Ltd	England	UK – exporting worldwide	100%	Distillation, marketing and exporting of Scotch whisky.
S&E&A Metaxa ABE †	Greece	Greece	100%	Production, distribution and marketing of spirits, local distribution of wines.
Sovedi France SA	France	France	100%	Importing, distribution and marketing of spirits and wines.
Weltmarken Import Spirituosen und Weine GmbH	Germany	Germany	100%	Importing, distribution and marketing of spirits and wines.
Corporate				
Grand Metropolitan Finance PLC	England	UK	100%*	Financing company for the group.
Grand Metropolitan Incorporated	USA	USA	100%	Investment holding company.
Grand Metropolitan Investment Corporation	USA	USA	100%	Financing company for the US group.
Inntrepreneur Estates Ltd	England	UK	50%*	Property investment company.
Selviac Nederland BV	Holland	Worldwide	100%	Investment holding company.

* Directly owned by Grand Metropolitan PLC

† Carries on the business described in the countries listed in conjunction with its subsidiaries and other group companies.

Shareholder Information

Shareholder analysis

At 30th September 1995	*Number of holders*	*Percentage of total holders*	*Number of shares*	*Percentage of ordinary share capital*
Classification of shareholders:				
Private holders	81,998	69.77	174,272,890	8.33
Nominee companies	31,304	26.63	1,541,929,101	73.74
Trusts (pension funds etc)	2,028	1.73	91,234,382	4.36
Corporate holders	1,828	1.55	142,107,670	6.80
Insurance companies	372	0.32	141,458,933	6.77
	117,530	100.00	2,091,002,976	100.00
Shareholding range:				
1 – 500	26,153	22.25	6,160,422	0.29
501 – 1,000	27,510	23.41	21,176,336	1.01
1,001 – 5,000	52,614	44.76	114,701,586	5.49
5,001 – 50,000	9,440	8.03	104,414,087	5.00
50,001 – 100,000	490	0.42	36,569,061	1.75
100,001 – 500,000	855	0.73	194,311,404	9.29
500,001 and over	468	0.40	1,613,670,080	77.17
	117,530	100.00	2,091,002,976	100.00

Share dividend plan

The company's share dividend plan was again in operation during 1995. During the six-year life of the plan, a total of 14,825,751 ordinary shares have been allotted and the number of participants totals 19,410.

Where the price per share used to calculate entitlement to new shares ('Share Price') differs substantially from the market value on the first day of dealings in the new shares on the London Stock Exchange ('Opening Value'), the Opening Value will be taken when calculating gross income for UK taxation purposes. The Inland Revenue normally regards a difference of 15% either way as 'substantial'. For both dividends paid during 1995 the Share Price did not differ from the Opening Value by more than 15%.

The following table shows how the UK taxable income relating to the receipt of each new share under the share dividend plan is calculated:

	Share Price	*Opening Value*	*Gross income for UK tax purposes*
Final dividend 1994 (10th April 1995)	381.8p	394.5p	477.3p*
Interim dividend 1995 (2nd October 1995)	404.2p	437.5p	505.3p*

**Gross income for UK tax purposes equals Share Price grossed up for tax at the rate of 20%.*

Share sub-division

On 15th April 1992, the ordinary shares of 50p each in issue became two shares of 25p each. All entries on the share register were updated but no new share certificates for 25p shares were issued and existing certificates for 50p shares remain valid and represent the increased number of shares.

Annual General Meeting

The AGM will be held on Tuesday, 20th February 1996 at 11.15 am in the Great Room, Grosvenor House, Park Lane, London W1.

Recent dividend history

Ordinary dividends					ADSs				
Record date	*Payment date*	*Gross dividend*	*Imputed tax withheld*	*Net payment*	*Record date*	*Payment date*	*Gross dividend*	*Foreign tax withheld*	*Net payment*
9 Aug 91	7 Oct 91	5.60p*	1.40p*	4.20p*	9 Aug 91	11 Oct 91	$.39	$.06	$.33
24 Jan 92	6 Apr 92	9.53p*	2.38p*	7.15p*	24 Jan 92	10 Apr 92	$.67	$.10	$.57
7 Aug 92	5 Oct 92	6.13p	1.53p	4.60p	7 Aug 92	9 Oct 92	$.42	$.07	$.35
22 Jan 93	13 Apr 93	9.63p	1.93p	7.70p	22 Jan 93	16 Apr 93	$.60	$.09	$.51
6 Aug 93	4 Oct 93	6.06p	1.21p	4.85p	6 Aug 93	8 Oct 93	$.36	$.05	$.31
28 Jan 94	11 Apr 94	10.19p	2.04p	8.15p	28 Jan 94	18 Apr 94	$.60	$.09	$.51
22 Jul 94	3 Oct 94	6.44p	1.29p	5.15p	22 Jul 94	7 Oct 94	$.41	$.06	$.35
26 Jan 95	10 Apr 95	11.00p	2.20p	8.80p	26 Jan 95	14 Apr 95	$.69	$.10	$.59
25 Jul 95	2 Oct 95	6.88p	1.38p	5.50p	25 Jul 95	6 Oct 95	$.43	$.06	$.37
10 Jan 96	9 Apr 96	11.75p†	2.35p	9.40p†	10 Jan 96	15 Apr 96	$.74†**	$.11	$.63†**

*Adjusted to reflect the two for one ordinary share division on 15th April 1992.
†Proposed dividend

**Using £1 = $1.58 for illustration purposes. The actual rate of exchange used in determining the dollar payment to ADR holders will be the exchange rate on 9th April 1996.

Low-cost share dealing service
This service offered by Hoare Govett allows shareholders to buy and sell GrandMet shares in a simple and low cost manner. For more details contact: Michelle Savin-Jones or Alison Rickman, Hoare Govett Corporate Finance Limited, 4 Broadgate, London EC2M 7LE. Telephone (0171) 601 0101.

Personal equity plans (PEPs)
In 1992, GrandMet introduced a General PEP and a Single Company PEP. Details may be obtained from, and queries directed to: The Plan Manager, Bradford & Bingley (PEPs) Limited, PO Box 1, Taunton Street, Shipley, West Yorkshire BD18 3YR. Telephone helpline (01274) 555700.

UK tax on capital gains
A leaflet for UK capital gains purposes, which includes details of the rights, capitalisation issues and the share division which have occurred since 31st March 1982, is available from the Secretary on request.

Registrar and transfer office
All administrative enquiries relating to shareholdings should, in the first instance, be directed to The GrandMet Registrar and clearly state the registered shareholder's name and address. Please write to: The GrandMet Registrar, CMG Share Registration Division, Astra Centre, Edinburgh Way, Harlow, Essex CM20 2BE. Telephone (01279) 453366.

ADSs
The company's ADSs (each representing four ordinary shares) have been listed on the New York Stock Exchange since March 1991. The company files reports and other documents with the Securities and Exchange Commission which are available for inspection and copying at the SEC's public reference facilities.

ADS dividends
Qualifying US and Canadian resident ADR holders are entitled to a refund of the 20/80ths UK tax credit attaching to the 1995 interim and proposed final dividends, less a 15% UK withholding tax charge on the sum of the dividend and the tax credit. The share dividend alternative is available to US and Canadian resident ADR holders.

ADR depositary
Morgan Guaranty Trust Company of New York is the depositary for Grand Metropolitan American Depositary Shares.

All enquiries concerning ADR records, certificates or transfer of ordinary shares into ADRs should be addressed to:
Morgan Guaranty Trust Company of New York – ADR, PO Box 8205, Boston, MA 02266–8205.
Telephone (617) 774 4237.

US dividend reinvestment plan
All enquiries should be addressed to: Morgan Guaranty Trust Company of New York,
GrandMet Dividend Reinvestment Plan, PO Box 9073, Boston, MA 02205–9948. Telephone (800) 428 4237.

Investor relations
For investor enquiries contact: Grand Metropolitan PLC, 20 St James's Square, London SW1Y 4RR.

Five Year Record

based on consolidated financial statements for years ended 30th September

	1991 £m	1992 £m	1993 £m	1994 £m	1995 £m	1995 $m
Profit and loss account						
Turnover	8,748	7,913	8,120	7,780	8,025	12,680
Operating profit before exceptionals	1,027	941	1,042	1,023	1,032	1,631
Share of profits of associates	10	16	24	45	48	76
Interest payable (net)	(183)	(107)	(155)	(123)	(168)	(266)
Profit before exceptional items and taxation	854	850	911	945	912	1,441
Exceptional items:						
Sale of businesses and fixed assets	(421)	54	(39)	(11)	145	229
Other	–	–	(247)	(280)	(137)	(216)
Profit before taxation	433	904	625	654	920	1,454
Taxation	(220)	(293)	(209)	(197)	(284)	(449)
Profit after taxation	213	611	416	457	636	1,005
Minority interests	(5)	(2)	(6)	(7)	(35)	(55)
Profit for the financial year	208	609	410	450	601	950
Ordinary dividends	(226)	(256)	(269)	(292)	(312)	(493)
Transferred to reserves	(18)	353	141	158	289	457
Earnings per share (note 1):						
Before exceptional items	28.8p	28.1p	29.6p	32.2p	29.8p	$0.47
After exceptional items	10.5p	29.9p	19.9p	21.6p	28.8p	$0.46
Ordinary dividends per share (note 1)	11.35p	12.3p	13.0p	13.95p	14.9p	$0.24
Balance sheet						
Intangible fixed assets	2,464	2,492	2,924	2,782	3,840	6,067
Other fixed assets	3,714	3,458	3,538	2,793	2,460	3,887
Other net assets	9	419	276	171	515	814
	6,187	6,369	6,738	5,746	6,815	10,768
Net borrowings	(2,750)	(2,608)	(3,025)	(2,159)	(3,321)	(5,247)
	3,437	3,761	3,713	3,587	3,494	5,521
Capital and reserves	3,405	3,733	3,674	3,540	3,103	4,903
Minority interests	32	28	39	47	391	618
	3,437	3,761	3,713	3,587	3,494	5,521
Cash flow						
Net cash inflow from operating activities	939	877	1,338	1,195	1,070	1,691
Interest and taxation (net)	(317)	(358)	(467)	(331)	(401)	(634)
Capital expenditure (net)	(229)	(268)	(234)	(159)	(118)	(186)
Acquisition and disposal provision payments	(168)	(164)	(127)	(63)	(50)	(79)
Free cash flow	225	87	510	642	501	792
Dividends paid	(198)	(218)	(244)	(251)	(280)	(443)
Net disposals/(acquisitions)	440	260	(19)	218	(1,418)	(2,240)
Net cash inflow/(outflow) before financing	467	129	247	609	(1,197)	(1,891)

Notes

(1) Adjustments have been made to take account of the 1992 share division.

(2) Prior year figures have been restated to reflect subsequent changes in accounting policies.

(3) For the convenience of US readers, the 1995 figures have been translated to US dollars at a rate of £1 = $1.58 (the rate on 30th September 1995).

Financial Calendar

Annual General Meeting	20th February 1996
1995 Final Dividend to be paid	
Ordinary Shares	9th April 1996
ADSs	15th April 1996
1996 Interim Results to be announced	16th May 1996

Grand Metropolitan PLC
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