

GRAND METROPOLITAN PUBLIC LIMITED COMPANY

FINANCIAL STATEMENTS

30 June 2000

Registered Number: 291848



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DIRECTORS' REPORT

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2000.

Activities

The company owns subsidiaries which hold assets in global alcoholic drink, food and retail sectors. The activities carried out by the company on an ongoing basis include the purchase and sale of shareholdings, providing for the finance and management of its subsidiary undertakings, preparation and approval of financial statements, granting powers of attorney and administration of its bank accounts. The directors foresee no changes in the nature of the company's activities.

Euro

The directors do not anticipate that there will be any implications on the activities of the company on the introduction of the euro. There are no costs associated with the introduction of the euro for Grand Metropolitan PLC.

Financial

The results for the year ended 30 June 2000 are shown on page 10.

Interim dividends have been paid of £10 m (1999 - £1,487m).

Directors

The directors who served during the year were as follows:

| | |
|---------------------|--------------------------|
| P K Bentley | (resigned 30 June 2000) |
| P S Binning | |
| I S Cray | (appointed 30 June 2000) |
| Sir Anthony Greener | (resigned 30 June 2000) |
| J M J Keenan | |
| J B McGrath | |
| N C Rose | |
| D C Stainton | (resigned 30 June 2000) |
| P S Walsh | |
| J Walters | (appointed 30 June 2000) |

DIRECTORS' REPORT (continued)

Directors' emoluments

None of the directors received any remuneration during the year in respect of their services as directors of the company (1999 - £nil).

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 or any subsidiary.

The directors who held office at the end of the financial year had the following beneficial interests in the ordinary shares of 28 ^{101/108} p each in 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 (or date of appointment) | At end of year | At beginning of year (or date of appointment) | Granted in year | Vested in year | Lapsed in Year | At end of year |
| P K Bentley | 10,000 | 16,577 | 63,255 | 31,935 | 8,750 | 6,875 | 79,565 |
| P S Binning | 6,720 | 14,381 | 30,200 | 38,113 | 5,880 | 4,620 | 57,813 |
| I S Cray | 2,727 | 6,827 | 23,588 | 0 | 2,737 | 2,151 | 18,700 |
| D C Stainton | 0 | 3,750 | 44,435 | 0 | 7,278 | 5,719 | 31,438 |
| J Walters | 7,900 | 0 | 36,000 | 0 | 6,720 | 5,280 | 24,000 |

At 30 June 2000 Sir Anthony Greener, J M J Keenan, J B McGrath, N C Rose and P S Walsh were directors of the parent company, Diageo plc. Details of their beneficial interests in the shares of Diageo plc are shown in the Diageo plc Annual Report and Accounts, copies of which will be available from 8 Henrietta Place, London W1M 9AG.

The directors were granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under certain long term incentive plans (The Grand Metropolitan Restricted Share Plan ('GrandMet RSP'), the Total Shareholder Return Plan ('TSR') and the Share Incentive Plan). The GrandMet RSP vested during the year at the 56% level. The conditional rights to ordinary shares 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 parent company, Diageo plc.

DIRECTORS' REPORT (continued)

A new Senior Executive Share Option Plan ('SESOP') was introduced with effect from 1 January 2000. The combined benefits provided under the TSR and the SESOP are expected to be the same as those previously provided under the TSR. Options granted under the SESOP may not normally be exercised unless a performance condition is satisfied. The performance condition applicable to the first grant of options 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 parent company, Diageo plc.

(ii) Options

Options over ordinary shares

| | At beginning of year (or date of <u>appointment</u>) | Granted during the <u>year</u> | Exercised during <u>the year</u> | At end of <u>year</u> | Option <u>Price</u> | Market <u>Price</u> |
|-------------------|---|---|--|--------------------------|------------------------|------------------------|
| UK OPTIONS | | | | | | |
| P K Bentley | 27,138 | 41,920 | 0 | 69,058 | | |
| P S Binning | 4,121 | 41,023 | 0 | 45,144 | | |
| I S Cray | 35,384 | 33,005 | 0 | 68,389 | | |
| D C Stainton | 4,886 | 1,981 | 4,886 | 1,981 | 353 | 619 |
| US OPTIONS | | | | | | |
| J Walters | 78,928 | 65,652 | 0 | 144,580 | | |

For executive option schemes, UK grants were between 1996 and 2000 at prices between 410 pence and 518 pence with the 2000 grant being at 410 pence, and US grants were between 1996 and 1999 at prices between US\$29.38 and US\$33.63 per ADS with the 1999 grants being at \$33.63. US options were granted over ADSs at dollar prices (one ADS is equivalent to four ordinary shares); the option holdings and prices in the table are stated as ordinary share equivalents in pence. The mid-market share price of Diageo plc shares fluctuated between 384p and 696.5p during the year. The mid-market share price on 30 June 2000 was 593p.

Options granted during the year for P K Bentley and P S Binning are principally options granted under the Diageo plc Senior Executive Share Option Plan, which are subject to performance conditions, as detailed above.

DIRECTORS' REPORT (continued)

At 30 June 2000 the directors shown in the above table had an interest in 31,717,004 shares and 11,683,299 shares subject to call options held by trusts to satisfy grants made under ex-Grand Metropolitan incentive plans and Diageo incentive plans and savings-related share option schemes.

Employee involvement

The parent company is committed to the development of employee consultation and, thereby, to their greater involvement in the company's operations. The directors continue to place a high priority on good communications practices at all levels. Responsibility for ensuring that employees are informed of and, where appropriate, consulted upon matters of concern affecting their immediate jobs rests with departmental managers with support from the Human Resources function. On-site group discussions between managers and employees are encouraged.

On a wider basis, the parent company provides more general information to and for its employees concerning its performance and on economic and other matters affecting it. The methods used to disseminate such information are bulletins and related publications, including a monthly house journal. In addition, a twice yearly video presentation for employees sets out worldwide developments of the company, its products and its people. Information is also communicated when employees participate in induction or training courses, or by the circulation of information personally to all employees. The company has continued to maintain these practices during the year.

It is policy of the parent company to encourage employees to participate in a SAYE share option scheme. It is also parent company policy to enable employees to benefit from the contribution they have made to the generation of improved profits. This is done by way of a profit sharing scheme, paid in ordinary shares of Diageo plc, in which all employees are entitled to participate.

The parent company continues to support initiatives by employees in fund-raising events to assist registered charitable organisations by matching the value of the support so raised.

The parent company's managers are instructed to give sympathetic consideration when recruiting, to applications from disabled persons and to bear in mind the special needs of disabled employees in regard to training, structure of company premises and facilities and to ensure that disabled employees are not adversely affected in their career opportunities. Employees who become disabled and unable to continue in their existing jobs are given the opportunity to be retrained for suitable alternative employment.

It is recognised that the company's continuing success depends upon the quality of its employees and its policies are designed to attract, retain and motivate the best staff. This is achieved by offering equal opportunities regardless of sex, race, religion or disability.

Supplier payment policy

The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

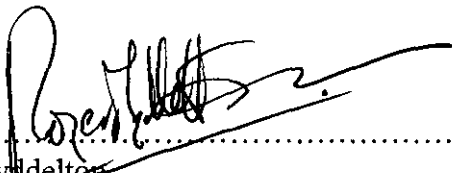
DIRECTORS' REPORT (continued)

Credit days have not been calculated for the company, as the company had no trade creditors at 30 June 2000. The company's invoices for goods and services are settled by fellow subsidiary undertakings acting as agents for the company.

Auditors

The auditors, KPMG Audit Plc, are willing to continue in office and a resolution for their re-appointment as auditors of the company will be submitted to the Annual General Meeting.

By order of the board



.....
R H Myddelton

Secretary

8 Henrietta Place, London, W1M 9AG

24 August 2000

DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the report of the auditors, 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 at the end of the financial year and of the profit or loss of the company for the financial year.

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

**AUDITORS' REPORT
TO THE MEMBERS OF GRAND METROPOLITAN PUBLIC LIMITED COMPANY**

We have audited the financial statements on pages 8 to 20.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 6, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, 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. 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 an audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

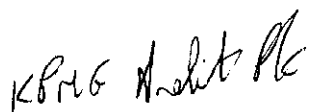
Basis of opinion

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 2000 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

ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance 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.

Tangible fixed assets

Fixed assets are depreciated on a straight line basis to estimated residual values over their expected useful lives within the following ranges:

| | |
|-----------------------|---------------|
| Fixtures and fittings | 3 to 10 years |
|-----------------------|---------------|

Reviews are carried out if there is some indication that impairment may have occurred, to ensure that fixed assets are not carried at above their recoverable amounts.

Fixed asset investments

Income from fixed asset investments is credited to the profit and loss account when it is declared by the paying company. Investments are stated individually at cost less, where appropriate, provision for diminution in values where such diminution is expected by the directors to be permanent.

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 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.

All exchange gains and losses are taken to the profit and loss account.

ACCOUNTING POLICIES (continued)

Pensions and other post employment benefits

The employees of the company are members of a group scheme managed by Diageo plc. 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 pension or other plans are treated as assets or liabilities in the balance sheet. Deferred taxation is accounted for on these assets and liabilities. Particulars of the valuations of the group schemes are contained in the financial statements of Diageo plc. Unfunded post employment medical benefit liabilities are included in provisions in the balance sheet.

Deferred taxation

Deferred taxation on differences between the treatment of certain items for accounting and taxation purposes is accounted for to the extent that a liability or an asset is expected to be payable or recoverable within the foreseeable future taking account where appropriate of the availability of group relief in the future for which no consideration will be received or paid.

PROFIT AND LOSS ACCOUNT

| | Notes | <u>30 June 2000</u> £m | <u>30 June 1999</u> £m |
|--|-------|---------------------------|---------------------------|
| Operating costs (including exceptional costs of £nil, 1999 - £17m) | 3 | (39) | (64) |
| Operating loss | | <u>(39)</u> | <u>(64)</u> |
| Income from fixed asset investments | | 3,202 | 1,360 |
| Amounts written off investments | | - | (97) |
| Net interest income/(payable) | 5 | <u>276</u> | <u>(455)</u> |
| Profit on ordinary activities before taxation | | 3,439 | 744 |
| Taxation on profit on ordinary activities | 6 | <u>(93)</u> | <u>103</u> |
| Profit on ordinary activities after taxation | | 3,346 | 847 |
| Interim dividends | 7 | <u>(10)</u> | <u>(1,487)</u> |
| Transferred to/(from) reserves | 16 | <u>3,336</u> | <u>(640)</u> |

The notes on pages 12 to 20 form part of these financial statements.

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

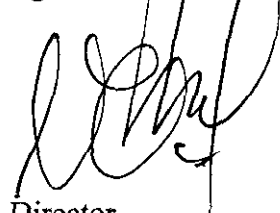
There is no difference between the profit for the year shown in the profit and loss account and the profit for the relevant periods restated on an historical basis and consequently no note of historical cost profits and losses has been presented as part of the financial statements.

BALANCE SHEET

| | Notes | <u>30 June 2000</u> | | <u>30 June 1999</u> | |
|---|-------|---------------------|---------------|---------------------|---------------|
| | | £m | £m | £m | £m |
| Fixed assets | | | | | |
| Tangible assets | 8 | 2 | | 5 | |
| Investments | 9 | <u>7,115</u> | | <u>6,985</u> | |
| | | | 7,117 | | 6,990 |
| Current assets | | | | | |
| Debtors – due within one year | 10 | 5,143 | | 878 | |
| Debtors – due after more than one year | 10 | 3,990 | | 3,768 | |
| Cash at bank and in hand | 11 | <u>73</u> | | <u>63</u> | |
| | | 9,206 | | 4,709 | |
| Creditors – due within one year | | | | | |
| Borrowings | | (1) | | (1) | |
| Other creditors | 13 | <u>(1,278)</u> | | <u>(618)</u> | |
| | | <u>(1,279)</u> | | <u>(619)</u> | |
| Net current assets | | | <u>7,927</u> | | <u>4,090</u> |
| Total assets less current liabilities | | | 15,044 | | 11,080 |
| Provisions for liabilities and charges | 14 | | (33) | | (33) |
| | | | <u>15,011</u> | | <u>11,047</u> |
| Capital and reserves | | | | | |
| Called up share capital | 15 | | 690 | | 690 |
| Reserves | 16 | | | | |
| Share premium account | | 8,695 | | 8,067 | |
| Other reserves | | 530 | | 530 | |
| Profit and loss account | | <u>5,096</u> | | <u>1,760</u> | |
| Reserves attributable to equity shareholders | | | 14,321 | | 10,357 |
| | | | <u>15,011</u> | | <u>11,047</u> |

The notes on pages 12 to 20 form part of these financial statements.

The financial statements on pages 8 to 20 were approved by the board of directors on 24 August 2000 and signed on its behalf by:



Director
N C Rose

NOTES TO THE FINANCIAL STATEMENTS

1. Compliance with new accounting standards

The financial statements comply with the following Financial Reporting Standards issued by the Accounting Standards Board.

FRS 15 – Tangible Fixed Assets. This standard addresses the measurement, valuation and depreciation of tangible fixed assets. The company has adopted the transitional arrangements of the standard and has retained the book amounts of certain tangible assets which were previously revalued. It is expected that no further valuations will be carried out.

FRS 16 – Current Tax. This standard was issued in December 1999. It specifies how current tax, in particular withholding tax and tax credits, should be reflected in financial statements.

Compliance with the above new standards has not given rise to any restatement of figures reported for prior periods.

2. Analysis of profit before taxation

The company owns subsidiaries which hold assets in the global alcoholic drink, food and retail sectors. The activities carried out by the company on an ongoing basis include the purchase and sale of shareholdings, providing for the finance and management of its subsidiary undertakings, preparation and approval of financial statements, granting powers of attorney and administration of its bank accounts. The directors foresee no changes in the company's activities. All activities were carried out in the United Kingdom.

3. Operating costs

| | <u>2000</u> | <u>1999</u> |
|---|-------------|-------------|
| | <u>£m</u> | <u>£m</u> |
| Other external charges | 22 | 50 |
| Staff costs (note 4) | 15 | 16 |
| Depreciation and other amounts written off tangible fixed assets | 3 | 3 |
| Other operating income | (1) | (5) |
| | <u>39</u> | <u>64</u> |

A cost sharing contract was established as of 1 July 1998 between Grand Metropolitan PLC and another group company. The operating costs include Grand Metropolitan PLC's share of costs incurred. Directors emoluments have been paid by Diageo plc. All staff are employed by Diageo plc or one of its subsidiaries.

In 1999 other external charges included £17m of exceptional costs incurred in respect of the savings-related share option schemes.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Staff costs

All staff are employed by Diageo plc or one of its subsidiaries.

| | <u>2000</u> | <u>1999</u> |
|----------------------------------|-------------|-------------|
| | £m | £m |
| Wages and salaries | 13 | 14 |
| Employer's social security costs | 2 | 1 |
| Employer's pension costs | <u>-</u> | <u>1</u> |
| | <u>15</u> | <u>16</u> |

5. Net interest income/(payable)

| | <u>2000</u> | <u>1999</u> |
|-------------------------------|-------------|--------------|
| | £m | £m |
| Loans from group undertakings | - | (575) |
| Loans to group undertakings | 272 | 116 |
| Other interest receivable | <u>4</u> | <u>4</u> |
| | <u>276</u> | <u>(455)</u> |

6. Tax on profit on ordinary activities

| | <u>2000</u> | <u>1999</u> |
|--|-------------|-------------|
| | £m | £m |
| UK group relief receivable | - | 102 |
| Deferred taxation | (5) | (2) |
| Adjustment to prior years taxation charges | <u>(88)</u> | <u>3</u> |
| | <u>(93)</u> | <u>103</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

Companies in the Diageo plc group generally apply group relief rules in administering their taxation positions. From 1 July 1999 the company has agreed to change its policy from paying / charging for group relief so that group relief is effected for nil consideration. As a consequence the company has neither a current tax charge nor credit for the year ended 30 June 2000. No current tax charge would otherwise have been made due to the availability of losses and investment income not being taxable. The prior year adjustment principally results from a reassessment of group relief in respect of earlier periods.

7. Dividends

| | <u>2000</u> £m | <u>1999</u> £m |
|-------------------------|-------------------|-------------------|
| Equity shares: | | |
| First interim dividend | 10 | 655 |
| Second interim dividend | <u>-</u> | <u>832</u> |
| | <u>10</u> | <u>1,487</u> |

8. Fixed tangible assets

| | <u>Fixtures and fittings</u> £m |
|----------------------------|--|
| Cost or valuation: | |
| At 30 June 1999 | 14 |
| Disposals | (2) |
| At 30 June 2000 | <u>12</u> |
| Amortisation/depreciation: | |
| At 30 June 1999 | 9 |
| Provided during the year | 3 |
| Disposals | (2) |
| At 30 June 2000 | <u>10</u> |
| Net book value: | |
| At 30 June 2000 | <u>2</u> |
| At 30 June 1999 | <u>5</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Fixed assets - investments

| | <u>Shares in Diageo plc</u> £m | <u>Subsidiary undertakings</u> £m | <u>Other investments</u> £m | <u>Total</u> £m |
|-----------------|---------------------------------------|--|------------------------------------|--------------------|
| Cost: | | | | |
| At 30 June 1999 | 1 | 7,147 | - | 7,148 |
| Additions | - | 128 | 2 | 130 |
| At 30 June 2000 | <u>1</u> | <u>7,275</u> | <u>2</u> | <u>7,278</u> |
| Provisions: | | | | |
| At 30 June 1999 | - | 163 | - | 163 |
| At 30 June 2000 | <u>-</u> | <u>163</u> | <u>-</u> | <u>163</u> |
| Net book value: | | | | |
| At 30 June 2000 | <u>1</u> | <u>7,112</u> | <u>2</u> | <u>7,115</u> |
| At 30 June 1999 | <u>1</u> | <u>6,984</u> | <u>-</u> | <u>6,985</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Fixed assets – investments (continued)

The principal subsidiary and associated undertakings and the percentage of equity owned are as follows:

| | <u>Country of incorporation</u> | <u>Principal activity</u> | <u>Percentage of shares held</u> |
|---|-------------------------------------|--|--|
| <u>Subsidiary undertakings</u> | | | |
| UDV (SJ) Limited | England | Investment holding company. | 100 |
| United Distillers & Vintners (ER) Limited | Scotland | Production, distribution, marketing, exporting and importing of spirits and wines. | 100 |
| United Distillers & Vintners (HP) Limited | England | Production, distribution, marketing, exporting and importing of spirits and wines. | 100 |
| UDV North America, Inc | United States | Production, importing and marketing of spirits and wine. | 100 |
| The Pillsbury Company | United States | Manufacturing, marketing and distribution of refrigerated dough products, frozen pizza, frozen and canned vegetables, Mexican foods, canned soups, superpremium ice cream, and foodservice baking mixes and frozen products. | 100 |
| Burger King Corporation | United States | Quick service restaurants. | 100 |
| Diageo Investment Corporation | United States | Financing company for US group companies. | 100 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Fixed assets – investments (continued)

Associated undertakings

| | | | |
|-------------------|--------|--|----|
| Moët Hennessy, SA | France | Production and distribution of spirits and wine. | 34 |
|-------------------|--------|--|----|

All percentages relate to holdings of ordinary share capital. None of the subsidiary undertakings are directly owned by Grand Metropolitan PLC with the exception of United Distillers and Vintners (HP) Limited.

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

Certain undertakings have been omitted from the lists above as they are either dormant or not material.

10. Debtors

| | 2000 | | 1999 | |
|---|---------------------------|--------------------------|---------------------------|--------------------------|
| | Due within one year £m | Due after one year £m | Due within one year £m | Due after one year £m |
| Amounts owed by subsidiary undertakings | 5,130 | 3,977 | 768 | 3,755 |
| Other debtors | 11 | - | 103 | - |
| Pension prepayments | - | 13 | - | 13 |
| Deferred taxation (note 12) | 2 | - | 7 | - |
| | <u>5,143</u> | <u>3,990</u> | <u>878</u> | <u>3,768</u> |

11. Cash at bank and in hand and overdrafts

The company has entered into a joint and several guarantee with certain other Diageo plc UK subsidiary undertakings such that any balance on the company's bank accounts within the cashpool may be offset against the bank balances or overdrafts of those companies included in the cashpool.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Deferred taxation

| | <u>2000</u> £m | <u>1999</u> £m |
|--------------------------|-------------------|-------------------|
| Provided | | |
| Pension prepayments | (4) | (4) |
| Provisions | 5 | 3 |
| Other timing differences | <u>1</u> | <u>8</u> |
| | <u>2</u> | <u>7</u> |

13. Other creditors – due within one year

| | <u>2000</u> £m | <u>1999</u> £m |
|------------------------------------|-------------------|-------------------|
| Amounts owed to group undertakings | 1,248 | 582 |
| Other creditors | 20 | 24 |
| Accruals and deferred income | <u>10</u> | <u>12</u> |
| | <u>1,278</u> | <u>618</u> |

14. Provisions for liabilities and charges

| | <u>Post employment</u> £m | <u>Disposal</u> £m | <u>Other</u> £m | <u>Total</u> £m |
|-----------------|----------------------------------|-----------------------|--------------------|--------------------|
| At 30 June 1999 | 6 | 15 | 12 | 33 |
| Profit and loss | - | (12) | 15 | 3 |
| Utilised | <u>-</u> | <u>-</u> | <u>(3)</u> | <u>(3)</u> |
| At 30 June 2000 | <u>6</u> | <u>3</u> | <u>24</u> | <u>33</u> |

Provisions at 30 June 2000 comprise:

- (a) Post employment provisions of £6m, comprising £3m (1999 - £3m) post employment medical provisions, and £3m (1999 - £3m) in respect of unfunded pension liabilities. These provisions are generally long term and the timing of their utilisation is not known.
- (b) Disposal provisions of £3m (1999 - £15m) arising from commitments in respect of businesses sold. These provisions will be utilised within the next few years.
- (c) Other provisions of £24m (1999 - £9m) represent the estimated discounted rental shortfall in respect of vacant properties, and £nil (1999 - £3m) for employee incentive plans. The vacant property provision is based on the estimated discounted rental shortfall over the terms of the leases.

15. Share capital

| | <u>2000</u> £m | <u>1999</u> £m |
|--|-------------------|-------------------|
| Authorised | | |
| Equity - 3,000,000,000 Ordinary shares of 25p each | <u>750</u> | <u>750</u> |
| Allotted, called up and fully paid | | |
| Equity - 2,759,143,946 Ordinary shares of 25p each | <u>690</u> | <u>690</u> |

On 14 March 2000 628,547 ordinary shares of 25p each were allotted for cash at a premium of £999.75 per share.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Reserves

| | <u>Share premium</u> £m | <u>Other reserves</u> £m | <u>Profit and loss account</u> £m | <u>Total</u> £m |
|--|--------------------------------|---------------------------------|--|--------------------|
| At 30 June 1999 | 8,067 | 530 | 1,760 | 10,357 |
| Retained profit for year | - | - | 3,336 | 3,336 |
| Premium on share issues, less expenses | 628 | - | - | 628 |
| At 30 June 2000 | <u>8,695</u> | <u>530</u> | <u>5,096</u> | <u>14,321</u> |

Other reserves comprise a merger reserve of £62m, a special reserve of £426m, a preference share redemption reserve of £12m, and an other reserve of £30m. The merger reserve of £62m 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. The other reserve of £30m was created in 1998, with shareholder and court approval, following the cancellation and reissue of the company's shares to Diageo plc. This reserve is distributable on agreement from all of the creditors of the company which were existing at the date of the scheme of agreement, or until such time that these creditors cease to exist.

17. Movement in shareholders' funds

| | <u>2000</u> £m | <u>1999</u> £m |
|--|-------------------|-------------------|
| Profit for the year | 3,346 | 847 |
| Ordinary dividends | <u>(10)</u> | <u>(1,487)</u> |
| New share capital issued | <u>628</u> | <u>7,455</u> |
| Net additions to shareholders' funds | 3,964 | 6,815 |
| Shareholders' funds at beginning of the year | <u>11,047</u> | <u>4,232</u> |
| Shareholders' funds at end of the year | <u>15,011</u> | <u>11,047</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Commitments

The company had minimum annual commitments under non-cancellable operating leases for land and buildings which expire after five years of £11m (1999 - £11m).

19. Contingent liabilities

The company has guaranteed certain borrowings, liabilities and commitments of subsidiaries which amounted to £1,890m, £17m and £25m respectively (1999: £2,085m, £115m and £27m respectively).

20. Post balance sheet events

On 16 July 2000 the holding company, Diageo plc entered into an agreement to sell the Pillsbury Company (an indirect subsidiary of the company) to General Mills Inc for consideration up to \$5.1 billion (£3.4 billion) and an approximate 33% equity stake in General Mills. The transaction is expected to be completed in December 2000 but is subject to regulatory review and the approval of Diageo plc's and General Mills Inc's shareholders.

21. Ultimate parent undertaking

The ultimate parent undertaking of the company is Diageo plc, a company incorporated and registered in England. The consolidated financial statements of Diageo plc for the year ended 30 June 1999, can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.