ANNUAL REPORT 1994

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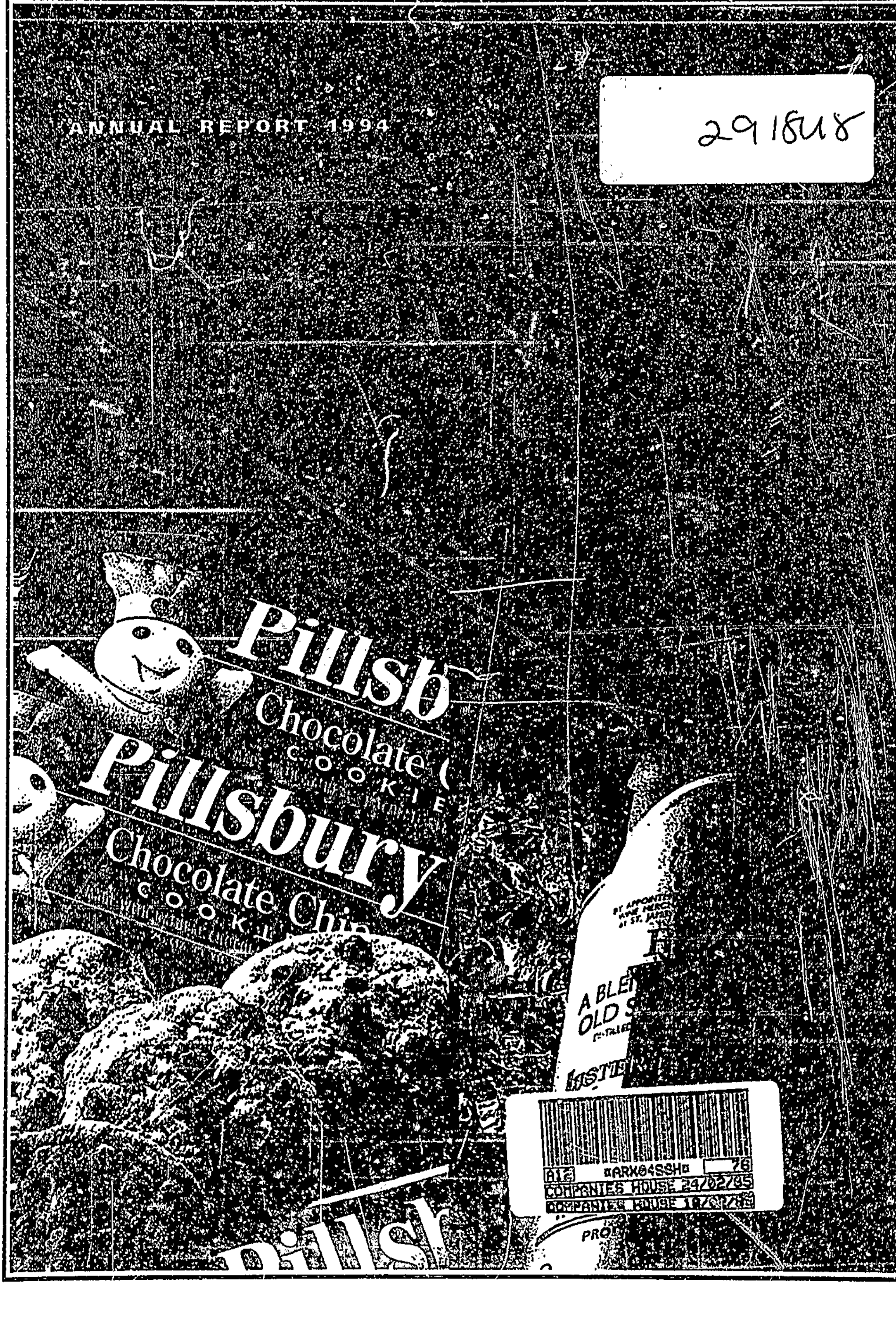

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BUSINESS SECTORS

FOOD SECTOR

The group's Food sector comprises Pillsbury, based in Minneapolis; GrandMet Foods Europe, headquartered in Paris; and Burger King, based in Miami. Pearle, based in Dallas, is also included in this sector.

Pillsbury produces a range of refrigerated dough products, frozen foods and other grocery products for international consumer markets. These include Pillsbury baked goods, Green Giant vegetables, Häagen-Dazs ice cream and Foodservice products. Pillsbury holds number one market positions in prepared dough, frozen pizza, frozen vegetables and superpremium ice cream in the US.

GrandMet Foods Europe produces and markets baked goods, vegetables and ready meals for European markets. Its brands include Erasco, Jus-rol, Pillsbury, Green Giant, Häagen-Dazs, Brossard and Peter's Savoury Products.

Burger King, the world's second largest hamburger restaurant chain, operates in 56 countries and has over 7,500 outlets with systemwide sales of almost £5 billion.

Pearle is one of the world's largest retail eyewear and eyecare groups, with some 950 outlets in North America and Europe.

DRINKS SECTOR

International Distillers & Vintners (IDV) is the group's worldwide spirits and wines business.

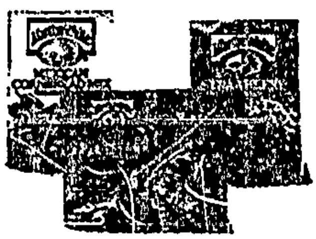
IDV sells in every available market in the world, with operations in 54 countries across six geographical regions: North America, Europe, Asia Pacific, Africa, Latin America and the former Soviet Union.

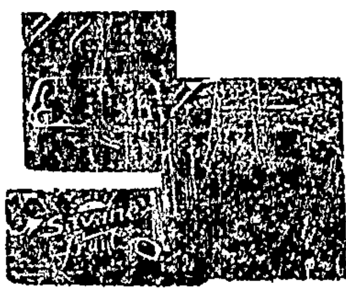
It is one of the world's major spirits and wines companies – developing, producing, marketing and distributing around 100 million cases per year – more than any other drinks company.

IDV has a portfolio of over 150 brands, which includes Smirnoff, the world's number one vodka; J&B Rare, the second biggest selling Scotch whisky; and Baileys Original Irish Cream, the world's best selling individual liqueur brand. IDV has five of the world's top 20 spirits brands.

In the last five years, IDV has set up new national distribution companies or joint-venture partnerships in 18 countries, and now controls over 90 per cent of the worldwide distribution of its brands.

BRANDS





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Grand Metropolitan is one of the world's leading consumer goods companies, specialising in branded food and drinks businesses. It is a market oriented organisation with particular skills in brand marketing and the management of worldwide operations.

The group operates across a small spread of businesses which possess complementary features, thereby ensuring it adds value to the individual parts.

GrandMet thrives on challenge and has a management philosophy which emphasises teamwork, open communication, innovation, and performance orientation. The group operates within the highest ethical standards in its dealings with suppliers, customers, shareholders, employees and communities. GrandMet contributes to the prosperity of the communities in which it operates through programmes which help people to achieve self sufficiency.

GrandMet provides a challenging and rewarding working environment for its employees and strives at all times to promote the highest professional standards.

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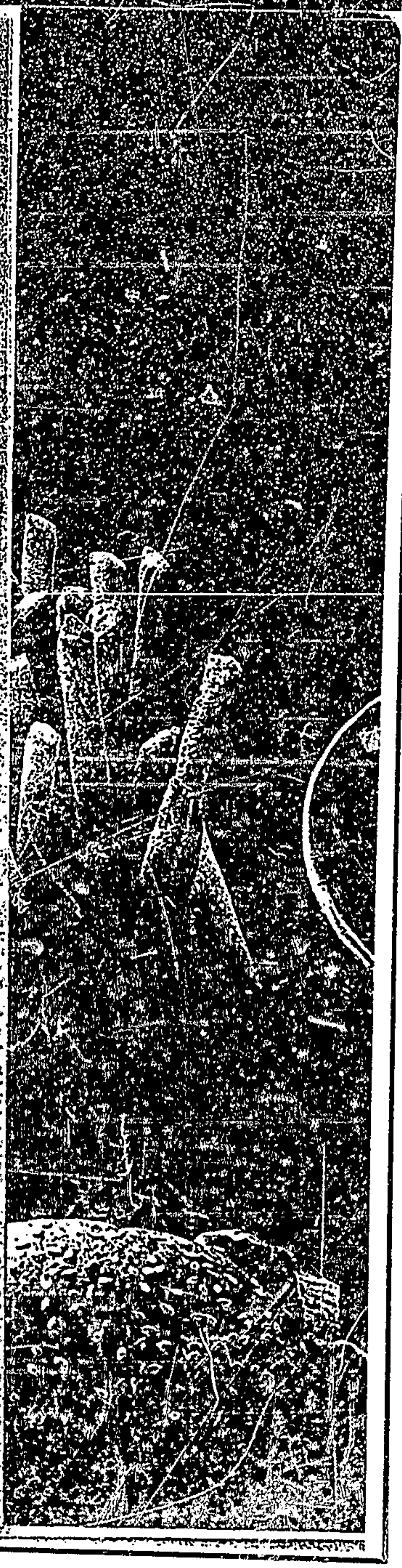

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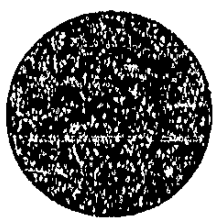
CHAIRMAN'S STATEMENT

GrandMet's free cash flow before dividends was the highest ever, £642 million, making a total of £1.15 billion over the last two years

OPERATING PROFIT
£1,017m*
ANALYSIS BY SECTOR



FOOD
DRINKS

*FROM CONTINUING OPERATIONS BEFORE EXCEPTIONAL ITEMS

FAR RIGHT: THE LORD SHEPPARD OF DIDGEMERE, CHAIRMAN

Dear Shareholder,
Since I wrote to you last year, the economic recovery expected in the United Kingdom and the United States has materialised, although certain geographic areas and industrial sectors are still in recession. In the US for example, the east coast has generally recovered while the west coast, especially California, still lags behind.

In continental Europe, where the recovery has been much slower, we are only now starting to see some benefit to our European food and drinks businesses.

Within the context of this trading environment, it may be helpful to examine GrandMet's results in terms of those criteria which are most commonly used to measure company performance.

■ Some shareholders regard earnings growth as *the* measurement of company performance. Last year, whether measured before or after exceptional items, GrandMet's earnings per share grew nine per cent. This was achieved despite an increase in marketing investment behind our brands to £900 million.

■ Others are more interested in cash flow. GrandMet's free cash flow before dividends last year was the highest ever, £642 million, making a total of £1.15 billion over the last two years.

■ For others, the final dividend and dividend cover are more important. Our recommended final dividend will bring a total year increase of more than seven per cent over last year. This is about two or three times the current level of UK and US inflation. It is well covered, 2.3 times, ignoring exceptional items.

■ Finally, some investors are chiefly concerned with the absolute level of debt and interest cover. During the past year, GrandMet's net debt reduced by £866 million to £2.16 billion; our interest costs were covered 8.7 times. This was a good result, more so because certain items are not included, for example, the sale of Alpo, the refinancing of IEL and the issue of US preference securities, which together will reduce borrowings by a further £1 billion.

We have been able to achieve these results because of the fundamental strength of our businesses which performed well in conditions which were not always helpful. In the Food sector, both Pillsbury and Burger King increased profits substantially. Our European food businesses stabilised but results were not acceptable. IDV, after a run of so many progressive years, recorded reduced profits as a result of difficult trading conditions in the drinks industries in North America and Europe and the effects of its major destocking initiative in the US. Pearle and IEL both recorded profits for the year.

Following the successful restructuring programme in US foods last year, we announced a similar restructuring programme for our worldwide drinks and European food businesses. I should like to emphasise that when we have completed these programmes we will have restructured all our worldwide businesses, substantially reducing our long term cost base and augmenting our leadership position in the world marketplace. We do not foresee the need for any further major restructuring programmes.

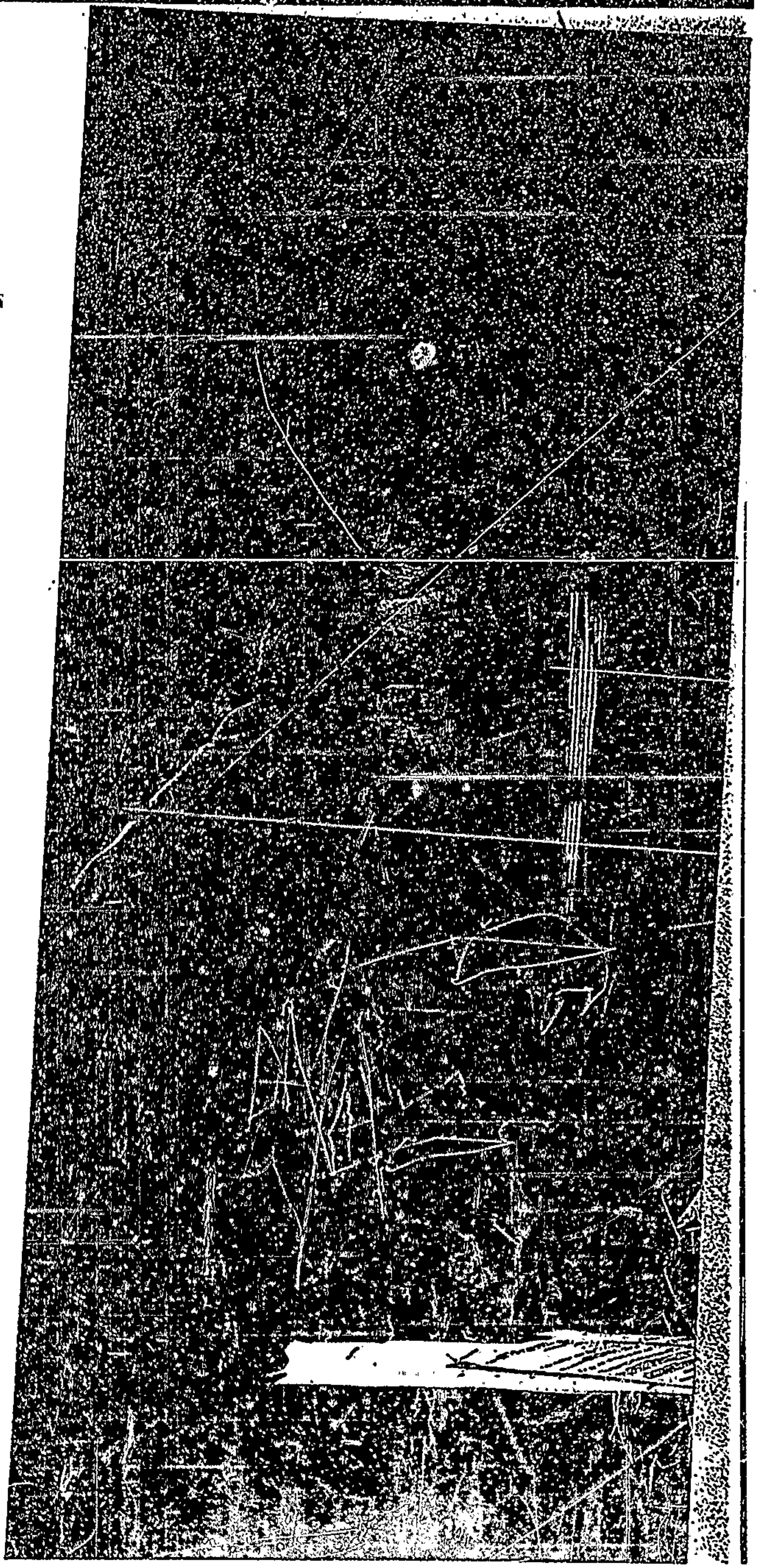
CORPORATE GOVERNANCE

We can again report that we comply with all those provisions of the Code of Best Practice of the Cadbury Committee on Financial Aspects of Corporate Governance with which compliance is currently possible. This year we comply with 18 of the 19 provisions. Guidance on compliance with the remaining provision (concerning internal control) has not yet been finalised. However, a summary of GrandMet's established system of internal controls is set out in the Directors' Report.

A company's commitment to corporate governance is clearly demonstrated by the quality of its non executive directors. Over the past years GrandMet's team of non executive directors has strengthened our Board tremendously. One such director is Sir John Harvey-Jones who, after eleven years, is retiring from the GrandMet Board.

I would like to thank John for his valued contributions during an exciting and challenging period at GrandMet and wish him all the very best for the future. In addition, Sir Colin Marshall, who has been a non executive director for six years, will not be offering himself for re-election at the AGM in February 1995.

I would like to thank Colin, as well, for his enormous contributions to GrandMet. His people and market driven approach has been an encouragement to us all.



CHAIRMAN'S STATEMENT

We have significantly strengthened our balance sheet, reducing borrowings and improving the quality of our asset base

In November, we replenished our non executive team with the appointment of two of the UK's leading business figures: Michael Hepher, Group Managing Director of BT, the UK's largest public company, and Peter Job, Chief Executive of Reuters Holdings. We are delighted to welcome them both.

CORPORATE RESPONSIBILITY

Once again this year, GrandMet has actively contributed to the communities in which we operate. Approximately £17 million was contributed to community actions worldwide in the form of sponsorships, donations in kind, secondments and direct donations.

In connection with our commercial drive into emerging markets, we have launched several effective community programmes. Initiatives include the Smirnoff Foundation in Russia and projects in South Africa, Mexico and Sri Lanka.

EMPLOYEES AND BUSINESS ASSOCIATES

I thank all our employees and business associates for their hard work and commitment to GrandMet. The restructuring initiatives we announced in September include further staff reductions which are difficult, both for those directly affected and for those whose responsibilities increase significantly. I should like to thank all employees for their support and understanding.

INTERNATIONAL TRADING

As an international trading company, we are encouraged by the outcome of the Uruguay Round. However, the spectre of protectionism has not been eliminated and it remains the greatest threat to raising living standards. Open competition, consumer choice and a genuinely free world marketplace are the essential ingredients of economic growth and prosperity for greater numbers of people.

PROSPECTS

GrandMet is in an excellent position to compete successfully in the future. During the past year, we have reduced our long term cost base, releasing increased funds for brand investment. We have significantly strengthened our balance sheet, reducing borrowings and improving the quality of our asset base. We have continued to develop our portfolio of high quality value-added food and drinks brands and to focus our business on these. As a consequence of these strategic actions, we have ensured our ability to achieve long term growth.

May I thank all shareholders for your continued support and confidence in Grand Metropolitan.

Yours sincerely,

Allen Sheppard

The Lord Sheppard of Didgemere
15th December 1994

01-03-95

CHIEF EXECUTIVE'S REVIEW

Dear Shareholder,

The past year has been a challenging but satisfactory one for GrandMet. We took decisive action to establish a firm foundation for continued growth by initiating a major restructuring programme focusing on our worldwide drinks and European food businesses. Although the related £280 million exceptional charge reduced the year's profit, the improvements to our structure and cost base will position us well to compete in the future. We also made excellent progress on cash.

OPERATING PERFORMANCE

Overall, operating profit before exceptional items increased 5.4 per cent to £1,017 million, while we continued to invest in our leading brands which generally held or increased shares in our major markets.

Our North American food businesses performed very well, benefiting from last year's restructuring programmes, while European food was again affected by market conditions. IDV had a difficult year, but continued to build its brands and enter new markets.

- Pillsbury's operating profit increased by 20 per cent through improvements in both sales and margins, with significant profit increases in most divisions. Breakfast products, Foodservice and pizza all showed volume growth of over 10 per cent.
- Häagen-Dazs maintained its leadership position in the superpremium ice cream category.
- Burger King's operating profit increased by 28 per cent and worldwide system sales reached record levels of almost £5 billion, a 12 per cent increase. The value menu increased comparable store sales by over six per cent in the US.
- European food's operating profit declined, reflecting continued recession in some continental markets. However, most countries, except France, were broadly in line with 1993 profit levels. System sales of Häagen-Dazs in Europe grew 35 per cent.
- Pearle returned to operating profit this year as a result of increased comparable store sales and reduced costs resulting from last year's restructuring programme.
- IDV, our Drinks sector, was affected by market conditions in the drinks industries of North America and Europe and recorded an eight per cent reduction in operating profit. The implementation of a destocking programme in the US, which will improve system efficiencies, accounted for £39 million of profit reduction.
- IEL, the pub company jointly owned by GrandMet and Courage, became profitable this year.

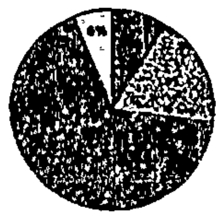
BUSINESS DEVELOPMENT

Throughout the year, we progressed in refining our portfolio of international food and drinks brands and bringing those brands into the expanding marketplace.

In North America, Pillsbury acquired three market leading baking businesses, enhancing our US foods portfolio. We also divested certain non strategic parts of the group – our

We will grow the business by supporting our brands, developing new brands, making relevant add-on acquisitions and expanding into new markets

OPERATING PROFIT
£1,017m*
GEOGRAPHICAL ANALYSIS



UNITED KINGDOM
REST OF EUROPE
UNITED STATES OF AMERICA
REST OF THE WORLD

*FROM CONTINUING OPERATIONS BEFORE EXCEPTIONAL ITEMS

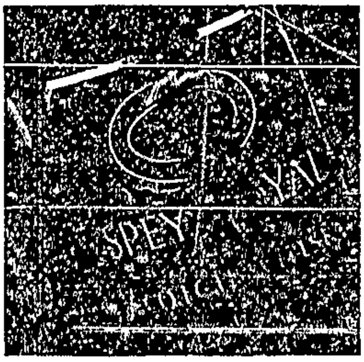
01-03-95

CHIEF EXECUTIVE'S REVIEW

Our food and drinks businesses are marching forward into new frontiers of opportunity – India, China, South America, the former Soviet Union and Eastern Europe

FAR RIGHT: GEORGE BULL, GROUP CHIEF EXECUTIVE

low margin US jug wine businesses and the Chef & Brewer pubs in the UK. We announced the disposal of Alpo Petfoods and the reorganisation of IEL, which eliminates our day-to-day management involvement and includes the repayment to GrandMet of £332 million.



Both our Food and Drinks sectors made significant inroads into important emerging markets during the year. IDV launched initiatives in seven countries, achieving particular success with specially produced local brands such as Spey Royal Scotch whisky in India. The Food sector developed joint ventures in South Africa and Mexico and began preliminary activities in India.

PROSPECTS

In my statement to you last year, I said that I saw my role as Chief Executive of GrandMet very clearly. I said that I believed my mission was to create a climate within which GrandMet, now a highly focused, branded food and drinks business, can flourish.

I also set out for you the four ways in which we intend to grow this business – namely by supporting our leading brands, by developing new and innovative brands, by making relevant add on acquisitions and by expanding into new developing markets around the world.

Over the past year, I believe we have demonstrated real progress on all these fronts in both our sectors.

In supporting our leading brands, we have invested £900 million in advertising and promotion. We plan to increase this consistently in the future. This will be largely funded from the cost savings arising from the restructuring programmes initiated over the past two years.

In developing new and innovative brands, Pillsbury introduced over 80 new products during the year. IDV had great success with the launches of Goldschläger, Smirnoff Black and J&B Jet, amongst many others. Also, in an exciting cross sector initiative, Baileys and Di Saronno Amaretto flavours of Häagen-Dazs ice cream have just entered the US market.

In making relevant add on acquisitions, our purchase of three US businesses, Rudi's, Roush and Martha White, all brought market leaders into our Food sector. IDV acquired Glen Ellen wines in the US and expanded its distribution in

Spain, a vitally important market.

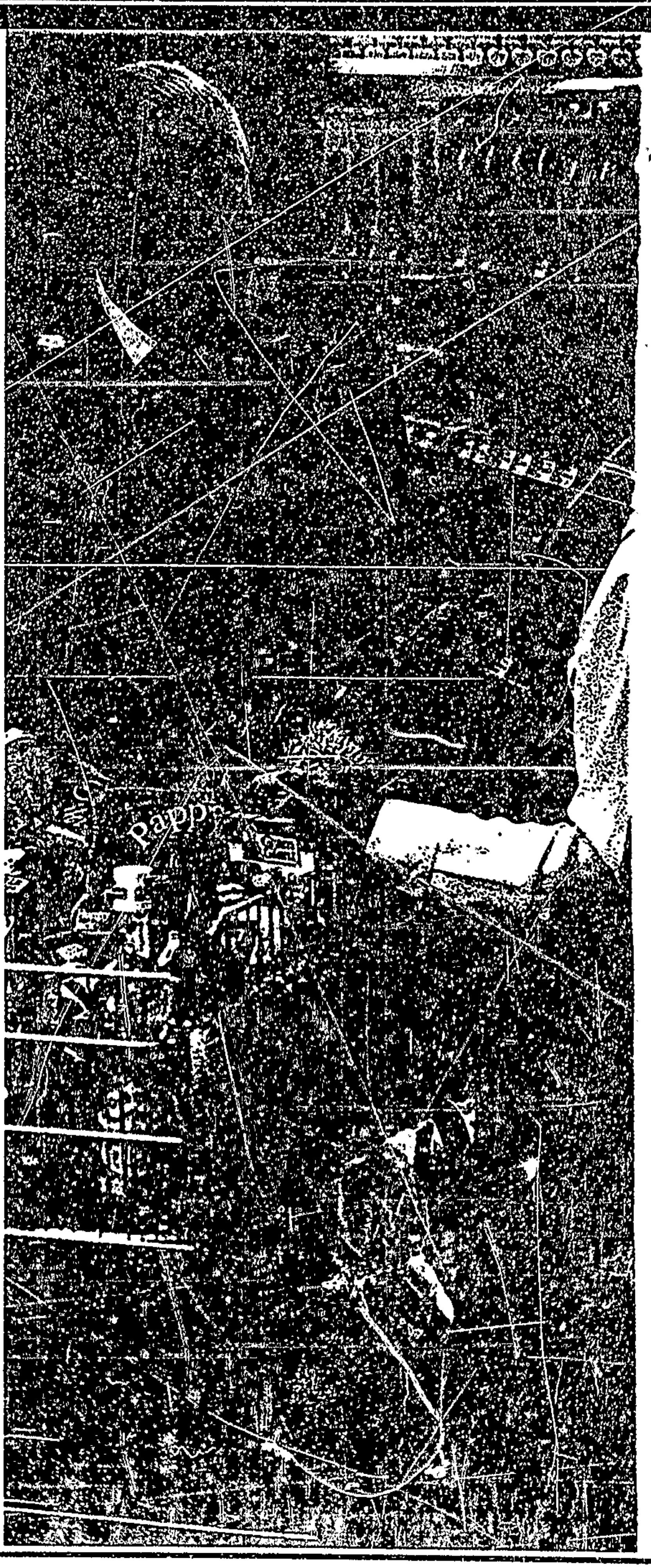
Finally, expanding into developing markets is, for me, perhaps the most exciting road to growth at GrandMet. Our food and drinks businesses are marching forward into new frontiers of opportunity – into India, China, South America, the former Soviet Union and Eastern Europe. The millions of consumers in these markets are already enormously enthusiastic about well known, well supported, top quality brands. We are now, ahead of many of our competitors, setting up joint ventures, alliances and in some cases, our own companies, to realise the benefits of bringing our value-added brands to these emerging markets.

In summary, this has been a year of significant strategic progress for GrandMet. We have continued to build our world class brands. We have put our marker in the ground in some of the most exciting emerging markets in the world. We have strengthened our fundamental structure to reduce our long term cost base. We have again demonstrated our ability to generate cash.

In this, my second year as your Group Chief Executive, I can say with confidence that our foundation is firm, our direction is clear and our ability to achieve long term growth is certain.

Yours sincerely,

George J Bull
Group Chief Executive



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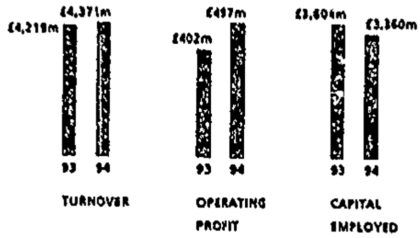
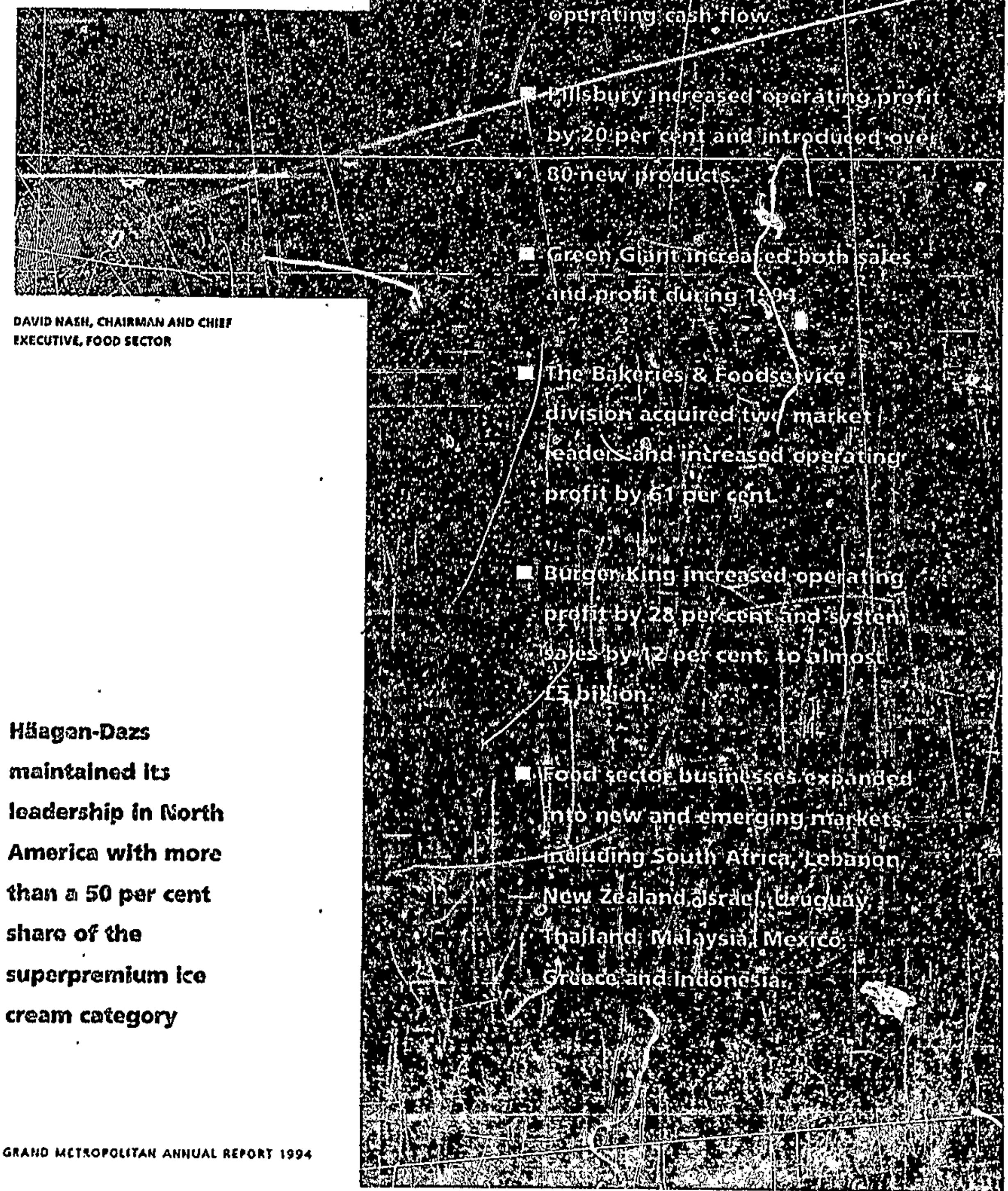
FOOD

OPERATING REVIEW





DAVID NASH, CHAIRMAN AND CHIEF EXECUTIVE, FOOD SECTOR

- Food sector increased operating profit by 24 per cent and generated over half the group's operating cash flow.
- Pillsbury increased operating profit by 20 per cent and introduced over 80 new products.
- Green Giant increased both sales and profit during 1994.
- The Bakeries & Foodservice division acquired two market leaders and increased operating profit by 61 per cent.
- Burger King increased operating profit by 28 per cent and system sales by 12 per cent, to almost £5 billion.
- Food sector businesses expanded into new and emerging markets, including South Africa, Lebanon, New Zealand, Israel, Uruguay, Thailand, Malaysia, Mexico, Greece and Indonesia.

Häagen-Dazs maintained its leadership in North America with more than a 50 per cent share of the superpremium ice cream category

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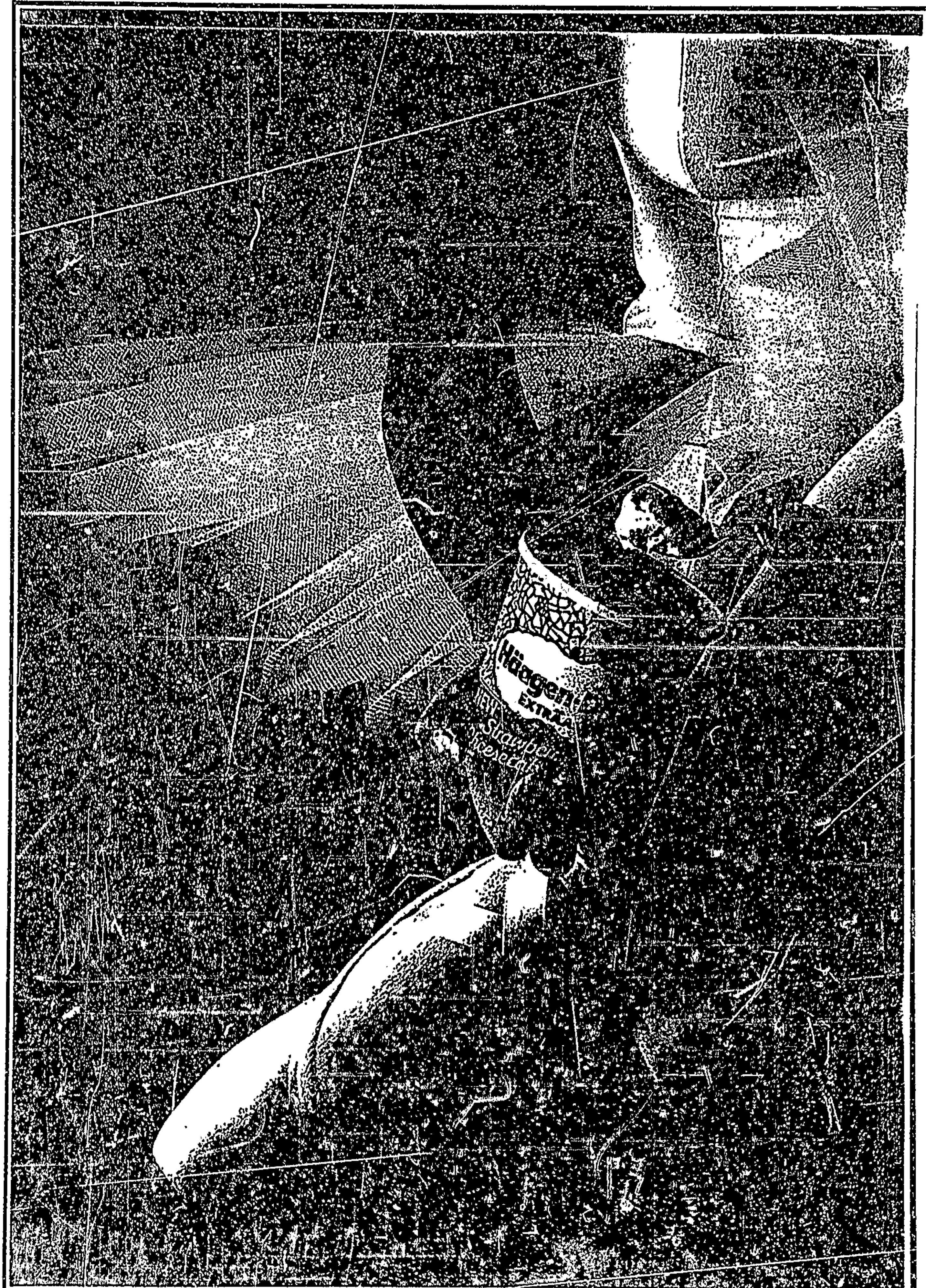

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FOOD

OPERATING REVIEW

Prepared dough products, Pillsbury's largest business, maintained a 74 per cent market share

The Food sector, comprising Pillsbury, Burger King, GrandMet Foods Europe and Pearle, increased operating profit before exceptional items by 24 per cent to £497 million. Turnover from continuing businesses increased by four per cent to £4,371 million. Food sector businesses also generated over half of total group operating cash flow.

PILLSBURY

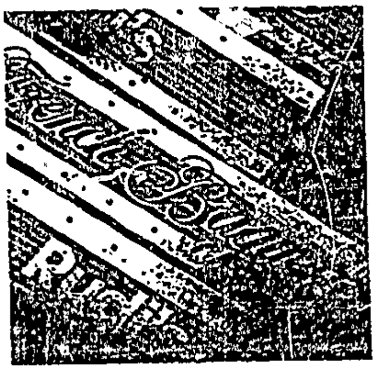
The Pillsbury Company, which includes Pillsbury baked goods,

Green Giant vegetables, Häagen-Dazs ice cream and Foodservice products achieved strong results with operating profit up by 20 per cent from £212 million to £255 million and sales up by 10 per cent. While North American food industry pricing has been virtually flat, Pillsbury volumes increased by four per cent. Overall margins improved as a result of cost reductions arising from the reorganisation programmes of recent years and successful new product introductions.

Pillsbury's marketing spend increased by 12 per cent to over £400 million. Over 80 new products were introduced during the year, including Totino's Select Pizza, Cream Cheese Toaster Strudel, Häagen-Dazs Sorbet and Hungry Jack Microwave Syrups.

- Prepared dough products, Pillsbury's largest business, increased sales by seven per cent and maintained a 74 per cent market share of the total prepared dough category.
- Pillsbury's breakfast and pizza products both showed volume growth of more than 10 per cent with Toaster Strudel sales up by 26 per cent and market share of breakfast products increasing to over 15 per cent. In pizza, where Pillsbury volumes have grown by 23 per cent over the past two years, the Pappalo's deluxe, Totino's standard and Jeno's value for money pizza brands are well positioned to benefit from the growing pizza category.
- Green Giant, which includes frozen and canned products, increased both sales and profit during 1994. Overall volumes remained flat due to a shortage of vegetables following the 1993 floods in the US midwest. 1994's more normal level of vegetable crops led to reduced margins but will be more than offset by increased volumes. Green Giant's value added frozen segment achieved a 10 per cent volume growth, with 'Create a Meal' polybag prepared vegetables achieving a nearly 40 per cent increase in sales.
- Pillsbury's Bakeries & Foodservice division had an outstanding year with a 61 per cent improvement in operating profit and 40 per cent sales growth, bringing annual sales to over half a billion dollars. The acquisitions of market leaders Rudi's and Roush further expanded the Foodservice range.

PILLSBURY'S US BREAKFAST BUSINESS, WHICH INCLUDES HUNGRY JACK PANCAKES AND SYRUP, GENERATES MORE THAN $120 MILLION IN ANNUAL SALES



FAR RIGHT: TOASTER STRUDEL IS THE FASTEST GROWING PRODUCT IN ITS CATEGORY IN THE US AND CANADA

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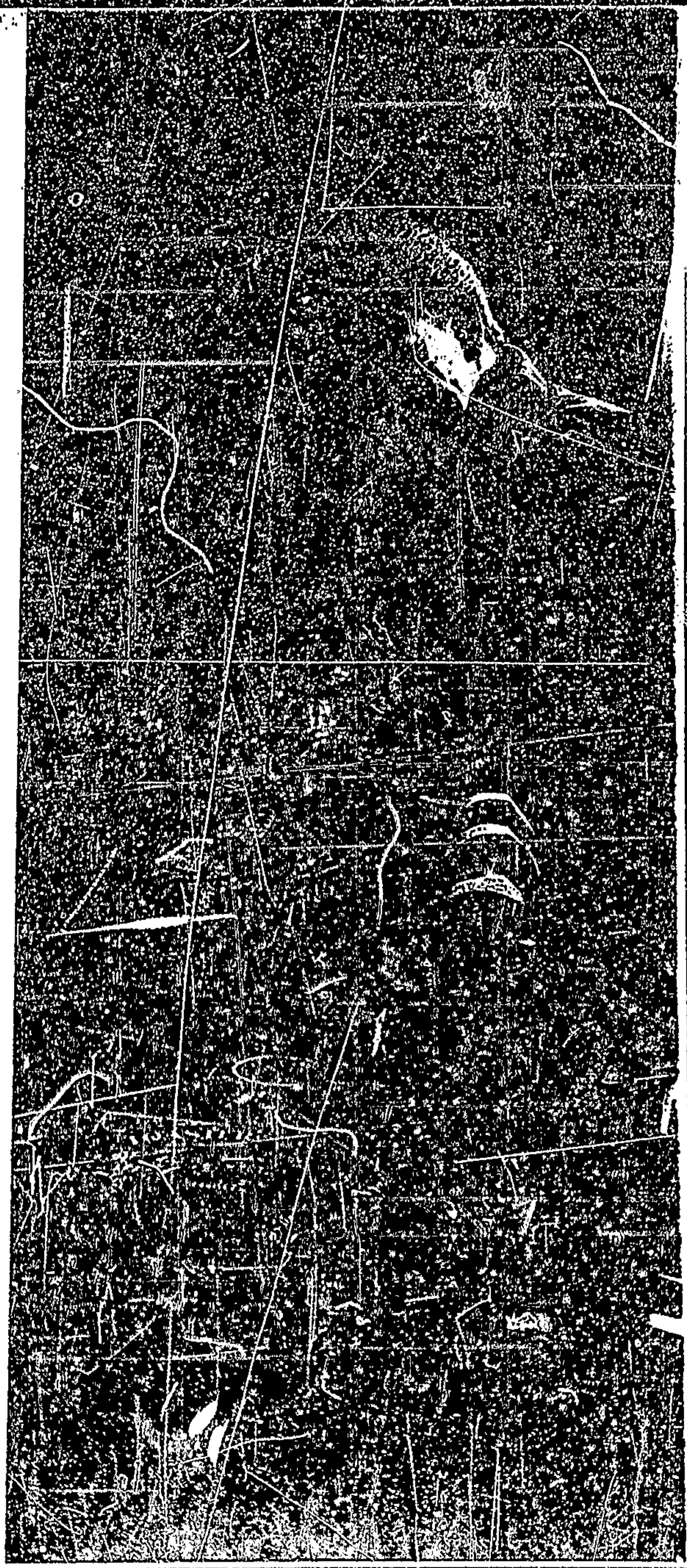
■ Häagen-Dazs, the leading superpremium ice cream brand in the US, Europe and Japan, with a growing presence in the Far East,

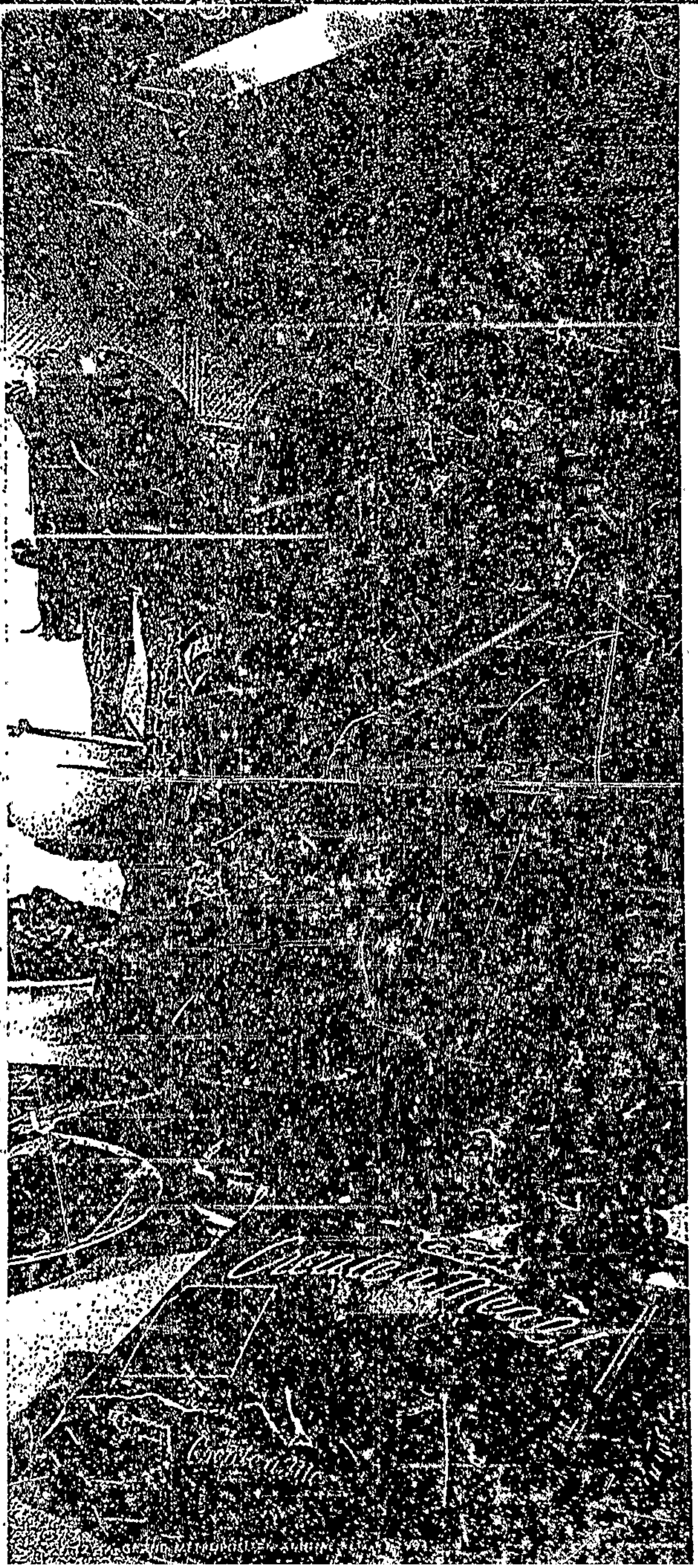
manufactures and markets ice cream, frozen yogurt and frozen snacks. During the year, Häagen-Dazs continued to grow through new products, increased distribution and new international markets.

In North America, Häagen-Dazs maintained its leadership position in the superpremium category. Over 800 new distribution outlets were added, including the growing non traditional channels such as theatres, corner stores and colleges. After a very successful launch early in the year, the new Häagen-Dazs sorbet is now sold in 30 major US markets.

In November 1994, Häagen-Dazs and IDV launched a cross sector initiative in the US market, Häagen-Dazs Baileys and Di Saronno Amaretto flavours of ice cream, which have been enthusiastically received. These will be brought to Europe in mid 1995.

In Europe and the Middle East, Häagen-Dazs is now sold in 17 countries, entering Greece, Lebanon and Saudi Arabia during the year. System sales in Europe increased by 35 per cent to approximately $170 million. As part of the restructuring programme of European foods, the number of company operated Häagen-Dazs shops and regional





offices will be reduced to improve ongoing profitability.

In the Far East, Häagen-Dazs is now sold in eight countries: Japan, Hong Kong, Singapore, South Korea, Taiwan, Malaysia, Thailand and Indonesia. The brand is the market leader in Japan with 48 per cent of the total ice cream market and is making substantial progress in other areas. Far East system sales increased by 30 per cent to $310 million during the year.

■ Although Alpo Petfoods performed satisfactorily, its position in the highly competitive US petfood industry is not compatible with GrandMet's portfolio of leading international food and drinks brands. Consequently, the decision was taken to sell the business to Nestlé for $510 million, subject to regulatory approval. Completion of the sale is expected by the end of 1994.

BURGER KING

Burger King is the world's second largest hamburger restaurant group. The company and its franchisees operate over 7,500 outlets in 56 countries across the world.

Burger King reported operating profit of £224 million, an increase of 28 per cent over the prior year, and worldwide system sales at a record level of almost £5 billion, a 12 per cent increase. Overall store traffic increased, market share improved and royalty income from franchisees increased in the highly competitive

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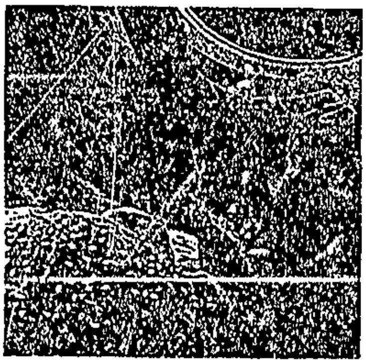
fast food industry.

During the year, Burger King continued to franchise markets in North America, with increased conversion of company owned restaurants to franchisees. This resulted in income from this activity



of £64 million, an increase of £38 million over last year. This compensated for a reduction in operating profit from company owned stores.

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

- The value menu, which focuses on 'hamburger, fries and Coke' increased US comparable store sales by 6.1 per cent, the highest growth since 1986 and three times the industry average. The value menu will be introduced in the UK and other countries this year.
- Burger King's successful reengineering programme, which reorganised the company to conform to its 'back to basics' strategy, eliminated tasks not core to the business and concentrated resources where the profits are made, at the restaurant level. Restaurant support operations were doubled.
- Burger King's US tie in with Disney, which began in 1991, continued this year with its fourth and largest promotion ever, with the highly successful film, 'The Lion King'. Over 45 million toys were sold during this promotion.
- New store expansion continued with 545 new units, 235 in non US locations. New countries entered during the year included Israel, Uruguay, New Zealand and the United Arab Emirates.
- In October 1994, Burger King launched a new national US advertising campaign, the final element of its 'back to basics' strategy. The 'Get your burger's worth' campaign emphasises product quality, the core menu of 'hamburger, fries and Coke' and value pricing.

GRANDMET FOODS EUROPE

The European food operations had a difficult year, with continuing pressure on prices in a flat overall market. As a result, operating profit decreased from £15 million to £12 million, largely affected by market conditions in France. Most other countries recorded profits broadly in line with 1993. Despite the difficult environment, significant progress was made throughout the businesses in new product introductions and continued cost reductions.

- GrandMet Foods UK performed well, with Green Giant continuing to grow. Jus-rol, the UK market leader in frozen pastry products, increased volumes by over six per cent and introduced new rolled pastry products which are meeting with an encouraging initial response.
- Despite difficult economic conditions in Germany, Erasco, the

Burger King's value menu increased US comparable store sales by over six per cent, more than three times the industry average

HÄAGEN-DAZS SORBET WAS TEST MARKETED IN FOUR US CITIES WITH THE AD CAMPAIGN 'ZERO PER CENT FAT; 100 PER CENT HÄAGEN-DAZS', WITH OUTSTANDING RESULTS

FAR LEFT: GREEN GIANT'S 'CREATE A MEAL' IS THE FASTEST SELLING PRODUCT LINE IN THE POLY-PREPARED SEGMENT OF THE US FROZEN VEGETABLE MARKET

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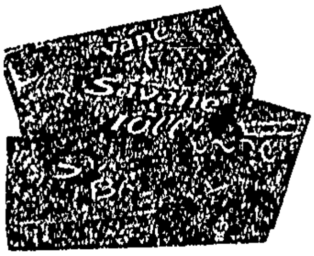
FOOD

OPERATING REVIEW

The Food sector businesses followed a consistent strategy of brand investment, sales growth and cost reduction



IN FRANCE, BROSSARD CONTINUED TO INTRODUCE NEW PRODUCTS INTO THE SAVANE RANGE

market leader in the ambient ready meals category, performed well. It introduced several new ethnic products, for example, 'La Fiesta' Spanish style meals and 'Fantasia' Asian style ready meals in cups, which received an enthusiastic response from both customers and

trade. Knack & Back, the leading refrigerated dough brand in Germany, also improved operating profit during the year.

■ Brossard, the European cake manufacturer, had a disappointing year, due to pricing pressures and limited growth in grocery sales. However, new products such as Savane Mini Pastries were well received and should contribute to improved results when market conditions recover.

PEARLE

Pearle, the group's retail eyewear and eyecare division, continued its turnaround and recorded an operating profit of £6 million. A major part of this improvement was achieved by growth in US comparable store sales of 3.5 per cent, the first positive growth in four years, and the closure of poor performing stores in North America. The strategic exit from Germany also contributed to improved results.

FUTURE STRATEGY

The Food sector businesses, with the exception of Europe, performed well during the year by following a consistent strategy of brand investment, sales growth and cost reduction. In the coming year, the Food sector will continue these strategies, increasing brand investment, implementing the restructuring programme in European foods, and expanding the Pillsbury, Green Giant and Häagen-Dazs brands into new markets, including Russia, India, Asia and Latin America.

RIGHT: BURGER KING'S NEW US TV ADVERTISING CAMPAIGN, 'GET YOUR BURGER'S WORTH' IS AIMED AT THE IMPORTANT FAMILY MARKET

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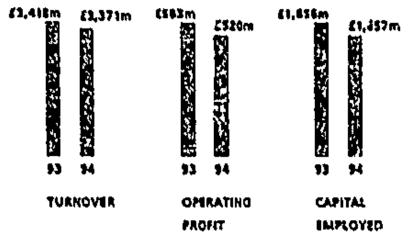
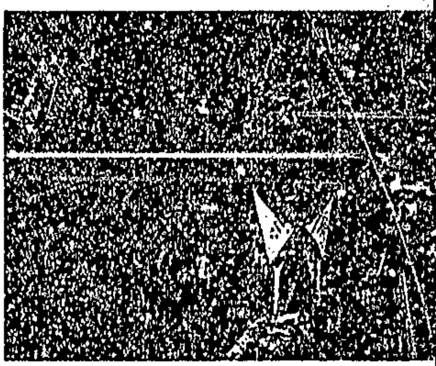
DRINKS

OPERATING REVIEW





JOHN McGRATH, CHAIRMAN AND CHIEF EXECUTIVE, DRINKS SECTOR

Baileys Original Irish Cream maintained its position as the world's leading individual liqueur brand

- IDV's operating profit fell by eight per cent, reflecting difficult market conditions in Europe and North America and the effects of US destocking.
- IDV took steps to prepare for long term growth through a worldwide restructuring programme.
- IDV maintained its position as the world's leading branded spirits and value added wine company with total volumes in excess of 100 million cases.
- Smirnoff, J&B Jet, Metaxa, Goldschläger, Bombay Sapphire and Sheridan's all performed well in competitive trading conditions.
- UK total spirits volumes showed growth, as recovery continued ahead of the rest of Europe.
- IDV continued to make strong advances into emerging markets, particularly in the former Soviet Union.

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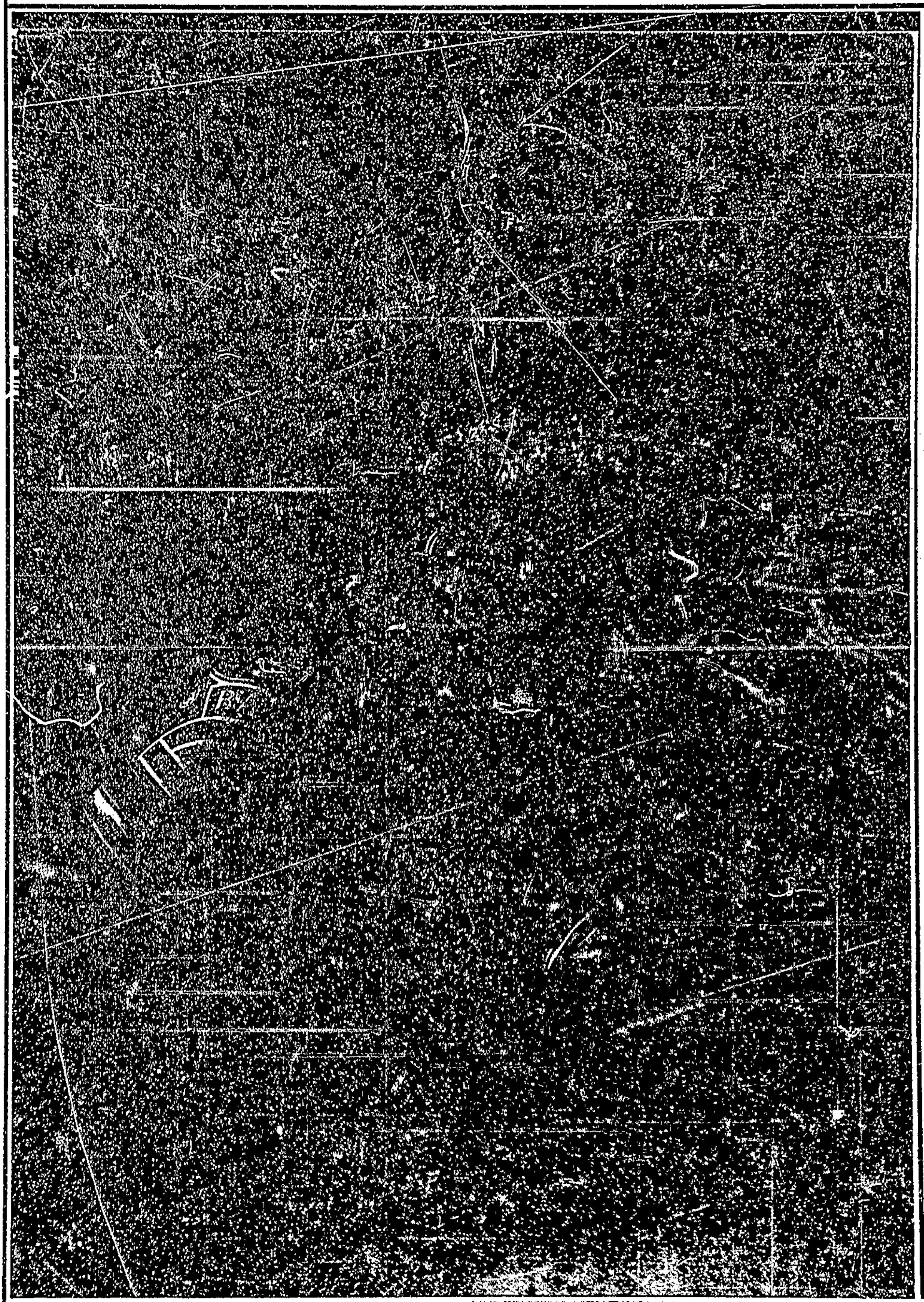

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IDV owns five of the top 20 spirits brands in the world

SHERIDAN'S HAS MORE THAN DOUBLED ITS SALES VOLUMES IN 1994 TO OVER 100,000 CASES

FAR RIGHT: GOLDSCHLÄGER, A CINNAMON SCHNAPPS CONTAINING REAL GOLD LEAF, HAS SOLD MORE THAN A QUARTER OF A MILLION CASES IN THE US IN ITS FIRST FULL YEAR

INTERNATIONAL DISTILLERS & VINTNERS

International Distillers & Vintners reported an eight per cent decrease in operating profit before exceptional items, reflecting difficult market conditions in the drinks industries in both North America and Europe. However, major brands maintained strong market positions and good progress was made in emerging markets. Turnover decreased by £47 million to £3,371 million. Operating

profit decreased by £43 million to £520 million. Operating cash flow remained strong.

In the highly competitive worldwide drinks industry, IDV took decisive steps to reduce its long term cost base: first, a major destocking programme in the US which will improve supply chain system efficiencies but which had a £39 million negative effect on profit; and second, a major worldwide restructuring programme at an exceptional cost of £143 million. The restructuring programme will be implemented over the next two years and is expected to generate cost savings of approximately £55 million per annum when completed.

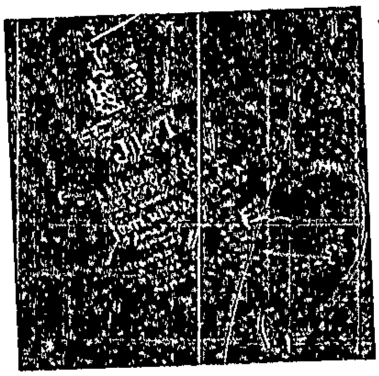
While the worldwide traditional spirits market is predicted to have declined by 1.9 per cent in 1994, IDV's estimated spirits market share held at 12 per cent. Total IDV sales volumes showed a decline of less than one per cent, in line with the market.

Despite the difficult retail environment, IDV's average prices improved by approximately one per cent. Margins, however, were reduced, reflecting the worldwide decline in spirits volumes and the impact of destocking in the US. The majority of IDV's leading brands are expected to maintain or increase worldwide market shares this year.

MAJOR BRANDS

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

- Excluding the impact of destocking, Smirnoff increased volumes, maintaining its position as the world's leading vodka brand and second largest spirits brand. Smirnoff increased market share in Europe and Asia Pacific and progressed strongly in Eastern Europe and the former Soviet Union. During the year, Smirnoff became the first western vodka to be produced in Poland with 100,000 cases sold in the first six months. The brand was also recently launched in India.
- J&B Rare Scotch whisky held its worldwide market share, with volumes declining in line with the



industry. Despite difficult conditions in Europe, J&B increased market share in Spain and Italy and gained volumes in Portugal and Belgium. In the US, J&B volumes declined along with other premium Scotch whisky brands.

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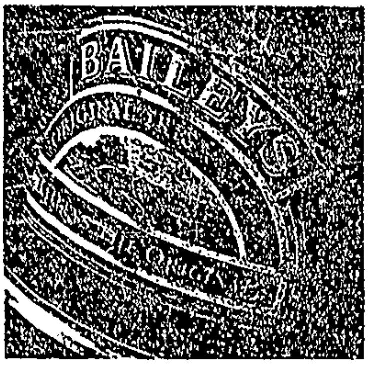
■ Baileys Original Irish Cream maintained its position as the world's leading individual liqueur brand and duty free liqueur brand. However,



overall volumes and market share declined slightly, largely due to continued recession in the important German market. Baileys volumes grew in the UK, Italy, the former Soviet Union, Korea and China.

BRAND DEVELOPMENT

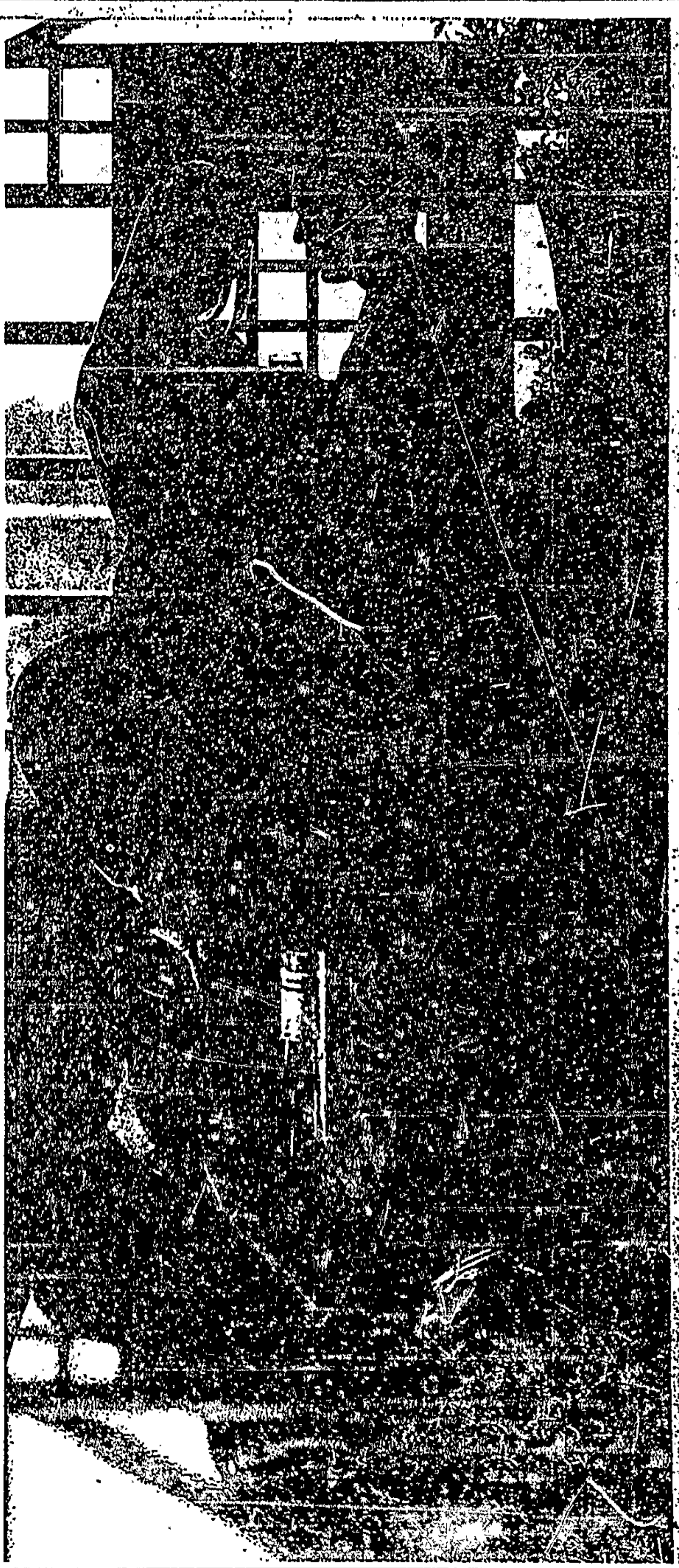
IDV continued its successful strategy of developing new brands in growth categories for both mature and emerging markets.

■ Goldschläger, IDV's cinnamon flavoured Schnapps which contains real gold flakes, sold more than a quarter of a million cases in the US in its first full year on sale. It is now on test in several other world markets, including the UK, Australia, Singapore and Ireland, as well as Duty Free.

■ Smirnoff Black, IDV's newest brand in the superpremium vodka category, which is produced in Russia, has had encouraging results in test markets in the US, the UK and Duty Free.

■ J&B Jet, originally developed for the Asia Pacific market, has grown strongly and has been successfully introduced in the US and Latin America.

■ Sheridan's, the Irish Coffee liqueur from the makers of Baileys, has doubled its volumes to over 100,000 cases this year.



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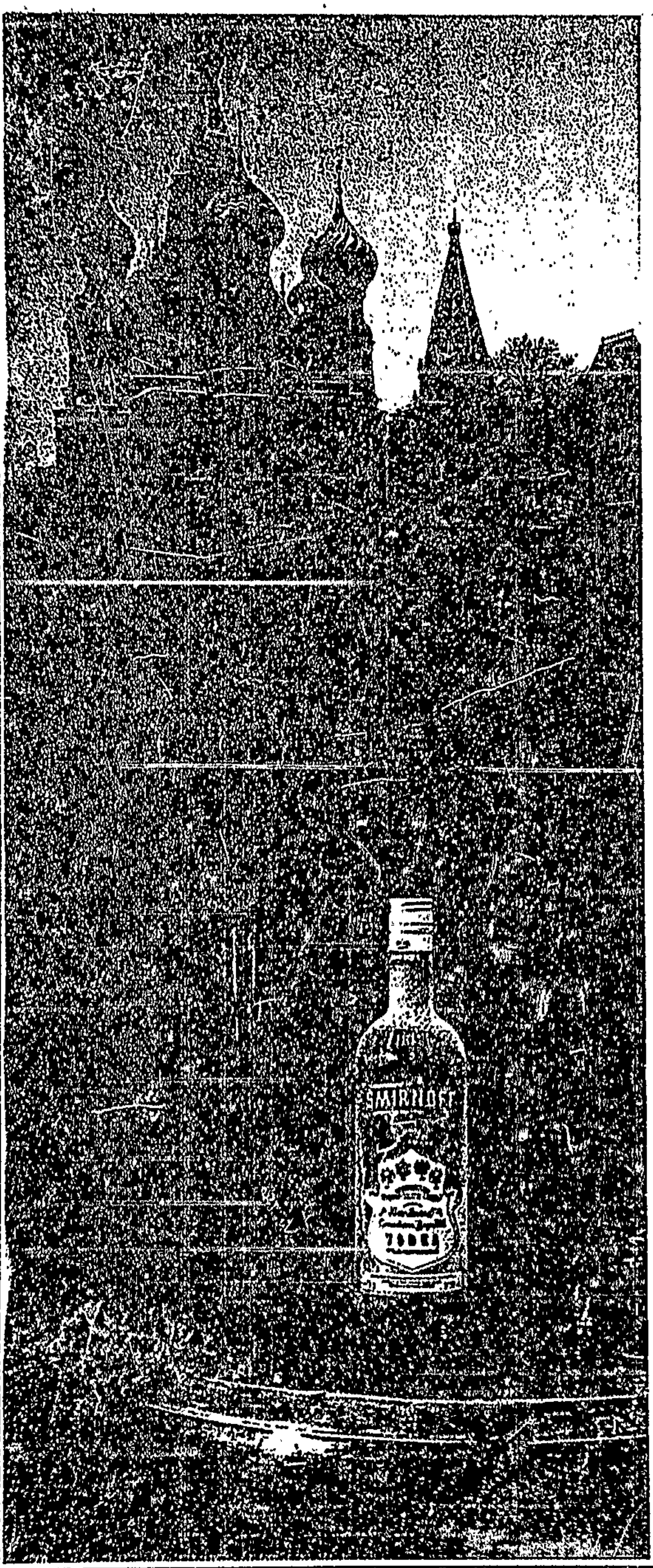

NORTH AMERICA

Despite the general recovery in the US economy, certain areas remained relatively weak for the drinks industry, especially California and the north east which are significant markets for IDV. Additionally, the overall spirits industry in North America declined. IDV's underlying volume reduction of 2.9 per cent is in line with expected market volume reductions for the year. Wine volumes included additional sales of the recently acquired Glen Ellen premium varietal wines.

Following the loss of the US distribution rights for Absolut vodka, IDV moved quickly to replace the brand and acquired exclusive distribution rights in the US and Mexico for Stolichnaya Russian vodka, the second largest selling imported vodka brand in the US. Stolichnaya is being successfully integrated into IDV's vodka portfolio by Carillon Importers, which built Absolut so successfully.

The goodwill compensation payment of £17 million for the loss of Absolut, together with compensation from Seagrams for early termination, positively affected IDV's profit in North America, but these were offset by the destocking programme and by poor trading conditions.

Strong growth in new brands, including Malibu Cocktails and Jose Cuervo 'Ritas benefited this year's performance.

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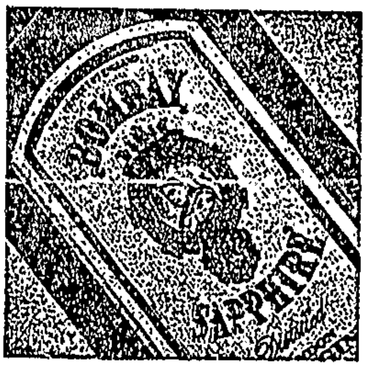
EUROPE

Trading conditions in continental Europe remained difficult and, together with the effect of US destocking on exports, adversely affected profit.

In Spain, profit and volumes declined, reflecting pricing pressures and a significant reduction in pipeline stock. However, market share for J&B increased and Smirnoff showed double digit growth.



In the UK, where the economic recovery is further ahead than the rest of Europe, total IDV spirits volumes grew. Smirnoff, Baileys, Malibu, Archer's and Bombay Sapphire all increased volumes.

FORMER SOVIET UNION

The countries of the former Soviet Union represent a major opportunity for IDV, especially for its vodka brands. IDV is well established in Russia through The Pierre Smirnoff Company and has also set up a joint venture in Kazakhstan. Smirnoff sold more than one million cases in the former Soviet Union, which is now the brand's third largest market.

AFRICA AND LATIN AMERICA

Political developments and economic changes created a climate of uncertainty in a number of key markets.

In Brazil, trading was adversely affected by high inflation and difficult market conditions for most of the year. The situation has improved considerably with inflation reduced and the economic climate looking more promising.

In South Africa, J&B achieved increased volumes and market share.

ASIA PACIFIC

IDV now operates in 14 countries in the Asia Pacific region. Sales volumes were approximately 35 per cent ahead of last year, with a strong performance by Gilbey's Gin in the Philippines, where sales reached nearly half a million cases, a 27 per cent increase.

IDV is the first international drinks company to produce and distribute its own brands in India. Smirnoff is already produced locally to IDV's exacting international standards and has been followed by specially produced local brands, Kellys Original Cream Liqueur and locally bottled Spey Royal Scotch whisky. Total sales volumes in India in the first three months of trading exceeded 100,000 cases.

STRATEGIC DEVELOPMENT

IDV continued to build its powerful brands, to introduce new brands and to strengthen its presence in mature and emerging markets.

In North America, the sale of the lower margin jug wines, Almaden and Inglenook Navalle, released resources for investment behind IDV's premium vintage and varietal wines, and significantly reduced the cost base of

IDV continued to build its powerful brands, to introduce new brands and to strengthen its presence in both mature and emerging markets

SMIRNOFF BLACK, A SUPERPREMIUM VODKA PRODUCED IN RUSSIA, HAS BEEN SUCCESSFULLY TEST MARKETED IN THE UK, THE US AND DUTY FREE

FAR LEFT: SMIRNOFF SALES VOLUMES IN THE FORMER SOVIET UNION ARE MORE THAN ONE MILLION CASES

IDV accelerated its progress in the emerging markets of Eastern Europe, the former Soviet Union and Asia Pacific

MALIBU, CREATED AND DEVELOPED BY IDV, IS ONE OF THE TOP TEN LIQUEURS IN THE WORLD

the US wine operations.

In Europe, IDV purchased a 21 per cent equity interest in leading independent champagne house Laurent-Perrier. IDV is progressively assuming responsibility for

distribution of its products in a number of international markets.

IDV increased distribution in its important Spanish market and also in Sweden in anticipation of the enlargement of the European Union.

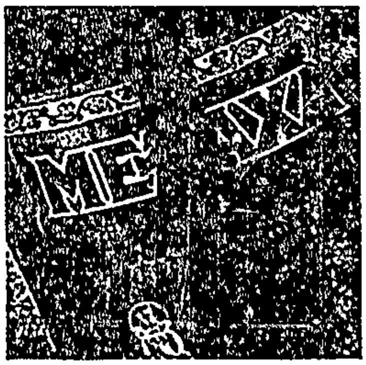
Progress in the emerging markets of Eastern Europe, the former Soviet Union and Asia Pacific was accelerated, capitalising on the new opportunities of the greatly enlarged world spirits market. Progress to date has been encouraging, with both established international brands and robust national brands gaining strength. In addition to Smirnoff's success in the former Soviet Union, other major brands which are being well received in emerging markets are Malibu in the Czech Republic, Metaxa in Russia, Baileys in China and J&B in Latin America.

In Eastern Europe, IDV formed new companies in Poland, the Czech Republic and Slovakia, strengthening its presence in the area. IDV is already well established in Hungary, where it has national distribution and produces Cinzano locally.

In Asia Pacific, IDV now has representative offices in three major cities in China. In India, IDV is already producing and marketing both local and international brands.

FUTURE STRATEGY

The past year has been a difficult one for the drinks industry and for IDV. In the coming year, IDV will implement its restructuring programme, further invest behind its major brands, develop new brands and continue to expand in emerging markets. Based on the fundamental strength of the business, this consistent strategy will enable IDV to benefit as major markets recover.



RIGHT: THE NEW STOLICHNAYA 'FREEDOM OF VODKA' ADVERTISING CAMPAIGN IN THE US FEATURES SPECIALLY COMMISSIONED PAINTINGS BY 12 RUSSIAN ARTISTS

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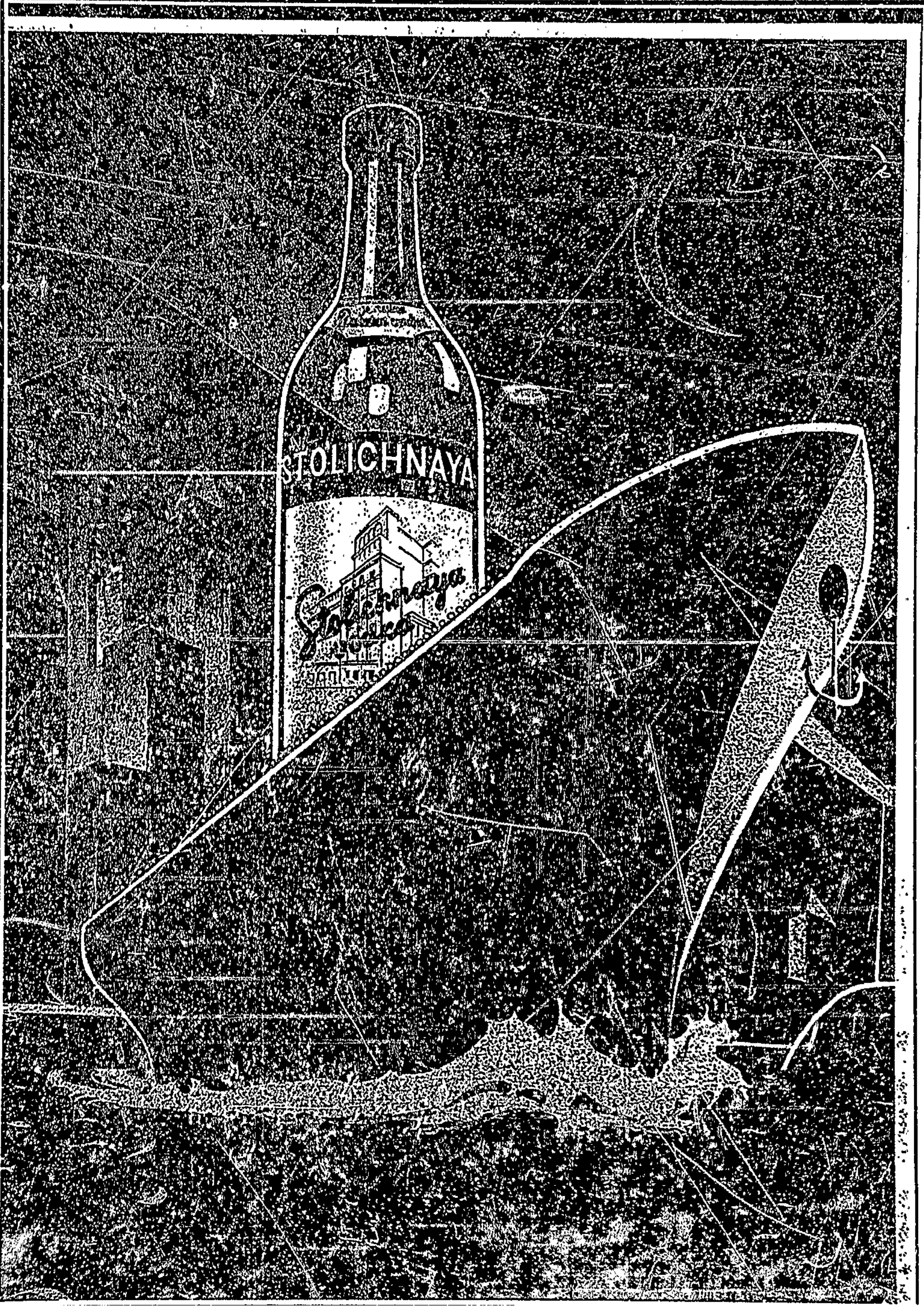

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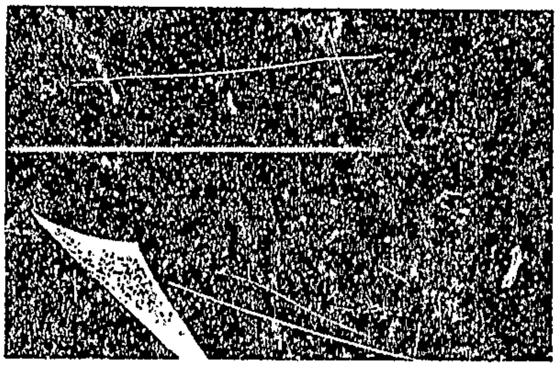
FINANCIAL REVIEW



GERALD CORBETT, GROUP FINANCE DIRECTOR

THE FINANCE FUNCTION

1994 was a year of further evolution for the group finance function. The internal audit activity was centralised, the treasury operation is being consolidated into London and some non-key procedures in the US tax operation are being outsourced.

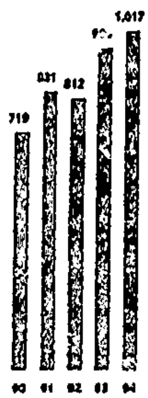
The finance function is evolving into a function which champions change in the continual quest for best practice in all business processes. Whilst ensuring that sound controls and integrity of data are maintained, the major objective of finance is to support other parts of the organisation in moving the business forward. A major achievement in the year has been the role finance has played in the reengineering and restructuring projects which have reduced the cost base of the businesses.

In respect of treasury, the directors review and agree the broad policies and guidelines for all significant areas of treasury activity, including key ratios, objectives, group funding and risk management. The implementation of these policies is carried out by the group treasury department under close management direction. Group treasury is not a profit centre and is subject to substantive internal audit reviews in addition to external audit.

REVIEW OF RESULTS AND SHAREHOLDERS' RETURN

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

OPERATING PROFIT FROM CONTINUING OPERATIONS, BEFORE EXCEPTIONAL ITEMS
£ million



OPERATING HIGHLIGHTS	1994	1993
	£m	£m
Turnover		
Continuing operations	7,742	7,637
Discontinued operations	38	483
	7,780	8,120
Operating profit before exceptional items		
Continuing operations	1,017	965
Discontinued operations	6	77
	1,023	1,042
Profit before exceptional items and taxation	945	911
Exceptional items before taxation	(291)	(286)
Profit before taxation	654	625
	pence	pence
Earnings per share before exceptional items	32.2	29.6
Earnings per share including exceptional items	21.6	19.9
Dividends per share	13.95	13.0

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Adoption of new accounting standards

In December 1993, the Accounting Standards Board (ASB) issued Financial Reporting Standard 4 – Capital instruments (FRS 4). The application of this standard to GrandMet requires certain borrowings previously shown as long term, according to the maturity of the available committed back up facilities, to be reclassified as short term. In addition, the dividend payable shown in the profit and loss account now includes the amount of the dividend notionally payable in respect of shareholders opting for the share dividend alternative.

The ASB also issued FRS 5 – Reporting the substance of transactions. The application of this standard has meant that the company's ordinary shares held by independent third parties to meet the calls on options granted to employees, together with the related financing, now have to be treated as assets and liabilities of the group. In addition to this, certain sale and leaseback transactions and sales of loan notes, entered into several years ago, are no-longer recognised as disposals. The effect of these changes on the balance sheet has been to increase fixed and current assets and borrowings and decrease provisions with a corresponding change to revenue reserves. The effect on the results has been a small increase in operating profit and interest costs with a reduction in tax. Full details are set out in the financial statements.

Turnover and operating results

Turnover from continuing operations increased by one per cent, from £7,637 million to £7,742 million, while operating profit from continuing operations excluding exceptional items increased by five per cent from £965 million to £1,017 million. This was achieved despite increased investment in our brands – with marketing spend reaching £900 million. Included within operating profit is a net credit relating to pensions and other post retirement costs of £18 million compared to £29 million last year.

The 1994 results were not significantly affected by exchange rate movements as has sometimes been the case in the past. The average US dollar/sterling exchange rate was $1.52 compared with $1.51 last year.

Interest

The net interest charge, before exceptional items, decreased from £155 million to £123 million, due mainly to the reduction in borrowings following the sale of Chef & Brewer.

Interest cover increased from 6.9 times to 8.7 times. Cash interest cover increased from 7.3 times to 8.8 times.

Income from associates

Income from associates before exceptional items increased by £21 million to £45 million. This was the result of strong performances by Häagen-Dazs Japan and the Jose Cuervo group in Mexico. In addition to this, there was an improved result from Inntrepreneur Estates Limited.

INTEREST COVER
times

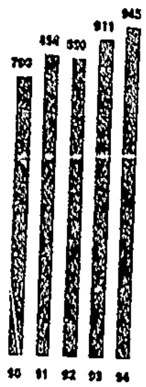
INTEREST COVER IS DEFINED AS THE NUMBER OF TIMES PROFIT BEFORE INTEREST, EXCEPTIONAL ITEMS AND TAXATION IS GREATER THAN THE NET INTEREST CHARGE

CASH INTEREST COVER
times

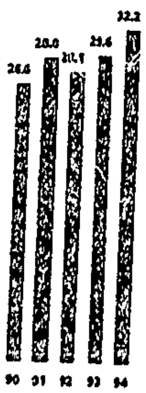
CASH INTEREST COVER IS DEFINED AS THE NUMBER OF TIMES THE GROUP'S NET CASH FLOW FROM OPERATING ACTIVITIES IS GREATER THAN ITS NET CASH INTEREST PAYMENTS

FINANCIAL REVIEW

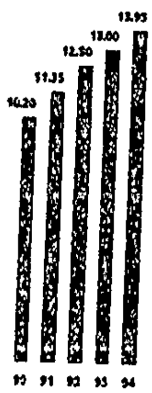
PROFIT BEFORE EXCEPTIONAL ITEMS AND TAXATION
£ million



EARNINGS PER SHARE BEFORE EXCEPTIONAL ITEMS
pence per share



DIVIDENDS PER SHARE
pence per share



Profit before exceptional items and tax

Profit before exceptional items and taxation increased by £34 million to £945 million. Excluding the effects of currency translation, this is an increase of 4.5 per cent.

Taxation

The effective taxation rate on profit before exceptional items was 28.5 per cent, compared with 32.4 per cent last year. This reflects an internal restructuring of the group's borrowings. Including exceptional items, the rate was 30.1 per cent compared with 33.4 per cent last year.

The internal restructuring of group borrowings has also resulted in the full utilisation of current and previously surplus ACT.

Exceptional items

Exceptional items this year comprised a charge for restructuring costs and certain disposals, as shown below.

In 1993, a provision for restructuring costs of £175 million was charged against operating profit. This concentrated mainly on Pillsbury, Pearle and Burger King. Of that provision only £25 million remains as the programme is substantially complete. This has yielded cost savings during 1994 of £38 million which have been reinvested in marketing to support the group's brands. The cost savings anticipated from this programme during the year ending 30th September 1995 will allow further investment in the group's brands.

In 1994, a similar review has been applied to the rest of GrandMet's operations, principally IDV and European foods. This has resulted in a restructuring provision totalling £280 million. Of this amount £272 million has been charged against operating profit during the current financial year. The remaining £8 million has been

Exceptional items		1994		*1993*
	£m	£m	*£m*	*£m*
Restructuring costs				
Drinks	(143)		*(22)*	
Food – branded	(55)		*(71)*	
Food – retailing	(39)		*(82)*	
Property/IEL	(26)		–	
Corporate	(17)	(280)	–	*(175)*
Sale of US jug wines		(37)		–
London Clubs		16		–
Brick Lane/other UK properties		–		–
Retail betting/William Hill		–		*(50)*
Other disposals		10		*25*
Total exceptional items		(291)		[illegible]

charged against share of associates income. The anticipated net cash spend will be approximately one third of the total provision amount. Cost savings (in addition to the benefits from the 1993 restructuring programme) are anticipated during the year ending 30th September 1995, but will be fully realised in two years' time, when the programme is completed. Again this will allow further investment in the group's brands.

The other major exceptional item was a loss of £37 million incurred following the sale of the group's US jug wine operations. Other disposals, which included a £16 million credit in respect of the final settlement of the group's remaining interest in London Clubs, generated total gains of £26 million.

The tax credit on exceptional items was £72 million.

Earnings per share

Earnings per share rose from 19.9p to 21.6p, an increase of 8.5 per cent. This was affected by the exceptional items charged in both years. Earnings per share before exceptional items increased by 8.8 per cent from 29.6p to 32.2p.

Dividends

Total profit for the financial year after deducting taxation and minority interests was £450 million compared to £410 million for 1993. The recommended dividend for the year is 13.95p per share, representing an increase of 7.3 per cent over last year. The annual dividend is covered 2.3 times by profit for the year before exceptional items. The total cost of the dividend is £292 million, leaving £158 million to be transferred to reserves.

Inntrepreneur Estates Limited

The group's share of IEL's profit before exceptional items for the year was £5 million, compared with a loss of £9 million in the previous year. The improvement reflects lower interest costs.

An exceptional restructuring charge of £8 million relating to IEL has arisen from the refinancing discussed below.

The annual valuation of the pub estate on 30th September 1994 caused a current year writedown of one per cent. GrandMet's share of this deficit, amounting to £10 million, was deducted from the group's revaluation reserve relating to IEL pubs.

Subsequent to the year end, IEL announced refinancing arrangements that will result in the repayment to GrandMet of its £360 million loan and the injection by GrandMet of £28 million of new equity capital.

REVIEW OF BALANCE SHEET AND FINANCIAL RESOURCES

Net borrowings of the group reduced by £866 million to £2,159 million. This was primarily caused by the sale of Chef & Brewer, which reduced net borrowings by approximately £700 million, and strong cash generation. These were partially offset by acquisitions and investments.

Favourable currency movements due to the translation of non sterling denominated debt reduced borrowings by £169 million. The net reduction in borrowings has reduced gearing from 81 per cent to 60 per cent.

Despite the difficult economic climate, GrandMet continued to invest considerable amounts in promoting its brands. The directors have appraised the value of the group's brands as part of the annual review process, and consider that no permanent diminution in value has occurred. Indeed, the current aggregate value significantly exceeds the book value. Over 75 per cent of the cost of intangible assets is represented by just three brands: Pillsbury, Burger King and Smirnoff. Only brands acquired since 1st January 1985 are recorded on the balance sheet. Consequently, brands such as Baileys and Malibu, which were internally created, and J&B Rare, which was acquired in 1972 and subsequently developed by GrandMet, are not capitalised, despite representing considerable value to the group. The decrease in intangible assets, from £2,924 million to £2,782 million was entirely due to exchange rate movements.

Review of cash flow

Free cash flow, which represents the cash available for the payment of dividends, net acquisitions and financing items was £642 million, compared to £510 million the previous year, an increase of £132 million.

Net cash flow from operating activities decreased from £1,338 million in 1993 to £1,195 million in 1994. This reduction resulted mainly from the cash cost of implementing the restructuring programme

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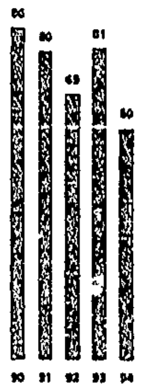
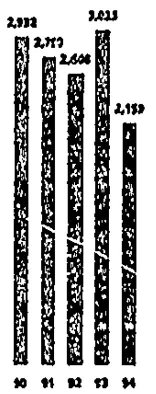
FINANCIAL REVIEW

GEARING
per cent



GEARING IS DEFINED AS NET BORROWINGS AS A PERCENTAGE OF SHAREHOLDERS' EQUITY (SHARE CAPITAL, RESERVES AND MINORITY INTERESTS)

NET BORROWINGS
£ million



provided for in 1993 and from reductions in operating profit and depreciation due to disposals.

Net interest and tax payments decreased from £467 million to £331 million. This resulted from a reduction in interest payments as borrowings decreased as well as reduced taxation payments resulting from the internal restructuring of group borrowings.

Capital expenditure was tightly controlled, and decreased from £264 million to £200 million.

Utilisation of acquisition and disposal provisions fell from £127 million to £63 million.

Investment payments of £583 million included several add on acquisitions. These were primarily Martha White, Roush and Rudi's in the Food sector and Glen Ellen in the Drinks sector. These were more than offset by disposal proceeds of £801 million, of which the largest part related to the sale of Chef & Brewer, to give net disposal proceeds of £218 million. This compares to a net acquisition cost of £19 million in 1993. After deducting £251 million paid in respect of dividends, the net cash flow before financing was £609 million compared to £247 million in the previous year, an increase of £362 million. After adding financing items of £22 million and after allowing for borrowings of a subsidiary sold of £66 million, the net cash inflow was £697 million, which reduced net borrowings to £2,328 million before the effects of exchange.

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 £2,159 million at 30th September 1994 comprised total borrowings of £3,145 million, offset by cash and bank deposits of £986 million. Borrowings due after more than three

Cash flow summary	1994	*1993*
	£m	*£m*
Operating profit before exceptional items	1,023	*1,042*
Depreciation	205	*224*
Exceptional restructuring costs	(67)	–
Working capital	64	*56*
Other items	(30)	*16*
Cash from operating activities	1,195	*1,338*
Interest and taxation	(331)	*(467)*
Capital expenditure	(200)	*(264)*
Sale of fixed assets	41	*30*
Acquisition and disposal provision payments	(63)	*(127)*
Free cash flow	642	*510*
Dividends paid	(251)	*(244)*
Net disposals/(acquisitions)	218	*(19)*
Net cash flow before financing	609	*247*

years totalled £1,883 million. Surplus cash is invested with high quality counterparties.

During 1994, group debt has been diversified in terms of funding source and maturity profile. The US bond issues in 1991 and 1992, which successfully raised $1,700 million, have been complemented with two seven per cent Eurodollar bonds, a zero coupon bond launched in May, which was one of the largest such issues ever, and a new medium term note programme. These raised proceeds of $1.4 billion.

This has resulted in levels of dollar denominated commercial paper being reduced by £658 million to £611 million at year end. GrandMet has also negotiated a series of new bilateral credit facilities during the year to provide a total committed facility of £1.9 billion maturing during 1999. This was achieved with substantially better terms and conditions than those previously in place.

Since the year end there has also been an issue of US preference securities which raised $560 million.

Net borrowings movement summary	1994	*1993*
	£m	*£m*
Net cash flow before financing	609	*247*
Borrowings of subsidiary sold	66	–
Shares issued	31	*32*
Capital element of finance leases	(9)	*(6)*
Net cash inflow	697	*273*
Exchange movement	169	*(690)*
Decrease/(increase) in net borrowings	866	*(417)*

Hedging policies

Following a review of our asset hedging strategy, the group has reduced its US dollar debt, so that at 1st December 1994 the dollar net assets are hedged 70 per cent (82 per cent at the year end). Although this exposes part of the group's net assets to currency movements, it reduces the volatility of the interest charge, interest cover, gearing and absolute debt level.

The dollar debt hedge had been partly created through dollar/sterling swaps which benefited the profit and loss account because of dollar/sterling interest rate differentials. The reduction in dollar debt caused swap income to fall to £34 million. However, the main effect will be felt in 1995 when the income will fall to approximately £20 million.

A large proportion of foreign currency transaction flows are hedged, usually within a 12 month timeframe, but future foreign currency profits which are not expected to be remitted are not hedged.

GrandMet generally maintains a high 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 helps to manage the interest cover ratio. At 30th September 1994, the group had net fixed rate debt of £1.3 billion, including the impact of interest rate swaps, at effective interest rates ranging from 5.6 per cent to 9.2 per cent and with a weighted average term of approximately 10 years.

Interest rate swaps are now used to convert part of this fixed interest rate debt to floating rate. This ensures the group's fixed rate percentage does not reach unacceptably high levels. At 30th September 1994, 61 per cent of total group debt was fixed at an average interest rate of seven per cent.

Going concern

The directors, having made 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.

01-03-95

GrandMet's commercial prosperity is directly linked to the prosperity of the communities in which it operates

COMMUNITY

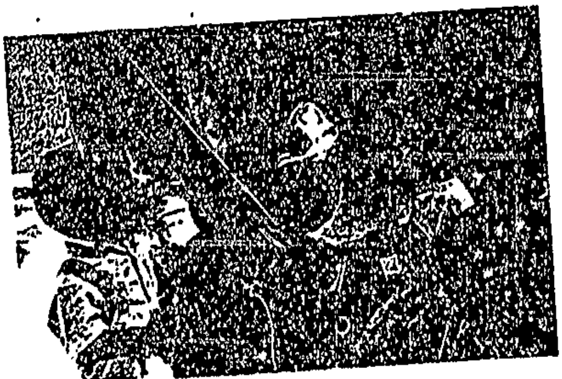
GrandMet's community strategy continues to reflect the belief that the group's commercial prosperity is directly linked to the prosperity of the communities in which it operates. Active corporate citizenship can make a valuable contribution both to the community and GrandMet's businesses.

The strategic focus of the group's community action is empowerment – helping people 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.

The added value

GrandMet continues to concentrate its community efforts on a relatively small number of selected projects which can really add value.

The group not only provides direct financial support for its community programmes, it also assists by providing donations in kind, principally food, and by encouraging employees and their families to participate in community projects, through employee volunteering programmes.



THE CASA CUNA ORPHANAGE NEAR IRAPUATO, MEXICO IS SUPPORTED BY FUNDING FROM THE PILLSBURY FOUNDATION AND EMPLOYEE VOLUNTEERS

FAR RIGHT: STUDENTS FROM THE RICHARD GREEN CENTRAL PARK SCHOOL, MINNEAPOLIS ON A KAPOW VISIT TO PILLSBURY'S TECHNOLOGY CENTRE

Helping people help themselves

Kids and the Power of Work (KAPOW) was designed by GrandMet to bring together the worlds of work and education. Employee volunteers lead classroom sessions which enable six to 12 year old schoolchildren to link what they learn at school with the skills they will need in their future working life.

KAPOW now operates in 16 states across the US, involving over 4,000 children. The programme has been piloted in the UK with the help of volunteers from GrandMet's Corporate Centre in London.

Burger King Academies help young people who have dropped out of school to return to education and encourage them to obtain training and qualifications for work. Already successful in the US, where there are 31 Academies, the UK programme was established in 1993 with the opening of the first Academy in London's Tower Hamlets.

In September, this scheme received one of the Lord Mayor of London's 'Dragon Awards' for business initiatives which help regenerate local communities in London and a second Academy was opened in Knowsley, Liverpool.

Young people, training and employment opportunities

The focus on empowering young people through education and employment opportunities is continued through the work of the GrandMet Trust in the UK, which offers training and guidance. The Trust has won national training awards in two consecutive years and was also awarded the national training standard, 'Investors in People', in 1994.

01-03-95

Tackling young homelessness and unemployment

The Foyer Federation for Youth, founded in 1992 by GrandMet and Shelter, the UK charity for the homeless, works to promote innovative schemes which help to break the 'no home, so no job – no job, so no home' chain by providing affordable accommodation linked to job training. Results and progress are tracked regularly and surveys show that as many as six out of 10 young people in any one scheme have gone on to full time training or permanent work. An example of this type of initiative is the Gateway Centre in South London, the first purpose built Foyer, where the GrandMet Trust runs the Centre's training programmes.

Leadership in the US

GrandMet has continued to be a leading corporate citizen in the US through a range of successful initiatives. Pillsbury's Customer Partnerships enable customers and consumers to join forces with the company to support local charitable youth focused organisations. The pilot programme in 1994 generated $225,000 for charity and significant incremental sales for the business.

The Heublein Foundation has continued to focus on provision of aid to disadvantaged minority youth, concentrating on self sufficiency through education.

Volunteering

GrandMet's strong tradition of employee volunteering continued during the year with involvement

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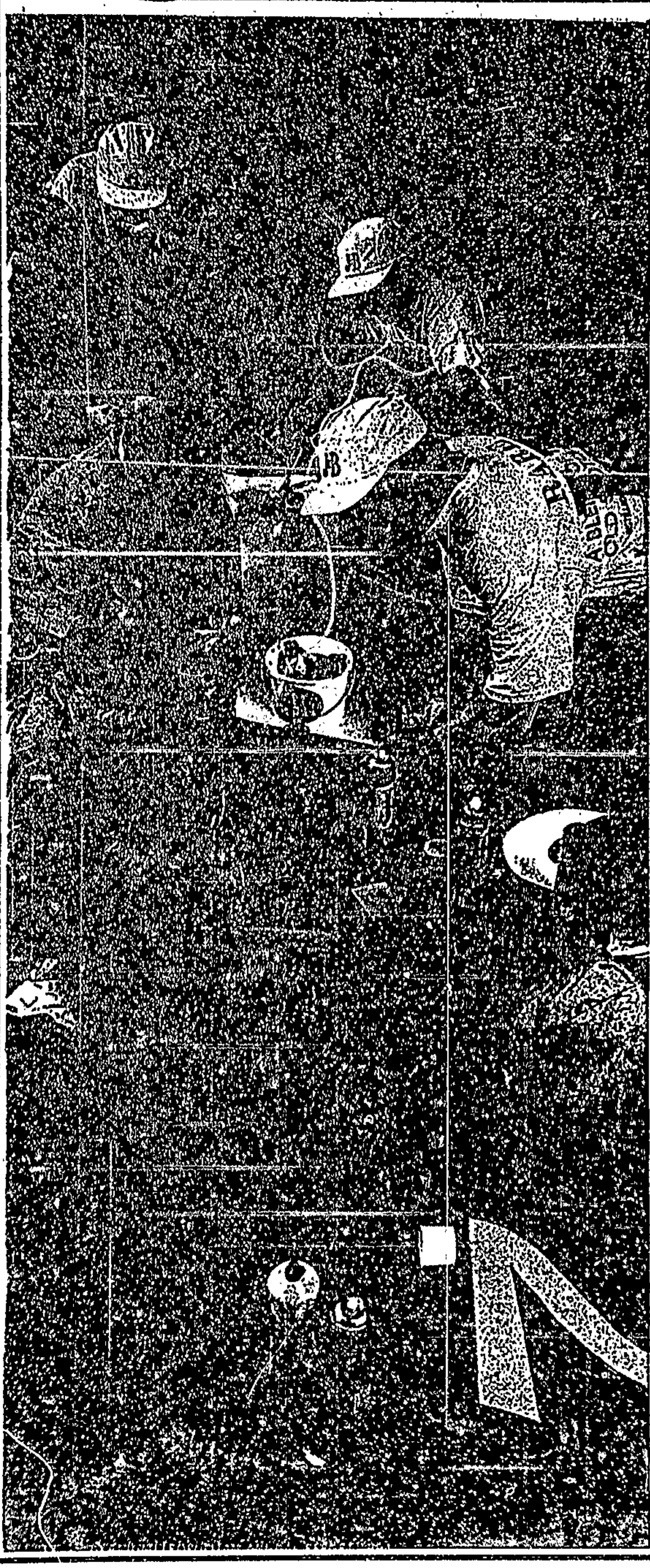


from more group operating companies and teams of employees working on projects.

For the second year, GrandMet sponsored the UK's national 'Employees in the Community' Awards.

Community work in new and emerging markets

GrandMet believes that it has a leading role to play in the community in countries other than the US and Western Europe. As the group expands into new and emerging markets around the world – the former Soviet Union and Eastern Europe, India, China, Africa and Latin America – it is clear that these markets often have social needs where a programme of involvement can make a real impact on communities and corporate reputation.

In Russia, the Smirnoff Foundation is working to support social, educational, medical and cultural programmes. IDV's W & A Gilbey operates a literacy programme in South Africa.

In Mexico, the Pillsbury plant at Irapuato helps the Casa Cuna orphanage with cash and food donations.

Such programmes indicate that GrandMet is committed to the creation of long term investment and community support, not just short term gain.

ENVIRONMENT

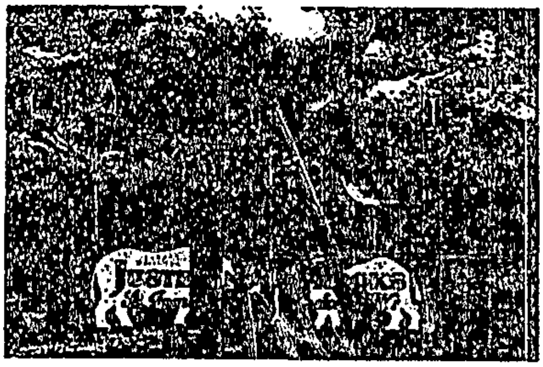
Progress on the group's theme of 'Environmental Excellence' continued through 1994, with activities focused on three common areas: commitment, consistency and communication.

- Commitment: GrandMet's Environmental Task Force, comprised of senior managers from both sectors, reports to the Board on environmental progress and issues. This team develops the strategic application of environmental initiatives across all businesses, providing guidance and approval of plans and policies.
- Consistency: To support the environmental initiatives, the group has established an International Environmental Working Group, comprised of environmental professionals and practitioners from both sectors, to coordinate Task Force policy. Best practice is developed, shared and implemented through this working committee. Recognising the increasing need for environmental management systems, a common set of management guidelines and a format for measuring environmental progress have been agreed.
- Communication: Employee information and involvement are essential to the success of the group's 'Environmental Excellence' programme. The Food sector has issued a progress report on environmental performance to all North American employees. The Drinks sector is covering a range of environmental issues and energy saving initiatives in all businesses. The International Environmental Working Group now focuses on similar communication programmes across all of GrandMet.

Success on these three fronts continues at the business level as well. Burger King actively participates in the 'Food for the Earth' composting programme; IDV's 'Care for the Rare' continues to provide support for endangered species; Pearle's re-packaging of eyewear has been very successful; the Food sector continues support of sustainable development initiatives; and Heublein's environmental awards programme has been expanded.

Programmes at individual facilities have targeted elimination of chlorofluorocarbons, set waste reduction goals, expanded audit programmes and identified energy conservation opportunities. Environmental risks have been reduced by elimination of selected hazardous materials and improved safety programmes. Environmental due diligence is incorporated into acquisition assessments and the application of GrandMet's environmental initiatives to suppliers and co-packers is being expanded. These developments are vital to the ongoing success of GrandMet's businesses. Our focus on commitment, consistency and communication is not just about feeling good; it makes sound commercial sense.

Progress on the group's theme of Environmental Excellence has focused on commitment, consistency and communication



TWO YOUNG RHINOS, 'JUSTERINI' AND 'BROOKS', ARE AMONG THE FIRST OF MANY ENDANGERED SPECIES TO BENEFIT FROM J&B'S NEW 'CARE FOR THE RARE' PROGRAMME

FAR LEFT: J&B EMPLOYEE VOLUNTEERS ASSISTING AT AUCHENTOSHAN SCHOOL, A SPECIAL NEEDS CENTRE IN DUMBARTON, SCOTLAND

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 Limited, non executive Deputy Chairman of BrightReasons Group PLC and a non executive director of Bowater PLC. Age 61.
(Committees 3, 4, 5*)

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 Newspapers PLC. Age 58.
(Committees 3*, 4*)

RICHARD V GIORDANO KBE (USA)
Deputy Chairman
Was Chief Executive of the BOC Group PLC from 1979 to 1992, Chairman from 1985 to 1992 and is presently non executive Chairman. He was appointed Chairman of British Gas PLC in 1994 and 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 60.
(Committees 1*, 2, 4, 5)

PETER E B CAWDRON
Group Strategy Development Director
Joined GrandMet in 1983 as Group Planning Director and became Group Strategy Development Director in 1987. He is responsible for the development of group strategy and for the business development of GrandMet and its subsidiaries. He was appointed to the Board of GrandMet in September 1993 and is a non executive director of Compass Group PLC. Age 51.
(Committees 3, 4)

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. Age 43.
(Committees 3, 4)

JOHN B MCGRATH
Chairman and Chief Executive, Drinks Sector
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 a director of The Scotch Whisky Association. Age 56.
(Committees 3, 4)

DAVID NASH
Chairman and Chief Executive, Food Sector
Joined the GrandMet Board in December 1989, having previously worked in Imperial Chemical Industries and Cadbury Schweppes. He was Group Finance Director until December 1993 when he was appointed Chairman and Chief Executive, Food sector, responsible for GrandMet's branded food operations worldwide, and for Burger King and Pearle. He is a non executive director of Investment Management Regulatory Organisation Limited (IMRO) and Honorary Treasurer of the NABC – Clubs for Young People and the Prince of Wales' Business Leaders Forum. Age 54.
(Committees 3, 4)

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 East London Partnership and of the Institute for Citizenship Studies and a director of London First. Age 54.
(Committees 3, 4)

SIR JOHN HARVEY-JONES MBE
Non Executive Director
Was Chairman of Imperial Chemical Industries from 1982 to 1987 having joined that company in 1956 from the Royal Navy. He is a member of a number of charitable and other organisations whilst being deeply involved in writing and lecturing. He was appointed a non executive director of GrandMet in 1983 and held the position of Deputy Chairman from 1987 to 1991. He will retire as a non executive director of GrandMet on 31st December 1994. Age 70.
(Committees 1, 2, 5)

MICHAEL L HEPHER
Group Managing Director, British Telecommunications PLC
Joined BT as Group Managing Director in 1991. Prior to joining BT, he was Chairman and Chief Executive of Lloyds Abbey Life and a director of Lloyds Bank. Previously he had been President and Chief Executive of Maritime Life Assurance Company of Canada. He is a director of MCI in the US and Chairman of Concert Communications Company. He was appointed a non executive director of GrandMet in November 1994. Age 50.
(Committees 1, 2)

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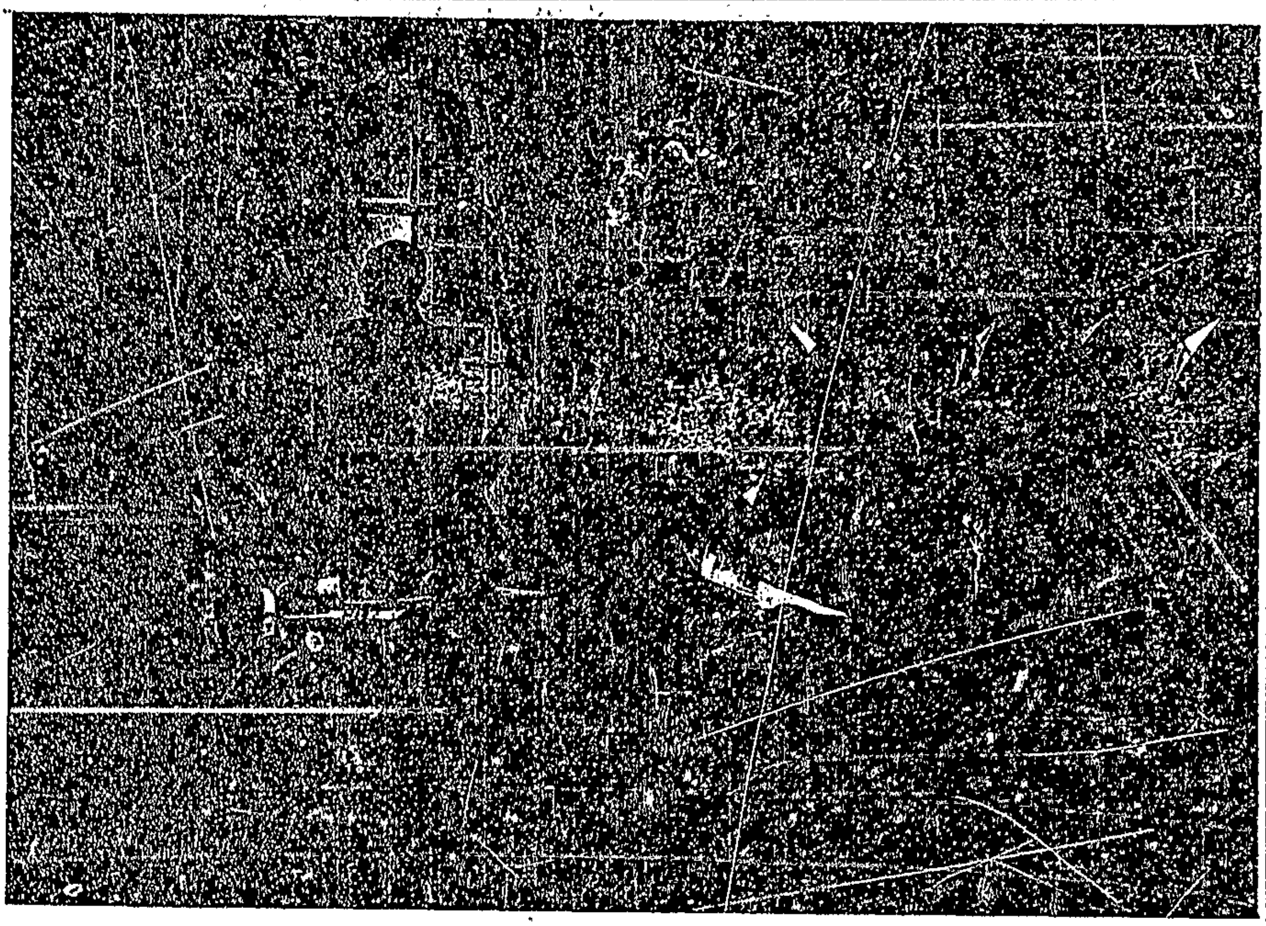

PROFESSOR DR GERTRUD HÖHLER
(Germany)
Management Consultant, Höhler Consultants
Founded Berlin based management consultants in 1985. Her clients include the majority of the fifty largest companies in Germany. She serves on advisory councils for the German Federal Defence Ministry and the German Federal 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. She was appointed a non executive director of GrandMet in 1992. Age 53.
(Committee 1)

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 53.
(Committees 1, 2)

SIR COLIN MARSHALL
Chairman, British Airways PLC
Joined British Airways as Chief Executive in 1983 and became Chairman in 1993, having previously held positions in Sears, Avis and Hertz. He is also a non executive director of HSBC Holdings PLC, The New York Stock Exchange, IBM United Kingdom Holdings Limited, Qantas Airways Limited and US Air Inc. He was appointed a non executive director of GrandMet in 1988 and will retire at the end of the 1995 AGM. Age 61.
(Committees 1, 2)

DAVID A G SIMON CBE
Group Chief Executive and Deputy 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 is currently Chairman of BP Exploration, BP Oil and BP Chemicals Limited. He is a member of the International Advisory Council of Deutsche Bank, Allianz AG and the Sports Council. He was appointed a non executive director of GrandMet in 1989. Age 55.
(Committees 1, 2*)

LEFT TO RIGHT, STANDING:
DAVID SIMON CBE,
RICHARD GIORDANO KBE,
DAVID TAGG, LORD SHEPPARD,
DAVID NASH, SIR COLIN MARSHALL,
PETER CAWDRON, PETER JOB.
LEFT TO RIGHT, SEATED:
GERALD CORBETT,
SIR JOHN HARVEY-JONES MBE,
GEORGE BULL, MICHAEL HEPHER,
JOHN MCGRATH,
PROFESSOR DR GERTRUD HÖHLER.

BOARD COMMITTEES
1. Appraisal and Remuneration
2. Audit
3. Executive
4. Management Development
5. Nomination
* Chairman

01-03-95

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 as at the end of the financial year and of the profit or loss for the financial year.

The directors, in preparing the financial statements on pages 40 to 67, 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 40 to 67.

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 1994 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 Peat Marwick

KPMG Peat Marwick
Chartered Accountants
Registered Auditors

London, 1st December 1994

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 1994.

BUSINESS ACTIVITIES AND DEVELOPMENT

The activities of the group's businesses are set out on the first page.

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 5 to 7.

Detailed comments on the activities and developments during the year, since the year end and for the future of both business sectors are set out on pages 8 to 23.

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 issues are on pages 32 and 33.

FINANCIAL

A comprehensive financial review of the year is set out on pages 24 to 29. Profit transferred to reserves was £158 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 8.8p per share. If approved, dividends for the year will total 13.95p per share, an increase of 7.3 per cent.

Subject to approval by members, the final dividend will be paid on 10th April 1995 to ordinary shareholders on the register on 26th January 1995. 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 28th February 1995.

DIRECTORS

The directors are listed on pages 34 and 35. Mr I A Martin resigned from the Board on 5th February 1994.

Mr J B McGrath and Mr D E Tagg retire by rotation at the AGM in accordance with the articles of association and, being eligible, offer themselves for re-election. Sir Colin Marshall also retires by rotation but, as stated in the Chairman's Statement on page 3, has decided not to offer himself for re-election.

Mr G M N Corbett, who was appointed to the Board on 11th April 1994 and Mr M L Hepher and Mr P J D Job who were appointed to the Board on 24th November 1994, retire in accordance with the articles of association and, being eligible, offer themselves for election.

Mr G M N Corbett, Mr J B McGrath and Mr D E Tagg are entitled to two years' notice of termination under their respective service contracts.

Mr M L Hepher and Mr P J D Job do not have service contracts requiring disclosure under the London Stock Exchange's Listing Rules.

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

AUDITORS

The auditors, KPMG Peat Marwick, are willing to continue in office and resolutions concerning their re-appointment and remuneration will be submitted to the AGM. These are set out in the notice of meeting in the accompanying AGM document.

CORPORATE GOVERNANCE

The company has complied with 18 of the 19 provisions of the Code of Best Practice of the Cadbury Committee on Financial Aspects of Corporate Governance. Final guidance by the relevant working party has not yet been published for the remaining provision on internal control. A statement by the directors on this subject is set out below.

INTERNAL CONTROL

The directors' responsibilities in respect of the accounting records, the safeguarding of assets, and the prevention and detection of fraud and other irregularities are set out in the statement of directors' responsibilities in relation to financial statements on page 36. As part of the process to satisfy these obligations the group has an established system of internal control which the directors believe to be appropriate to the business. This includes:

Policies

- Manuals of policies and procedures, applicable to all business units, with procedures for reporting weaknesses and for monitoring corrective action.
- A code 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.

DIRECTORS' REPORT

- A detailed investment approval process requiring Board approval for major projects.

Verification

- An internal audit department which undertakes periodic examination of business processes and ensures management follow up on recommendations to improve controls.
- Detailed post investment appraisals of the results of acquisitions and major capital expenditure projects.
- An audit committee of the Board, comprising non executive directors, which considers significant control matters.

EMPLOYMENT POLICIES

GrandMet's employment policies are designed to ensure that the company is able to attract the highest calibre of employee from all sections of the communities within which it operates. Working within local legislative and cultural requirements, the company is committed to providing equality of opportunity to all employees and potential employees.

Innovative training programmes and seminars on such subjects as cultural diversity and gender related employment issues are regularly run by GrandMet operating companies. Programmes run by IDV in the UK and Pillsbury in the US, in particular, are seen as being at the leading edge in their field and have attracted favourable external professional comment.

The group continues to make efforts to ensure that 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 individual becomes disabled when in the company's employment, all possible opportunities for retraining or redeployment are explored.

The group has procedures for the simultaneous communication of annual and half year results and other significant business issues to all its operating businesses. Individual businesses then have their own internal mechanisms for ensuring that such information is quickly and accurately communicated to all employees.

1994 saw the introduction of an all employee savings related share option scheme in France and continued promotion of the schemes in the United Kingdom, United States, Canada and Ireland. Approval is being sought at the 1995 AGM for the continuation of the UK scheme which expires in March 1995. It is also intended to develop, in 1995, a scheme for use in countries where the group has only an emergent presence. This scheme would be within the parameters agreed by shareholders at the AGM in 1993.

EXECUTIVE SHARE OPTIONS

GrandMet has established a supplemental executive option scheme using purchased shares held in employee share trusts. The scheme will be used to grant options to senior executives, including executive directors, when their current holding of options reaches the four times salary limit contained in the executive share option scheme.

The supplemental scheme is being introduced as the company believes the current four times limit encourages the exercising of options as soon as they vest, whereas the objective should be for executives to hold their options over as long a period as possible, so that they have a real interest in ensuring continuing growth in shareholder value. GrandMet's US executive share option plan, established in 1991, uses shares purchased by the employee share trusts and participants are not restricted by the four times limit.

The number of shares which can be held under the employee share trusts is limited to three per cent of the group's issued share capital. The directors believe the new scheme is in the best interests of shareholders.

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 group companies in the United Kingdom made contributions of £4,755,000 (1993 – £3,765,000) to charitable organisations. In the United States, group companies made charitable donations of £5,828,000 (1993 – £6,719,000).

Details of community programmes are set out on pages 30 to 32.

The group made no political donations.

SHAREHOLDINGS IN THE COMPANY

At 1st November 1994, 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.

The company is not a close company or a close investment holding company for UK taxation purposes.

By Order of the Board
Roger H Myddelton
Secretary
1st December 1994

ACCOUNTING POLICIES

ACCOUNTING CONVENTION
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.

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. 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.

OVERSEAS SUBSIDIARIES
The financial statements of some overseas subsidiaries do not conform with the group's accounting policies because of the legislation and accounting practices of the countries concerned. Appropriate adjustments are made on consolidation in order to present the group financial statements on a uniform basis.

ACQUISITIONS AND DISPOSALS
On the acquisition of a business, including an interest in an associate, fair values are attributed to the group's share of net tangible assets and significant owned brands acquired. Where the cost of acquisition exceeds the values attributable to such net assets, the difference is treated as purchased goodwill and is written off direct to reserves in the year of acquisition.

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 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.

ACCOUNTING POLICIES

FIXED ASSET 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.

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.

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

01-03-95

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30th September 1994

	Notes	Before exceptional items £m	Exceptional items (note 6) £m	1994 Total £m	*Before exceptional items £m*	*Exceptional items (note 6) £m*	*1993 Total £m*
Turnover							
Continuing operations		7,627		7,627	7,637		7,637
Acquisitions		115		115			
		7,742		7,742			
Discontinued operations		38		38	483		483
Total turnover	3	7,780		7,780	8,120		8,120
Operating costs	4	(6,757)	(272)	(7,029)	(7,078)	(225)	(7,303)
Operating profit							
Continuing operations		992	(272)	720	965	(225)	740
Acquisitions		25	–	25			
		1,017	(272)	745			
Discontinued operations		6	–	6	77	–	77
Total operating profit		1,023	(272)	751	1,042	(225)	817
Share of profits/(losses) of associates							
Inntrepreneur Estates Ltd	16	5	(8)	(3)	(9)	–	(9)
Other	5	40	–	40	33	–	33
		1,068	(280)	788	1,066	(225)	841
Continuing operations							
Disposal of fixed assets			4	4		2	2
Sale of businesses			(38)	(38)		(27)	(27)
Utilisation of prior year provisions			–	–		40	40
Discontinued operations							
Disposal of fixed assets			–	–		13	13
Sale of businesses			18	18		(52)	(52)
Utilisation of prior year provisions			5	5		43	43
Provisions for loss on sale of businesses			–	–		(58)	(58)
			(11)	(11)		(39)	(39)
Interest	7	(123)	–	(123)	(155)	(22)	(177)
Profit on ordinary activities before taxation		945	(291)	654	911	(286)	625
Taxation on profit on ordinary activities	8	(269)	72	(197)	(295)	86	(209)
Profit on ordinary activities after taxation		676	(219)	457	616	(200)	416
Minority interests		(7)	–	(7)	(6)	–	(6)
Profit for the financial year		669	(219)	450	610	(200)	410
Ordinary dividends	9			(292)			(269)
Transferred to reserves				158			141
Earnings per share	10	32.2p	(10.6)p	21.6p	29.6p	(9.7)p	19.9p

01-03-95

CONSOLIDATED BALANCE SHEET

at 30th September 1994

	Notes	£m	1994 £m	£m	1993 £m
Fixed assets					
Intangible assets	13		2,782		2,924
Tangible assets	14		1,795		2,718
Investments	15		998		820
			5,575		6,462
Current assets					
Stocks	17	1,235		1,341	
Debtors (see note below)	18	1,983		1,941	
Cash at bank and in hand		986		349	
		4,204		3,631	
Creditors – due within one year					
Borrowings	19	(854)		(1,806)	
Other creditors	20	(2,381)		(2,242)	
		(3,235)		(4,048)	
Net current assets/(liabilities) (see note below)			969		(417)
Total assets less current liabilities			6,544		6,045
Creditors – due after more than one year					
Borrowings	19	(2,291)		(1,568)	
Other creditors	21	(82)		(167)	
			(2,373)		(1,735)
Provisions for liabilities and charges	22		(584)		(597)
			3,587		3,713
Capital and reserves					
Equity share capital			521		518
Non-equity share capital			12		12
Called up share capital	24		533		530
Share premium account		656		628	
Revaluation reserve		134		578	
Goodwill reserve		(2,810)		(2,652)	
Profit and loss account		5,027		4,590	
Reserves attributable to equity shareholders	25		3,007		3,144
			3,540		3,674
Minority interests			47		39
			3,587		3,713

Debtors and net current assets/(liabilities) include debtors recoverable after more than one year of £587m (1993 – £595m).

The financial statements on pages 40 to 67 were approved by a duly appointed and authorised committee of the Board of Directors on 1st December 1994 and were signed on its behalf by:

Lord Sheppard, *Director*
G M N Corbett, *Director*

01-03-95

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30th September 1994

	Notes	£m	1994 £m	*£m*	*1993 £m*
Net cash inflow from operating activities	28		1,195		*1,338*
Returns on investments and servicing of finance					
Interest received		116		*88*	
Interest paid		(252)		*(272)*	
Dividends received from associates		15		*11*	
Dividends paid		(251)		*(244)*	
Net cash outflow from returns on investments and servicing of finance			(372)		*(417)*
Taxation					
UK corporation tax paid		(114)		*(100)*	
Overseas corporate tax paid		(96)		*(194)*	
Total tax paid			(210)		*(294)*
Investing activities					
Purchase of tangible fixed assets		(200)		*(264)*	
Purchase of subsidiaries	29	(313)		*(130)*	
Purchase of associates		(147)		*(85)*	
Purchase of investments		(123)		*(83)*	
Sale of tangible fixed assets		41		*30*	
Sale of subsidiaries	30	704		*109*	
Sale of associates		43		*114*	
Sale of investments		54		*56*	
Acquisition and disposal provision payments		(63)		*(127)*	
Net cash outflow from investing activities			(4)		*(380)*
Net cash inflow before financing			609		*247*
Financing					
Issue of ordinary share capital		(21)		*(25)*	
Proceeds of long term borrowings		(1,621)		*(585)*	
Repayment of long term borrowings		1,586		*790*	
Capital element of finance lease payments		9		*6*	
Net cash (inflow)/outflow from financing	31		(47)		*186*
Increase in cash and cash equivalents	32		656		*61*
			609		*247*

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 30th September 1994

	1994 £m	1993 £m
Profit for the financial year	450	410
Deficit on revaluation of properties in associate	(10)	(80)
Exchange adjustments	(47)	(39)
Total recognised gains and losses for the financial year	393	291
Prior year adjustment (note 1)	(21)	
Total gains and losses recognised since last annual report	372	

NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 30th September 1994

	1994 £m	1993 £m
Profit on ordinary activities before taxation	654	625
Realisation of property revaluation gains of prior years	429	6
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	1	2
Asset provisions created/(utilised) not required on an historical cost basis	26	(7)
Historical cost profit on ordinary activities before taxation	1,110	626
Historical cost profit for the year retained after taxation, minority interests and dividends	614	142

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 30th September 1994

	1994 £m	1993 £m
Profit for the financial year	450	410
Ordinary dividends	(292)	(269)
	158	141
Other recognised gains and losses relating to the year	(57)	(119)
New share capital issued	31	33
Adjustment in respect of share dividend	20	10
Goodwill written off during year	(320)	(146)
Goodwill transferred to the profit and loss account in respect of disposals of businesses	34	24
Net movement in shareholders' funds	(134)	(57)
Shareholders' funds at 30th September 1993 (originally £3,715m, restated for prior year adjustment of £41m)	3,674	3,731
Shareholders' funds at 30th September 1994	3,540	3,674

NOTES

1 ADOPTION OF NEW ACCOUNTING STANDARDS

These financial statements comply with two accounting standards issued during the year by the Accounting Standards Board: FRS 4 – Capital instruments and FRS 5 – Reporting the substance of transactions.

FRS 4 requires that where scrip dividends are issued or proposed, the value of such shares, deemed to be the amount of the cash dividend alternative, should be treated as an appropriation of profits. The effect of complying with this requirement has been to increase the 1993 dividends by £20m with a corresponding increase in creditors and decrease in the profit and loss reserve at 30th September 1993. It is estimated to have had a similar effect on the 1994 results and year end balance sheet. In addition, FRS 4 requires that borrowings should generally be classified according to the maturity of the financial instrument and not according to the maturity of the available committed facilities. The analysis of borrowings at 30th September 1993 has been restated to reclassify £1,661m of commercial paper and other borrowings, which were previously classified according to the maturity of available back-up committed facilities, as due within one year. The equivalent figure at 30th September 1994 was £621m, which has been classified as due within one year.

FRS 5 requires that the assets and liabilities of an enterprise be recognised based on new definitions. Because of this, the company's ordinary shares held by independent third parties to meet the calls on options granted to employees, together with the related financing, now have to be treated as assets and liabilities of the group. In addition, certain sale and leaseback arrangements and sales of [illegible]otes, entered into some years ago, are no longer recognised as disposals. The effect of these changes on the balan[illegible] at 30th September 1994 has been to increase tangible fixed assets by £34m (1993 – £37m), fixed assets investments by £172m (1993 – £103m), debtors by £26m (1993 – £43m), provisions by £2m (1993 – £3m) and borrowings by £253m (1993 – £201m) and to reduce the profit and loss reserve by £23m (1993 – £21m). The effect on the results for the year ended 30th September 1994 has been to increase operating profit by £8m (1993 – £7m) and interest cost by £13m (1993 – £12m), with reductions in taxation of £2m (1993 – £2m) and in profit for the year of £2m (1993 – £3m).

2 SEGMENT ANALYSIS

			1994			*1993*
	Turnover £m	Profit £m	Net assets £m	*Turnover £m*	*Profit £m*	*Net assets £m*
Class of business:						
Continuing operations						
Food – branded	3,267	267	2,007	*3,066*	*227*	*2,226*
– retailing	1,104	230	1,353	*1,153*	*175*	*1,378*
Drinks	3,371	520	1,657	*3,418*	*563*	*1,856*
	7,742	1,017	5,017	*7,637*	*965*	*5,460*
Discontinued operations	38	6	–	*483*	*77*	*658*
	7,780		5,017	*8,120*		*6,118*
Operating profit before exceptional items		1,023			*1,042*	
Associates before exceptional items		45	729		*24*	*620*
Exceptional items		(291)			*(286)*	
Interest		(123)			*(155)*	
Profit before taxation		654			*625*	
Capital employed			5,746			*6,738*
Net borrowings			(2,159)			*(3,025)*
Net assets			3,587			*3,713*
Geographical area by country of operation:						
United Kingdom	815	101	339	*1,245*	*173*	*975*
Rest of Europe	1,613	180	627	*1,648*	*210*	*685*
United States of America	4,644	677	3,714	*4,499*	*582*	*4,140*
Rest of North America	173	26	116	*214*	*26*	*151*
Africa and Middle East	183	15	32	*182*	*15*	*31*
Rest of World	352	24	189	*332*	*36*	*136*
	7,780		5,017	*8,120*		*6,118*
Operating profit before exceptional items		1,023			*1,042*	
Associates before exceptional items		45	729		*24*	*620*
Exceptional items		(291)			*(286)*	
Interest		(123)			*(155)*	
Profit before taxation		654			*625*	
Capital employed			5,746			*6,738*
Net borrowings			(2,159)			*(3,025)*
Net assets			3,587			*3,713*

NOTES

2 SEGMENT ANALYSIS – continued

Profit before interest relates to the following activities and geographical areas: Food – branded £214m, Food – retailing £183m, Drinks £351m, and discontinued businesses £29m (1993 – £184m, £85m, £560m, and £23m respectively, and a £50m charge in respect of a writedown of the group's UK properties); United Kingdom £71m, Rest of Europe £81m, United States of America £556m, Rest of World £69m (1993 – £117m, £136m, £458m and £91m 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, cash and borrowings.

Turnover between the above classes of business is not material.

Following the disposal of The Chef & Brewer Group, Burger King and Pearle are now disclosed as a separate segment of the Food sector and the loans to IEL are included in associates. Discontinued operations comprise The Chef & Brewer Group and, in the prior period, Express Foods; both businesses operated almost exclusively in the United Kingdom. On 19th September 1994, the group announced the sale, subject to regulatory approval, of ALPO Petfoods; the sale was not completed by 1st December 1994 and ALPO Petfoods has been classified as a continuing operation in these accounts.

The weighted average exchange rate used in translation of US dollar profit and loss accounts was £1 = $1.51 (1993 – £1 = $1.52). The exchange rate used to translate US dollar assets and liabilities at the balance sheet date was £1 = $1.58 (1993 – £1 = $1.50).

3 TURNOVER

	Continuing £m	Discontinued £m	1994 Total £m	*Continuing £m*	*Discontinued £m*	*1993 Total £m*
Geographical area by destination:						
United Kingdom	741	38	779	*724*	*483*	*1,207*
Rest of Europe	1,610	–	1,610	*1,641*	–	*1,641*
United States of America	4,546	–	4,546	*4,389*	–	*4,389*
Rest of North America	219	–	219	*239*	–	*239*
Africa and Middle East	210	–	210	*221*	–	*221*
Rest of World	416	–	416	*423*	–	*423*
	7,742	38	7,780	*7,637*	*483*	*8,120*

Exports from the United Kingdom were £297m (1993 – £298m).

4 OPERATING COSTS

	Continuing £m	Discontinued £m	1994 Total £m	*Continuing £m*	*Discontinued £m*	*1993 Total £m*
Raw materials and consumables	2,663	14	2,677	*2,804*	*147*	*2,951*
Other external charges	2,814	7	2,821	*2,560*	*130*	*2,690*
Staff costs (note 11)	1,145	10	1,155	*1,161*	*107*	*1,268*
Depreciation of tangible fixed assets	204	1	205	*203*	*21*	*224*
Decrease in stocks of finished goods and work in progress	80	–	80	*18*	*1*	*19*
Other operating income	(181)	–	(181)	*(74)*	–	*(74)*
Restructuring costs (note 6)	272	–	272	*225*	–	*225*
	6,997	32	7,029	*6,897*	*406*	*7,303*

Total operating costs include: US excise duties of £345m (1993 – £366m); other excise duties of £423m (1993 – £425m); operating lease rentals for plant and machinery of £24m (1993 – £32m) and for other leases (mainly of properties) of £125m (1993 – £169m); reorganisation costs of £272m (1993 – £182m) of which £272m (1993 – £175m) were classified as exceptional items; and research and development expenditure of £43m (1993 – £41m). Other operating income includes income from listed investments of £7m (1993 – £6m).

Fees in respect of services provided by the auditors were: statutory audit of the group £3,998,000 (1993 – £5,376,000); other services to UK group companies £4,230,000 (1993 – £7,739,000); and other services to non-UK subsidiaries £1,401,000 (1993 – £899,000).

Operating costs for continuing operations in 1994 include advertising, marketing and promotion of £901m (1993 – £879m), and £90m relating to acquired businesses as follows: raw materials and consumables £30m, other external charges £25m, staff costs £10m, depreciation of tangible fixed assets £1m and decrease in stocks of finished goods and work in progress £24m.

NOTES

5 ASSOCIATES

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

	1994 £m	*1993 £m*
Share of profits before taxation	40	*33*
Share of taxation	(18)	*(13)*
Share of profits after taxation	22	*20*
Dividends received by the group	(15)	*(11)*
Retained by associates	7	*9*

6 EXCEPTIONAL ITEMS

(i) Operating costs

The £272m disclosed in the profit and loss account as exceptional operating costs comprises restructuring costs of £143m in respect of the Drinks sector (£100m for the closure and disposal of production facilities, £31m for the rationalisation of support structures and £12m for process re-engineering and other actions), £55m in respect of the European operations of the Foods sector (£18m for restructuring production facilities, £19m for the rationalisation of support structures and £18m for Häagen-Dazs shops and the closure of field offices), £31m in respect of Burger King to extend the re-engineering programme initiated during 1993 and £43m principally in respect of the writedown of group properties and the consolidation and rationalisation of corporate support structures.

Operating costs in 1993 included £175m of reorganisation costs to restructure the group's overhead and operational base, including plant rationalisation at Green Giant and store closures at Pearle, and a £50m writedown in respect of the group's UK properties, most of which related to the Brick Lane former brewery site in East London.

(ii) Disposal of fixed assets

	Continuing £m	Discontinued £m	1994 Total £m	*Continuing £m*	*Discontinued £m*	*1993 Total £m*
Profits on sale of:						
Property	4	–	4	*2*	*4*	*6*
Other fixed assets	–	–	–	*–*	*9*	*9*
	4	–	4	*2*	*13*	*15*

The profits on disposal of fixed assets were after charging £3m (1993 – £24m) of goodwill previously written off.

(iii) Sale of businesses

	Profit/ (loss) £m	Provision utilised £m	1994 Provision set up £m	*Profit/ (loss) £m*	*Provision utilised £m*	*1993 Provision set up £m*
Continuing operations:						
Food – branded	–	–	–	*(27)*	*40*	*–*
Drinks	(38)	–	–	*–*	*–*	*–*
	(38)	–	–	*(27)*	*40*	*–*
Discontinued operations:						
Pub retailing	2	–	–	*–*	*–*	*–*
Betting and gaming	16	–	–	*(6)*	*–*	*(58)*
Dairy	–	3	–	*(40)*	*40*	*–*
Off-licences	–	1	–	*(3)*	*3*	*–*
Other	–	1	–	*(3)*	*–*	*–*
	18	5	–	*(52)*	*43*	*(58)*

Profits or losses on the sale of businesses include a loss in respect of the US jug wine operations of £37m and a profit relating to The Chef & Brewer Group of £2m, as well as adjustments relating to prior years, including £16m in respect of London Clubs. The net results on sale of businesses were after charging goodwill previously written off attributable to the businesses sold of £29m (1993 – £24m).

(iv) Interest

The 1993 exceptional interest charge represented a provision of £22m against interest income previously credited in relation to the deferred consideration due from The William Hill Group Ltd.

NOTES

7 INTEREST

	£m	1994 £m	£m	1993 £m
On bank loans, overdrafts and other loans repayable wholly within five years		164		196
On finance leases		4		6
On all other loans		70		72
		238		274
Less: Interest receivable from associates	(30)		(34)	
Income from currency swaps (note 19)	(34)		(36)	
Other interest receivable	(51)		(49)	
		(115)		(119)
Interest before exceptional items		123		155
Exceptional interest charge (note 6 iv)		–		22
		123		177

8 TAXATION

	1994 £m	1993 £m
UK corporation tax payable at 33% (1993 – 33%)	338	86
UK deferred taxation	(225)	(2)
Overseas taxation	45	167
Overseas deferred taxation	4	(51)
Taxation on the group's share of profits of associates	18	13
	180	213
Adjustments to prior year taxation charges	17	(4)
	197	209

The UK and US taxation charges were affected by an internal restructuring of the group's borrowings in the United Kingdom and the United States. The credit for deferred taxation relates to an interest credit of £214m (1993 – £nil) reflecting the borrowings restructuring (which is a transfer to corporation tax), accelerated depreciation of £nil (1993 – £27m) and other timing differences of £7m (1993 – £26m) principally in respect of the 1994 exceptional restructuring costs, offset by charges relating to pension prepayments. The tax credit on the exceptional items shown on the face of the profit and loss account amounted to £65m for continuing operations and £7m for discontinued operations (1993 – £59m and £27m respectively).

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

	1994 £m	1993 £m
Profit on ordinary activities before taxation	654	625
Notional charge at UK corporation tax rate 33% (1993 – 33%)	216	206
Differences in effective overseas tax rates	2	1
Exceptional items	24	8
Deferred tax not provided	(1)	(4)
Other items	(44)	(2)
Actual charge for taxation	197	209

9 ORDINARY DIVIDENDS

	1994 £m	1993 £m
Interim of 5.15p per share (1993 – 4.85p)	108	100
Proposed final of 8.8p per share (1993 – 8.15p)	184	169
	292	269

10 EARNINGS PER SHARE

	1994 pence	1993 pence
Earnings per share	21.6	19.9
Adjustment in respect of exceptional items	10.6	9.7
Earnings per share before exceptional items	32.2	29.6

NOTES

10 EARNINGS PER SHARE – continued

Earnings per share is calculated by reference to earnings of £450m (1993 – £410m) and the weighted average number of ordinary shares in issue during the year of 2,080m shares (1993 – 2,063m shares). The dilutive effect of unexercised options and convertible loan stock 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 £669m (1993 – £610m) 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:

	Full time	Part time	1994 Total	*Full time*	*Part time*	*1993 Total*
Continuing operations:						
Food – branded	19,074	1,950	21,024	*20,293*	*2,047*	*22,340*
– retailing	11,554	18,498	30,052	*13,422*	*22,083*	*35,505*
Drinks	11,464	335	11,799	*11,612*	*342*	*11,954*
	42,092	20,783	62,875	*45,327*	*24,472*	*69,799*
Discontinued operations	595	830	1,425	*7,391*	*9,973*	*17,364*
	42,687	21,613	64,300	*52,718*	*34,445*	*87,163*

The aggregate remuneration of all employees comprised:

	1994 £m	*1993 £m*
Wages and salaries	1,047	*1,141*
Employer's social security costs	126	*156*
Employer's pension costs	(31)	*(39)*
Other post employment costs	13	*10*
	1,155	*1,268*

(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 are carried out annually by qualified independent actuaries to determine pension costs. The actuarial method used for these valuations is the projected unit method. For accounting purposes the major assumptions were: rate of return on assets 10% (1993 – 10%); wages and salaries increase 7-7½% (1993 – 7-7½%); future dividend growth for UK equities 5.25% (1993 – 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 £833m (1993 – £737m); US funds £509m (1993 – £544m). The actuarial value of the assets of all the significant plans was sufficient to cover approximately 135% (1993 – 141%) of the benefits that had accrued to members after allowing for expected future increases in wages and salaries.

(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 credit method and is included in provisions. The major assumptions were: liability discount rate 10% (1993 – 10%); assumed medical inflation for beneficiaries aged under 65 – 15% reducing by 1% per year to 7%, and for beneficiaries aged 65 and over – 11% reducing by 0.5% per year to 7%.

(iii) Executive share option schemes

The group operates the following share option schemes for executives: an executive share option scheme (1993 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 of the Board on 10th May 1994 (see Directors' Report page 39); and a share option plan for US executives (USSOP), approved in 1991 and amended as of 1st January 1994. Options issued 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 exercisable 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, ie a 'five year rolling' basis. In order to receive the full recommended grants under these schemes, senior executives are required to build up a personal holding of Grand Metropolitan ordinary shares.

NOTES

11 EMPLOYEES – continued

The 1993 ESOS replaced the executive share option scheme approved by shareholders on 4th March 1982 which expired on 31st December 1992. Options granted under that 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 the 1993 ESOS are allotted under 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 under the USSOP are existing shares sourced through the employee share trusts, as described below.

(iv) Senior executive phantom share option scheme

A share price related bonus scheme, the Senior Executive Phantom Share Option Scheme (SEPSOS), was established in 1988 which allows certain senior employees, including executive directors, to benefit over the period between the sixth and tenth years 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, and payments (which can also be taken in the form of the company's shares) are then spread over the period from exercise to the tenth anniversary of the date of grant. 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.

(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 employees which were approved by shareholders on 5th March 1985, 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 16 hours or more a week. The options may be exercised 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. This scheme needs to be renewed in 1995.

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 schemes have employment and discount criteria devised in accordance with local conditions and practices.

12 DIRECTORS

The Appraisal and Remuneration Committee, whose members are the non-executive directors, set the executive directors' remuneration by reference to individual performance and market data including a major annual survey conducted by an independent consultant on the committee's behalf. Annual bonus payments are based on clearly defined group and business sector profit and cash targets and personal business objectives, all determined at the beginning of the year. The structure of the annual bonus plan and awards under it are decided by the committee which is also responsible for approving grants to directors under the executive share option schemes and SEPSOS, and for the performance criteria which have to be satisfied as a precondition for the exercise of options (see note 11).

(i) Emoluments

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

	1994	1993
	£	£
Executive directors – remuneration including bonuses	3,595,095	3,129,651
– payments under SEPSOS	188,786	–
– pension contributions	38,400	160,300
Fees to non-executive directors	286,872	279,002
	4,109,153	3,568,953

In addition to annual basic salary increases, the increase in the emoluments of the directors reflects the first full year as a director of P E B Cawdron who was appointed to the Board on 24th September 1993 and the promotion of G J Bull to Group Chief Executive. Also during the year payments were made for the first time under SEPSOS (see note 11 and below).

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NOTES

12 DIRECTORS – continued

The emoluments, including pension contributions, of Lord Sheppard, the Chairman, were £928,958 (1993 – £820,634). This includes a payment of £95,056 under a SEPSOS grant made in December 1988.

The following table shows a breakdown of the remuneration, including bonuses, of the individual executive directors at 30th September 1994:

	Basic salary		Performance related bonus		Taxable benefits		Totals	
	1994	*1993*	1994	*1993*	1994	*1993*	1994	*1993*
	£	£	£	£	£	£	£	£
Lord Sheppard	810,000	*750,000*	–	–	23,902	*21,884*	833,902	*771,884*
G J Bull	400,000	*340,000*	105,600	*61,200*	19,909	*11,051*	525,509	*412,251*
P E B Cawdron	250,000	*1,559*	69,333	*233*	22,545	*124*	341,878	*1,916*
G M N Corbett	118,590	–	58,000	–	9,689	–	186,279	–
J B McGrath	325,000	*290,000*	80,600	*52,200*	19,469	*16,674*	425,069	*358,874*
D P Nash	325,000	*310,000*	109,200	*55,800*	36,250	*29,510*	470,450	*395,310*
D E Tagg	310,000	*290,000*	95,893	*72,500*	15,510	*17,126*	421,403	*379,626*

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

(b) Taxable benefits include such items as company cars, fuel, financial counselling, medical insurance and life insurance premiums.

(c) The figures for P E B Cawdron for 1993 and for G M N Corbett for 1994 relate to part years.

At 1st October 1994, the average salary increase for the executive directors was 2.7 per cent, excluding the Chairman and G M N Corbett. The Chairman's salary was increased by the Appraisal and Remuneration Committee from 1st April 1994 to an effective level of £840,000 for calendar year 1994. This was done in order that the Chairman's pension was not prejudiced by his decision not to take a salary increase since October 1991. With effect from 1st January 1995, his salary will revert to £750,000 per annum, which is the level that was set in October 1991. This level of salary is expected to continue through to 29th February 1996, when Lord Sheppard is due to retire from the company. G M N Corbett received a 10 per cent increase in salary to £275,000 per annum, with effect from 1st October 1994, as was agreed when he joined the company.

G M N Corbett was appointed a director on 11th April 1994 and the figures shown in the table above are for the period since his appointment. Other emoluments paid in the year, not included in the table above, were final payments of £118,000 to G M N Corbett and £104,446 (1993 – £115,314) to D P Nash, under contractual arrangements which were entered into when they each joined the company to buy out deferred remuneration from previous employments, and premiums totalling £2,742 (1993 – £2,137) in respect of accidental death cover for the same two directors. I A Martin's remuneration of £165,417 up to 5th February 1994, when he ceased to be a director, is included under the heading 'Executive Directors – remuneration including bonuses'; he also received a SEPSOS payment of £39,866. His service agreement under which he provides services to the Chairman and the Board continues.

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 amount paid in the year was £38,400 (1993 – £22,500). 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 above for G M N Corbett and D P Nash include life insurance premiums of £15,921 (1993 – £11,437) in respect of cover which cannot be provided through the Directors' Pension Plan because of the earnings cap.

The following table shows the number of directors whose emoluments, including SEPSOS payments but excluding pension contributions, fell into the ranges below.

	1994	*1993*		1994	*1993*
£ 0–£ 5,000	–	*1*	£375,001–£380,000	–	*1*
£ 25,001–£ 30,000	1	*1*	£410,001–£415,000	–	*1*
£ 35,001–£ 40,000	1	*1*	£425,001–£430,000	1	–
£ 50,001–£ 55,000	1	*1*	£450,001–£455,000	1	–
£ 60,001–£ 65,000	1	*1*	£510,001–£515,000	–	*1*
£ 95,001–£100,000	–	*1*	£525,001–£530,000	1	–
£100,001–£105,000	1	–	£575,001–£580,000	1	–
£205,001–£210,000	1	–	£690,001–£695,000	–	*1*
£300,001–£305,000	1	–	£770,001–£775,000	–	*1*
£355,001–£360,000	–	*1*	£925,001–£930,000	1	–
£360,001–£365,000	1	–			

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NOTES

12 DIRECTORS – continued

The following table shows for the directors at 30th September 1994 the number of options held under SEPSOS (see note 11 for details concerning exercise and payment) which were granted between 1988 and 1994 at prices between 223p and 480p:

	1993	Number granted	Number exercised	*Exercised in year* *Date exercised*	*Option price pence*	*Market price pence*	1994	*Weighted average of option price pence*	*Payment received £*
Lord Sheppard	1,032,723	157,895	(202,246)	14.12.93	223	458	988,372	400	95,056
G J Bull	404,872	126,316	–	–	–	–	531,188	385	–
P E B Cawdron	253,043	52,632	(44,942)	14.12.93	223	458	260,733	403	21,123
G M N Corbett	–	–	–	–	–	–	–	–	–
J B McGrath	265,826	102,632	–	–	–	–	368,458	385	–
D P Nash	402,142	136,842	–	–	–	–	538,984	390	–
D E Tagg	352,816	97,895	(69,662)	14.12.93	223	458	381,049	411	32,741

(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 granted this year were on 4th January 1994 at an option price of 475p.

(b) The mid-market price of the shares at 30th September 1994 was 408p (1993 – 419p). The highest mid-market price during the year was 494p and the lowest mid-market price was 376p.

(c) No options lapsed during the year.

(ii) Share interests

The interests of the directors at 30th September 1994 in the share capital of the company were:

Ordinary shares:

	1994 Beneficial	1994 Non-beneficial	*1993 Beneficial*	*1993 Non-beneficial*
Executive directors				
Lord Sheppard	216,069	–	278,325	2,057
G J Bull	45,811	471,162	45,000	484,692
P E B Cawdron	8,227	–	271	–
G M N Corbett	–	–	–	–
J B McGrath	10,948	–	10,625	–
D P Nash	15,172	–	13,975	–
D E Tagg	21,574	–	33,150	–
Non-executive directors				
Sir John Harvey-Jones	–	–	–	–
R V Giordano	2,036	–	2,000	–
Prof Dr G Höhler	–	–	–	–
Sir Colin Marshall	2,000	–	2,000	–
D A G Simon	2,120	–	2,057	–

12 DIRECTORS – continued

Executive and savings related options:

	1993	Number granted	Number exercised	*Date exercised*	Exercised in year *Option price pence*	*Market price pence*	1994	*Weighted average option price pence*
Lord Sheppard	809,909	195,973(b)	(155,556)	*30.12.93*	*319*	*474*	339,318	*378*
		268,542(c)	(45,590)	*30.12.93*	*334*	*474*	650,996(d)	*441*
			(82,964)	*5.1.94*	*338*	*471*		
G J Bull	485,967	12,760(a)	–	–	–	–	337,270	*336*
		207,673(c)					369,130(d)	*433*
P E B Cawdron	238,166	20,273(a)	(10,000)	*9.12.93*	*334*	*449*	54,107	*376*
		51,784(b)	(56,880)	*21.12.93*	*334*	*466*	281,112(d)	*440*
		129,795(c)	(35,062)	*11.1.94*	*338*	*489*		
			(2,857)	*30.9.94*	*252*	*408*		
G M N Corbett	–	129,795(c)	–	–	–	–	129,795(d)	*423*
J B McGrath	380,610	50,239(a)	–	–	–	–	219,360	*330*
		168,734(c)					380,223(d)	*432*
D P Nash	199,096	206,093(a)	(151,822)	*4.1.94*	*338*	*475*	16,752	*366*
		92,438(b)					497,787(d)	*432*
		168,734(c)						
D E Tagg	272,386	97,405(a)	(78,446)	*14.12.93*	*334*	*445*	48,639	*371*
		51,289(b)					454,941(d)	*438*
		160,946(c)						

The options granted this year were as follows: (a) 1st October 1993 at 418p; (b) 6th January 1994 at 474p; and (c) 21st July 1994 at 423p. (d) denotes options for which the exercise price is higher than the mid-market price at 30th September 1994 of 408p.

Executive options by date of grant:

Date of grant	*Option price pence*	1993	Number granted	Number exercised	1994
20th December 1988	*215*	28,306	–	–	28,306
3rd January 1990	*319*	332,810	–	(155,556)	177,254
15th June 1990	*334*	284,722	–	(190,916)	93,806
2nd January 1991	*338*	380,626	–	(269,848)	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
Total		2,349,239	2,012,473	(616,320)	3,745,392

(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%. There were no savings related options granted to the executive directors during the year; P E B Cawdron exercised an option over 2,857 shares.

(b) The mid-market price of the shares at 30th September 1994 was 408p (1993 – 419p). The highest mid-market price during the year was 494p and the lowest mid-market price was 376p.

(c) No options lapsed during the year.

(d) 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 in note 11.

(e) The executive options granted in the year cover two years of grants. The principal reason was that the June 1993 grant was delayed until October 1993 because, under the company's Insider Trading Code, the planned sale of The Chef & Brewer Group prevented the directors from being granted options.

NOTES

12 DIRECTORS – continued

The executive directors are potential beneficiaries in respect of 6,695,257 shares bought by Barclays Bank PLC pursuant to an agreement with Hill Street Trustees Limited as trustees of the No. 2 Employee Share Trust (see note 11). All the corresponding share options are included in the tables above.

On 1st November 1994 each of the interests of the directors was unchanged from 30th September 1994, except for the following acquisitions of ordinary shares in respect of the share dividend alternative: Lord Sheppard – 2,536, G J Bull – 538, P E B Cawdron – 63, J B McGrath – 129, D P Nash – 178, R V Giordano – 23, Sir Colin Marshall – 23 and D A G Simon – 25.

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 subsidiary or any associate.

13 FIXED ASSETS – INTANGIBLE ASSETS

	Brands £m
Cost	
At 30th September 1993	2,924
Exchange adjustments	(142)
At 30th September 1994	2,782

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 any 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 and Burger King.

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 1993	2,068	1,138	324	137	3,667
Accounting policy change (note 1)	42	2	–	–	44
As restated	2,110	1,140	324	137	3,711
Exchange adjustments	(50)	(34)	–	(5)	(89)
Additions	47	69	16	61	193
New subsidiaries	1	17	1	2	21
Disposals	(723)	(156)	(231)	(7)	(1,117)
Transfers	36	46	10	(92)	–
At 30th September 1994	1,421	1,082	120	96	2,719
Depreciation					
At 30th September 1993	318	510	158	–	986
Accounting policy change (note 1)	6	1	–	–	7
As restated	324	511	158	–	993
Exchange adjustments	(10)	(17)	–	–	(27)
Provided during the year	62	123	20	–	205
Exceptional writedown	21	15	3	–	39
Disposals	(39)	(122)	(125)	–	(286)
At 30th September 1994	358	510	56	–	924
Net book value					
At 30th September 1994	1,063	572	64	96	1,795
At 30th September 1993	*1,786*	*629*	*166*	*137*	*2,718*

NOTES

14 FIXED ASSETS – TANGIBLE ASSETS (continued)

(a) The net book value of land and buildings comprises freeholds of £900m (1993 – £1,466m), long leaseholds of £30m (1993 – £80m) and short leaseholds of £133m (1993 – £240m). Depreciation was not charged on £258m of land (1993 – £793m of land and public houses). The cost of land and buildings includes £7m (1993 – £12m) in respect of capitalised interest. No interest has been capitalised in the year.

(b) Included in the total net book value of tangible assets is £38m (1993 – £40m) in respect of assets acquired under finance leases, depreciation for the year on these assets was £5m (1993 – £8m), and £34m (1993 – £37m) in respect of sale and leaseback arrangements which are treated as assets of the group. Cost included £158m (1993 – £138m) in respect of assets held for the purpose of leasing out under operating leases; accumulated depreciation on these assets was £23m (1993 – £21m) and depreciation for the year was £3m (1993 – £5m).

(c) The total at cost or valuation for land and buildings comprises £328m (1993 – £846m) at 1988 professional valuation and £1,093m (1993 – £1,264m) 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, ie the original cost to the group of all land and buildings, was £1,251m (1993 – £1,527m) and the related accumulated depreciation was £284m (1993 – £250m).

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 1993	113	148	65	428	754
Accounting policy change (note 1)	–	–	103	–	103
As restated	113	148	168	428	857
Exchange adjustments	–	(1)	–	(3)	(4)
Additions	–	31	143	103	277
Share of retained (losses)/profits	(3)	7	–	–	4
Deficit on revaluation	(10)	–	–	–	(10)
Disposals	–	–	(76)	(12)	(88)
At 30th September 1994	100	185	235	516	1,036
Less: Provisions					
At 30th September 1993	–	1	12	24	37
Increase in year	–	–	–	1	1
At 30th September 1994	–	1	12	25	38
Net book value					
At 30th September 1994	100	184	223	491	998
At 30th September 1993	*113*	*147*	*156*	*404*	*820*

Investment in IEL and other associates of £284m (1993 – £260m) comprises cost of shares, less goodwill written off on acquisition, of £491m (1993 – £461m) less the group's share of post-acquisition reserves deficit of £207m (1993 – £201m). Loans include £445m (1993 – £360m) due from IEL of which £71m (1993 – £71m) is accrued interest.

Other investments include £172m (1993 – £103m) in respect of 41,944,923 (1993 – 28,006,068) ordinary shares of 25p each in Grand Metropolitan Public Limited Company with an aggregate nominal value of £10m (1993 – £7m). During the year there were additions of £95m and disposals of £26m. The shares are held by independent third parties for the sole purpose of satisfying obligations under employee share option schemes operated by the group (see note 11 v).

The net book value of listed investments was as follows:	1994 £m	*1993 £m*
Listed on UK stock exchanges	196	*127*
Listed on other stock exchanges	–	*1*
	196	*128*
Market value of listed investments	195	*143*

NOTES

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 1994 based on the audited accounts of IEL and its subsidiaries are as follows:

(i) Profit and loss account

	1994 £m	*1993 £m*
Rental and other operating income	190	*216*
Costs and sundry income	(59)	*(65)*
Exceptional costs	(16)	*–*
Operating profit	115	*151*
Profit on sale of property	4	*4*
Interest	(125)	*(173)*
Loss before taxation and property revaluation (note a)	(6)	*(18)*
Attributable to the group (note b)	(3)	*(9)*
Taxation attributable to the group	–	*–*

(ii) Balance sheet

	1994 £m	*1993 £m*
Investment properties (see note a)	1,641	*1,769*
Net current assets/(liabilities)	2	*(9)*
	1,643	*1,760*
Loans from shareholders – interest bearing	(360)	*(360)*
– interest free	(169)	*–*
Bank loans – one to two years (note c)	(915)	*(1,175)*
Net assets	199	*225*
Group share of net assets	100	*113*

(iii) Notes

(a) IEL's investment properties are stated at directors' valuation as at 30th September 1994 which is supported by an external valuation of properties by professional valuers. The valuation was made on an open market existing use basis and included an amount in respect of the additional value attainable should the portfolio be offered for sale in discrete packages. The writedown of investment properties resulting from this revaluation amounted to £20m. The group's 50% share of this deficit, amounting to £10m, has been deducted from the group revaluation reserve relating to earlier revaluations prior to the transfer of the pubs to IEL.

(b) The attributable loss in 1994 is after charging £16m of exceptional costs in respect of restructuring associated with refinancing IEL. The group's £8m share of these costs is shown in the exceptional items column in the profit and loss account.

(c) The group and Foster's Brewing Group Ltd, the ultimate parent of Courage, have several and equal obligations to ensure that the effective rate of interest borne on IEL's secured loans does not exceed certain levels. They also have severally and equally guaranteed IEL's obligations under interest rate swap agreements taken out to ensure IEL's compliance with its financial covenants; the estimated contingent liability to the group under these guarantees at 30th September 1994 was £9m *(1993 – £28m)*. IEL is obliged under its financing arrangements to maintain certain specified loan to asset ratios. IEL's bank loans are secured on its investment properties.

(d) Since the year end, IEL announced refinancing arrangements that will result in the repayment to the group of the £360m interest bearing loan, the conversion of the interest free loans into equity, and the injection by the group and Courage of £28m each of new equity capital.

17 STOCKS

	1994 £m	*1993 £m*
Raw materials and consumables	181	*199*
Work in progress	424	*495*
Finished goods and goods for resale	630	*647*
	1,235	*1,341*

NOTES

18 DEBTORS

	1994 £m	*1993 £m*
Trade debtors	918	*972*
Amounts owed by associates	13	*14*
Amounts receivable under finance leases	122	*122*
Other debtors	322	*334*
Pension prepayments	301	*255*
Other prepayments and accrued income	161	*177*
Deferred taxation (note 23)	93	*67*
ACT recoverable	53	*–*
	1,983	*1,941*

Debtors include £587m (1993 – £595m) which is recoverable after more than one year. This comprises pension prepayments of £301m (1993 – £255m), amounts receivable under finance leases of £118m (1993 – £118m), other debtors of £103m (1993 – £155m), deferred taxation of £37m (1993 – £67m) and ACT recoverable of £28m (1993 – £nil).

19 BORROWINGS

	1994 Bank loans and overdrafts £m	1994 Other loans £m	1994 Total £m	*1993 Bank loans and overdrafts £m*	*1993 Other loans £m*	*1993 Total £m*
Analysis by year of repayment						
After five years – by instalment	32	23	55	*68*	*7*	*75*
– other	–	1,056	1,056	*–*	*982*	*982*
From two to five years	156	667	823	*187*	*221*	*408*
From one to two years	82	275	357	*97*	*6*	*103*
Due after more than one year	270	2,021	2,291	*352*	*1,216*	*1,568*
Due within one year	225	629	854	*287*	*1,519*	*1,806*
	495	2,650	3,145	*639*	*2,735*	*3,374*
Cash at bank and in hand			(986)			*(349)*
Net borrowings			2,159			*3,025*
Amounts repayable by instalment part of which fall due after five years	84	41	125	*99*	*9*	*108*

		Year end interest rates %	1994 £m	*1993 £m*
Other loans include:				
Commercial paper	US dollar	4.72-5.17	611	*1,269*
Guaranteed notes 1996	US dollar	8.125	186	*199*
Guaranteed notes 1999	US dollar	6.5	188	*199*
Guaranteed notes 1999	US dollar	7.0	376	*–*
Guaranteed notes 2001	US dollar	8.625	188	*198*
Zero coupon bonds 2004	US dollar	8.13	358	*–*
Guaranteed notes 2004	US dollar	7.125	127	*132*
Guaranteed debentures 2011	US dollar	9.0	187	*197*
Guaranteed debentures 2022	US dollar	8.0	188	*197*
Bills of exchange	Sterling	–	–	*214*
Debenture stock 2008	Sterling	–	–	*50*
Medium term notes	US dollar	Various	144	*–*
Others	Various	Various	95	*80*
			2,650	*2,735*

NOTES

19 BORROWINGS – continued

The group raised approximately £900m in the year through the issue of long term bonds and notes. These increased the long term funding maturity of the borrowings and reduced the dependence on commercial paper and bank facilities. The proceeds are being used for general corporate purposes, including, but not limited to, the repayment of short term borrowings.

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. Currency swaps are taken into account in the analysis above when translating the group's borrowings into sterling. The difference in interest arising from these swaps of £34m (1993 – £36m) is included in interest income in the profit and loss account.

£265m (1993 – £275m) of borrowings due after more than one year and £9m (1993 – £8m) of borrowings due within one year were secured on assets of the group.

The group had unused committed bank facilities at 30th September 1994 of approximately £1,350m (1993 – £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.

The group generally maintains a high percentage of fixed rate borrowings through the issue of long term fixed rate bonds and the use of interest rate swaps. At 30th September 1994, the group had net fixed rate borrowings of approximately £1,300m, including the impact of interest rate swaps, at effective interest rates ranging from 5.6% to 9.2% and with a weighted average term of 10 years. The interest rates shown in the tables above are those contracted on the underlying borrowings before taking into account any interest rate protection.

20 OTHER CREDITORS – due within one year

	1994 £m	*1993 £m*
Trade creditors	678	*677*
Bills of exchange payable	10	*8*
Amounts owed to associates	15	*17*
Corporate taxation	498	*402*
Other taxation including social security	117	*126*
Net obligations under finance leases	6	*8*
Other creditors	252	*224*
Ordinary dividends payable	292	*269*
Accruals and deferred income	513	*511*
	2,381	*2,242*

21 OTHER CREDITORS – due after more than one year

	1994 £m	*1993 £m*
Gross obligations under finance leases due:		
After five years	24	*29*
From one to five years	27	*34*
	51	*63*
Less: Future finance charges	(20)	*(23)*
	31	*40*
Corporate taxation	10	*4*
Other creditors	41	*123*
	82	*167*

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22 PROVISIONS FOR LIABILITIES AND CHARGES

	Post employment provisions £m	Acquisition and restructuring provisions £m	Disposal provisions £m	Deferred taxation £m	Other £m	Total £m
At 30th September 1993	139	141	110	109	95	594
Accounting policy change (note 1)	–	–	–	–	3	3
As restated	139	141	110	109	98	597
Exchange adjustments	(7)	(4)	–	1	(4)	(14)
Acquisition of subsidiaries:						
Balance sheets at acquisition	3	–	–	(4)	–	(1)
Acquisition provisions	–	54	–	(18)	–	36
Disposal of subsidiaries	–	–	(66)	12	–	(54)
Transfers from/(to) profit and loss account	16	249	16	(221)	20	80
Utilised:						
Credited to result on sale of businesses	–	–	(5)	–	–	(5)
Other utilisations	(9)	(133)	(27)	–	(18)	(187)
Movement in ACT recoverable	–	–	–	106	–	106
Movement in deferred tax asset	–	–	–	26	–	26
At 30th September 1994	142	307	28	11	96	584

Provisions at 30th September 1994 comprise:

(a) Post employment provisions of £142m, comprising £129m (1993 – £128m) post employment benefits in respect of US medical costs and £13m (1993 – £11m) in respect of unfunded pension liabilities.

(b) Acquisition and restructuring provisions of £307m, comprising £48m (1993 – £23m) for the integration and reorganisation costs arising on the restructuring of acquired businesses and £259m (1993 – £118m) in respect of the exceptional restructuring costs.

(c) Disposal provisions of £28m arising from commitments in respect of businesses sold or terminated prior to the year end, which includes £11m relating to former Food businesses and £15m relating to former retailing businesses.

(d) Deferred tax of £11m (see note 23).

(e) Other provisions of £96m, including amounts for potential employee compensation claims.

23 DEFERRED TAXATION

	1994 £m	*1993 £m*
Accelerated depreciation	90	*87*
Pension prepayments	93	*80*
Restructuring costs	(61)	*(62)*
Other timing differences	(187)	*60*
ACT recoverable	(17)	*(123)*
Net (asset)/liability	(82)	*42*
US and other overseas deferred tax assets (note 18)	93	*67*
UK deferred tax liability (note 22)	11	*109*

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 £60m (1993 – £114m). Other deferred taxation not provided, principally in respect of accelerated depreciation, amounted to £40m (1993 – £53m). 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.

NOTES

24 CALLED UP SHARE CAPITAL

The authorised share capital of the company was £660m (1993 – £660m).

During the year 6,315,319 ordinary shares (aggregate nominal value £1m) were allotted under the share option schemes for an aggregate consideration of £21m (1993 – 8,072,154 shares, nominal value £2m, consideration £25m).

4,257,055 ordinary shares (aggregate nominal value £1m) were allotted during the year as a capitalisation of share premium to shareholders who opted for shares instead of cash for dividends for a notional consideration of £20m (1993 – 2,338,252 shares, nominal value £1m, notional consideration £10m).

During the year 4,335,313 ordinary shares (aggregate nominal value £1m) were issued to holders of 9% unsecured convertible loan notes who exercised their conversion rights; the aggregate consideration was £10m (1993 – 3,199,998 shares, nominal value £1m, consideration £8m).

The allotted and fully paid share capital at 30th September 1994 was as follows:

	Shares	1994 £m	*Shares*	*1993 £m*
Equity share capital				
Ordinary shares of 25p each	2,084,475,455	521	*2,069,567,768*	*518*
Non-equity share capital				
Cumulative £1 preference shares:				
4¼% (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*
		533		*530*

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

(a) Under the share option schemes for executives (see note 11), directors and executives hold options to subscribe for up to 28,481,709 (1993 – 29,002,504) ordinary shares at prices ranging between 215p and 474p per share exercisable by 2004.

(b) Under the savings-related share option schemes for employees (see note 11), employees hold options to subscribe for up to 8,880,522 (1993 – 9,439,499) ordinary shares at prices between 223p and 408p per share exercisable by 2002.

(c) 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 up to 1998. These conversion rights could give rise to the issue of up to 464,686 (1993 – 4,800,000) ordinary shares.

(d) Options granted in connection with a joint venture acquisition entitle holders to subscribe for up to 1,890,640 ordinary shares at a price of IR£3.30 per share exercisable between April 1995 and April 1996.

25 RESERVES ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	Share premium £m	Revaluation £m	Goodwill £m	Profit and loss £m	Total £m
At 30th September 1993	628	578	(2,652)	4,631	3,185
Accounting policy changes (note 1)	–	–	–	(41)	(41)
As restated	628	578	(2,652)	4,590	3,144
Retained profit for year	–	–	–	158	158
Exchange adjustments	–	(4)	128	(171)	(47)
Premiums on share issues, less expenses	48	–	–	–	48
Share dividend transfer	(20)	–	–	20	–
Goodwill written off during the year	–	–	(320)	–	(320)
Transfer of goodwill on disposal	–	–	34	–	34
Deficit on revaluation of properties in associate	–	(10)	–	–	(10)
Realisation of revaluation reserves	–	(430)	–	430	–
At 30th September 1994	656	134	(2,810)	5,027	3,007

NOTES

25 RESERVES ATTRIBUTABLE TO EQUITY SHAREHOLDERS – continued

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 £3,298m (1993 – £3,140m).

Of the £320m goodwill written off during the year, £194m arose on the acquisition of Food – branded businesses, including £119m on Martha White, and £123m arose on the acquisition of Drinks businesses, including £66m on Glen Ellen.

Included in the revaluation reserve is £38m (1993 – £68m) representing the unrealised reserve on the transfer of the tenanted pub estate to Inntrepreneur Estates Ltd. £10m of the reduction in the year arose from the deficit on revaluation of investment properties in IEL (see note 16).

The exchange adjustments include losses of £116m in respect of local currency borrowings by overseas companies and £53m in respect of other currency borrowings.

26 CONTINGENT LIABILITIES

The group has given performance guarantees and indemnities to third parties of £71m (1993 – £94m). 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 operation 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.

27 COMMITMENTS

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

	1994 £m	*1993 £m*
Committed	28	*176*
Authorised but not committed	48	*104*

(b) At 30th September 1994 the group had minimum annual commitments under non-cancellable operating leases as follows:

	Land and buildings £m	Other £m	1994 Total £m	*Land and buildings £m*	*Other £m*	*1993 Total £m*
Operating leases which expire:						
After five years	68	2	70	*103*	*2*	*105*
From one to five years	40	9	49	*40*	*13*	*53*
Within one year	6	3	9	*8*	*3*	*11*
	114	14	128	*151*	*18*	*169*

28 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1994 £m	*1993 £m*
Operating profit	751	*817*
Exceptional operating costs	272	*225*
Cash payments in respect of restructuring costs	(67)	-
Depreciation charge	205	*224*
Other items	12	*65*
Decrease in stocks	34	*86*
Increase in debtors	(40)	*(34)*
Increase/(decrease) in creditors and provisions	28	*(45)*
Net cash inflow from operating activities	1,195	*1,338*

NOTES

29 PURCHASE OF SUBSIDIARIES

	Balance sheets at acquisition £m	Acquisition provisions £m	1994 Fair value balance sheets £m	*1993 Fair value balance sheets £m*
Fixed assets	21	–	21	*29*
Working capital	54	–	54	*(6)*
Provisions	1	(36)	(35)	*(18)*
Net borrowings	–	–	–	*(2)*
Shareholders' funds	76	(36)	40	*3*
Goodwill			278	*125*
Purchase consideration			318	*128*
Adjustment for deferred consideration			(5)	*–*
Cash and cash equivalents acquired			–	*2*
Purchase consideration paid			313	*130*

Acquisitions during the year include Martha White, Roush Products and Rudi Foods in Food and Glen Ellen in Drinks.

Provisions of £36m (net of deferred tax of £18m), have been established to cover integration and reorganisation costs arising on the restructuring of the acquired businesses.

30 SALE OF SUBSIDIARIES

	Balance sheets on disposal 1994 £m	*1993 £m*
Fixed assets	767	*56*
Working capital and provisions	4	*95*
Net borrowings	(63)	*–*
Utilisation of provisions relating to businesses sold	–	*(43)*
Goodwill	29	*–*
Loss on sale	(20)	*(2)*
Sale consideration	717	*106*
Adjustment for deferred consideration	(10)	*3*
Cash and cash equivalents	(3)	*–*
Sale consideration received	704	*109*

Cash received in respect of disposals during the year is principally in respect of the sale of The Chef & Brewer Group.

31 ANALYSIS OF CHANGES IN FINANCING

	£m	1994 £m	*£m*	*1993 £m*
At 30th September 1993		4,488		*3,948*
Net cash inflow/(outflow) from financing	47		*(186)*	
Borrowings of subsidiary sold	(66)		*–*	
Finance leases sold	(1)		*–*	
New finance leases	–		*6*	
Exchange adjustments	(195)		*720*	
		(215)		*540*
At 30th September 1994		4,273		*4,488*

Financing comprises share capital, share premium, the merger reserve and borrowings due after more than one year, together with finance lease obligations of £37m (1993 – £48m) and borrowings due within one year with an original maturity of more than 90 days of £694m (1993 – £1,652m).

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

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32 ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

		1994		1993
	£m	£m	£m	£m
At 30th September 1993		187		98
Increase in cash and cash equivalents	656		61	
Exchange adjustments	(27)		28	
		629		89
At 30th September 1994		816		187

Cash and cash equivalents comprise cash at bank and in hand, less bills of exchange of £10m (1993 – £8m) and borrowings due within one year with an original maturity of less than 90 days (including borrowings repayable on demand) of £160m (1993 – £154m).

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COMPANY BALANCE SHEET

at 30th September 1994

	Notes	£m	1994 £m	*£m*	*1993 £m*
Fixed assets					
Tangible assets	34		5		*7*
Investments	35		1,696		*1,505*
			1,701		*1,512*
Current assets					
Debtors	36	2,632		*2,697*	
Cash at bank		3		*2*	
		2,635		*2,699*	
Creditors – due within one year					
Debenture loan		(6)		*(17)*	
Other creditors	37	(1,281)		*(1,083)*	
		(1,287)		*(1,100)*	
Net current assets			1,348		*1,599*
Total assets less current liabilities			3,049		*3,111*
Borrowings – due after more than one year	38		(176)		*(109)*
Provisions for liabilities and charges	39		(37)		*(7)*
			2,836		*2,995*
Capital and reserves					
Equity share capital		521		*518*	
Non-equity share capital		12		*12*	
Called up share capital	24		533		*530*
Share premium account		656		*628*	
Other reserves		488		*488*	
Profit and loss account		1,159		*1,349*	
Reserves attributable to equity shareholders	40		2,303		*2,465*
			2,836		*2,995*

The financial statements on pages 40 to 67 were approved by a duly appointed and authorised committee of the Board of Directors on 1st December 1994 and were signed on its behalf by:

Lord Sheppard, *Director*
G M N Corbett, *Director*

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33 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.

34 FIXED ASSETS – TANGIBLE ASSETS

	Fixtures and fittings £m	Plant and machinery £m	Total £m
Cost			
At 30th September 1993	10	7	17
Additions	1	–	1
Disposals	(1)	(7)	(8)
At 30th September 1994	10	–	10
Depreciation			
At 30th September 1993	4	6	10
Provided during the year	2	–	2
Disposals	(1)	(6)	(7)
At 30th September 1994	5	–	5
Net book value			
At 30th September 1994	5	–	5
At 30th September 1993	*6*	*1*	*7*

35 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 1993	142	–	1,008	360	1,510
Accounting policy change (note 1)	–	103	–	–	103
As restated	142	103	1,008	360	1,613
Additions	–	95	75	85	255
Disposals	–	(26)	(38)	–	(64)
At 30th September 1994	142	172	1,045	445	1,804
Less: Provisions					
At 30th September 1993 and 1994	–	–	108	–	108
Net book value					
At 30th September 1994	142	172	937	445	1,696
At 30th September 1993	*142*	*103*	*900*	*360*	*1,505*

Details of the principal group companies are given on pages 68 and 69.

36 DEBTORS

	1994 £m	*1993 £m*
Amounts owed by subsidiaries	2,505	*2,537*
Other debtors	25	*12*
Pension prepayment	8	*8*
Other prepayments and accrued income	–	*1*
Deferred taxation	24	*16*
ACT recoverable	70	*123*
	2,632	*2,697*

Debtors include £69m (1993 – £131m) which is recoverable after more than one year. This comprises other debtors of £16m (1993 – £nil), a pension prepayment of £8m (1993 – £8m) and ACT recoverable of £45m (1993 – £123m).

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37 OTHER CREDITORS – due within one year

	1994 £m	1993 £m
Amounts owed to subsidiaries	890	711
Corporate taxation	70	66
Other creditors	18	27
Ordinary dividends payable	292	269
Accruals and deferred income	11	10
	1,281	1,083

38 BORROWINGS – due after more than one year

	1994 £m	1993 £m
Analysis by year of repayment		
From two to five years	123	109
From one to two years	53	–
	176	109

The above borrowings relate to the employee share trusts (see note 11 v) and are secured on assets of the company.

39 PROVISIONS FOR LIABILITIES AND CHARGES

	Disposal and restructuring provisions £m	Other £m	Total £m
At 30th September 1993	–	7	7
Transfers from profit and loss account	34	(2)	32
Utilised	(2)	–	(2)
At 30th September 1994	32	5	37

40 RESERVES ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	Share premium £m	Other £m	Profit and loss £m	Total £m
At 30th September 1993	628	488	1,380	2,496
Accounting policy changes (note 1)	–	–	(31)	(31)
As restated	628	488	1,349	2,465
Retained loss for year	–	–	(210)	(210)
Premiums on share issues, less expenses	48	–	–	48
Share dividend transfer	(20)	–	20	–
At 30th September 1994	656	488	1,159	2,303

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.

41 CONTINGENT LIABILITIES

The company has guaranteed certain borrowings, liabilities and commitments of subsidiaries which at 30th September 1994 amounted to £2,640m, £69m and £63m respectively (1993 – £2,477m, £76m and £74m 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 is in dispute with The William Hill Group Ltd (see note 26).

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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 – branded				
Brossard France, SA	France	France	100%	Manufacture and marketing of ambient and frozen bakery products.
Gigante Verde, SA	Spain	Spain	100%	Manufacture and marketing of fresh and shelf-stable vegetables.
The Häagen-Dazs Company, Inc†	USA	USA, Japan, Canada, Europe	100%	Manufacture, marketing and distribution of superpremium ice cream, frozen yogurts and frozen desserts.
The Pillsbury Company†	USA	USA	100%	Manufacture, marketing and distribution of ready-to-bake dough products, frozen pizza, dessert mix products, and frozen and canned vegetables.
Pillsbury Bakeries & Foodservice, Inc†	USA	USA	100%	Manufacture and marketing of baking mixes and frozen unbaked and pre-baked products.
Pillsbury Canada Limited	Canada	Canada	100%	Manufacture, marketing and distribution of vegetables, dough and pizza snacks.
Pillsbury GmbH†	Germany	Germany	100%	Manufacture and marketing of ready meals, canned soups, frozen gateaux and savoury products.
ALPO Petfoods, Inc	USA	USA	100%	Manufacture and marketing of dog food, cat food and dog treats.
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 wines and spirits.
R & A Bailey & Company	Ireland	Ireland – exporting worldwide	100%	Production, distribution, marketing and exporting of cream liqueur.
Buton SpA	Italy	Italy	100%	Production, distribution and marketing of wines and spirits.
Carillon Importers Ltd	USA	USA	100%	Importing, distribution and marketing of wines, spirits and other adult beverages.
Francesco Cinzano & CIA SpA†	Italy	Worldwide	100%	Production, distribution and marketing of vermouth; local distribution of wines and spirits.

PRINCIPAL GROUP COMPANIES

Drinks – continued	Country of incorporation	Country of operation	Percentage of equity owned	Business description
Croft & Companhia Lda	Portugal	Portugal – exporting worldwide	100%	Production, distribution, marketing and exporting of port wine.
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 wines and spirits.
W&A Gilbey (SA)(Pty) Ltd	South Africa	South Africa	51%	Production, distribution, marketing and retailing of wines and spirits.
Heublein Inc†	USA	Worldwide	100%	Production, importing and marketing of wines and spirits.
Heublein do Brazil Comercial e Industrial Limitada	Brazil	Brazil	70%	Production, distribution and marketing of wines and spirits.
International Distillers and Vintners Ltd†	England	Worldwide	100%*	Production, distribution, marketing, exporting and importing of wines, spirits and other adult beverages.
The Paddington Corporation	USA	USA	100%	Importing, distribution and marketing of wines and spirits.
The Pierre Smirnoff Company Limited	England	Worldwide	100%	Production, distribution, marketing and exporting of spirits.
Justerini & Brooks Limited	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.
Sovedi France SA	France	France	100%	Importing, distribution and marketing of wines and spirits.
Weltmarken Import Spirituosen und Weine GmbH	Germany	Germany	100%	Importing, distribution and marketing of wines and spirits.
Corporate				
Grand Metropolitan Estates Limited†	England	UK	100%*	Management of property.
Grand Metropolitan Finance PLC	England	UK	100%*	Financing company for the group.
Grand Metropolitan Incorporated	USA	Worldwide	100%	Investment holding company.
Inntrepreneur Estates Limited	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.

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INFORMATION FOR US SHAREHOLDERS

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

Estimated effect on net income of differences between UK and US GAAP	Notes	1994 £m	1993 £m
Net income per UK GAAP		450	410
Adjustment in respect of discontinued operations	(a)	(34)	(39)
		416	371
Adjustments in respect of continuing operations:			
Brands	(b)	(72)	(72)
Goodwill and other intangibles	(b)	(93)	(71)
Depreciation of certain buildings	(d)	(12)	(11)
Restructuring costs	(f)	134	–
Acquisition accounting	(g)	(5)	(19)
Pensions and other post employment benefits	(h)	(20)	(14)
Deferred taxation	(i)	(43)	(1)
Other items		6	5
Estimated net income per US GAAP			
Continuing operations*		311	188
Income from discontinued operations	(a)	3	45
Gain/(loss) on sale of discontinued operations	(a)	303	(6)
Net income before cumulative effect of accounting change		617	227
Cumulative effect of change in accounting from 1st October 1993 for income taxes	(i)	290	–
Net income		907	227
Primary earnings per ordinary share in accordance with US GAAP	(j)	pence	pence
Continuing operations*		14.9	9.1
Discontinued operations		14.7	1.9
Net income before cumulative effect of accounting change		29.6	11.0
Cumulative effect of accounting change		13.9	–
Net income		43.5	11.0
Primary earnings per American Depositary Share			
Income from continuing operations*		59.6	36.4

*US GAAP net income from continuing operations for the year ended 30th September 1994 includes £116m (5.6p per ordinary share) (1993 – £113m, 5.5p per ordinary share) restructuring costs. In addition US GAAP net income from continuing operations, in the year ended 30th September 1993, includes a £48m (2.3p per ordinary share) writedown in respect of the group's UK properties and a £43m (2.1p per ordinary share) provision in respect of the consideration and interest receivable on the sale of the group's former retail betting operation.

Estimated cumulative effect on shareholders' equity of differences between UK and US GAAP	Notes	1994 £m	1993 £m
Shareholders' equity per UK GAAP		3,540	3,674
Adjustments:			
Brands	(b)	(438)	(388)
Goodwill and other intangibles	(b)	3,280	2,468
Revaluation of land and buildings	(c)	(134)	(578)
Depreciation of certain buildings	(d)	(43)	(66)
Sale of assets to an associated company	(e)	(440)	(440)
Restructuring costs	(f)	134	–
Pensions and other post employment benefits	(h)	(104)	(40)
Deferred taxation	(i)	(840)	(225)
Ordinary dividends	(k)	189	178
Other differences in accounting principles		(165)	(86)
Shareholders' equity per US GAAP		4,979	4,497

INFORMATION FOR US SHAREHOLDERS

Notes on differences between UK and US GAAP

(a) Discontinued operations

The adjustment in respect of discontinued operations represents the UK GAAP gain/loss on dispositions aggregated with the net income attributable to such businesses up to the date of disposal which, under US GAAP, have been disclosed as discontinued operations. These amounts, after giving effect to certain of the adjustments described in (b) to (i) below, are 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.

(c) Revaluation of land and buildings

UK GAAP allows the periodic revaluation of land and buildings. Professional valuations were carried out at 30th September 1988. The investment properties of Inntrepreneur Estates Ltd 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 Inntrepreneur Estates Ltd 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) 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. Under US GAAP, no gain has been recognised to date on the sale of assets to Inntrepreneur Estates Ltd in the statement of income.

(f) Restructuring costs

Under UK GAAP restructuring costs are charged to the profit and loss account in the period in which the decision has been made to restructure a part of the group's business. The timing of the recognition of certain types of restructuring costs differs from US GAAP which requires a number of specific criteria to be met including the requirement to recognise the expense in the statement of income in the period when the obligation to incur costs first exists.

(g) Acquisition accounting

The group provides for certain costs as part of the purchase accounting adjustments on an acquisition which under US GAAP are included in the statement of income when those costs are 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.

(h) Pensions and other post employment benefits

The group accounts for pension costs under the rules set out in UK accounting standard, SSAP 24, Accounting for pension costs. Its objective and principles are broadly in line with those set out in the US accounting standard for pensions, SFAS 87 Employers' accounting for pensions. However, SSAP 24 is less prescriptive in its provisions and allows the use of different measurement principles. The provisions of SFAS 106, Employers' accounting for post retirement benefits other than pensions, are more prescriptive than those required by UK GAAP which allows the use of different assumptions and allocation periods for spreading costs.

(i) 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 in the foreseeable future. Where deferred taxation is provided, provision is made on the liability method. Under US GAAP, prior to 1st October 1993, the group applied Accounting Principles Board Opinion 11 which required deferred taxation to be provided on all timing differences on the deferral basis. With effect from 1st October 1993, the group adopted the provisions of SFAS 109, Accounting for income taxes, which (i) requires deferred taxes to be calculated using the liability method, (ii) requires full provision for deferred taxation liabilities, and (iii) permits deferred tax assets to be recognised if their realisation is considered to be more likely than not. The effect of adopting SFAS 109 is included as a cumulative effect of change in accounting in the net income reconciliation in the year ended 30th September 1994.

(j) 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 primary 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. Primary earnings per American Depositary Share are calculated on the basis of four ordinary shares representing one American Depositary Share.

(k) 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.

SHAREHOLDER INFORMATION

SHAREHOLDER ANALYSIS

At 30th September 1994	Number of holders	Percentage of total holders	Number of shares	Percentage of ordinary share capital
Classification of shareholders				
Private holders	86,829	68.12	179,018,196	8.59
Nominee companies	36,331	28.50	1,513,458,655	72.61
Corporate holders	2,084	1.64	89,077,652	4.27
Trusts (pension funds etc)	1,763	1.38	92,433,319	4.43
Insurance companies	453	0.36	210,487,633	10.10
	127,460	100.00	2,084,475,455	100.00
Shareholding range				
1 – 500	27,342	21.45	6,611,977	0.31
501 – 1,000	29,353	23.03	22,481,465	1.08
1,001 – 5,000	58,224	45.68	126,906,897	6.09
5,001 – 50,000	10,705	8.40	117,768,065	5.65
50,001 – 100,000	515	0.40	38,169,001	1.83
100,001 – 500,000	856	0.67	192,757,299	9.25
500,001 and over	465	0.37	1,579,780,751	75.79
	127,460	100.00	2,084,475,455	100.00

SHARE DIVIDEND PLAN

The company's share dividend plan was again in operation during 1994. During the five-year life of the plan, a total of 11,923,070 ordinary shares have been allotted and the number of participants totals 20,607.

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 per cent either way as 'substantial'. For both dividends paid during 1994 the Share Price did not differ from the Opening Value by more than 15 per cent.

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 1993 (11th April 1994)	451.8p	478.2p	564.8p*
Interim dividend 1994 (3rd October 1994)	438.8p	399.5p	548.5p*

*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, 28th February 1995 at 11.15 am in the Great Room, Grosvenor House, Park Lane, London W1.

SHAREHOLDER INFORMATION

RECENT DIVIDEND HISTORY

Ordinary dividends

Record date	Payment date	Gross dividend	Imputed tax withheld	Net payment
25 Jan 91	8 Apr 91	8.53p*	2.13p*	6.40p*
9 Aug 91	7 Oct 91	5.60p*	1.40p*	4.20p*
24 Jan 92	6 Apr 92	9.53p*	2.38p*	7.15p*
7 Aug 92	5 Oct 92	6.13p	1.53p	4.60p
22 Jan 93	13 Apr 93	9.63p	1.93p	7.70p
6 Aug 93	4 Oct 93	6.06p	1.21p	4.85p
28 Jan 94	11 Apr 94	10.19p	2.04p	8.15p
22 Jul 94	3 Oct 94	6.44p	1.29p	5.15p
26 Jan 95	10 Apr 95	11.00p†	2.20p	8.80p†

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

ADRs

Record date	Payment date	Gross dividend	Foreign tax withheld	Net payment
25 Jan 91	23 Apr 91	$.60	$.09	$.51
9 Aug 91	11 Oct 91	$.39	$.06	$.33
24 Jan 92	10 Apr 92	$.67	$.10	$.57
7 Aug 92	9 Oct 92	$.42	$.07	$.35
22 Jan 93	16 Apr 93	$.60	$.09	$.51
6 Aug 93	8 Oct 93	$.36	$.05	$.31
28 Jan 94	18 Apr 94	$.60	$.09	$.51
22 Jul 94	7 Oct 94	$.41	$.06	$.35
26 Jan 95	14 Apr 95	$.69†**	$.10**	$.59†**

**Using $1.58 per £1.00 for illustration purposes. The actual rate of exchange used in determining the dollar payment to ADR holders will be the exchange rate on 10th April 1995.

UK SHAREHOLDERS

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 Amanda Glew,
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 50,
Main Street, Bingley, West Yorkshire BD16 2LW.
Telephone helpline (01274) 555677.

UK tax on capital gains
A leaflet for UK capital gains purposes, which includes details of the rights, capitalisation issues and 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.

US SHAREHOLDERS

ADRs
The company's ADRs were listed on the New York Stock Exchange on 13th March 1991. One American Depositary Receipt (ADR) is equivalent to four ordinary shares.

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.

Dividends
Qualifying US and Canadian resident ADR holders are entitled to a refund of the 20/80ths UK tax credit attaching to the 1994 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 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 1-800-428-4237.

Investor relations
For investor enquiries contact:
Grand Metropolitan PLC,
20 St James's Square, London SW1Y 4RR
Telephone 011 44 171 321 6000.

01-03-95

FIVE YEAR RECORD

based on the consolidated financial statements for years ended 30th September

Balance sheet	1990 £m	1991 £m	1992 £m	1993 £m	1994 £m	1994 $m
Intangible assets	2,317	2,464	2,492	2,924	2,782	4,395
Fixed assets	4,003	3,714	3,458	3,538	2,793	4,413
Other net assets	28	9	419	276	171	270
	6,348	6,187	6,369	6,738	5,746	9,078
Less: Net borrowings	(2,932)	(2,750)	(2,608)	(3,025)	(2,159)	(3,411)
	3,416	3,437	3,761	3,713	3,587	5,667
Capital and reserves	3,390	3,405	3,733	3,674	3,540	5,593
Minority interests	26	32	28	39	47	74
	3,416	3,437	3,761	3,713	3,587	5,667
Profit and loss account						
Turnover	9,394	8,748	7,913	8,120	7,780	12,292
Operating profit before exceptionals						
Continuing operations	719	831	812	965	1,017	1,607
Discontinued operations	297	196	129	77	6	9
	1,016	1,027	941	1,042	1,023	1,616
Share of profits of associates	23	10	16	24	45	71
Interest	(241)	(183)	(107)	(155)	(123)	(194)
Profit before exceptionals and taxation	798	854	850	911	945	1,493
Exceptional items:						
Charged to operating profit and interest	–	–	–	(247)	(280)	(442)
Disposal of fixed assets	45	29	13	15	4	6
Sale or termination of business	112	(450)	41	(54)	(15)	(24)
Profit before taxation	955	433	904	625	654	1,033
Taxation	(302)	(220)	(293)	(209)	(197)	(311)
Profit after taxation	653	213	611	416	457	722
Minority interests	(4)	(5)	(2)	(6)	(7)	(11)
Profit for the financial year	649	208	609	410	450	711
Ordinary dividends	(204)	(226)	(256)	(269)	(292)	(461)
Transferred to reserves	445	(18)	353	141	158	250
Earnings per share (note 1)						
Before exceptionals	26.6p	28.8p	28.1p	29.6p	32.2p	$0.51
After exceptionals	32.8p	10.5p	29.9p	19.9p	21.6p	$0.34
Ordinary dividends per share	20.4p	22.7p	12.3p	13.0p	13.95p	$0.22
As adjusted (note 1)	10.2p	11.35p				

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 1994 figures have been translated to US dollars at the rate of £1.00=$1.58 (the rate on 30th September 1994).

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01-03-95

FINANCIAL CALENDAR

ANNUAL GENERAL MEETING	[illegible] FEBRUARY 199[illegible]
1994 FINAL DIVIDEND TO BE PAID	
ORDINARY SHARES	10th APRIL 1995
ADRs	10th APRIL 1995
1995 INTERIM RESULTS TO BE ANNOUNCED	11th MAY 1995
1995 INTERIM DIVIDEND TO BE PAID	
ORDINARY SHARES	2nd OCTOBER 1995
ADRs	6th OCTOBER 1995

GRAND METROPOLITAN PLC

Secretary and Registered Office
Roger H. [illegible]
20 St James's Square
London SW1Y [illegible]
Telephone 0171 321 [illegible]

REGISTRAR

The Company's Registrar
[illegible] Share Registration Section
Astra Centre
Edinburgh Way
Harlow
Essex CM20 2BE
Telephone (01279) [illegible]

01-03-95