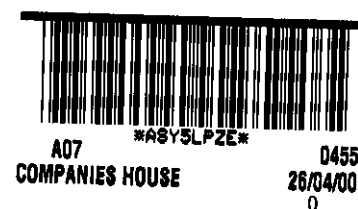


**Grand Metropolitan Capital Company Limited**

**FINANCIAL STATEMENTS**

**30 June 1999**

Registered Number: 3249862



# **Grand Metropolitan Capital Company Limited**

## **DIRECTORS' REPORT**

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

### **Activities**

The company is an investment holding company. The directors foresee no material changes in the nature of the company's activities. Details of changes in investments during the year are set out in note 5 of the financial statements.

### **Year 2000**

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

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

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

### **Euro**

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

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

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

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

### **Financial**

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

# GRAND METROPOLITAN CAPITAL COMPANY LIMITED

## DIRECTORS' REPORT (continued)

The directors recommend that a final ordinary dividend of £200,000,000 (1998: £3,575,000) be paid for the year.

After deducting total ordinary dividends of £200,000,000 (1998: £3,575,000) the deficit for the year transferred from reserves is £26,098,000 (1998: *profit of £95,304,000*).

### Directors

The directors who served during the year were as follows:

P K Bentley  
S M Bunn  
R H Myddelton  
M D Peters  
D C Stainton  
D E Tagg (resigned 31 July 1998)

### Directors' emoluments

None of the directors received any remuneration during the year in respect of their services as director of the company (1998: *£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 year in any significant contract with the company.

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

#### (i) Shares and Awards over ordinary shares

Name of Director	Ordinary shares of 28 101/108p (1)	Ordinary shares of 28 101/108p (1)	RSP Awards (2)	Guinness LTIP (2)	Diageo LTIP (3)	Diageo LTIP (3)
	1.7.98 or date of appointment	30.6.99	30.6.99	30.6.99	Performance cycle commencing 1.1.98	1.1.99
P K Bentley	-	10,000	15,625	-	25,000	22,630
S M Bunn	-	2,061	-	-	2,250	2,400
R H Myddelton	20,049	19,519	18,081	-	18,524	16,844
M D Peters	3,693	4,744	-	-	2,250	2,400
D C Stainton	-	-	12,997	-	16,466	14,972

#### (i) Options

Name of Director	1.7.98 or date of appointment	Granted during period	Exercised during period	30.6.99
P K Bentley	27,138	-	-	27,138
S M Bunn	14,672	433	11,084	4,021
R H Myddelton	207,522	-	3,168	204,354
M D Peters	13,348	433	1,051	12,730
D C Stainton	4,886	-	-	4,886

## GRAND METROPOLITAN CAPITAL COMPANY LIMITED

### DIRECTORS' REPORT (continued)

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.

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

At 30 June 1999 the directors had an interest in 21,897,568 shares and 3,123,181 shares subject to call options held by trusts to satisfy grants made under ex-GrandMet incentive plans, ex-Guinness incentive plans and Diageo incentive plans and savings-related share option schemes.

### \* NOTES

#### (1) **Ordinary Shares**

Interests in ordinary shares at 1 July 1998, or date of appointment where applicable, include B shares converted at a rate of 70.993915 ordinary shares to every 100 B shares, although the conversion actually occurred on 1 August 1998.

#### (2) **The Guinness LTIP and The Grand Metropolitan Restricted Share Plan (RSP)**

Awards over shares were granted to senior executives, with eventual transfer dependent on the performance of total shareholder return (TSR) against a comparator group of companies at the end of three years after the date of grant. Following the merger, performance targets attached to the Guinness awards granted in 1996 were waived. The 1997 awards granted by Grand Metropolitan and Guinness are now dependent upon the performance of Diageo's TSR against comparator groups of companies.

#### (3) **The Diageo LTIP (LTIP)**

Under the Diageo LTIP, approved in August 1998, eligible senior executives are granted a conditional right to receive shares or, exceptionally, a cash sum. The rights vest after the end of a three year period following the date of grant (the "performance cycle") provided a performance test is achieved and subject to the discretion of the trustees who operate the LTIP. The performance test is a comparison of the annualised percentage growth in Diageo's share price (assuming all dividends and capital distributions are re-invested) known as total shareholder return (TSR) with the TSRs of a defined peer group of 20 companies over a three year period. The remuneration committee will not recommend the release of awards if there has not been an underlying improvement in the financial performance of Diageo. The first LTIP performance cycle runs from 1 January 1998 to 31 December 2000 and the second from 1 January 1999 to 31 December 2001. Awards of shares will be released, subject to the performance test and the discretion of the trustees, in March 2001 and March 2002 respectively. The number of awards shown will only be released if Diageo reaches position five within the peer group (upper quartile). At position four 125% of the original awards will vest and, at position three or above, 150%. At position ten (median position), 50% of the awards will vest. Between median and upper quartile, vesting will be calculated on a straight line basis. Awards will lapse if Diageo does not reach position ten.

**GRAND METROPOLITAN CAPITAL COMPANY LIMITED**

**DIRECTORS' REPORT (continued)**

By Order of the Board

A handwritten signature in black ink, appearing to read 'S M Bunn', with a stylized, wavy line extending from the end.

S M Bunn  
*Secretary*

20 April 2000

8 Henrietta Place  
London  
W1M 9AG

## **Grand Metropolitan Capital Company Limited**

### **DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION FINANCIAL STATEMENTS**

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

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

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

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

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

## **Grand Metropolitan Capital Company Limited**

### **REPORT OF THE AUDITOR, KPMG AUDIT PLC, TO THE MEMBERS OF GRAND METROPOLITAN CAPITAL COMPANY 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 the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

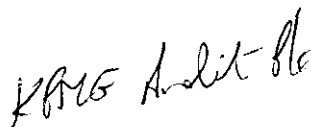
#### **Basis of opinion**

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

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

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

London, 20<sup>th</sup> April, 2000

# **Grand Metropolitan Capital Company Limited**

## **ACCOUNTING POLICIES**

### **Basis of preparation**

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

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

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996). The company is also exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions (but not balances) with entities that are part of the Diageo plc group or investees of the Diageo plc group.

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

### **Preference dividends receivable and payable**

The preference share dividends receivable and payable are accounted for on an accruals basis, since the entitlement to those dividends is calculated by reference to time.

### **Taxation**

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

### **Investments**

Investments held as fixed assets are stated at cost less provision for any impairment.



# Grand Metropolitan Capital Company Limited

## PROFIT AND LOSS ACCOUNT

for the year ended 30 June 1999

	Notes	12 months ended 30 June 1999 £'000	9 months ended 30 June 1998 £'000
Income from group undertakings	1	186,623	108,344
<b>Profit on ordinary activities before taxation</b>	2	186,623	108,344
Taxation on profit on ordinary activities	4	(12,721)	(9,465)
<b>Profit for the financial period after taxation</b>		173,902	98,879
Equity dividends paid		(200,000)	(3,575)
<b>Transferred to reserves</b>	9	(26,098)	95,304

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 difference between the profit for the period and the historical cost profit for the period and consequently no note of historical cost profits has been presented as part of the financial statements.

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 30 June 1999


		12 months ended 30 June 1999 £'000	9 months ended 30 June 1998 £'000
Profit for the financial period		173,902	98,879
Equity dividends paid		(200,000)	(3,575)
Net addition/(reduction) to shareholders' funds	9	(26,098)	95,304
Shareholders' funds at beginning of the period		3,243,010	3,147,706
Shareholders' funds at end of the period		3,216,912	3,243,010

# Grand Metropolitan Capital Company Limited

## BALANCE SHEET

	Notes	30 June 1999 £'000	30 June 1998 £'000
<b>Fixed assets</b>			
Investments in group undertakings	5	2,561,500	2,561,500
<b>Current assets</b>			
Debtors - due within one year	6	668,094	692,215
Creditors - due within one year	7	(12,682)	(10,705)
<b>Net current assets</b>		655,412	681,510
		3,216,912	3,243,010
<b>Capital and reserves</b>			
Called up share capital - equity	8	3,005,000	3,005,000
Profit and loss account	9	211,912	238,010
		3,216,912	3,243,010

The financial statements on pages 7 to 12 were approved by the board of directors on 20 April 2000 and were signed on its behalf by:

  
R H Myddelton, Director

## Grand Metropolitan Capital Company Limited

### NOTES TO THE FINANCIAL STATEMENTS

#### 1 Income from group undertakings

	12 months ended 30 June 1999 £'000	9 months ended 30 June 1998 £'000
Dividends from shares in group undertakings	145,253	77,810
Loans to group undertakings	41,370	30,534
	186,623	108,344

#### 2 Operating costs

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

#### 3 Directors' interests

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

#### 4 Taxation

	12 months ended 30 June 1999 £'000	9 months ended 30 June 1998 £'000
UK corporation tax at 30.75% (1998:31%)	12,721	9,465

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

# Grand Metropolitan Capital Company Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 5 Investments

	30 June 1999 £'000	30 June 1998 £'000
<i>Cost and net book value:</i>		
At beginning and end of the period	2,561,500	2,561,500

The company's principal subsidiaries and other investments are:

	Class of capital	Total issued capital £'000	Consideration £'000	Proportion held
Grand Metropolitan (Cayman Islands) Limited	Ordinary Shares	10,000	11,500	100%
Grand Metropolitan (Cayman Islands) Limited	"A" Cumulative Redeemable Preference Shares	850,000	850,000	100%
Grand Metropolitan (Cayman Islands) Limited	"B" Cumulative Redeemable Preference Shares	800,000	800,000	100%
Grand Metropolitan (Cayman Islands) Limited	"C" Cumulative Redeemable Preference Shares	400,000	400,000	100%
Grand Metropolitan (Cayman Islands) Limited	"D" Cumulative Redeemable Preference Shares	500,000	500,000	100%
		2,560,000	2,561,500	

### 6 Debtors - due within one year

	30 June 1999 £'000	30 June 1998 £'000
Amount owed by group undertakings	668,094	692,215

### 7 Creditors - due within one year

	30 June 1999 £'000	30 June 1998 £'000
Corporation tax	12,682	10,705

# Grand Metropolitan Capital Company Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 8 Share capital

	30 June 1999 £'000	30 June 1998 £'000
<b>Equity</b>		
<i>Authorised:</i>		
Ordinary shares of £1 each	3,500,000	3,500,000
<i>Allotted, called up and fully paid:</i>		
Ordinary shares of £1 each	3,005,000	3,005,000

Ordinary shares are entitled to one vote each.

### 9 Reserves

	30 June 1999 £'000	30 June 1998 £'000
Balance brought forward	238,010	142,706
Retained profit/(loss) for the financial period	(26,098)	95,304
Balance carried forward	211,912	238,010

### 10 Ultimate parent undertaking

The company is a wholly owned subsidiary of Grand Metropolitan PLC and Justerini & Brooks Limited and its ultimate holding company as at 30 June 1999 was Diageo plc. Both companies are incorporated and registered in England and have an accounting period end of 30 June.

The consolidated accounts of Diageo plc for the year ended 30 June 1999, can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.