

**Grand Metropolitan Estate Holdings Limited**  
Company No. 2426273

**Financial Statements**  
**30 June 1998**



## **DIRECTORS' REPORT**

The directors have pleasure in submitting their report together with the audited financial statements for the 9 month period ended 30 June 1998. On 17 December 1997 Grand Metropolitan Public Limited Company merged with Guinness PLC to form Diageo plc, as a result of which, Diageo plc, became the ultimate parent of the company.

### ***Activities***

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

### ***Year 2000***

The company has recognised that Year 2000 is a major issue and has established a Year 2000 team, which has made good progress in establishing an effective post-integration framework for its Year 2000 programme, having completed their impact assessment and project plans. Based on the work detailed above, the company believes that once the testing and conversion of computer systems is complete, internal systems and equipment will not give rise to significant operational problems as a result of the Year 2000 issue.

The company is also working with key business suppliers, joint distribution arrangement partners and customers to prepare for the Year 2000 and is establishing contingency plans for Year 2000 failures by such business partners. Contingency plans are also being prepared for unexpected Year 2000 failures that may affect business critical systems and equipment.

The general expectation by those who have studied best practice in managing the Year 2000 problem is that even the best run projects will face some Year 2000 compliance failures. There can be no assurance that Year 2000 projects will be successful or that the date change from 1999 to 2000 will not adversely affect the company's operations and financial results. The company may also be adversely affected by the inability of third parties to manage the Year 2000 problem.

### ***The Euro***

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

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

Looking forward, key commercial risks have been analysed, with a view to minimising the impact through active management in these areas over the EMU

## **Grand Metropolitan Estate Holdings Limited**

### **Period Ended 30 June 1998**

transition period and beyond. However, there can be no assurance that the euro will not have a negative impact. The impact of future entry to EMU of other European countries (particularly the UK) has been similarly analysed.

### **Financial**

The financial year end of the company has been changed to 30 June from 30 September, and the loss for the period shown on page 7 is for the nine months from 1 October 1997 to 30 June 1998, with comparatives for the year ended 30 September 1997.

The directors do not recommend the payment of any dividends for the period (1997: £Nil). The amount transferred from reserves was £15,357,000 (1997: £9,991,000).

### **Directors**

The directors who served during the period were as follows:

R H Myddelton

B E Wickham (resigned 27 March 1998)

SM Bunn (appointed 27 March 1998)

MD Peters (appointed 27 March 1998)

### **Emoluments**

None of the directors received any remuneration during the period in respect of their services as director of the company (1997: Nil).

### **Directors' Interests**

No director had any interest, beneficial or non-beneficial, in the share capital of the company or had a material interest during the period in any significant contract with the company.

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

#### **(i) Ordinary shares and options over ordinary shares**

	Ordinary Shares of 28101/108 p		B shares*		Options		
	At 1.10.97 (or date of appointment)	At 30.6.98	At 1.10.97 (or date of appointment)	At 30.6.98	At 1.10.97 (or date of appointment)	Exercised during the period	At 30.6.98
S M Bunn	-	-	-	-	14,672	-	14,672
R H Myddelton	21,368	20,049	-	-	313,260	105,738	207,522
M D Peters	2,733	2,733	345	224	13,348	-	13,348

#### **(ii) Interest over ordinary shares arising from long term incentive plan**

	Ordinary shares of 28101/108 p each Restricted Share Plan/Medium Term Executive Plan	
	At 1.10.97 (or date of appointment)	At 30.6.98
R H Myddelton	18,081	18,081
M D Peters	1,434	1,434

**Grand Metropolitan Estate Holdings Limited**  
**Period Ended 30 June 1998**

The directors held the above options under Grand Metropolitan PLC and Diageo plc share option schemes at prices between 314p and 494p per share exercisable by 2007. No options lapsed and no awards vested during the period.

The mid-market price of Grand Metropolitan PLC/Diageo plc shares fluctuated between 535p and 762.5p during the period. The mid-market share price on 30 June 1998 was 711p.

R H Myddelton had an interest in 4,975,416 shares subject to call options held by trusts to satisfy grants made under the various GrandMet share option schemes existing prior to the merger.

**Notes**

The B shares were created on 28 January 1998 and allotted on 2 February 1998 as part of a share capital reorganisation effected by Diageo plc.

\* On 1 August 1998 all outstanding B shares were converted into ordinary shares at a rate of 70.993915 ordinary shares for every 100 B shares held.

(i) The Grand Metropolitan Restricted Share Plan (RSP). In 1997, Grand Metropolitan PLC shares or ADS's were conditionally awarded to executives, with eventual release dependent on the performance of the TSR of Grand Metropolitan PLC compared with the TSR of the other FTSE 100 companies, over a minimum of three years. The allocation for UK directors was 100% of base salary, and for US directors 130% of base salary, using the average share price for the calendar year prior to the date of the award. Following the merger, these awards have been converted to Diageo shares, and their release to participants will depend on the ranking of Diageo's TSR at the end of three years after the date of grant. If the company is ranked in the top 20% of selected companies, the maximum number of shares will be released; if it is ranked below the 50<sup>th</sup> percentile, no shares will be released. Releases between these points are on a sliding scale.

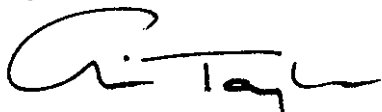
(ii) The Guinness Medium Term Executive Plan (MTEP) was established in 1997. The plan was operated by the trustees of the Diageo plc Employee Incentive Trust 1997. Awards were made only to B grade executives and below world-wide. Performance conditions were tailored to the particular division within which the relevant executive worked and may have been adjusted when they moved within the Group. The plan was wound up in June 1998 with cash payments made to participants in September 1998 in lieu of shares. Proportionate payments were made based on the time elapsed since the plan was first established.

**Grand Metropolitan Estate Holdings Limited**  
**Period Ended 30 June 1998**

***Secretary***

On 1 June 1998 Mrs SM Bunn resigned as Secretary of the Company and Mr CJ Taylor was appointed in her place.

By order of the Board

A handwritten signature in black ink, appearing to read 'C J Taylor', written over a horizontal line.

**C J Taylor**  
*Secretary*

11 January 1999  
8 Henrietta Place  
London  
W1M 9AG

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

The following statement, which should be read in conjunction with the report of the auditor set out on page 6, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss for the financial period.

The directors, in preparing the financial statements on pages 7 to 12, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards which they consider to be applicable have been followed, and that it is appropriate to use a going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**Grand Metropolitan Estate Holdings Limited**  
**Period Ended 30 June 1998**

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

We have audited the financial statements on pages 7 to 12.

**Respective responsibilities of directors and auditor**

As described on page 5 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 1998 and of its loss for the 9 months then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

**KPMG Audit Plc**  
**Chartered Accountants**  
**Registered Auditor**

**London**  
**11 January 1999**

**Grand Metropolitan Estate Holdings Limited**  
**Period Ended 30 June 1998**

**PROFIT AND LOSS ACCOUNT**  
for the 9 month period ended 30 June 1998

	Notes	1998 £'000	1997 £'000
Net interest payable and similar items	4	(34,138)	(21,407)
<b>Loss on ordinary activities before taxation</b>		<b>(34,138)</b>	<b>(21,407)</b>
Taxation on loss on ordinary activities	5	18,781	11,416
<b>Loss for the financial period after taxation</b>		<b>(15,357)</b>	<b>(9,991)</b>
<b>Transferred from reserves</b>	12	<b>(15,357)</b>	<b>(9,991)</b>

The notes on pages 9 to 12 form part of these financial statements.

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

There are no recognised gains or losses other than the profit for the period and consequently a statement of total recognised gains and losses has not been presented as part of the financial statements.

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

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS**  
for the 9 month period ended 30 June 1998

	Notes	1998 £'000	1997 £'000
Shareholder's funds at the beginning of the period		(834)	9,157
Loss for the financial period	12	(15,357)	(9,991)
Shareholder's funds at the end of the period		<b>(16,191)</b>	<b>(834)</b>



**Grand Metropolitan Estate Holdings Limited**  
**Period Ended 30 June 1998**

**BALANCE SHEET**  
at 30 June 1998

	Notes	1998 £'000	1997 £'000
<b>Fixed assets</b>			
Investments	6	10	10
<b>Current assets</b>			
Debtors	7	7,337,996	10,761,570
<b>Creditors - amounts falling due within one year</b>	8	(6,827,549)	(10,235,766)
<b>Net current assets</b>		<b>510,447</b>	<b>525,804</b>
<b>Creditors - amounts falling due after more than one year</b>	9	<b>(524,757)</b>	<b>(524,757)</b>
<b>Provisions for liabilities and charges</b>	10	<b>(1,891)</b>	<b>(1,891)</b>
<b>Net liabilities</b>		<b>(16,191)</b>	<b>(834)</b>
<b>Capital and reserves</b>			
Called up share capital	11	125	125
Share premium account	12	555	555
Profit and loss account	12	(16,871)	(1,514)
		<b>(16,191)</b>	<b>(834)</b>

Debtors and net current assets include debtors recoverable after more than one year of £441,045,000 (1997: £463,648,000).

All shareholder's funds relate to equity interests.

The notes on page 9 to 12 form part of these financial statements.

These financial statements were approved by the board of directors on 11 January 1999 and were signed on its behalf by:



R H Myddelton, *Director*

## **NOTES**

### **1. Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### *Basis of preparation*

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

The financial period end has been changed to 30 June 1998. Accordingly the period under review ran from 1 October 1997 to 30 June 1998.

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996). The company is also exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions with entities that are part of the Diageo plc group or investees of the Diageo plc group.

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

### **2. Going concern**

The directors of Diageo plc, the ultimate holding company, have indicated that they will provide sufficient funds for the company to continue as a going concern for a period of at least one year following the date of approval of the financial statements.

### **3. Loss on ordinary activities before taxation**

The company had no employees during the period. No directors received emoluments from the company during the period (1997: £Nil).

The auditor's remuneration was borne by a group company.

**Grand Metropolitan Estate Holdings Limited**  
**Period Ended 30 June 1998**

**NOTES**

**4. Net interest payable and similar items**

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable from group undertakings	<b>488,879</b>	645,216
Interest payable to group undertakings	<b>(508,502)</b>	(654,234)
Foreign exchange loss	<b>(14,516)</b>	(12,390)
Interest receivable from fixed asset investments	<b>1</b>	1
	<b>(34,138)</b>	(21,407)

**5. Taxation**

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
UK corporation tax at 31% (1997: 32%) on taxable losses	<b>(18,781)</b>	(5,467)
Adjustments to prior year's tax provisions	-	(5,949)
	<b>(18,781)</b>	(11,416)

The charge for UK corporation tax includes amounts which may be paid to the other group companies in the Diageo group in return for the surrender of tax losses.

The level of tax charge is affected by non-taxable foreign exchange differences.

**6. Fixed asset investments**

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
Market value of investments listed on the London Stock Exchange	<b>13</b>	11
Cost	<b>10</b>	10

**NOTES**

**7. Debtors**

	<b>1998</b> <b>£'000</b>	<b>1997</b> <b>£'000</b>
Amounts owed by parent and fellow subsidiary undertakings	<b>7,279,215</b>	10,712,089
Corporation Tax	<b>30,197</b>	11,416
Other debtors and prepayments	<b>28,584</b>	38,065
	<b>7,337,996</b>	10,761,570

Included in amounts owed by parent and fellow subsidiary undertakings is £425,149,701 due after more than one year (1997: £438,271,605). Included in other debtors and prepayments £15,895,265 is due after more than one year (1997: £25,376,572).

**8. Creditors (amount falling due within one year)**

	<b>1998</b> <b>£'000</b>	<b>1997</b> <b>£'000</b>
Amounts owed to parent and fellow subsidiary undertakings	<b>6,827,549</b>	10,235,766
	<b>6,827,549</b>	10,235,766

**9. Creditors (amount falling due after more than one year)**

	<b>1998</b> <b>£'000</b>	<b>1997</b> <b>£'000</b>
Amounts owed to parent and fellow subsidiary undertakings	<b>524,757</b>	524,757

**10. Provisions for liabilities and charges**

	<b>Other provisions</b> <b>£'000</b>
At the beginning of the period	1,891
At the end of the period	1,891

**Grand Metropolitan Estate Holdings Limited**  
**Period Ended 30 June 1998**

**NOTES**

**11. Called up share capital**

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
<b>Authorised, allotted, called up and fully paid</b>		
Ordinary shares of £1 each	<b>125</b>	<b>125</b>

Ordinary shares are entitled to one vote each.

**12. Reserves**

	<b>Share Premium</b>	<b>Profit &amp; loss account</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 30 September 1997	555	(1,514)	(959)
Loss for the period	-	(15,357)	(15,357)
<b>At 30 June 1998</b>	<b>555</b>	<b>(16,871)</b>	<b>(16,316)</b>

**13. Ultimate Holding Company**

The Company is a wholly owned subsidiary of Grand Metropolitan Estates Limited and its ultimate holding company as at 30 June 1998 was Diageo plc. Both companies are incorporated and registered in England and have an accounting period end of 30 June. A copy of the consolidated financial statements of Diageo plc for the eighteen month period ended 30 June 1998, can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.