

**Grand Metropolitan Investments Limited**

**FINANCIAL STATEMENTS**

**30 June 2002**

Registered Number: 1732518



**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2002**

**DIRECTORS' REPORT**

The directors have pleasure in submitting their annual report, together with the audited financial statements, for the year ended 30 June 2002.

**Activities**

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

**Financial**

The results for the year ended 30 June 2002 are shown on page 7. The directors do not recommend the payment of an ordinary dividend for the year (2001: *£nil*). On 25 July 2001 the company converted its preference shares into ordinary shares, at which time the preference shareholders lost entitlement to accrued dividends. This has resulted in accrued preference share dividends of £66,729,000 being credited to the profit and loss account.

The loss for the year transferred from reserves, after crediting non-equity additional finance costs of £66,729,000 (2001: *£64,605,000 deducted*), is £70,332,000 (2001: *£335,906,000 loss*).

**Directors**

The directors who served during the year were as follows:-

S M Bunn  
R J Moore  
R H Myddelton

R J Moore resigned on 31 January 2003 and P S Binning and M J Lester were appointed directors on that date.

**Directors' emoluments**

None of the directors received any remuneration during the year in respect of their services as directors of the company (2001: *£nil*).

**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2002**

**DIRECTORS' REPORT (continued)**

**Directors' interests**

No directors 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 parent company, Diageo plc: -

(i) Ordinary shares and conditional rights to ordinary shares

	Ordinary Shares		Conditional rights to ordinary shares				
	At beginning of year	At end of year	At beginning of year	Granted in year	Vested in year	Lapsed in year	At end of year
S M Bunn	1,790	2,853	2,400	-	(1,200)	(1,200)	-
R J Moore	130	130	16,568	14,660	-	-	31,228
R H Myddelton	33,411	32,666	29,682	5,760	(8,422)	(8,422)	18,598

The directors were granted conditional rights to receive ordinary shares or ADSs (one ADS is equivalent to four ordinary shares) or, exceptionally, a cash sum under certain long term incentive plans. Any conditional rights to ADSs are shown in the table as ordinary share equivalents. The conditional rights to ordinary shares or ADSs are subject to share performance criteria of Diageo plc ordinary shares. Full details of the performance criteria are disclosed in the annual report of the ultimate holding company, Diageo plc.

(ii) Options

	At beginning of year	Granted during the year	Exercised during the year	At end of year
S M Bunn	16,802	4,417	(433)	20,786
R J Moore	71,464	77,184	-	148,648
R H Myddelton	144,898	27,055	(78,748)	93,205

The directors held the above options under Diageo plc share option schemes at prices between 456p and 710p per ordinary share for UK options and at prices between US\$41.20 and US\$41.98 per ADS for US options, exercisable between 2002 and 2011. US options were granted over ADSs at dollar prices (one ADS is equivalent to four ordinary shares). Any ADS options are shown in the table as ordinary share equivalents. The options are granted at market value on the date the option is granted and the option price is payable when the option is exercised.

**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2002**

**DIRECTORS' REPORT (continued)**

**Directors' interests (continued)**

Options granted under the Senior Executive Share Option Plan ('SESOP') may not normally be exercised unless a performance condition is satisfied. The performance condition applicable to grants of options to date under the SESOP is linked to the increase in earnings per share and is initially applied over the three year period commencing on the date the options are granted. Full details of the performance condition are disclosed in the annual report of the ultimate holding company, Diageo plc.

The mid-market share price of Diageo plc shares fluctuated between 644p and 940.5p during the year. The mid-market share price on 30 June 2002 was 852p.

At 30 June 2002 S M Bunn had an interest in 16,259,763 shares and 6,124,020 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes. In addition, R J Moore had an interest in 21,928,455 shares and 574,300 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes. Also at that date, R H Myddelton had an interest in 20,023,562 shares and 6,124,020 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes.

**Secretary**

S M Bunn resigned as Secretary on 15 March 2002 and was replaced by J J Nicholls.

**Auditor**

The company has taken advantage of Section 386(1) of the Companies Act 1985, as amended, to dispense with the obligation to appoint auditors annually. The auditor, KPMG Audit Plc, is willing to continue in office and will be deemed to be re-appointed on the expiry of its term in office in respect of the year ended 30 June 2002.

By Order of the Board



J Nicholls  
Secretary

11 March 2003

8 Henrietta Place  
London  
W1G 0NB

**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2002**

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

The following statement, which should be read in conjunction with the report of the independent auditor on page 5, 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 loss of the company for the financial year.

The directors, in preparing the financial statements on pages 6 to 12, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all applicable accounting standards 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 that are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2002**

**REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF GRAND METROPOLITAN INVESTMENTS LIMITED**

We have audited the financial statements on pages 6 to 12.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

**Basis of audit 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 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
11 March 2003

**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2002**

**ACCOUNTING POLICIES**

**Basis of preparation**

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

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 Investments Limited as an individual undertaking and not about its group.

**Investments**

Fixed asset investments are stated individually at cost less, where appropriate, provision for impairment.

**Foreign currencies**

The functional currency of the company is determined as the currency to which predominantly all of its transactions and balances are effectively exposed. In 2002 and 2001 the functional currency was sterling.

Transactions in foreign currencies, other than the functional currency, are translated into the functional currency at the rate of exchange on the date of the transaction. Assets and liabilities in foreign currencies are translated into the functional currency at the financial year end exchange rates or, if hedged forward, at the rate of exchange derived from the related forward currency contracts. Any resulting net foreign exchange gains or losses are recognised in the profit and loss account.

**Taxation**

Taxation is calculated based on the results for the year and takes into account deferred taxation. Full provision is now made for all material timing differences. Any potential deferred tax asset is recognised only when, on the basis of all material evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2002**

**PROFIT AND LOSS ACCOUNT**

	Notes	Year ended 30 June 2002 £'000	Year ended 30 June 2001 £'000
Interest receivable	1	106,837	366,581
Interest payable and similar items	2	(243,898)	(637,882)
<b>Loss on ordinary activities before taxation</b>	3	<b>(137,061)</b>	<b>(271,301)</b>
Taxation on loss on ordinary activities	5	-	-
<b>Loss for the financial year</b>		<b>(137,061)</b>	<b>(271,301)</b>
Non-equity additional finance costs	6	66,729	(64,605)
<b>Transferred from reserves</b>		<b>(70,332)</b>	<b>(335,906)</b>

The results for the current and preceding year relate entirely to continuing operations.

There are no recognised gains or losses other than the loss for the year 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 loss for the year and the historical cost loss for the year and consequently no note of historical cost losses has been presented as part of the financial statements.

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	Notes	Year ended 30 June 2002 £'000	Year ended 30 June 2001 £'000
Loss for the financial year	11	(137,061)	(271,301)
Non-equity additional finance costs	6	66,729	(64,605)
Other profit and loss movement	6	(64,605)	64,605
<b>Net reduction to shareholders' funds</b>		<b>(134,937)</b>	<b>(271,301)</b>
Shareholders' funds at beginning of the year		860,590	1,131,891
<b>Shareholders' funds at end of the year</b>		<b>725,653</b>	<b>860,590</b>



**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2002**

**BALANCE SHEET**

		<b>30 June 2002</b>	<b>30 June 2001</b>
		<b>£'000</b>	<b>£'000</b>
	Notes		
<b>Fixed assets</b>			
Investments	7	<b>3,547,681</b>	3,547,681
<b>Current assets</b>			
Debtors – due within one year	8	<b>1,949,777</b>	3,401,405
Debtors – due after more than one year	8	<b>46,667</b>	136,792
<b>Creditors - due within one year</b>	9	-	(2,124)
<b>Net current assets</b>		<b>1,996,444</b>	3,536,073
<b>Total assets less current liabilities</b>		<b>5,544,125</b>	7,083,754
Creditors - due after more than one year	9	<b>(4,818,472)</b>	(6,223,164)
		<b>725,653</b>	860,590
<b>Capital and reserves</b>			
Called up share capital – equity	10	<b>1,095,000</b>	-
Called up share capital - non-equity	10	-	1,095,000
Profit and loss account	11	<b>(369,347)</b>	(234,410)
		<b>725,653</b>	860,590
The shareholders' funds are attributable to:			
Equity shareholders		<b>725,653</b>	(299,015)
Non-equity shareholders		-	1,159,605
		<b>725,653</b>	860,590

The financial statements on pages 6 to 12 were approved by the board of directors on 11 March 2003 and signed on its behalf by:

  
P S Binning,  
Director

**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2002**

**NOTES TO THE FINANCIAL STATEMENTS**

**1 Interest receivable**

	<b>Year ended 30 June 2002 £'000</b>	<b>Year ended 30 June 2001 £'000</b>
Loans to group undertakings	<b>106,837</b>	<b>366,581</b>

**2 Interest payable and similar items**

	<b>Year ended 30 June 2002 £'000</b>	<b>Year ended 30 June 2001 £'000</b>
Loans from group undertakings	<b>155,396</b>	<b>542,992</b>
Other interest	<b>60</b>	<b>45</b>
Foreign exchange losses	<b>88,442</b>	<b>94,845</b>
	<b>243,898</b>	<b>637,882</b>

**3 Loss on ordinary activities before taxation**

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

**4 Directors' interests**

Details of directors' interests are included in the Directors' Report on pages 2 to 3.

**5 Taxation on loss on ordinary activities**

	<b>Year ended 30 June 2002 £'000</b>	<b>Year ended 30 June 2001 £'000</b>
Factors affecting the current tax charge:		
Loss before tax	<b>(137,061)</b>	<b>271,301</b>
UK corporation tax credit at 30%	<b>41,118</b>	<b>81,390</b>
Expenses not deductible for tax purposes	<b>(3,192)</b>	<b>(17,235)</b>
Group relief surrendered for nil consideration	<b>(37,926)</b>	<b>(64,155)</b>
Current tax charge	<b>-</b>	<b>-</b>

**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2002**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**6 Dividends**

	30 June 2002			30 June 2001		
	Paid	Release of accrual	Total	Paid	Accrued	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Equity:</b>						
Ordinary Shares	-	-	-	-	-	-
<b>Non-equity:</b>						
5.9% "C" Cumulative Redeemable Preference Shares of £1 each	-	(41,300)	(41,300)	-	41,300	41,300
5.9% "D" Cumulative Redeemable Preference Shares of £1 each	-	(23,305)	(23,305)	-	23,305	23,305
	-	(64,605)	(64,605)	-	64,605	64,605

On 25 July 2001 the "C" and "D" preference shares were converted to ordinary shares. On conversion of the preference shares the holders thereof were no longer entitled to nor had any rights in respect of any arrears or accruals of the preference dividend relating to the preference shares.

This has resulted in accrued dividends previously held in creditors in the balance sheet of £2,124,000 being credited to the profit and loss account in addition to the reversal of previous accruals of £64,605,000 made in equity as above.

**7 Fixed assets - investments**

	Shares in subsidiary undertakings £'000	Other Investments £'000	Total £'000
Cost/valuation at beginning and end of the year	3,547,681	-	3,547,681

*Shares in subsidiary undertakings:*

In the opinion of the directors, the investment in and amounts due from the company's subsidiary undertakings are worth at least the amount at which they are stated in the financial statements.

The company's subsidiary undertakings and their activities, all of which are wholly owned and registered in England, are set out below:

Subsidiary undertaking	Country of incorporation	Principal activity
Grand Metropolitan Second Investments Limited	England	Investment holding company
Grand Metropolitan Third Investments Limited	England	Investment holding company

**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2002**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**8 Debtors**

	30 June 2002		30 June 2001	
	Due within one year £'000	Due after more than one year £'000	Due within one year £'000	Due after more than one year £'000
Amount owed by group undertakings	1,815,673	-	3,267,256	-
Group relief receivable	43,906	-	43,906	-
Other debtors	90,198	46,667	90,243	136,792
	1,949,777	46,667	3,401,405	136,792

**9 Creditors**

	30 June 2002		30 June 2001	
	Due within one year £'000	Due after more than one year £'000	Due within one year £'000	Due after more than one year £'000
Amount owed to group undertakings	-	4,818,472	2,124	6,223,164

The amounts due to group undertakings after more than one year are scheduled for repayment in 2004.

**10 Share capital**

	30 June 2002 £	30 June 2001 £
<i>Authorised:</i>		
<b>Equity</b>		
305,000,000 unclassified shares of £1 each	305,000,000	305,000,000
4,300,000,000 ordinary shares of £1 each	4,300,000,000	4,300,000,000
	4,605,000,000	4,605,000,000
<b>Non-equity</b>		
700,000,000 5.9% "C" Cumulative Redeemable Preference Shares of £1 each	-	700,000,000
395,000,000 5.9% "D" Cumulative Redeemable Preference Shares of £1 each	-	395,000,000
	-	1,095,000,000
<i>Allotted, called up and fully paid:</i>		
<b>Equity</b>		
2 unclassified shares of £1 each	2	2
1,095,000,000 ordinary shares of £1 each	1,095,000,000	-
<b>Non-equity</b>		
700,000,000 5.9% "C" Cumulative Redeemable Preference Shares of £1 each	-	700,000,000
395,000,000 5.9% "D" Cumulative Redeemable Preference Shares of £1 each	-	395,000,000
	-	1,095,000,000

**Grand Metropolitan Investments Limited**  
**Year ended 30 June 2002**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**10 Share capital (continued)**

The unclassified and ordinary shares are entitled to one vote each.

On 25 July 2001 the 700,000,000 5.9% 'C' cumulative redeemable preference shares of £1 each and the 395,000,000 5.9% 'D' cumulative redeemable preference shares of £1 each were converted one for one into ordinary shares of £1 each.

**11 Reserves**

	<b>30 June 2002</b>	<b>30 June 2001</b>
	<b>£'000</b>	<b>£'000</b>
<i>Profit and loss account:</i>		
Balance brought forward	<b>(234,410)</b>	36,891
Retained loss for the financial year	<b>(137,061)</b>	(271,301)
Non-equity additional finance costs	<b>66,729</b>	(64,605)
Other profit and loss movement	<b>(64,605)</b>	64,605
<b>Balance carried forward</b>	<b>(369,347)</b>	(234,410)

**12 Immediate and ultimate parent undertaking**

The company is a wholly owned subsidiary of Grand Metropolitan Public Limited Company and its ultimate holding company as at 30 June 2002 was Diageo plc. Both companies are incorporated and registered in England.

The consolidated accounts of Diageo plc for the year ended 30 June 2002 can be obtained from the Registered Office at 8 Henrietta Place, London W1G 0NB.