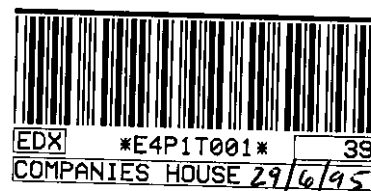


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The Guinness Group

Guinness PLC is one of the world's leading drinks companies, producing and marketing an unrivalled portfolio of international best-selling brands, such as Johnnie Walker, Bell's and Dewar's Scotch whiskies, Gordon's and Tanqueray gins, and Guinness stout itself – the world's most distinctive beer. The strategy is to focus resources on the development of the Group's alcoholic drinks businesses. The objectives are to provide superior long-term financial returns for shareholders, to create a working environment in which people can perform to their fullest potential and to be recognised as one of the world's leading consumer brand development companies.

	1994	1993	1992	1991	1990
Turnover £m	4,690	4,663	4,363	4,067	3,511
Profit before tax and exceptional items £m	915	875	920	956	847
Profit before tax £m	915	702	795	900	847
Earnings per share (diluted) pence	31.6	22.9	27.8	31.4	29.2
Dividends per share (net) pence	13.80	12.80	11.85	10.80	9.37



“...I am convinced that we emerge into 1995 better positioned than ever to take advantage of the many opportunities available to us around the world.”

Chairman's statement



In 1994 Guinness has made good progress in strengthening the position of its brands in markets all around the world – recruiting new consumers in mature markets, increasing our share of growing markets, and securing a powerful foothold in emerging markets. Our organisation, systems and physical logistics, production facilities and distribution networks have all undergone major change, delivering higher productivity and lower costs. We are moving resources closer to our markets and our consumers. Early in the year we sold our 24% indirect interest in LVMH and acquired a direct 34% interest in Moët Hennessy – an important development, clarifying the relationship between the two companies and greatly strengthening our joint venture distribution arrangements.

Financial results

Group profit before tax was £915 million, an increase of 5% on the comparable figure for 1993 before exceptional items. This represents growth after two difficult years arising from world economic and market conditions. Earnings were ahead by 48%, while earnings per share, after taking account of the effects of the reorganisation of our cross-shareholding with LVMH, were 31.6 pence, level with last year.

Once again we have demonstrated the exceptional cash generating ability of the Group. Free cash flow before dividends, at £460 million, was a record, even after resumed UK pension fund contributions, the absence of a dividend from LVMH, and lower disposal proceeds. With this cash, and the £400 million proceeds of the LVMH reorganisation, net borrowings have fallen to £1.4 billion, interest cover rose to 8 times, and gearing fell to 35% – all significant measures of the financial strength of the Group. As a result shareholders will again benefit through the recommended 8% increase in dividends to 13.80 pence net.

Guinness has continued to demonstrate its importance to the UK economy with exports at a new record level of £1.1 billion, a 10% increase. Guinness is the largest net exporter of consumer goods by a factor of 4, and the 11th largest exporter.

United Distillers maintained profits at £700 million due to strong advances in most of Latin America and in Asia, despite lower profits in Venezuela, Japan, the USA and the UK. The overall product mix improved with strong advances in Scotch whisky malts and de luxe brands. Johnnie Walker again recorded significant volume increases and we achieved an increase in our share of Scotch exports. We were delighted that UD's record of exports in the last six years was recognised in 1994 by the grant of the Queen's Award for Export Achievement.

Guinness Brewing Worldwide performed well, increasing profits by 8% to £256 million. The Guinness stout brand is growing rapidly in all the key development regions and markets, notably North America, Europe and Asia Pacific. Careful attention to costs and productivity is producing benefits in Ireland, Britain and Spain, while the market has shown encouraging signs of recovery in Malaysia. Cruzcampo achieved substantially improved operating results.

Moët Hennessy produced profits in 1994 that exceeded our original expectations, with sales volumes of both champagne and cognac ahead of last year. The revised shareholding arrangements have already resulted in a closer working relationship and there will be many opportunities to benefit further from our partnership in the future.

Strategy

Our strategy for Guinness is to concentrate on alcoholic drinks. We are confident of the growth prospects for strong premium priced brands of spirits and beer (and champagne) which can capitalise on the numerous opportunities to meet the aspirations and needs of consumers around the world. This single-minded focus gives us a distinct competitive edge, since we believe that those companies where management knows its business best, in depth and in detail, will perform most strongly in increasingly competitive conditions. We want to be recognised as one of the world's leading consumer brand development companies, by expanding our penetration of key markets, and by developing new products and businesses in our chosen field. We are managing our brands to meet the changing needs and desires of consumers and continually to attract new young adult drinkers.

We are developing our business in emerging markets, where newly affluent consumers specifically aspire to higher priced products. In UD profits from these markets grew by 21% and exceeded 10% of their total profit for the first time. We are continuing to establish strong local organisations on the ground to build enduring franchises for our brands with local consumers and particular progress was made in South East Asia, Eastern Europe, Spain, Greece and Latin America.

The majority of our growth will be organic rather than from acquisitions. The growing success of Johnnie Walker Scotch whisky and Guinness stout shows that brand building works and we will continue to increase investment behind our core brands. In addition, we are committing further resources to support new product development, and to explore new ideas and opportunities within the market for alcoholic drinks.

Shareholders

We align the activities of management with the long term interests of shareholders, many of whom are employees, growing the value and earning power of our assets, and delivering high levels of return. In periods in which earnings growth is constrained, the financial strength of the Company and its cash generating capability enable us to increase dividends at rates well in excess of both the FT index and the rate of UK inflation. In the last three years the net dividend will have grown by 28% compared with the average for the FTSE100 of 17% and UK inflation of 7.6%. It is the Board's intention that, where funds are not required for reinvestment in the business, they are passed on to shareholders in the most appropriate manner, either through dividend or share repurchase.

Alcohol, government and society

There is a growing body of evidence to show that alcoholic drinks, taken sensibly and in moderation, can benefit health and enhance the quality of life. We take active steps to communicate this message, and to foster understanding of the issue, through a number of organisations such as the Portman Group in the UK, the Century Council in the USA and the Amsterdam Group in Europe.

The British Government has continued to support Scotch whisky, one of Britain's most successful exports, in many parts of the world by helping to win market access and fight discrimination in taxation. It was, therefore, particularly disappointing that the Chancellor chose to increase the discrimination against spirits in his autumn budget. Despite this, in the review of the minimum rates of tax in the European Union which is due in 1995, we look to the British Government to support our campaign and ensure in negotiation that the current level of discrimination against spirits is not allowed to increase.

People

Finn Johnsson, formerly chief executive of Euroc, was appointed to the Board in October 1994 and became Managing Director of United Distillers in February 1995. John de Leeuw joined the Board as Human Resources Director in January 1995. Sir David Plastow has retired from the Board after eight years. During this time he has made a significant contribution to Guinness, latterly as Deputy Chairman and Chairman of the Non-Executive Committee. Dominic Cadbury has succeeded him in both roles. Floris Maljers, formerly Chairman of Unilever NV, joined the Board as a non-executive Director in September 1994. These appointments further extend the balance and international perspective of our Board.

The future success of our Company largely depends upon the skills and motivation of the people who work for us all over the world and so their development is a critical priority. We do this by coaching, by training, and by developing the organisation to enable them to accept greater responsibility than before. The appointment to the Board of a Human Resources Director reflects the importance that we attach to the development of talent within the Company.

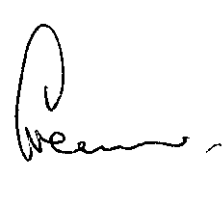
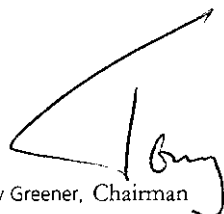
In another testing year, our people have shown their ability to initiate change in organisation structure, production processes and marketing practices. They have again demonstrated their commitment and dedication. It is on them that our confidence in the future rests, and I am deeply grateful to them.

Prospects

The US economy is growing and a number of countries in Europe are showing signs of economic upturn. Despite the difficulties in Venezuela and Mexico, we remain confident of the long term prospects in Latin America, as well as in South East Asia and other developing markets. Price competition and promotional activity at the expense of long-term franchise building have been characteristics of our industry during the recession. As consumer confidence returns, we are determined to concentrate on the development of our brands to enable us to achieve pricing levels which reflect the strength of their franchise with the consumer.

In the last two years we have made very substantial progress in equipping the Company to meet the challenge of the increasingly competitive market place which we expect during the balance of the decade. In the short-term we have substantially reduced our cost base, flattened our organisation structures and we now have high calibre management teams in UD and GBW. We have defined our long-term strategy and substantially increased the resources devoted to brand building and new product development.

As a result I am convinced that we emerge into 1995 better positioned than ever to take advantage of the many opportunities available to us around the world. We will continue to pursue our strategic priorities during 1995 and we expect to make steady progress in profit performance this year.



Anthony Greener, Chairman



“...under the Guinness Irish pubs initiative, over 500 outlets as far afield as Canada, Singapore and Finland are now introducing new consumers to the ‘craic’...”

If ever a beer could be described as truly international, it is Guinness stout. Brewed in 46 countries, and enjoyed in 140 – from Argentina to Zaire – we continue to build the brand in new territories, to open up new distribution channels and to increase its market share.

Its unique and distinctive flavour makes Guinness stout a taste that, once acquired, is hard to relinquish – and as loyal consumers know, appearance and presentation are key to the appeal and enjoyment of the brand. Our challenge is to ensure that in existing markets the consumer gets a perfect Guinness every time – and that in new markets we create the widest range of opportunities for potential consumers to acquire the taste.

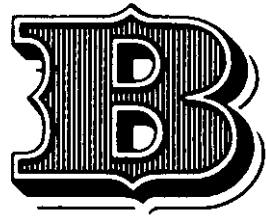
This challenge has led to the creation of the Perfect Pint initiative in the UK and Ireland. Kegging and dispense improvements are designed to deliver the beer in optimum condition, whilst a programme of trade and bar staff education aims to ensure that every pint or glass is correctly served.

Similar initiatives are underway elsewhere, for example, in Europe, which has seen consistent volume growth of over 20%. The Guinness Guild direct mail service

brings technical and promotional information – in five languages – to the owners of 1,500 outlets. And it is not just the presentation and marketing of Guinness stout that benefits; the service has also included advice on topics as diverse as cash flow management and fishing in Ireland.

Professionalism and pride in the product are only part of the enjoyment of Guinness. Atmosphere and ambience are also important, and where better than the friendly surroundings of an Irish bar? It is no longer necessary to go across the sea to Ireland to find the perfect environment; under the Guinness Irish Pubs initiative, over 500 outlets as far afield as Canada, Singapore and Finland are now introducing new consumers to the ‘craic’ – that unique Irish atmosphere of music, hospitality and conversation and, of course, the celebrated portfolio of Guinness beers.

1994 provided more than just the opportunity to sample the delights of a pint of Guinness in an Irish Pub for Jay Mulligan from Boston, Massachusetts – he actually won his own. The new landlord of Connie Doolan’s pub in Cobh, County Cork beat 30,000 other entrants from the USA in ‘Guinness’s Win Your Own Pub in Ireland’ contest. The competition was so successful it is being repeated in 1995.



brand building

Anticipation – the title of an eye – catching advertising campaign – is key to the enjoyment of the perfect Guinness, and an important part of the Perfect Pint initiative in the UK and Ireland. Further afield, new opportunities to acquire a taste for Guinness are opening through a burgeoning network of Irish pubs.

“...in the Eastern European region as a whole, UD’s Scotch whisky market share grew by around 10% in 1994.”



growing markets

Both United Distillers and Guinness Brewing Worldwide continue to seek out and pursue growth opportunities around the world. Emerging markets such as China and India have already been highlighted for long-term growth, whilst strong performance continues to confirm the development potential of markets such as Eastern and Central Europe and Latin America.

Growth opportunities such as those in Eastern Europe made excellent progress in 1994: United Distillers’ workforce there has almost doubled and a further 20% increase is planned for 1995. Subsidiary companies have opened in the Czech Republic, Poland and Hungary; representative offices have been established in Russia, Romania and Bulgaria; and formal distribution arrangements are in place in Croatia, the Ukraine, Macedonia, and the Baltic states of Estonia, Latvia and Lithuania.

The region presents a particular marketing challenge due to widespread advertising restrictions, but UD has responded with some highly creative ideas. For example, the Johnnie Walker “Kurier” magazine now has a circulation of 10,000 copies in Poland, while in Hungary, the 3-day Johnnie and Jazz festival features popular local and international musicians, performing live and on television. And in Croatia commuters can travel to town in the company of Johnnie Walker – the famous striding man and Johnnie Walker branding are now a familiar sight on Zagreb’s tram service.

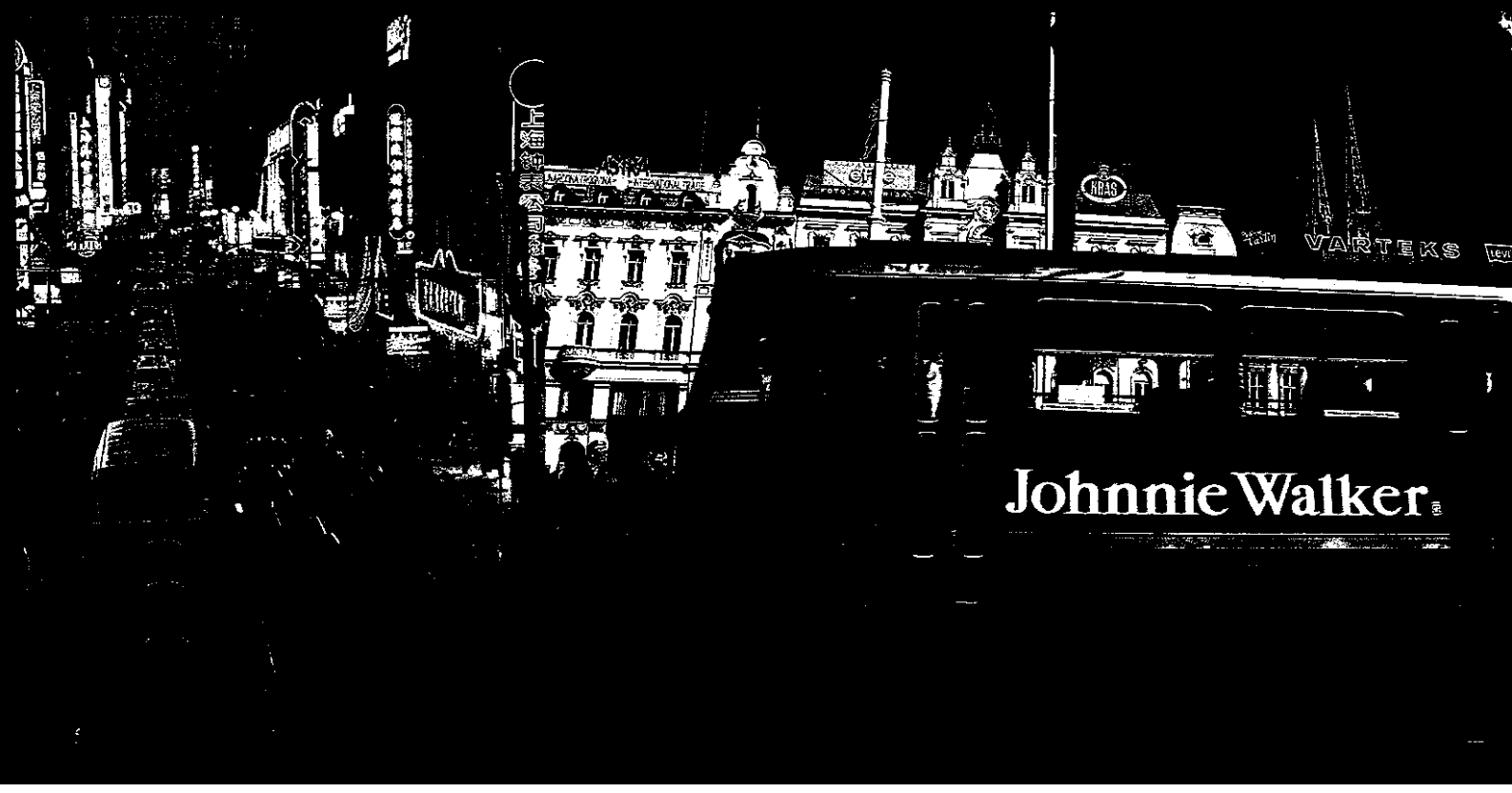
The brand ambassador concept has also proved popular in Eastern Europe. UD’s accredited experts host tasting evenings at which potential consumers can learn – and try for themselves – some of the secrets of blending Scotch whisky. Such innovative marketing programmes have meant that in the Eastern European

region as a whole, UD’s Scotch whisky market share grew by around 10% in 1994.

For Guinness Brewing Worldwide a number of more established markets such as Indonesia have been identified as having high growth potential. Indonesia presents a unique logistical challenge as it consists of over 13,000 islands, nearly half of which are inhabited. Originally the Guinness distribution system was equally fragmented.

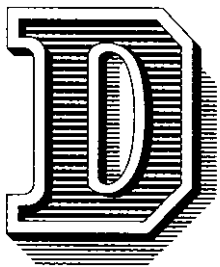
In 1991 a radically new approach was launched. This created a simplified dealer and wholesaler structure, much faster channels of communication and seven new distribution depots. It was backed up by a programme of sales training tailored to the needs of the Indonesian market. Sales of Guinness stout have doubled as a result, and market share is up by 4% to 12%.

Business has also been booming for GBW in Italy, another high growth potential market, where stout volumes increased by nearly 50% in 1994. With beer consumption at only 25 litres per capita per annum – compared to 137 in Germany and 100 in the UK – there was some scepticism about the idea of opening Irish pubs in Italy. But in fact people travel up to 30 miles to have a drink at Molly Malone’s in the tiny village of Nebbiuno, one of 75 Irish Pubs now flourishing across the country.





“A wide range of programmes covering skills as diverse as coaching and brand management is available to help unlock the potential of our people.”



developing people

To meet the future needs of our business, we must recruit and develop talented people today. For graduates such as Bobby Hui, Martha Casey and Guy Dumbrell the Guinness scheme offers both intensive development and international opportunities, while participants in the YMDP learn teamworking skills through a range of carefully observed exercises.

Guinness PLC employs over 23,000 people in more than 50 countries to serve the needs of some 200 markets, and the Company prides itself on the skills and enthusiasm of its people. But it also recognises that the talent needed to develop the Company in the future must be found and nurtured today.

Our graduate recruitment scheme, launched in the UK and Ireland in 1988, has now cast its net into centres of excellence throughout Europe, and similar schemes are running in Japan, Australia and Hong Kong, and the USA. Over 80 people apply for each available place, so selection is tough and employs the latest screening techniques. This culminates in a three-day business course where candidates work together on practical business exercises, such as planning a trade promotion or solving a complex logistical problem.

The graduate group is by no means the only source of future talent, nor the only development opportunity available. A wide range of programmes covering skills as diverse as coaching and brand management is available to help unlock the potential of our people.

One example of this is the YMDP, or Young Managers' Development Process. Young managers from any discipline, in any part of the business, can be selected to take part. Selection is not based on academic record, but on performance and promise as assessed by line managers who nominate candidates as suitable for accelerated development. Regular progress reviews are held to monitor career plans and follow up activity.

The YMDP programme was established in late 1993. So far, people from the UK, Ireland, Canada, Greece, the Netherlands, Portugal, Germany and the USA have taken part in it. Senior international line managers act as observer/coaches for the programme, to ensure that participants gain maximum benefit from the broad spread of experience and knowledge that exists within the business.

Individuals throughout the Group are encouraged to develop their own skills and talents, in order to develop their own careers and maximise their contribution to the business. In the UK employees are encouraged to study for National Vocational Qualifications (NVQs/SNVQs), and two innovative pilot programmes called "New Steps" and "Springboard" have been mounted in Scotland. These are designed to develop the personal skills and abilities of staff to help them to extend the range of their performance and to accept new responsibilities.

“To coincide with the relaunch, Bell’s mounted a £15 million marketing support programme led by a new advertising campaign, ‘Conversational Fireworks’...”

1994 was the year of ‘Whisky 500’ – the 500th anniversary of the first written record of Scotch whisky. The year also saw accelerated programmes to attract new, younger adult consumers to two of its most popular brands – Bell’s in the UK and Dewar’s in the United States.

Bell’s has been the UK’s best selling Scotch for many years. However, research indicated that young adults perceived it as a rather solitary drink, typically taken by older people relaxing in front of the fire. Three quarters of all whisky drinkers were over the age of 45, and younger adults tended to favour longer, lighter drinks consumed in a more sociable environment.

The challenge was to retain the affection that had secured Bell’s position as market leader, while making the brand attractive to a younger adult audience. After extensive research, Bell’s was re-launched in the early summer of 1994 as an 8-year old. The new blend was most enthusiastically received, and The Scotsman newspaper wrote that ‘the tone and quality has been lifted on to a higher plane of finesse than one would have dared to believe.’

To coincide with the relaunch, Bell’s mounted a £15 million marketing support programme led by a new advertising campaign, ‘Conversational Fireworks’, designed to stimulate conversation amongst potential consumers. A launch pack was mailed to 400,000 existing whisky drinkers and over 20,000 retail promotions were held. These effectively doubled sales of Bell’s

in those outlets. At least 60% of the increase came from ‘new’ whisky consumers.

The next stage of the programme will focus on young, trend-setting, independent adults, with Bell’s 8-year old being ‘seeded’ at 1,000 carefully targeted locations.

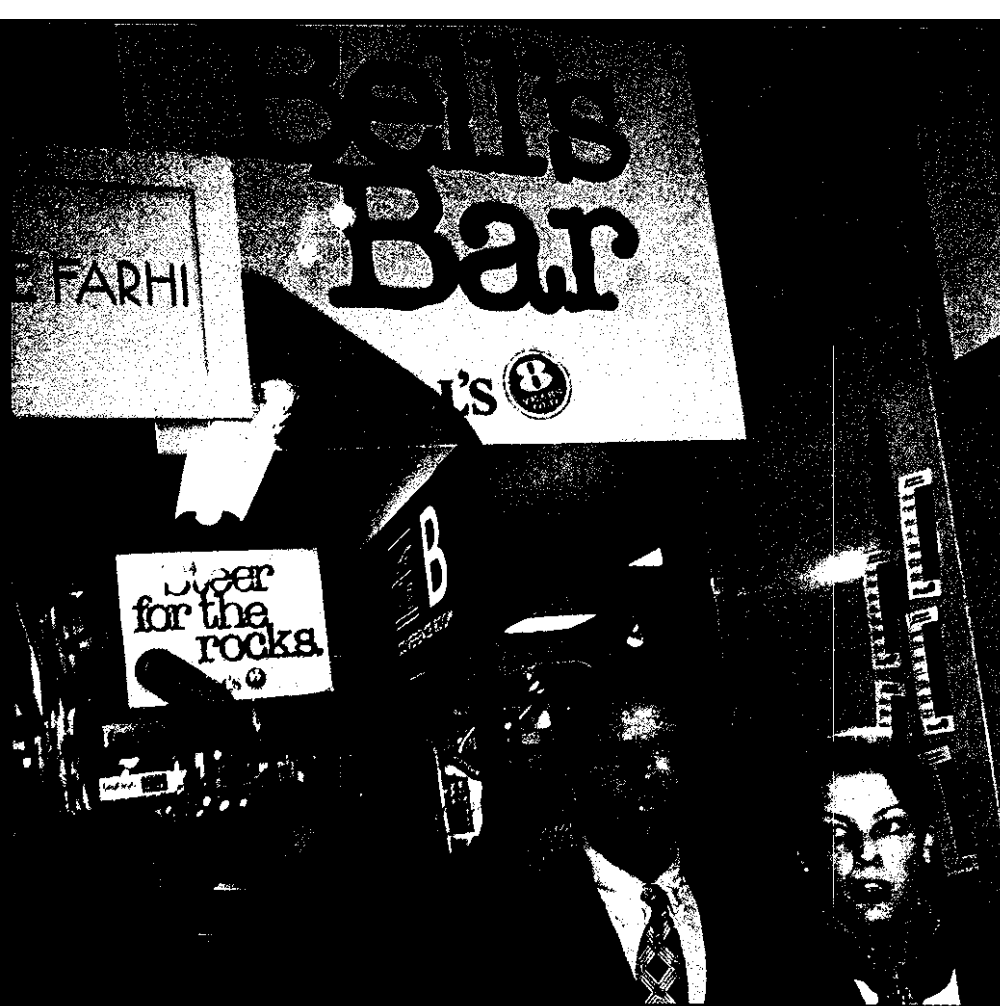
Dewar’s has also focused on this group to win new consumers in the USA. The background was very similar to that of Bell’s. Images that had attracted previous generations to the brand were considered old fashioned and tired by today’s young adults. The brand values themselves were still positive and attractive, but the manner in which they were portrayed was not considered relevant.

The problem was addressed by a fresh new style of in-bar promotion. Around 300,000 young adults sampled Dewar’s as a result of this programme, and repeat purchase was maintained at over 50%. Associated public relations campaigns focused on sponsored events to attract young adults – from avant-garde fashion shows in Boston to jazz concerts at New York’s Groove Academy. At the same time an award-winning advertising campaign was created using bold graphics, wit and humour to project situations with which the target audience could easily identify.



recruiting new consumers

Scotch whisky celebrated 500 years of heritage in 1994, but for market leaders Bell’s in the UK and Dewar’s in the USA, it was also a year of fresh new approaches to promotion and advertising. Cocktail mixability and trend-setting sponsorships helped both brands enhance their appeal to a new generation of young adult consumers.



We decided
to give
you an even
better
whisky.
8 years ago

Whereas many other whiskies are rushed out after a mere three years, Bell's is allowed to mature in the barrel for at least eight, resulting in a more distinctive, more stimulating taste. All good things come to those who wait.



You finally have a real job,
a real place
and a real boyfriend.
How about a real drink?



Dewar's





“...we now have a long-term, stable shareholding structure which allows us to work even more closely at senior and middle management levels.”

Guinness disposed of its shareholding in LVMH Moët Hennessy Louis Vuitton during 1994, acquiring instead a 34% direct stake in LVMH's wines and spirits business, Moët Hennessy (MH). As a result United Distillers has benefited from even closer co-operation through its partnership with MH.

The result of this restructuring has been that in addition to the 15 joint ventures in key areas of Asia, Japan, Europe and North America, we now have a long-term, stable shareholding structure which allows us to work even more closely at senior and middle management levels. This co-operation has been evident in the decision to create a combined UD/MH structure in Asia, where both partners will share a common support network operating out of the same offices.

At more senior levels, Guinness is represented on the MH board, allowing our two companies to work closely

together on the development of a co-ordinated strategy for markets throughout the world. The sustainable, secure basis for partnership at this level has allowed both companies to profit from the experience and vision of the other.

Put four world-leading brands together, and you have a portfolio of unparalleled potential. Johnnie Walker Scotch whisky and Gordon's gin from UD; Moët & Chandon champagne and Hennessy cognac from MH – together these four great brands represent tremendous strength. Immediate economic benefits arise from sharing distribution and administration costs, but the solid long-term rewards will come as we exploit the combined sales and marketing strength of this unique brand portfolio.

In the late 1980s UD and MH set up a series of joint networks in Asia to distribute in Japan, China, Korea, Hong Kong, Taiwan, Thailand, Singapore and Malaysia. There is a major joint venture in the USA, two in France, and a developing relationship in Mexico. The two companies continue to assess opportunities for further co-operation in a number of markets. All these are pointers to the ways in which this powerful partnership will develop in the future.

partnership

Guinness's 34% investment in Moët Hennessy has created further opportunities to develop synergies from the powerful alliance of Johnnie Walker Scotch whisky and Hennessy cognac. These brands, together with Gordon's gin and Moët & Chandon champagne, make the combined UD/MH portfolio an unbeatable partnership across 15 joint venture operations worldwide.

“...since the beginning of the various programmes, productivity across the site has more than doubled to 8,000 hectolitres per person per year.”

At the Park Royal Brewery in North West London, a £53 million investment programme was completed in 1994. This state of the art brewery now has the largest and most complex computer-controlled kegging line in the country. To maximise the benefits of such technological advances, a radical re-think of operational procedures at the brewery was required.

Flatter management structures, faster communications, a high degree of personal responsibility and multi-skilled teams have been introduced and a totally new approach to teamworking – the Guinness Star system – has been developed. The five points of the Star represent the key elements of the new philosophy – quality, safety, people, productivity and information.

The new teams have received intensive training in the operation of the plant and in their individual roles and responsibilities as team members. Tasks which previously involved a long chain of command are now dealt with on the spot. Any one operator has the power to stop the line if product quality is in any way suspect, so that a thorough investigation can be carried out.

As a result, the speed and accuracy of communications has dramatically improved and, since the beginning of the various programmes, productivity across the site has more than doubled to 8,000 hectolitres per person per year.

Teamworking has also been an important feature for United Distillers which has reorganised its production facilities in the UK including a £100 million investment in new plant and equipment. This has reduced the number of bottling plants from 7 to 4 and the number of individual lines from 95 to 66. A major restructuring programme leading to substantial productivity improvements was completed last year.

Since then UD's teamworking approach has developed through a number of new initiatives, such as a pioneering project to reduce production downtime at Leven in Central Scotland. Old Parr's unusually complex packaging made it an ideal pilot study. Detailed information about the causes rather than the symptoms of downtime on the Old Parr lines was collected and analysed by special problem-solving teams.

The teamworking approach has demonstrated that to be effective all elements of the supply chain must work in harmony, and that the teams themselves provided the critical interface between machines, methods and materials. Reliability improved by up to 25% as a result of improvements made after the study, and the lessons learnt are now being applied elsewhere.



teamwork

Guinness Brewing Worldwide and United Distillers share the same basic aims regarding production – to provide the very highest standards of product quality and service at the lowest possible cost. New working methods developed to help achieve this demonstrate that productivity and quality standards depend equally on people and technology.





LAGAVULIN

“Under the Group’s main community initiative, the Water of Life programme, over £300,000 has been committed to support water-related environmental improvement schemes.”

In line with the priorities set by the Group’s environmental policy, a clear-cut management framework has been established to meet our environmental responsibilities. A structured programme of environmental audit and follow-up procedures is in place, and we aim to surpass all relevant statutory requirements.

Beer and spirits are produced from natural products by natural processes. The by-products of their manufacture are therefore environmentally benign. Carbon dioxide released by the fermentation process is collected where practical and either re-cycled or sold. Spent grains are used as an animal food supplement, and have recently found a new use in Cameroun as a mulch on banana and pineapple plantations. Surplus yeast is sold as a food supplement for both human and animal use.

Efficient use of energy is essential to good environmental management, and furthermore makes sound business sense. All our breweries in Ireland have now been converted to natural gas, and in Dublin the brewery has recently installed a combined heat and power system. Valuable energy savings have followed. For the second year running our achievements in environmental management have gained a major Scottish environmental distinction: United Distillers’ grain distilleries won the Sunday Times/KPMG Environmental Management Award in 1994.

In Spain, Grupo Cruzcampo has commissioned new waste water treatment plants in Jaen and Valencia, and a new system to improve the quality of flue gas discharge has been installed in Seville. A new waste water treatment plant has also been installed at the Carbonero Distillery in Venezuela, which will become operational during 1995.

In Scotland, the Dailuaine Distillery’s bioplant now processes waste water from a group of neighbouring distilleries, and reports a significant improvement in the quality of the discharged water.

Under the Group’s main community initiative, the Water of Life programme, over £300,000 has been committed to support water-related environmental improvement schemes. The name derives from the Gaelic ‘Uisge Beatha’ – literally, the water of life, and the phrase from which the word ‘whisky’ is derived. In 1995 the Water of Life programme will support projects in Ireland, the UK, the USA, India, Venezuela, Grenada, the Seychelles, the Philippines, and Australia.

The projects are of three kinds – urban regeneration, wildlife conservation and the provision of clean water and sanitation. They range from satellite tracking systems for the endangered loggerhead turtle in Queensland, Australia, to the sinking of 200 foot borewells to provide safe fresh water to villagers in Andhra Pradesh, India.



environment

Guinness is dependent upon a clean environment – pure water, clean air and fertile soils – to provide the natural ingredients essential for the creation of the finest spirits and beers. Care for the environment is therefore a natural priority for all the companies in the Group.

Board of Directors



Anthony Greener



Dominic Cadbury



Brian Baldock



John de Leeuw



Sir Ian MacLaurin



Floris Maljers



Bernard Arnault



Finn Johnsson



Michael Julien



Brendan O'Neill



Helmut Sihler



Philip Yea

Directors' biographies

Anthony Greener

Appointed a non-executive Director in September 1986, he became Managing Director of United Distillers in October 1987, Group Managing Director of Guinness in May 1989, Chief Executive in January 1992 and Chairman in January 1993. He was formerly Managing Director of Dunhill Holdings. He is a non-executive Director of Reed International and Reed Elsevier. Aged 54.

Dominic Cadbury

Appointed a non-executive Director in September 1991, he became Deputy Chairman on 1 January 1995. He was Group Chief Executive of Cadbury Schweppes from 1984 until May 1993 when he became Chairman. He is also Chairman of The Economist Newspaper, and of the CBI Education and Training Affairs Committee. Aged 54.

Brian Baldock

Joined Guinness in June 1986 to head the Development division, having previously been a Director of Courage. Appointed Managing Director of Guinness Brewing Worldwide in April 1987 and Group Managing Director of Guinness in May 1989, he became Deputy Chairman in May 1992. He is a non-executive Director of Dalgety, The Brewers' & Licensed Retailers' Association, Industry in Education and The Portman Group, and Chairman of Lord's Taverners. Aged 60.

Bernard Arnault

Appointed to the Board in March 1989. He is Chairman and Chief Executive of LVMH Moët Hennessy Louis Vuitton and Christian Dior, a non-executive Director of Financière Agache, a Director of Athena Assurances and Crédit Lyonnais, Paris. He is also a Member of the Supervisory Board of Guclain. Aged 46.

Finn Johnsson

Appointed to the Board in October 1994, he became Managing Director of United Distillers in February 1995. He was formerly Chief Executive of Euroc and a Director of Swedish Match (subsequently Stora). He remains a Director of Klovern and Volvo Truck in Sweden. Aged 49.

Michael Julien

Joined Guinness in March 1987 as Managing Director, Finance and Administration, having previously been Deputy Chief Executive of Eurotunnel, and Finance Director of Midland Bank and of BICC. He became a non-executive Director in June 1988 when he joined Storehouse as Group Chief Executive, retiring from that position in July 1992. He is Chairman of First Choice Holidays and a non-executive Director of Medeva and Chiltern Financial Services. Aged 57.

John de Leeuw

Joined Guinness as Human Resources Director in March 1994, having previously held senior international personnel appointments with Philips and Rank Xerox in Holland. He was appointed to the Board in January 1995. Aged 48.

Sir Ian MacLaurin DL

Appointed a non-executive Director in September 1986. He joined Tesco in 1959 becoming Managing Director in 1973 and has been Chairman since 1985. He is a non-executive Director of National Westminster Bank. He has been Deputy Lieutenant of Hertfordshire since 1992. Aged 58.

Floris Maljers

Appointed a non-executive Director in September 1994 having previously been Chairman of Unilever NV and Vice Chairman of Unilever PLC. He remains Chairman of the Supervisory Board of Philips Electronics, Vice-Chairman of The

Supervisory Board of KLM Royal Dutch Airlines, and a member of the Supervisory Board of ABN/AMRO Bank. He is also a non-executive Director of AMOCO Petroleum (Chicago), a Governor of The European Policy Forum and a part-time Professor of Strategic Management at the Erasmus University in Rotterdam. Aged 61.

Brendan O'Neill

Joined Guinness as Director of Financial Control in July 1987, having previously been Group Financial Controller of Midland Bank. Appointed Finance Director of United Distillers in December 1987, and Managing Director of the International Region of United Distillers in January 1991, he became Managing Director of Guinness Brewing Worldwide in February 1993 and was appointed to the Board of Guinness in April 1993. Aged 46.

Helmut Sihler

Appointed a non-executive Director in July 1992. He was President and Chief Executive Officer of Henkel from 1980 until his retirement in 1992. He remains a member of Henkel's Shareholders' Committee and is Chairman of the Supervisory Boards of Degussa, Porsche and Infratest and Deutsche Post AG. He is a non-executive Director of Leipziger Messe and Ciba-Geigy and an Adviser to the S.G. Warburg Group. Aged 65.

Philip Yea

Held various senior management posts at Guinness from 1984 until 1988, when he left to become Finance Director of Cope Allman. He returned to Guinness in March 1991 as Director of Financial Control and became Finance Director of Guinness Brewing Worldwide in April 1992. He joined the Board of Guinness in April 1993 and became Finance Director in November 1993. Aged 40.

20%

Performance was particularly strong in the targeted emerging markets of Asia, Latin America and Eastern Europe, where profits were over 20% ahead of 1993 on average.

United Distillers

United Distillers (UD) profits were £700 million, maintained on 1993. This was due to strong advances in most of Latin America and in Asia, and despite a reduction of over £60 million in profit from four large markets, the USA, the UK, Japan and Venezuela where unusual or abnormal factors had specific adverse effects. Excluding those factors, operating profits were ahead of last year by an encouraging amount. Performance was particularly strong in the targeted emerging markets of Asia, Latin America and Eastern Europe, where profits were over 20% ahead of 1993 on average. UD's key brands and particularly Johnnie Walker showed excellent performance, maintaining or gaining share in key export markets.

Sales turnover and volumes

Sales turnover was £2.70 billion, 3% below the previous year (2% down at level exchange). In 1994 total sales by volume were slightly behind the previous year at 52 million cases. Overall mix of sales improved, with Scotch whisky sales holding firm at 26.9 million cases, and the de luxe category growing by 4% and single malts ahead by more than a third. The falls in volume came mostly in cheaper spirit categories, particularly in the domestic American market.

Performance of leading brands

Key brands performed well. The House of Walker, in particular, continued to show consistent growth across its range of brands, to over 10.5 million cases. Johnnie Walker Black Label (3.2 million) increased sales by 6%, while Johnnie Walker Red Label (7.1 million) recorded a 2% increase, further extending its position as the world's leading Scotch whisky brand. The recently introduced line extensions, notably Johnnie Walker Blue Label and Premier, performed strongly. Dewar's shipments (3 million) were affected by prevailing market conditions in both its key markets, the USA and Venezuela, although it has maintained share of depletions in the USA. Bell's (3.2 million) was relaunched in the UK as an eight year old product, the benefits of which will come in the future as consumers discover the extra value and quality of the new blend. In total, Bell's recorded an increase of 2% in volume sales worldwide. These arose mostly in South Africa, where it is brand leader, and in Duty Free. Tanqueray gin (1.6 million) performed exceptionally well in the US market, contributing to a 13% increase in sales worldwide. Gordon's gin (5.4 million) was affected by adverse conditions in both its major markets, the UK and USA, and declined in line with domestic gin sales. The company's single malts have continued to show rapid growth in volume. The Classic Malts have established a strong presence in the sector; they are now brand leader in three terminals at Heathrow Airport. Glen Ord is building a strong presence in its trial markets, Duty Free and France.

10.5

The combined sales of Johnnie Walker brands reached 10.5 million cases in 1994, with increases of 6% and 2% respectively for Black and Red Label. Johnnie Walker Red Label further extended its position as the world's leading Scotch whisky brand.

“UD’s key brands and particularly Johnnie Walker showed excellent performance, maintaining or gaining share in key export markets.”

Operating costs

Marketing investment rose by 3% for UD as a whole. Total investment in the leading Scotch whisky and gin brands was increased by double that rate, with particular increases for Dewar’s in the USA, Bell’s in the UK, and for Tanqueray gin, which benefited from new recruitment programmes in the USA. Marketing investment in emerging markets was also sharply increased. Fixed operating costs rose by some 5%. This reflected lower central costs – 4% down on 1993 – and higher investment in local market capability, particularly in developing and emerging markets such as South East Asia, Eastern and Southern Europe and Latin America.

Profits and margins

Taking account of these costs, as well as an improved mix of sales, exchange benefits and some higher prices, profit margins rose to 26%, compared to 25% in 1993. Overall, these elements resulted in operating profits for UD of £700 million, level with 1993, although 4% lower at level exchange.

Reorganisation

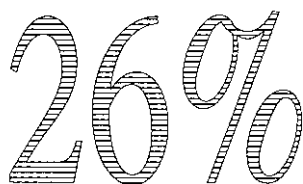
Since the year-end, UD has embarked on a major reorganisation, refocusing the business on six operating regions: Pacific (Japan and Australasia), Asia, Europe (excluding Eastern Europe), North America, Latin America and International (Africa, Middle East, Eastern Europe and India). This structure is designed to focus more closely on the developing and emerging markets of Asia and Latin America, to reduce management layers, and to move more resource and capability into the markets themselves.

Asia Pacific

Profits in Asia Pacific were maintained, with particularly strong performance in Thailand and Taiwan. Trading in Japan was depressed. There was no return of consumer confidence, and profits were lower than last year. Volume and profitability rebounded in Thailand in more buoyant economic conditions, with Johnnie Walker Black Label selling record volumes and gaining share. Volumes sold rose substantially in Taiwan, with all Walker brands gaining share. Profits in Australia recovered further, helped by strong performance by Bundaberg rum and UD’s premixed drinks range. Business is developing rapidly in a number of emerging markets in the region, notably in Indochina and the greater China area. During 1994, UD’s new joint venture with Moët Hennessy in Korea became operational and relaunched the Johnnie Walker Red Label brand.

Europe

Many markets in Europe were still affected by adverse economic conditions. Following the establishment of its own salesforce in 1994, UD performed strongly in Spain with key brands sharply higher in both volume and share. Business grew further in Greece, notably for Johnnie Walker Red Label and Gordon’s gin. Sales in Germany continued depressed, particularly those of domestic products. Asbach in Germany has taken on the agency for Fernet Branca which made a valuable contribution in its first year. UD gained share in France and increased profits, but most of the gain was in the cheaper segments. Duty Free again showed significant growth in volume, profits and market share.



Profit margins rose by 1 percentage point to 26% in 1994 as improved mix of sales and slightly higher prices offset increased investment in marketing and overheads.

“Tanqueray gin performed exceptionally well in the US market, contributing to a 13% increase in sales worldwide.”

United Kingdom

Conditions in the UK market remain extremely competitive, with the market still moving towards own-label and cheap brands in both Scotch whisky and gin. Lower volumes and intense price competition resulted in sharply lower profits. Bell's 8 year old was launched and the product was very well received. Gordon's gin lost some share to own-label and cheap brands. New advertising for Gordon's has just been introduced in the UK.

Latin America

In Latin America strong regional performance was offset by difficulties in Venezuela, and right at the end of the year, in Mexico. Following fiscal crisis early in the year, the market in Venezuela has been severely constrained by rampant inflation, exchange restrictions and continuing economic crisis. As a result profits were reduced by £30 million compared to 1993. Devaluation at the year end also had an adverse effect on trading in Mexico during the important holiday season, and UD's volumes were down, although share increased. Elsewhere in Latin America, performance was extremely strong, particularly in Brazil, Paraguay, Colombia and Uruguay. Volumes and profits were substantially higher in Latin America as a whole excluding Venezuela.

South Africa

South Africa's spirits market improved in 1994, with UD's business ahead of the previous year in volumes and profits. Bell's is the market leader by a significant margin, a position reinforced by a strong performance in 1994 with consumer sales some 10% higher.

North America

The market in North America continued its overall decline at 3%, but with increasing signs of consumer trading up as confidence returns. Price competition remained intense. Johnnie Walker Black Label and Tanqueray gin both performed extremely well, increasing sales by 4% and 13% respectively. New advertising for Tanqueray won widespread publicity and attention. Dewar's held its share of the declining Scotch market despite trade destocking. Initial responses to new recruitment campaigns for Dewar's are encouraging, and the programme has already reached over 300,000 individual consumers in North Eastern states at over 3,000 individual events. The new advertising, very successful in 1994 tests, will be rolled out nationally in 1995. Lower priced products sold through UD Glenmore were adversely affected by destocking, by intensely competitive markets, and by disruption to trading earlier in the year. Total profits from North America were somewhat lower, despite improved performance in Canada. From January 1995, Schieffelin & Somerset took over distribution of Grand Marnier, one of the leading liqueur brands in the USA.

Production improvements in Scotland

During 1994 major investment programmes to improve productivity in production and packaging in Scotland were completed. Leith, Broxburn and Inveralmond packaging halls closed and 44 of the 66 packaging lines currently operating were upgraded or replaced. New distillation was some 13% lower than in 1993, but unit costs were held level, reflecting better plant utilisation and savings in fixed costs. Cambus grain distillery closed and production was transferred to the expanded facility at Port Dundas. The number of people employed in production fell by a further 9% during the year, with significant gains in productivity.

25.6

Total GBW sales by volume, including associates, have now reached 25.6 million hectolitres, up 5% on last year and a new record.

Guinness Brewing Worldwide

Guinness Brewing Worldwide (GBW) achieved an increase in operating profits to £256 million, a rise of 8% (11% at level exchange). Operating profits were higher in the main core markets of Ireland, Spain and Malaysia. Substantial growth in volume also came from developing markets in North America, Europe and Asia.

GBW intends to become the world's most successful marketer and producer of premium beer brands. This strategy will be achieved principally by growing the Guinness stout brand worldwide. In the small number of markets where GBW is a mainstream brewer it will be achieved by growing total beer market share and profit. Overall GBW will aim to achieve world class standards of productivity and efficiency.

Sales turnover and volumes

Sales turnover was £1.99 billion, 5% ahead of 1993. At level exchange, turnover would have been 13% ahead. In 1994 total sales volume was 25.6 million hectolitres, 5% ahead of last year. Excluding acquired volume and associates, sales rose by 1% on a like-for-like basis.

Guinness stout performed well. Worldwide volume was up by 1%. The brand achieved further substantial sales increases in its development markets in North America, Europe and Asia, with new distribution arrangements in Russia, and contract brewing of Guinness in Vietnam. Guinness stout is now available in some 140 markets worldwide, and GBW products are now brewed in 46 countries.

Operating costs

Marketing investment was increased during the year to support GBW's strategy of building premium brands. Total marketing spend rose by over 20%, with the largest increases to support the Guinness stout brand. Successful new Guinness marketing campaigns were introduced in several markets, including Ireland and Great Britain. GBW has improved productivity to a significant extent. Overheads on an ongoing basis rose by considerably less than inflation for GBW in total, and were actually reduced in Britain and Spain as a result of recent initiatives. Numbers employed fell by 5% like-for-like in the year, resulting in a significant improvement in output per head. The impact of a full year of end-product duty in the UK and Ireland was to reduce profits by £7 million, £3 million more than 1993.

Ireland

The beer market in Ireland was affected at the year-end by the introduction of new drink-driving regulations, which depressed on-premise sales during the Christmas period, although they were level with 1993 for the year as a whole. Guinness Ireland's lager portfolio performed strongly, and Budweiser achieved substantial increases to establish itself as the brand leader in the critical Dublin market. Carlsberg also increased sales volume. Harp benefited by sponsoring the Irish World Cup team, and from new livery and positioning, and the brand stabilised volume. Draught Guinness and Canned Draught Guinness both performed solidly, benefiting from new advertising for the Guinness brand.

20%

Total marketing spend rose by over 20%, with the largest increase invested to support the Guinness stout brand in line with the stated strategy of growing the brand worldwide.

“In Britain, Draught Guinness increased volume sales in the year, achieving its highest ever share of total draught beer sales.”

Britain

The beer market in Britain continues to decline, falling by 1% in 1994, although Christmas trade was encouraging. Draught Guinness increased volume sales in the year, achieving its highest ever share of total draught beer sales. In 1994 significant investment behind Guinness included the introduction of a new Draught Guinness font, award-winning advertising and a nationwide Perfect Pint initiative to ensure that the brand is consistently served and presented in ideal condition. Harp was ahead of last year through its regional brewer franchisees, while Kronenbourg 1664 performed strongly in the growing premium sector. The redevelopment of the Park Royal brewery was complete by the end of 1994, and the new Brewhouse and kegging line became fully operational during the year. The new plant has produced major improvements in productivity. Output per head has more than doubled since the start of the project, and total overheads have been reduced for the second year running.

Spain

In Spain profitability at Cruzcampo recovered significantly during the year, as a result of contained operating costs, higher volumes and slightly better prices. There was some recovery in the Spanish beer market which ended the year 3% ahead of 1993 largely due to low priced imports. Recovery was stronger in the East, North and Central regions than in the South. Cruzcampo gained share in its Andalusian heartland. Nationally its volume increased by over 1%, reflecting its geographical emphasis on the South. Sales of keg, can and non-returnable bottles grew at the expense of returnable packages. Overheads fell during the year, as a result of major productivity programmes which are now well advanced in Spain.

Asia Pacific

The beer market in Malaysia recovered strongly in 1994, although it remains significantly smaller than it was before punitive taxes were imposed in 1992. Guinness stout held share. Elsewhere in Asia Pacific, Guinness stout recorded strong growth in Indonesia, Japan and Hong Kong, as well as in a number of development markets in Indochina. Total volume in the region was well ahead of 1993, producing a substantial increase in profits.

Europe and North America

Guinness stout also grew strongly in its two other development regions, Europe and North America. In Continental Europe, aided by the striking success of Irish pubs, total volume rose by over a quarter. Growth was particularly strong in Germany, Italy, Scandinavia and Eastern Europe. In North America, Guinness stout and Bass ale both recorded major increases in volume, helping Guinness Import Company to achieve an 8% increase in total sales, and holding share of the total imported beer market. Innovative marketing programmes contributed to this success, including an extremely well received competition to win a pub in Ireland. The World Cup soccer finals, held in the USA, were also linked to various brand promotion programmes for Guinness stout.

500

GBW has now helped in establishing over 500 high quality Irish pubs across the world, further building the Guinness stout brand.

Jamaica and Africa

Desnoes & Geddes in Jamaica had a satisfactory first full year as part of GBW. Volumes were in line with 1993, and Guinness stout sales were well ahead. GBW encountered difficult trading conditions in Africa, as a result of economic and political upheaval. Volume and profits were better in Ghana, but the beer market was very depressed in Cameroun and Nigeria. Guinness Ghana became a 55% owned subsidiary in March 1994.

The Irish pub concept

GBW has continued to develop its business through the high quality Irish pub concept. So far, GBW has helped in the establishment of over 500 independently owned Irish pubs across the world. Last year, the first such outlets were opened in Hong Kong and several Eastern European countries.

Moët Hennessy

Moët Hennessy, the holding company for all of the drinks interests of LVMH Moët Hennessy Louis Vuitton, increased sales turnover by 4% to FF11.7 billion as a result of higher volume sales for both its main categories, champagne and cognac. Champagne performed strongly in the USA, Germany, the UK and France, all important markets, and increased worldwide volume sales by 10% to 47.5 million bottles. In cognac, volumes grew strongly in the developing markets of Asia and stabilised in Japan, resulting in increased worldwide volume sales 7% higher at 2.6 million cases.

Operating profits rose 8% to FF837 million for Champagne and 3% to FF1,969 million for cognac. Profit before interest and tax for Moët Hennessy, after central costs and other income, were FF2,620 million, ahead of projections made at the time of the reorganisation of the Group's interests with LVMH in April 1994. After financing costs of FF427 million, the pretax profits of Moët Hennessy SA were FF2,193 million.

After adjustments to bring these results into line with UK generally accepted principles, and the Group's own accounting policies, the contribution of the 34% holding in Moët Hennessy to the profits of Guinness PLC in 1994 was £89 million.

34%

On 29 April 1994 the reorganisation of the relationship with LVMH was completed. Since that date our investment in our French partners has been concentrated solely in a direct holding of 34% in Moët Hennessy, leading to an even closer co-operation between the two companies.

“Free cash flow rose to £460 million,
a new record.”

Financial Review

Profit and loss

Group turnover increased by 1% to £4.69 billion. Excluding the adverse effects of exchange rate movements turnover was 3% higher.

Profit before interest and taxation, excluding Moët Hennessy (MH) and LVMH, increased by 2% to £956 million. Last year's figures included £20 million of restructuring costs in UD. Adjusting for this and for the effects of exchange comparable trading profit is 3% below last year.

The Group's attributable share of the profit before taxation of MH amounted to £89 million. This figure comprises 24% of the results of MH prior to completion of the reorganisation of our shareholding on 29 April 1994, and 34% thereafter. These results have met the Group's expectations at the time of the announcement of the proposed restructuring.

No profits have been included from the other businesses of LVMH in the period prior to disposal as those investments had ceased to be held for the long term. The Group has recognised a credit to the net interest charge of £12 million by discounting that part of the LVMH proceeds attributable to these businesses.

The exceptional item of £173 million arising on disposal of the investment in LVMH in 1994 is offset by the provision of £173 million made in 1993.

The net interest charge fell by 31% to £130 million reflecting the net cash proceeds of some £400 million arising from the restructuring of the LVMH relationship, the benefit of the Group's continuing strong cash generating performance, a lower level of fixed rate debt and the £12 million discounting income.

The average cost of the Group's net debt fell from 9.7% to 9.1% (after adjusting for the discounting income) due to lower European interest rates in the early part of the year and the reduced level of fixed rate borrowing.

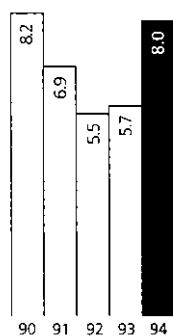
Interest cover (the number of times profit before interest, exceptional items and taxation is greater than the net interest charge) improved to 8.0 times in 1994 from 5.7 times.

Profit before taxation increased by 30% to £915 million. Excluding the exceptional charge in 1993, profit before taxation was up 5% and 2% at comparable exchange rates.

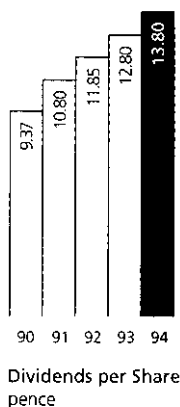
The effective rate of taxation in 1994 was 27% of profit before taxation, down from 29% in 1993. The lower rate reflects the increasing proportion of profits earned from operations in areas of low taxation and the benefit of the full merger of our Spanish brewing interests completed in 1993. The standard rate of UK taxation is 33%.

Earnings increased by 48% to £641 million and are up 6% excluding the exceptional charge in 1993.

Diluted earnings per share (EPS) increased by 38% to 31.6p. Excluding exceptional items, diluted EPS was level with 1993. As set out in the circular to shareholders dated 7 February 1994, the effect of the restructuring of the LVMH relationship was to dilute 1993 proforma earnings per share by approximately 4%.



Interest Cover times
(before exceptional items)



A final dividend of 9.90p per share has been proposed, which would make a total dividend for the year of 13.80p, an 8% increase from 12.80p in 1993. Dividend cover, excluding exceptional items, at 2.3 times is still better than the FTSE100 1994 average despite the increase in dividends ahead of earnings growth.

Recognised gains and losses

In addition to profit attributable to shareholders for 1994 of £641 million, up 48%, the Group recognised an adverse exchange movement on net assets of £49 million as a result of sterling strengthening against currencies in which the Group's net assets were not fully hedged by currency borrowings.

Cash flow

Free cash flow before dividend payments rose to £460 million, a new record. The increase of £19 million over 1993 was achieved despite the resumption of normal contributions to the UK pension fund of some £30 million, no dividends being received from either LVMH or MH during 1994 compared to £30 million in 1993, and the 1993 disposal proceeds of £25 million from selling two Spanish properties. Capital expenditure to be incurred in 1995 is expected to be at similar levels to 1994 and will be financed out of free cash flow from operations.

Free cash flow after dividend payments was £197 million, level with 1993.

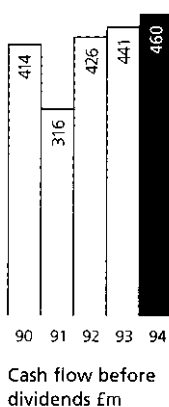
Net debt

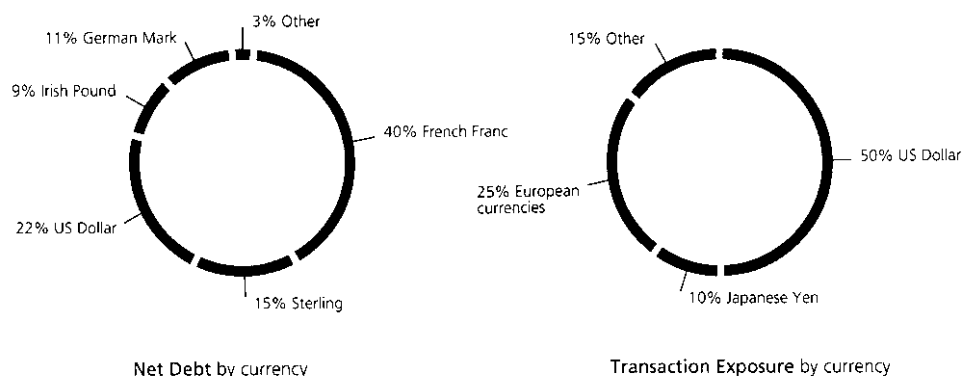
Net debt fell by £459 million during 1994 to £1,415 million at 31 December 1994. Out of the free cash flow after dividends of £197 million, proceeds from share issues of £24 million and the net proceeds arising on the reorganisation of the LVMH relationship, £123 million was used to purchase investments. These were principally the acquisition of the Haig trademark in the UK, minority interests in subsidiaries in Venezuela and Mexico and an option to repurchase £75 million of the Group's 10⁵/₈% Eurobond 1997 at a pre-determined price. The remainder was used to reduce debt. Exchange had an adverse effect, increasing net debt by £39 million.

Gearing improved to 35% from 49% at 31 December 1993.

Treasury policies

The Group Treasury department manages currency exposures and financing. As a broad principle, and with exchange controls permitting, the Group borrows centrally on behalf of its overseas subsidiaries and lends to Group companies on commercial terms. All borrowings and foreign exchange activities are undertaken as a result of underlying trade transactions and with financial instruments approved by the Board. Group Treasury does not operate as a profit centre; it reports regularly to the Board and is subject to periodic independent reviews and audits both internally and externally.





Funding

The Group's strong financial position enables it to borrow actively on the wholesale capital markets both on long and short-term bases with approximately 79% of debt due for repayment in more than one year. Approximately 90% of total borrowings are through the capital markets through bonds, private placements and commercial paper. The Group has substantial committed bank facilities, which amounted to approximately £2,350 million at 31 December 1994 excluding short-term commercial paper, and can also access funds from relationship banks on an uncommitted basis to support working capital requirements. The Group's current credit ratings from Standard & Poors and Moody's for long-term debt are AA- and Aa2 respectively (short term: A1+ and P1). Surplus cash is invested with highly rated counterparties.

There are no material restrictions on the Group's ability to transfer funds from one part of the Group to another.

Currency of borrowings

The Group balance sheet can be significantly affected by currency translation movements. Unless there is an unreasonable cost penalty, the Group seeks to match the currency of its borrowings with that of its major overseas net assets. At 31 December 1994 85% of net debt was in currencies other than sterling.

Fixed and floating rate borrowings

The interest rate exposure is managed by the use of fixed rate debt, interest rate swaps and caps and related instruments. The Group seeks to manage the effect of interest rate volatility and approximately 55% of gross borrowings are currently fixed for more than one year. A 1% movement in the floating interest rates of all the major currencies in which the Group has borrowings would impact profit before taxation by less than 1%.

Managing transaction exchange exposure

The Group has a conservative policy of hedging future years' transaction flows, generally up to twelve months in advance, using a combination of forward rate contracts, options and other financial instruments. The approximate sterling value of foreign currency transactions in 1994 was £600 million with around 50% being US dollars, 10% in Japanese yen, 25% in European currencies and the remainder in other currencies, including some where forward cover may be difficult to obtain. The make-up of 1995 exposures is expected to be broadly similar. Taking account of hedging in place and exchange rates prevailing in mid March 1995, it is the Group's expectation that transaction exchange in 1995 will be some £5 million adverse to 1994.

In 1994, the average rates of exchange across the Group were approximately 2% adverse to 1993 whereas 1994 hedging activities benefited the Group's results by 4%. This largely reflects the fact that a substantial portion of 1993 hedging was in place prior to sterling's devaluation in 1992. For example, the US dollar achieved rate of \$1.50 was 6% better than 1993 whereas the average rate of \$1.55 was 3% adverse.

“The Group has a conservative policy of hedging future years’ transaction flows, generally up to twelve months in advance.”

Managing translation exchange exposure

The results of overseas subsidiaries are translated at average rates except where hedging has been put in place. The approximate sterling value of overseas subsidiaries’ profit before taxation in 1994 was £380 million partly offset by currency interest payments. After deducting interest, the net profit translation exposure was approximately £250 million with over half in European currencies. Taking account of hedging in place and exchange rates prevailing in mid March 1995, it is the Group’s expectation that translation exchange in 1995 will be some £5 million to £10 million adverse to 1994.

Adoption of new accounting standards

The Group has adopted for the first time the following Financial Reporting Standards (FRS): FRS 4 – Capital Instruments, FRS 5 – Reporting the Substance of Transactions, FRS 6 – Acquisitions and Mergers and FRS 7 – Fair Values in Acquisition Accounting. The accounting for the acquisition of MH complies fully with FRS 7.

Brands

Brands represent the Group’s most valuable asset.

Acquired brands are only recognised on the balance sheet where they have a substantial and long-term value, title is clear, brand earnings are separately identifiable, the brand could be sold separately from the rest of the business and where the brand achieves earnings in excess of unbranded products.

Since only major acquired brands are included on the balance sheet, internally generated brands, including Guinness stout, are excluded, despite their immense value to the Group. The cost of acquired brands included in the balance sheet amounts to £1,824 million, which includes £429 million in respect of MH brands. The economic lives and the value of brands are reassessed on an annual basis. The 1994 valuation indicated that the capitalised brands are worth significantly more than the value included in the balance sheet.

Going concern

The Directors consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements. In forming this view the Directors have reviewed the Group’s Budget for 1995 and outline projections for the subsequent two years, including capital expenditure plans and cash flow forecasts. The Directors have satisfied themselves that the Group is in a sound financial position and that sufficient borrowing facilities will be available to meet the Group’s foreseeable cash requirements.

Directors, committees and officers

Board of Directors

Anthony A Greener,* Chairman
N Dominic Cadbury, Deputy Chairman
Brian F Baldock,* Deputy Chairman
Bernard J Arnault
Finn Johnsson*
Michael F Julien
John D de Leeuw*
Sir Ian C MacLaurin DL
Floris A Maljers
Brendan R O'Neill*
Helmut Sihler
Philip E Yea*

* Executive

Group Secretary

Geoffrey W King, LLB FCIS

Principal board committees

Non-Executive Committee

N D Cadbury, Chairman
M F Julien
Sir Ian C MacLaurin
F A Maljers
H Sihler

Executive Committee

A A Greener, Chairman
B F Baldock
F Johnsson
J D de Leeuw
B R O'Neill
P E Yea

Audit Committee

M F Julien, Chairman
N D Cadbury
Sir Ian C MacLaurin
H Sihler

Nomination Committee

A A Greener, Chairman
N D Cadbury
M F Julien
F A Maljers
Sir Ian C MacLaurin
H Sihler

The Group Secretary is Secretary
of all board committees.

Registered office

39 Portman Square
London W1H 0EE
Tel: (0171) 486 0288
Fax: (0171) 935 5500

Registrar

Ian Brockie, FCIS
33 Pinkhill
Edinburgh EH12 7BA
Tel: (0131) 316 4100
Fax: (0131) 334 6378

Irish branch registrar

Marion J Walsh, BL
St. James's Gate
Dublin 8
Tel: (00 353 1) 453 3645
Fax: (00 353 1) 453 6938

Auditors

Price Waterhouse
Southwark Towers
32 London Bridge Street
London SE1 9SY
Tel: (0171) 939 3000
Fax: (0171) 378 0647

Company number

23307

Report of the Directors

The Directors submit their Report and the audited financial statements for the year ended 31 December 1994.

Group results and transfer to reserves

Profit before taxation amounted to £915 million. The profit attributable to ordinary shareholders amounted to £641 million which, after dividends of £279 million, resulted in a transfer to reserves of £362 million.

Dividends

The Directors recommend a final dividend of 9.90p (1993 – 9.18p) net per 25p Ordinary Share to be paid on 23 May 1995 to those members on the register at the close of business on 24 April 1995.

An interim dividend of 3.90p (1993 – 3.62p) was paid on 10 November 1994. If the final dividend recommended is approved the total ordinary dividend for the year will amount to 13.80p net per share (1993 – 12.80p). With related tax credits as set out in Note 10 to the Group accounts which accompany this Report on page 53, this represents a gross distribution of 17.25p (1993 – 16.00p).

Business and principal activities

The Group's principal activities are the distilling and marketing of Scotch whisky, gin and other spirits, and the brewing and marketing of beer. The Board intends to continue to concentrate on the development of these core international beverage businesses, which are reviewed in detail in the Operating and Financial Review which accompanies this Report on pages 24 to 33.

Major development during the year

On 25 February 1994 shareholders gave their approval for the Group to restructure its interest in LVMH. As a result the Group sold its indirect 24% interest in LVMH to the Arnault Group for £1,354 million and acquired a direct 34% shareholding in Moët Hennessy, the wines and spirits business of LVMH, for £945 million. The financial effects of these transactions are shown in Notes 5 and 29 to the Group accounts which accompany this Report on pages 47 and 64 respectively. A shareholders' agreement with LVMH to govern the interests in Moët Hennessy was also completed and subsequently, as agreed, LVMH reduced its shareholding in Guinness to 20%.

Purchase and cancellation of Ordinary Shares

At the 1994 Annual General Meeting shareholders gave the Company renewed authority to purchase a maximum of 200 million Ordinary Shares of 25p each. During the year under review, and between the year end and the date of this Report, the Company has made no purchases of its own shares. A resolution seeking renewal of the authority will be put to the forthcoming Annual General Meeting.

Corporate governance

The Company complies with the Code of Best Practice incorporated in the Report of the Cadbury Committee on The Financial Aspects of Corporate Governance. The Directors acknowledge their ultimate responsibility for ensuring that the Group has in place a system of controls, financial and otherwise, that is appropriate to the various business environments in which it operates.

These are designed to give reasonable assurance with respect to:

- the reliability of financial information used within the business or for publication, and the maintenance of proper accounting records;
- the safeguarding of assets against unauthorised use or disposition; and
- the businesses being operated efficiently and effectively.

The Group operates within a control framework developed and refined over a number of years and communicated throughout the Group by means of various procedures manuals. These lay down common accounting policies and financial control procedures, in addition to controls of a more operational nature. Of particular importance are those that relate to:

- the definition of the organisation structure and the appropriate delegation of responsibility to operational management;
- the definition of authorisation limits, financial and otherwise;
- the setting of detailed annual budgets and the monthly reporting of actual results against them;
- capital expenditure and investment procedures followed by post-completion appraisals; and
- physical and computer security matters and contingency planning.

Operating units are required to confirm that they comply in all material respects with these procedures.

The Audit Committee comprises four non-executive Directors. The Chairman and Finance Director normally attend the meetings but the Committee also meets with the external auditors without management present. The Committee operates under written terms of reference and its duties include the detailed review of financial statements prior to their recommendation to the Board for approval.

The Group Internal Audit function formally reports to the Audit Committee which approves its plans in advance and reviews the conclusions of its work. Lessons learned are disseminated within the Group as appropriate. Audit plans are drawn up based on an assessment of the control risks in each operating unit and their materiality in a Group context. The Audit Committee has reviewed the system of internal controls and has reported to the Directors on the result of this review. Accordingly, the Directors are satisfied that the Group continues to have an effective system of internal controls. The Group accounts have been prepared on the basis that the Group is a going concern and the details are set out in the Operating and Financial Review which accompanies this Report on page 33.

Employment policies

The Group recognises that its continuing success in a competitive world depends on the quality and motivation of its employees. Employment policies are designed to attract, retain and motivate the very best people, recognising that this can only be achieved through offering equal opportunities regardless of sex, race, religion or disability. Good and effective employee communications are essential, and throughout the businesses worldwide the policy is to promote the understanding and involvement of all its employees in its business aims and performance.

Report of the Directors

Performance criteria under executive share option scheme

As reported last year the Non-Executive Committee has established performance criteria which must be satisfied before options under the relevant executive share option scheme may be exercised. In respect of grants made under such scheme in 1994, these are that the increase in the Guinness share price since grant of the option has exceeded the increase in the FTSE100 index for a continuous period of at least thirty days following maturity and that the growth in EPS has exceeded the growth in RPI in the relevant period.

More detailed information about the operation of these criteria is contained in Note 7(F) to the Group accounts which accompany this Report on page 51.

Research and related activities

The Group recognises the importance of investing in research and development programmes which bring innovative improvements to the Group both in the products supplied to the consumer and in production techniques.

As well as supporting the Group's production units in optimising and controlling process activities, research teams also investigate the qualities and properties of raw materials, plant design, suitability of packaging materials, environmental issues, the development of new products and packaging research and planning for the operating units.

Specifically in the area of new product development, increased resource has been earmarked for work on line extensions and on new full and low strength spirits products.

Fixed assets

Changes in tangible fixed assets during the year are set out in Note 14 to the Group accounts which accompany this Report on page 55.

Contributions for charitable and political purposes

The Group's contribution for charitable purposes during 1994 was £2.9 million (1993 - £2.2 million) of which £1.8 million (1993 - £1.8 million) was in the UK.

It is not the Group's policy to make payments for political purposes.

Support for the arts

Guinness sponsored the Summer Exhibition at the Royal Academy in London in 1994 for the fourth successive year and continued its support of English National Opera by sponsoring a new production of Smetana's "Two Widows". In addition, the Company continued to support work by British artists and companies overseas including sponsoring a concert in Beijing by the Academy of London, and the London Chamber Players' tour to Spain.

Environmental policies

The Group is dependent upon a healthy environment to provide the natural ingredients vital to the production of the finest spirits and beers. Accordingly, the Group is committed to the protection and enhancement of the environment. Overall responsibility for environmental performance is vested with Mr B F Baldock, Deputy Chairman. A specialist environmental function within the Group has operational responsibility for all environmental issues. A Group Environmental Statement and Policy has been issued and communicated to employees, and a variety of employee initiatives are being supported.

Board of Directors

The names of the Directors of the Company are shown on page 34. Professor F A Maljers and Mr F Johnsson were appointed Directors on 15 September and 1 October 1994 respectively and Mr J D de Leeuw was appointed on 1 January 1995; each will seek election at the forthcoming Annual General Meeting.

Sir David Plastow retired from the Board on 31 December 1994. Mr B J Arnault, Mr N D Cadbury and Mr M F Julien retire by rotation at this year's Annual General Meeting, and each being eligible, will offer himself for re-election.

None of the Directors, with the exception of Mr B J Arnault who had a material interest in the transactions which were approved at the Extraordinary General Meeting on 25 February 1994 as set out in Note 16 to the Group accounts which accompany this Report on page 57, had a material interest in any significant contract with the Company, or any subsidiary, during the year.

Directors' interests

The statement of Directors' interests is contained in Note 7(F) to the Group accounts which accompany this Report on pages 51 and 52.

Notifiable interest

As at the date of this Report the Company has been notified that LVMH Moët Hennessy Louis Vuitton S.A. is interested in 403,375,290 Ordinary Shares representing 19.98% of the Company's issued share capital.

Directors' and officers' liability insurance

The Company purchases liability insurance covering the Directors and officers of the Company and its subsidiaries.

Annual General Meeting

The Annual General Meeting will take place at the Royal Lancaster Hotel, Lancaster Terrace, London W2 on Thursday 18 May 1995 at 3.00pm. Full details are contained in the notice of meeting which accompanies this Report on pages 75 and 76.

Personal Equity Plans

The Company has two Personal Equity Plans ("PEPs") managed independently by Bank of Scotland. As at the date of this Report 1,526 investors have taken out a Single Company PEP and 583 have taken out a General PEP and the total value of shares invested in these PEPs is £7.6 million.

ProShare award

On 14 December 1994 the Company received the 1994 ProShare award for services to private investors, in recognition of the breadth and quality of its communications and dealings with shareholders.

Income and Corporation Taxes Act 1988

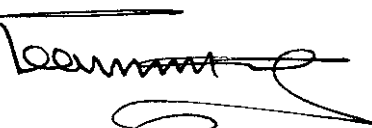
The Company is not a close company as defined by the provisions of this Act.

Auditors

The Auditors, Price Waterhouse, have expressed their willingness to continue in office and a resolution for their re-appointment, also authorising the Directors to fix their remuneration, will be proposed at the Annual General Meeting.

By Order of the Board,
G W King, Group Secretary

22 March 1995



Statement of Directors' responsibilities

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

The Directors consider that, in preparing the financial statements on pages 38 to 70, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that all accounting standards which they consider to be applicable have been followed.

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

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

Auditors' Report to the members of Guinness PLC

We have audited the financial statements on pages 38 to 70 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on page 42.

Respective responsibilities of Directors and Auditors

As described above, 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1994 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Chartered Accountants and Registered Auditors
Southwark Towers, 32 London Bridge Street, London SE1 9SY
22 March 1995

Price Waterhouse

Report by the Auditors to the Directors of Guinness PLC on corporate governance matters

In addition to our audit of the financial statements we have reviewed your statements on page 35 concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to the Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial controls or corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion your statements on internal controls on page 35, other than your opinion on the effectiveness of the system of

internal controls and your statements on non-financial internal controls which are outside the scope of our report, and on going concern on page 33 have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for Directors) and are not inconsistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain Directors and officers of the Company and examination of relevant documents, your statement on page 35 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review.

Price Waterhouse

Chartered Accountants
Southwark Towers, 32 London Bridge Street, London SE1 9SY
22 March 1995

Price Waterhouse

Group profit and loss account

For the year ended 31 December 1994	Notes	1994 £m	1994 £m	1993 £m	Growth %
Turnover (continuing operations)	1		4,690	4,663	1
Net trading costs	2		(3,734)	(3,725)	
Profit before interest and taxation (excluding Moët Hennessy (MH) and LVMH) (continuing operations)	1		956	938	2
Share of profit before taxation of MH	3		89	–	
Share of profit before taxation of LVMH	4		–	125	
Disposal of investment in LVMH	5	(173)			
Provision against investment in LVMH made in 1993		173			
				–	(173)
Profit before interest and taxation			1,045	890	17
Net interest charge	8		(130)	(188)	
Profit on ordinary activities before taxation			915	702	30
Taxation on profit on ordinary activities	9		(243)	(247)	
Profit on ordinary activities after taxation			672	455	48
Minority interests (equity)			(31)	(22)	
Profit for the financial year			641	433	48
Dividends	10		(279)	(258)	
Retained earnings			362	175	
EARNINGS PER SHARE	11				
Basic earnings per share			31.8p	22.9p	39
Diluted – before exceptional items			31.6p	31.7p	–
Disposal of investment in LVMH			–	(8.8)p	
Diluted earnings per share			31.6p	22.9p	38
DIVIDENDS PER SHARE	10				
Paid or payable			13.80p	12.80p	8
Gross equivalent			17.25p	16.00p	
Interest cover (times, before exceptional items)			8.0	5.7	
Dividend cover (times, before exceptional items)			2.3	2.5	

Group balance sheet

At 31 December 1994	Notes	1994 £m	1994 £m	1993 £m	1993 £m
NET ASSETS					
Fixed assets					
Acquired brands at cost	13		1,395		1,395
Tangible assets	14		1,784		1,725
Investment in MH	15	900		—	
Investment in LVMH	16	—		1,282	
Other long term investments	17	149		157	
			1,049		1,439
			4,228		4,559
Current assets					
Stocks	18	1,858		1,822	
Debtors	19	1,272		1,239	
Cash at bank and in hand		476		399	
		3,606		3,460	
Creditors (amounts falling due within one year)					
Short term borrowings	20	(778)		(907)	
Other creditors	21	(1,441)		(1,455)	
		(2,219)		(2,362)	
Net current assets					
			1,387		1,098
Total assets less current liabilities					
			5,615		5,657
Creditors (amounts falling due after more than one year)					
Long term borrowings	20	(1,113)		(1,366)	
Other creditors	22	(187)		(171)	
			(1,300)		(1,537)
Provisions for liabilities and charges	23		(256)		(282)
Total net assets	12		4,059		3,838
EQUITY					
Capital and reserves					
Called up share capital	24(B)		505		503
Share premium account	24(B)		544		522
			1,049		1,025
Other reserves	25(A)		2,037		2,346
Profit and loss account	25(A)		2,182		1,587
Goodwill	25(B)		(1,321)		(1,229)
Shareholders' funds			3,947		3,729
Minority interests (equity)			112		109
Total equity			4,059		3,838

Approved by the Board on 22 March 1995.

A A Greener, Chairman
P E Yea, Finance Director

Group cash flow statement

For the year ended 31 December 1994	Notes	1994 £m	1993 £m Restated
Net cash inflow from operating activities	26 (A)	970	957
Interest received		35	44
Interest paid		(183)	(235)
Dividends received from associated undertakings		25	51
Dividends paid to minority shareholders in subsidiary undertakings		(20)	(17)
Dividends paid to ordinary shareholders		(263)	(244)
Net cash outflow from returns on investments and servicing of finance		(406)	(401)
United Kingdom corporation tax paid		(87)	(114)
Overseas tax paid		(75)	(72)
Total tax paid		(162)	(186)
Net cash inflow before investing activities		402	370
Purchase of tangible fixed assets	26 (B)	(221)	(214)
Sale of tangible fixed assets		16	41
Investment in MH	26 (C)	(945)	-
Purchase of subsidiary undertakings	26 (D)	(17)	(42)
Other investments	26 (D)	(106)	(56)
Disposal of investment in LVMH	26 (C)	1,344	-
Other disposals		1	9
Net cash inflow/(outflow) from investing activities		72	(262)
Net cash inflow before financing		474	108
Proceeds of new borrowings		106	214
Borrowings repaid		(425)	(280)
Issue of shares (employee share schemes)		24	27
Net cash outflow from financing	26 (E)	(295)	(39)
Increase in cash and cash equivalents	26 (E)	179	69
Analysis of free cash flow			
Net cash inflow before investing activities		402	370
Purchase of tangible fixed assets		(221)	(214)
Sale of tangible fixed assets		16	41
Free cash flow (after dividends)		197	197
Free cash flow (before dividends)	26 (F)	460	441

Dividends paid to minority shareholders in subsidiary undertakings are separately disclosed this year and accordingly net cash inflow from operating activities in 1993 has been restated from £940m to £957m and the net cash outflow from returns on investments and servicing of finance has been restated from £(384)m to £(401)m.

Statement of total recognised gains and losses

	1994	1993
For the year ended 31 December 1994	£m	£m
Profit for the financial year attributable to shareholders	641	433
Share of LVMH profit after taxation relating to the Group not recognised in the profit and loss account	–	26
Exchange adjustments	(49)	(145)
Total recognised gains and losses	592	314

Note of historical cost profits and losses

There is no material difference between the reported profit for 1994 and 1993 shown on page 38 and the profit for those years restated on an historical cost basis.

Reconciliation of movements in shareholders' funds

	1994	1993
For the year ended 31 December 1994	£m	£m
Profit for the financial year attributable to shareholders	641	433
Dividends	(279)	(258)
Retained earnings	362	175
Other recognised gains and losses relating to the year (net)	(49)	(119)
New share capital issued	24	27
Provision against value of LVMH goodwill made in 1993	(146)	146
Goodwill transferred to the profit and loss account on disposal of investment in LVMH	187	–
Goodwill deducted from shareholders' funds on acquisition of investment in MH	(104)	–
Goodwill deducted from shareholders' funds on other acquisitions and disposals	(29)	(48)
Attributable share of associates' reserve movements	(27)	(23)
Net increase in shareholders' funds	218	158
Shareholders' funds at start of year	3,729	3,571
Shareholders' funds at end of year	3,947	3,729

Accounting policies

Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of land and buildings, and in accordance with applicable accounting and financial reporting standards.

Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiary undertakings together with the Group's share of the profits and retained post-acquisition reserves of associated undertakings. Associated undertakings are those in which the Group holds a long-term equity interest and over which it is in a position to exercise a significant influence.

Where the Group's interest in unincorporated joint venture partnerships is determined on the basis of the contribution to the results of the partnership from the sale of the Group's products, the attributable results and the related underlying net assets and borrowings are consolidated.

Brands

The fair value of businesses acquired and of interests taken in associated undertakings includes brands, which are recognised where the brand has a value which is substantial and long-term. Acquired brands are only recognised where title is clear, brand earnings are separately identifiable, the brand could be sold separately from the rest of the business and where the brand achieves earnings in excess of those achieved by unbranded products.

Amortisation is not provided except where the end of the useful economic life of the acquired brand can be foreseen. The useful economic lives of brands and their carrying value are subject to annual review and any amortisation or provision for permanent impairment would be charged against the profit for the period in which they arose.

Tangible fixed assets and depreciation

Land and buildings are stated at cost or valuation less depreciation. In the case of distilleries, breweries and related specialised properties, valuations are principally on a depreciated replacement cost basis. Hotel and leisure business properties are valued on the basis of an open market valuation for existing use.

Freehold land is not depreciated. Other tangible fixed assets are depreciated on a straight line basis at annual rates estimated to write off their book values over their expected useful lives. Details of depreciation rates are given in Note 14(B).

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes raw materials, duties where applicable, direct labour and expenses and the appropriate proportion of production and other overheads, including financing costs in respect of whisky and other spirit stocks during their normal maturation period.

Accounting for acquisitions and disposals

(A) Results

The results of businesses acquired or disposed of are consolidated from or to the effective dates of acquisition or disposal.

(B) Fair value adjustments and acquisition provisions

On the acquisition of a business or of an interest in an associated undertaking, the acquisition cost is allocated to the fair value of net tangible assets and the fair value of significant brands acquired, after adjustments to bring accounting policies into line with those of the Group.

(C) Goodwill

The goodwill arising on the acquisition of businesses and interests in associated undertakings is calculated by reference to the fair value of net assets acquired and is deducted in arriving at shareholders' funds. Where merger relief is taken under Section 131 of the Companies Act 1985, the difference between the fair value and the nominal value of shares issued as purchase consideration is treated as a merger reserve. Goodwill realised on disposals is included in the calculation of the gain or loss on disposal.

Foreign currencies

The profit and loss accounts and cash flows of overseas subsidiary and associated undertakings are translated into sterling at average rates of exchange. Balance sheets are translated at closing rates. Where hedging arrangements are in place, the transactions to which they relate are translated at the rate achieved under those arrangements.

Exchange differences arising on the retranslation at closing rates of the opening balance sheets of overseas subsidiary and associated undertakings, together with the year end adjustment to closing rates of profit and loss accounts translated at average rates, are taken to reserves.

Exchange differences arising in the normal course of trading and on the translation of monetary assets and liabilities are dealt with in the profit and loss account. Differences arising on the translation of foreign currency borrowings are taken directly to reserves where there is a corresponding exchange difference on the translation of the related net investment in overseas subsidiary and associated undertakings.

The results of operations in hyper-inflationary economies are translated using a relatively stable currency as the functional currency. The exchange differences arising from this process are taken to the profit and loss account.

Turnover

Turnover represents invoiced amounts inclusive of excise duties but excluding value added tax.

Deferred taxation

Deferred taxation on differences between the treatment of certain items for accounting and taxation purposes, including financing costs in respect of whisky and other spirit stocks during their normal maturation period, is accounted for to the extent that a liability or an asset is expected to crystallise within the foreseeable future.

Pensions and other post-retirement benefits

The cost of providing pensions and other post-retirement benefits is charged against profits on a systematic basis, with pension surpluses and deficits arising 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 schemes are treated as assets or liabilities.

Notes to the Group accounts

1. SEGMENTAL ANALYSIS OF TURNOVER AND PROFIT

(A) By business sector

	1994 £m	1993 £m	Growth %	Growth at level exchange %
Turnover				
Spirits	2,697	2,773	(3)	(2)
Brewing	1,993	1,890	5	13
	4,690	4,663	1	3
Profit before interest and taxation (excluding MH and LVMH)				
Spirits	700	701	–	(4)
Brewing	256	237	8	11
	956	938	2	(1)

(B) By geographical sector

(based on the location of third party customers)

	1994 £m	1994 %	1993 £m	1993 %	Growth %	Growth at level exchange %
Turnover						
United Kingdom	932	20	944	20	(1)	(1)
Rest of Europe	1,626	35	1,647	35	(1)	5
North America	815	17	883	19	(8)	(5)
Asia/Pacific	749	16	771	17	(3)	(5)
Rest of the World	568	12	418	9	36	43
	4,690	100	4,663	100	1	3
Profit before interest and taxation (excluding MH and LVMH)						
United Kingdom	99	10	121	13	(18)	(18)
Rest of Europe	284	29	255	27	11	13
North America	196	21	204	22	(4)	(10)
Asia/Pacific	196	21	174	19	13	4
Rest of the World	181	19	184	19	(2)	(1)
	956	100	938	100	2	(1)

The profit before interest and taxation for 1993 for the Spirits sector included a £20m charge for the reorganisation of its European operations.

(C) Cruzcampo Group

The results of the Brewing sector include turnover of £334m (1993 – £357m) and profit before interest and taxation of £23m (1993 – £21m) in respect of the Cruzcampo Group which is attributable to the Rest of Europe geographical sector. The profit before interest and taxation for the Cruzcampo Group includes £Nil (1993 – £5m) profit arising on the sale of properties.

Notes to the Group accounts

1. SEGMENTAL ANALYSIS OF TURNOVER AND PROFIT continued

(D) Desnoes & Geddes

The results of the Brewing sector include turnover of £79m and profit before interest and taxation of £12m in respect of Desnoes & Geddes which is attributable to the Rest of the World geographical sector. Desnoes & Geddes was acquired in November 1993 and the 1993 Brewing sector results included turnover of £17m and profit before interest and taxation of £2m for the period after acquisition.

(E) Associated undertakings

The results above include £62m (1993 – £44m) for the Group's attributable share of the profits of associated undertakings other than MH and LVMH. This comprises £33m (1993 – £19m) for the Spirits sector and £29m (1993 – £25m) for the Brewing sector.

The turnover of the Spirits sector includes £260m (1993 – £265m) for the Group's share of the turnover of a joint venture partnership.

(F) Exchange rates

If the trading results of overseas companies for 1993 had been translated at the average exchange rates ruling during 1994 and if the rates achieved in 1993 under hedging arrangements had been the same as those achieved in 1994, turnover for 1993 would have been £130m lower and profit before interest and taxation (excluding MH and LVMH) for 1993 would have been £23m higher.

(G) Half year analysis

The unaudited analysis of the profit and loss account between the first and second six months of the year is set out on page 71.

(H) Exports by region of origin

(based on the location of the selling company)

	1994 To Group companies £m	1994 To third parties £m	1994 Total £m	1993 To Group companies £m	1993 To third parties £m	1993 Total £m
United Kingdom	553	573	1,126	514	510	1,024
Rest of Europe	135	3	138	145	–	145
North America	16	2	18	17	2	19
	704	578	1,282	676	512	1,188

(I) Gross turnover by region of origin

(based on the location of the selling company)

	1994 £m	1993 £m
United Kingdom	2,058	1,967
Rest of Europe	1,660	1,694
North America	795	872
Asia/Pacific	633	645
Rest of the World	248	161
	5,394	5,339
Sales to Group companies in other regions	(704)	(676)
Turnover from sales to third party customers	4,690	4,663

2. NET TRADING COSTS

	1994	1993
	£m	£m
Raw materials and consumables	858	941
Increase in stocks of finished goods and work in progress	(25)	(27)
Excise duties	1,230	1,224
Staff costs (Note 6)	563	568
Depreciation	141	138
Other operating charges	1,029	925
Share of profits of associated undertakings (other than MH and LVMH)	(62)	(44)
	3,734	3,725

Amounts due to Price Waterhouse throughout the Group, and where appropriate included in operating charges above, comprise:

	1994	1993
	£m	£m
Remuneration as Group auditors	2.0	2.0
Fees for other services:		
United Kingdom	4.0	2.5
Rest of the World	2.4	2.7
	8.4	7.2

3. MH

(A) Share of profit before taxation of MH

	1994	1993
	£m	£m
Profit before interest and taxation	102	--
Net interest charge	(13)	--
Profit before taxation	89	--

The Group's attributable share of the profit before taxation of MH (a subsidiary of LVMH) as shown above is based on the average interest in MH of 24.2% from 1 January 1994 to 29 April 1994 (held indirectly as explained in Note 16) and a 34.0% direct interest in MH thereafter.

The Group's interest in 1994 in the non wines and spirits sectors of the LVMH business was not a continuing one due to the completion of the restructuring of the relationship with LVMH on 29 April 1994. Accordingly the Group ceased to equity account for the non wines and spirits sectors from 1 January 1994. The Group continued to equity account for the wines and spirits sectors and the attributable share of the results of these sectors for the period 1 January 1994 to 29 April 1994 (attributable profit before taxation of £14m) is included in the share of MH's profit before taxation above.

The share of MH's profit before taxation is based on the results of MH shown in Note 3(B) below, and is stated after adjustments to bring the accounting policies of MH into line with those of the Group and after translation into sterling at the average exchange rate in 1994 of £1 = FF8.44.

Additional information relating to the Group's investment in MH is set out in Notes 15 and 29.

Notes to the Group accounts

3. MH continued

(B) Summary of results of MH

The results of MH in 1994 as summarised below have been extracted from the consolidated accounts of LVMH and have been translated into sterling at the 1994 average exchange rate of £1 = FF8.44.

For the year ended 31 December 1994	1994 £m
Turnover	1,386
Operating profit	317
Other charges	(7)
Net interest charge	(50)
Profit before taxation	260

By business sector

	1994 Turnover £m	1994 Operating profit £m
Champagne and wines	677	99
Cognac and spirits	709	233
Other	-	(15)
	1,386	317

4. LVMH

(A) Share of profit before taxation of LVMH

	1994 £m	1993 £m
Wines and spirits sectors	-	75
Other sectors	-	88
Profit before interest and taxation	-	163
Net interest charge	-	(55)
Profit on disposal of RoC	-	17
Profit before taxation	-	125

The Group's attributable share of the profit before taxation of LVMH is based on the average interest in LVMH of 24.3% for 1993 (held indirectly as explained in Note 16).

The share of LVMH's profit before taxation is based on the results of LVMH shown in Note 4(B) below, and is stated after adjustments to bring the accounting policies of LVMH into line with those of the Group and after translation into sterling at the average exchange rate in 1993 of £1 = FF8.56. The 1993 results did not include the attributable share of LVMH's share of the profits of Guinness.

4. LVMH continued

(B) Summary of results of LVMH

The results of LVMH in 1993 are summarised below and have been extracted from its consolidated accounts for that year and translated into sterling at the 1993 average exchange rate of £1 = FF8.56.

For the year ended 31 December 1993	1993 £m
Turnover	2,783
Operating profit	655
Other income	7
Net interest charge	(224)
Profit on disposal of RoC	91
Profit before taxation	529
Taxation	(188)
Share of profit after taxation of Guinness	94
Share of profit after taxation of other associated undertakings	4
Minority interests	(21)
Profit attributable to shareholders	418

By business sector

	1993 Turnover £m	1993 Operating profit £m
Champagne and wines	636	91
Cognac and spirits	683	223
Luggage and leather goods	662	271
Perfumes and beauty products	716	100
Other	86	(30)
	2,783	655

5. DISPOSAL OF INVESTMENT IN LVMH

The exceptional loss before taxation of £173m on the disposal of the investment in LVMH is calculated as follows:

	1994 £m
Disposal proceeds	1,354
Net book value of investment	(1,313)
Surplus over book value	41
Less: Goodwill previously written off to reserves	(187)
Less: Cost of early close out of fixed rate debt hedging the investment in LVMH	(27)
Loss on disposal of investment in LVMH before taxation	(173)

In the 1993 accounts an exceptional provision of £173m before taxation was established to recognise the diminution in the value of the Group's investment in LVMH. This provision has been released in 1994 and offsets the actual loss on disposal set out above.

A net tax credit of £4m was recognised as part of the 1993 Group tax charge to take account of the disposal. This comprised a deferred tax credit of £9m relating to the cost of early close out of debt and a current tax charge of £5m relating to the sale of the investment in LVMH. No adjustment was required to the net tax credit following the finalisation of the loss on disposal of the investment in LVMH.

Notes to the Group accounts

6. STAFF COSTS AND EMPLOYEES

(A) Staff costs

	1994	1993
	£m	£m
Wages and salaries	462	464
Social security costs	49	50
Pension and other post-retirement costs	52	54
	563	568

Wages and salaries include contributions to the Group's employee share trust of £0.7m (1993 – £0.3m). Pension and other post-retirement costs include a £9m charge to recognise funding of the Republic of Ireland pension scheme deficit (1993 – £10m).

(B) Number of employees

	1994	1994	1993	1993
	Year-end	Average	Year-end	Average
Spirits	10,260	10,528	10,399	10,824
Brewing	13,037	13,246	12,865	12,451
	23,297	23,774	23,264	23,275

Part-time employees are included in the above analysis on the basis of their full-time equivalents.

(C) Pension schemes and other post-retirement benefits

The Group operates various pension schemes which are established in accordance with local conditions and practices in the countries concerned. The principal pension schemes, all of the defined benefit type, are in the United Kingdom, the Republic of Ireland (RoI) and Spain. The UK and RoI schemes are funded by payments to separate pension funds which are administered by trustees and maintained independently of the Group's finances; the schemes in Spain are unfunded, with pension benefits paid directly by the relevant subsidiary undertakings.

The Group's pension cost under the two funded schemes has been assessed by valuations carried out for this purpose in 1992 by R Watson & Sons, Consulting Actuaries. These valuations adopted the projected unit method. The principal financial assumptions used by the actuaries were that the real annual rate of return on future investments would be 4.5%, that the real annual rates of increase in dividends would be in the range of nil to 0.5% and that the real annual rate of increase in pensionable pay would be 2%, with pensions assumed to increase approximately in line with inflation.

At the date of the valuations, the market value of the assets of the UK and RoI schemes was £768m and £335m respectively. After allowing for assumed future increases in pensionable pay and pensions and assumed returns on investments, the assessed value of scheme assets covered 122% of the projected long term liabilities of the UK scheme and 87% of the projected long term liabilities of the RoI scheme. On a discontinuance basis at the date of the valuation, the assets of the RoI scheme substantially exceeded the assessed value of benefits which had accrued to members.

On the advice of the actuaries the suspension of the funding of the UK scheme continued subsequent to the last full actuarial valuation as at March 1992. However, an interim review of the funding position of the UK scheme carried out by the actuaries in 1993 indicated that the assessed value of the scheme assets covered 101% of the projected long term liabilities. As a consequence, the Group recommenced contributions in 1994. The next full actuarial valuations of the UK and RoI schemes are due in 1995. The Group intends to continue its existing practice of paying contributions to the RoI scheme at a higher rate than the minimum advised by the actuaries in order to eliminate the long term deficit.

Provision is made in the accounts (Note 23) for the benefits accruing to members of unfunded pension schemes in accordance with the advice of independent qualified actuaries. The provision in respect of the pension schemes in Spain has been determined using the aggregate method, with a real annual discount rate of 3%; it has been assumed that real annual increases in pay will be up to 2% with increases in pensions where relevant in line with inflation.

The Group also operates an unfunded medical benefit scheme for retired employees in the USA. Provision is made in the accounts (Note 23) for the benefits accruing to members in accordance with the advice of independent qualified actuaries on a SSAP24 basis using the projected unit method. The major assumptions used are a discount rate on liabilities of 9.5% and a medical inflation rate of 13% reducing by 1% per year to 5% for retirees aged under 65 and 12% reducing to 5% for retirees aged 65 and over.

7. EMOLUMENTS OF THE DIRECTORS OF THE HOLDING COMPANY

	1994 £'000	1993 £'000
Salaries, benefits and profit share	1,632	2,016
Performance related pay	253	–
	1,885	2,016
Pension contributions	214	–
Pensions paid to former Directors	242	200
Fees to non-executive Directors	161	144
Payments to a former Director*	325	–
	2,827	2,360

*Payments, including cash and non-cash benefits, to Mr C H L Davis made in accordance with the terms set out in the 1993 Group accounts.

Pension contributions, to the GUD Pension Trust, are made at the Group rate of 14.9% (1993 – Nil) of aggregate gross pensionable salary and in the case of the Chairman amounted to £89,000 in 1994 (1993 – £Nil). Further details on pension rights are given on page 50.

The remuneration of the Chairman and executive Directors was as follows:

	Basic Salary		Benefits		Profit Share		Performance Related Pay*		Total	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000	1994 £'000	1993 £'000	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Chairman:										
A A Greener	600	600	20	23	37	25	47	–	704	648
Executive Directors:										
B F Baldock	348	323	21	16	20	23	84	–	473	362
B R O'Neill†	255	164	25	12	23	7	63	–	366	183
P E Yea†	235	178	35	29	13	11	59	–	342	218
Previous executive Directors:										
C H L Davis††	–	261	–	15	–	14	–	–	–	290
I M Duncan††	–	264	–	17	–	34	–	–	–	315
	1,438	1,790	101	112	93	114	253	–	1,885	2,016

* The performance related pay is in respect of 1994 and will be paid in April 1995.

† The amounts in respect of Messrs O'Neill and Yea for 1993 relate to the period following their appointment as Directors of the holding company on 1 April 1993.

†† Messrs Davis and Duncan resigned as Directors of the holding company on 12 October 1993 and 30 November 1993 respectively.

(A) Policy

The remuneration of executive Directors is determined by the Non-Executive Committee. The key objectives of the remuneration policy for executive Directors are:

- to ensure that individual rewards and incentives are directly aligned with the performance of the Group and the interests of shareholders; and
- to maintain a competitive programme which enables the Group to attract and retain the highest calibre of executive.

The remuneration arrangements include basic salary and benefits, performance related pay based on Group performance, profit share arrangements, pension rights and share options. The main elements are:

(i) Basic salary and benefits

The level of basic salary and benefits is typically established based on annual surveys conducted by external consulting firms. Individual salaries of executive Directors are reviewed annually by the Non-Executive Committee. Benefits in kind include the provision of cars, fuel, private health insurance and financial counselling.

Notes to the Group accounts

7. EMOLUMENTS OF THE DIRECTORS OF THE HOLDING COMPANY continued

(ii) Performance related pay

Each year the Non-Executive Committee sets target levels for diluted earnings per share which in their view would represent good Group performance. In 1994 the target levels of earnings per share were set after taking account of the removal of the cross-shareholding adjustment following the restructuring of the Group's shareholding in LVMH. As set out in the circular to shareholders dated 7 February 1994, the effect of the transaction was to dilute 1993 proforma earnings per share by approximately 4%.

The performance related pay, for the executive Directors, is based on achievement of these levels and is on a sliding scale of between 0% and 50% of basic year end salary. In 1994 the minimum level of diluted earnings per share was set at 30.1p, the maximum level was 32.8p and the amount payable equated to 23.4% (1993 – Nil). The Chairman's performance related pay is based on the same criteria, but the award for each year is taken as the rolling average of the percentages paid to the other executive Directors over the previous three years. In 1994, this average is based on the percentages in respect of 1992 (0%), 1993 (0%) and 1994 (23.4%) and the total amount payable equates to 7.8%. In 1993 the Chairman did not receive any performance related pay.

(iii) Profit sharing schemes

All Group employees in the UK and Republic of Ireland participate in approved profit sharing schemes. Under the terms of these schemes the employees receive a percentage of their basic salary, related to the performance of that part of the Group for which they work. This is allocated in the form of profit shares which are held in trust on their behalf; any excess over current Revenue approved limits is paid in cash. The amounts shown in the table for executive Directors are the amounts allocated in respect of the previous year.

(iv) Pension rights

The executive Directors participate in a contributory pension scheme which will provide them, at their normal retirement age, with a pension of two-thirds of their remuneration at, or near, retirement. In the event of early retirement before the normal retirement age, the pension would be reduced. The pension is payable from the GUD Pension Trust, of which 7,365 UK employees of the Group are members. Where the pension from the Trust is limited by the Inland Revenue "earnings cap", the balance is payable by the Group from an unfunded reserve. The Group currently contributes to the Trust at the rate of 14.9% of the members' aggregate gross pensionable salaries; this is in addition to the members' own contributions.

(v) Share options

Executive Directors are eligible for grants of options under the terms of three share option schemes.

The UK Savings Related Share Option Scheme is an Inland Revenue approved scheme available to all UK employees and is based on a five year savings contract which provides an option to purchase shares after five years at a discounted price fixed at the time the contract is taken out. Similar arrangements are available to the majority of employees worldwide including employees of joint ventures in which the Group participates.

The Executive Share Option Scheme is an Inland Revenue approved scheme and under it an executive receives options at current market value to be exercised, in normal circumstances, between three and ten years after grant. The exercise of options will be subject to the achievement of performance targets, established by the Non-Executive Committee, before the options are granted and these targets will be published in the Annual report in the year following the grant. Under this plan, an executive may hold up to four times earnings in unexercised options. Options granted prior to 1995 under this scheme did not contain performance criteria.

The Guinness Employee Incentive Trust 1994 is similar to the Executive Share Option Scheme but is not approved by the Inland Revenue and exercise of options is only allowed, between five and seven years after grant, provided the Group has met certain performance criteria, which are described more fully on page 51. An executive can only hold in aggregate a maximum of eight times earnings under this and the Executive Share Option Scheme.

Participation is subject to the rules of the schemes in force from time to time.

(B) Pensions paid to former Directors

The pension entitlements of former Directors include pensions from the Group in respect of which approximately £200,000 will be payable in 1995. The inflationary increase applied to these pensions in future years will not exceed that applying to pensions paid by the Group's UK pension scheme. General provision for these pensions is included within total provisions for pensions and post-retirement benefits shown in Note 23.

(C) Service contracts

Mr A A Greener, Mr B R O'Neill and Mr P E Yea have service contracts which, from 1 January 1995, are for a fixed term of three years. They may terminate this contract by giving the Company six months notice in writing. In December of each year the Non-Executive Committee may, with appropriate advice, elect to extend the contract for a further year. Mr B F Baldock remains on a contract which expires on his normal retirement date of 10 June 1996.

7. EMOLUMENTS OF THE DIRECTORS OF THE HOLDING COMPANY continued

(D) New executive Directors

Mr J D de Leeuw was appointed a Director on 1 January 1995 at a basic salary of £270,000 p.a. and Mr F Johnsson, who was appointed a Director on 1 October 1994, became a full-time executive of the Group on 15 February 1995 at a basic salary of £350,000 p.a. The length of their service contracts and notice periods are the same as for Messrs Greener, O'Neill and Yea.

(E) Fees to non-executive Directors

The fees paid to the non-executive Directors of the holding company were as follows:

	1994 £'000	1993 £'000
Sir David A Plastow (Deputy Chairman and Chairman of the Non-Executive Committee until 31 December 1994)	40.0	40.0
N D Cadbury (Deputy Chairman and Chairman of the Non-Executive Committee from 1 January 1995)	23.5	23.5
B J Arnault	—	—
F Johnsson (Appointed 1 October 1994 and became an executive on 15 February 1995)	10.0	—
M F Julien (Chairman of the Audit Committee)	33.5	33.5
Sir Ian C MacLaurin	23.5	23.5
F A Maljers (Appointed 15 September 1994)	7.0	—
H Sihler	23.5	23.5
	161.0	144.0

(F) Directors' interests

The beneficial interests of the Directors in office at 31 December 1994 in the ordinary share capital of the Company were as follows:

	At 31 December 1994 25p Ordinary Shares	At 31 December 1993 25p Ordinary Shares
A A Greener	75,224	66,658
Sir David A Plastow	19,656	19,656
N D Cadbury	9,146	12,246
B F Baldock	56,083	52,830
B J Arnault	4,000*	4,000
F Johnsson	—	—†
M F Julien	5,494	5,492
Sir Ian C MacLaurin	16,372	16,372
F A Maljers	—	—†
B R O'Neill	28,333	24,733
H Sihler	5,000	5,000
P E Yea	6,273	4,548
Total of Directors' beneficial interests	225,581	211,535

* Mr B J Arnault also has an interest in the Ordinary Shares of the Company held by LVMH. At 31 December 1994 LVMH held 405,375,290 shares, of which 2,000,000 shares were sold on 28 February 1995. The current holding is referred to in the Directors' Report on page 36 under the heading "Notifiable interest". Otherwise there were no changes in Directors' interests between the year-end and 22 March 1995.

† At date of appointment.

The Directors' interests in options over the ordinary share capital of the Company and movements therein during the year are set out on page 52.

The following performance criteria need to be met before an option granted in 1994 can be exercised under the terms of the Guinness Employee Incentive Trust 1994:

- the increase in the Guinness share price since the date of grant of the option has exceeded the increase in the FTSE100 (or equivalent) index for a continuous period of at least thirty days at any time since the fifth anniversary of the date of grant; and
- the growth in earnings per share between that applicable in respect of the financial year (or other period) in which the option was granted and that applicable in respect of the fourth or subsequent financial year (or other period) up to seven years from the date of grant has exceeded the growth in the annual Retail Price Index as measured in January. The earnings per share growth is that which the Non-Executive Committee considers to most accurately reflect the Group's performance in the relevant years.

Notes to the Group accounts

7. EMOLUMENTS OF THE DIRECTORS OF THE HOLDING COMPANY continued

(F) Directors' interests continued

The following movements in options over the ordinary share capital of the Company took place during the year:

	Number of options at 1/1/94	Number of options granted in 1994	Number of options exercised in 1994	Number of options at 31/12/94	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
A A Greener	100,000	—	—	100,000	1.84	—	28/10/90	28/10/97
	36,790	—	—	36,790	1.495	—	05/05/91	05/05/98
*	5,274	—	5,274	—	1.365	4.90	—	—
	15,966	—	—	15,966	2.255	—	18/05/92	18/05/99
*	1,528	—	1,528	—	2.355	4.52	—	—
	100,374	—	—	100,374	3.21	—	03/05/93	03/05/00
	115,394	—	—	115,394	4.56	—	02/05/94	02/05/01
*	1,824	—	—	1,824	4.11	—	02/12/96	02/06/97
	114,473	—	—	114,473	5.335	—	30/04/95	30/04/02
	189,296	—	—	189,296	4.925	—	29/04/96	29/04/03
*	2,103	—	—	2,103	3.28	—	01/12/98	01/06/99
†	—	126,050	—	126,050	4.76	—	04/05/99	03/05/01
*	—	961	—	961	3.59	—	01/12/99	01/06/00
Total:	683,022	127,011	6,802	803,231				
B F Baldock								
*	1,528	—	1,528	—	2.355	4.52	—	—
	114,474	—	—	114,474	4.56	—	02/05/94	02/05/01
*	3,649	—	—	3,649	4.11	—	02/12/96	02/06/97
	85,977	—	—	85,977	5.335	—	30/04/95	30/04/02
	66,134	—	—	66,134	4.925	—	29/04/96	29/04/03
	—	14,433	—	14,433	4.76	—	21/04/97	21/04/04
†	—	126,323	—	126,323	4.76	—	04/05/99	03/05/01
*	—	961	—	961	3.59	—	01/12/99	01/06/00
Total:	271,762	141,717	1,528	411,951				
B R O'Neill								
*	1,834	—	1,834	—	2.355	4.52	—	—
	35,046	—	35,046	—	3.21	4.71	—	—
*	1,386	—	—	1,386	2.705	—	30/11/95	30/05/96
	39,474	—	—	39,474	4.56	—	02/05/94	02/05/01
*	1,824	—	—	1,824	4.11	—	02/12/96	02/06/97
	40,768	—	—	40,768	5.335	—	30/04/95	30/04/02
	81,218	—	—	81,218	4.925	—	29/04/96	29/04/03
*	841	—	—	841	3.28	—	01/12/98	01/06/99
	—	46,173	—	46,173	4.76	—	21/04/97	21/04/04
†	—	54,667	—	54,667	4.76	—	04/05/99	03/05/01
*	—	1,153	—	1,153	3.59	—	01/12/99	01/06/00
Total:	202,391	101,993	36,880	267,504				
P E Yea								
*	49,342	—	—	49,342	4.56	—	02/05/94	02/05/01
*	4,562	—	—	4,562	4.11	—	02/12/96	02/06/97
	35,145	—	—	35,145	5.335	—	30/04/95	30/04/02
	69,036	—	—	69,036	4.925	—	29/04/96	29/04/03
	—	39,912	—	39,912	4.76	—	21/04/97	21/04/04
†	—	52,525	—	52,525	4.76	—	04/05/99	03/05/01
Total:	158,085	92,437	—	250,522				

No options lapsed during the year and no other Directors held options. The market price of the shares as at 31 December 1994 was £4.50 and the range during 1994 was £4.21 to £5.42.

The options above are under the terms of the Executive Share Option Scheme, except as marked * which were under the terms of the UK Savings Related Share Option Scheme, and † which were under the terms of the Guinness Employee Incentive Trust 1994.

At 1 January 1995, the date of his appointment to the Board, and at 22 March 1995 Mr J D de Leeuw held options over 138,656 Ordinary Shares under the Executive Share Option Scheme and 4,805 Ordinary Shares under the UK Savings Related Share Option Scheme at an exercise price of £4.76 and £3.59 respectively.

8. NET INTEREST CHARGE

	1994	1993
	£m	£m
Interest payable on loans and overdrafts wholly repayable within 5 years	164	223
Interest receivable	(34)	(35)
	130	188

The net interest charge includes the full amount of interest payable less receivable during the year. The 1994 charge is stated after including £12m income due to discounting the net proceeds received arising from the restructuring of the investment in LVMH. The treatment of interest recognised as a production cost of maturing spirit stocks is set out in Note 18.

9. TAXATION

	1994	1993
	£m	£m
United Kingdom corporation tax (at the rate of 33%)	115	114
Less: double taxation relief	(6)	(20)
	109	94
Overseas taxation	65	69
Deferred taxation	14	32
Associated undertakings	55	56
Disposal of investment in LVMH	-	(4)
	243	247
Taxation as a percentage of profit before taxation (excluding exceptional items)	27%	29%

The taxation charges for 1994 and 1993 would not be materially different from those stated above if full provision for deferred taxation were made.

The effective taxation rate of 27% is below the standard UK taxation rate of 33% principally due to the proportion of profits earned from operations in countries with lower rates of taxation.

10. DIVIDENDS

	1994	1993	1994	1993	1994	1993
	Net	Net	Gross	Gross	Net	Net
	paid/payable	paid/payable	equivalent	equivalent	paid/payable	paid/payable
	per Ordinary	per Ordinary	per Ordinary	per Ordinary	£m	£m
	Share	Share	Share	Share		
Interim	3.90p	3.62p	4.87p	4.52p	79	74
Proposed final	9.90p	9.18p	12.38p	11.48p	200	184
	13.80p	12.80p	17.25p	16.00p	279	258

The gross equivalents for dividends include imputed tax credits at the rate of 20%.

Notes to the Group accounts

11. EARNINGS PER SHARE

	1994 Basic	1994 Diluted	1993 Basic	1993 Diluted
Earnings	£641m	£648m	£433m	£440m
Average number of shares	2,014m	2,052m	1,889m	1,924m
Earnings per share	31.8p	31.6p	22.9p	22.9p

The amounts shown above for earnings in 1993 include a net charge after taxation of £169m for the exceptional provision against the Group's investment in LVMH. If this item (which is not expected to arise in future years) is excluded from earnings, basic earnings per share for 1993 would have been 31.9p and diluted earnings per share would have been 31.7p.

In 1993 the average number of shares was reduced by 116m in order to reflect the impact on earnings per share of the cross-shareholding arrangements with LVMH which then existed. The dilutive effect of the restructuring of the LVMH relationship is referred to in Note 7(A)(ii) on page 50.

Diluted earnings per share have been calculated taking into account options under employee share schemes.

12. SEGMENTAL ANALYSIS OF NET ASSETS

(A) By business sector

	1994 £m	1994 %	1993 £m	1993 %
Spirits	4,143	79	4,100	79
Brewing	1,091	21	1,092	21
Net operating assets	5,234	100	5,192	100
Investment in MH	900		—	
Investment in LVMH	—		1,282	
Tax, dividends and other corporate items	(660)		(762)	
Net borrowings	5,474 (1,415)		5,712 (1,874)	
Total net assets	4,059		3,838	

(B) By geographical sector

United Kingdom	2,343	45	2,304	44
Rest of Europe	799	15	759	15
North America	238	4	286	5
Asia/Pacific	212	4	241	5
Rest of the World	247	5	207	4
Acquired brands at cost	3,839 1,395	73 27	3,797 1,395	73 27
Net operating assets	5,234	100	5,192	100

13. ACQUIRED BRANDS AT COST

The amount stated for brands represents the cost of acquired brands. Brands are only recognised where title is clear, brand earnings are separately identifiable, the brand could be sold separately from the rest of the business and where the brand achieves earnings in excess of those achieved by unbranded products.

The cost of brands is calculated at acquisition, as part of the fair value accounting for businesses acquired, on the basis of after tax multiples of pre-acquisition earnings after deducting attributable capital employed.

The acquired brands which have been recognised include Bell's, Dewar's, Johnnie Walker, Old Parr and White Horse Scotch whisky, Gordon's and Tanqueray gin and Asbach brandy.

The acquired brands of MH which have been recognised as part of the investment in MH are set out in Note 15(A).

The Directors have reviewed the amounts at which brands are stated and are of the opinion that there has been no impairment in the value of the brands recognised, that all brands recognised could be sold for amounts substantially greater than those recognised in the balance sheet and that the end of the useful economic lives of the brands cannot be foreseen.

14. TANGIBLE FIXED ASSETS

	Land and buildings (Note (A)) £m	Plant and machinery £m	Casks, containers and road vehicles £m	Total £m
Cost or valuation				
At 1 January 1994	845	1,142	246	2,233
Additions	44	125	52	221
Subsidiaries acquired	4	3	—	7
Disposals	(1)	(35)	(26)	(62)
Exchange adjustments	(1)	(17)	(3)	(21)
At 31 December 1994	891	1,218	269	2,378
Depreciation				
At 1 January 1994	28	409	71	508
Charge for the year	18	90	33	141
Disposals	—	(22)	(24)	(46)
Exchange adjustments	—	(7)	(2)	(9)
At 31 December 1994	46	470	78	594
Net book amount				
At 31 December 1994	845	748	191	1,784
At 31 December 1993	817	733	175	1,725

Notes to the Group accounts

14. TANGIBLE FIXED ASSETS continued

(A) Land and buildings

	1994 £m	1993 £m
(i) The amount shown at cost or valuation includes the following:		
At cost	348	301
At valuation in 1992	543	544
	891	845
(ii) If shown on an historical cost basis, land and buildings would be stated at:		
Cost	762	715
Depreciation	(89)	(75)
Net book amount	673	640
(iii) The net book amount of land and buildings comprises:		
Freeholds	768	740
Long leaseholds (over 50 years)	75	75
Short leaseholds (under 50 years)	2	2
	845	817

(B) Depreciation rates

The following table shows the principal annual rates of depreciation:

Freehold buildings and long leaseholds	Straight line over 50 years
Short leaseholds	Straight line over the life of the lease
Distilling and bottling plant	2% - 10%
Brewing plant	5% - 12 ¹ / ₂ %
Casks and containers	5% - 6 ² / ₃ %
Distribution vehicles	12 ¹ / ₂ % - 16 ² / ₃ %
Motor cars	20% - 30%

15. INVESTMENT IN MH

(A) Group's interest in MH

On 29 April 1994 the Group acquired a 34% direct interest in MH (a subsidiary of LVMH) when the investment in LVMH and Christian Dior SA was restructured. The effect of the acquisition is set out in Note 29.

The Group's interest in MH is represented by:

	1994 £m
Cost of investment	945
Goodwill deducted in arriving at shareholders' funds	(104)
Share of post-acquisition earnings	34
Dividends received	-
Exchange adjustments	25
Attributable share of MH's net assets	900

The share of post-acquisition earnings is stated after deducting the attributable share of goodwill, exchange and other reserve movements arising in MH.

The share of MH's net assets attributable to the Group is based on the net assets of MH shown in Note 15(B) below and is stated after adjustments to bring the accounting policies of MH into line with those of the Group and after translation at the rate of exchange ruling at 31 December 1994 of £1 = FF8.35.

The attributable share of MH's net assets includes brands, at cost, of £429m. MH brands which have been recognised include Hennessy cognac and Moët & Chandon, Dom Pérignon, Mercier, Veuve Clicquot Ponsardin and Pommery champagnes.

15. INVESTMENT IN MH continued

(B) Summary of the balance sheet of MH

The balance sheet of MH at 31 December 1994 as summarised below has been extracted from the consolidated accounts of LVMH and has been translated into sterling at the 1994 year-end exchange rate of £1 = FF8.35.

At 31 December 1994	1994 £m
Acquired brands at cost	166
Goodwill and other intangible assets	218
Tangible assets	580
Investments	57
Total fixed assets	1,021
Net current operating assets	1,408
Long term creditors and provisions	(197)
	2,232
Net borrowings	(334)
Total net assets	1,898

16. INVESTMENT IN LVMH

(A) Group's interest in LVMH

The Group's interest in LVMH was held jointly with the Financière Agache group through Jacques Rober SA, a company registered in France, which was 45% owned by the Group and 55% owned by Christian Dior SA, a company controlled by members of the Financière Agache group. The Group owned 16.8% of Christian Dior SA. On 29 April 1994 the Group sold its indirect interest in LVMH to companies controlled by the chairman of LVMH and acquired a direct interest of 34% in MH which comprises all the material wines and spirits interests of LVMH. As part of these transactions, LVMH reduced its shareholding in Guinness PLC from approximately 24% to approximately 20% in November 1994. In so far as was necessary, the arrangements to give effect to the restructuring of the investment in LVMH were approved by shareholders at an Extraordinary General Meeting held on 25 February 1994.

The Group's interest in LVMH was represented by:

	At disposal on 29 April 1994 £m	1993 £m
Cost of investment	1,119	1,119
Goodwill deducted in arriving at shareholders' funds	(187)	(187)
Share of post-acquisition earnings	266	253
Dividends received	(109)	(109)
Exchange adjustments	224	206
Net book value of investment sold	(1,313)	...
Attributable share of LVMH's net assets	—	1,282

The share of post-acquisition earnings is stated after deducting the attributable share of goodwill, exchange and other reserve movements arising in LVMH.

The share of LVMH's net assets attributable to the Group at 31 December 1993 is based on the net assets of LVMH shown in Note 16(B) below and is stated after adjustments to bring the accounting policies of LVMH into line with those of the Group and after translation at the rate of exchange ruling at 31 December 1993 of £1 = FF8.74.

The attributable share of LVMH's net assets at 31 December 1993 included brands, at cost, of £759m. LVMH brands which were recognised include Hennessy cognac, Moët & Chandon, Dom Pérignon, Mercier, Veuve Clicquot Ponsardin and Pommery champagnes, Louis Vuitton luggage and Christian Dior and Givenchy perfumes.

The effect of the disposal of the investment in LVMH is set out in Note 5.

Notes to the Group accounts

16. INVESTMENT IN LVMH continued

(B) Summary of the balance sheet of LVMH

The balance sheet of LVMH at 31 December 1993 is summarised below and has been extracted from its consolidated accounts for that year and translated into sterling at the 1993 year-end exchange rate of £1 = FF8.74.

At 31 December 1993	1993 £m
Acquired brands at cost	242
Goodwill and other intangible assets	617
Tangible assets	871
Investments (including investment in Guinness)	1,457
Total fixed assets	3,187
Net current operating assets	1,538
Long term creditors and provisions	(234)
	4,491
Net borrowings	(1,787)
Total net assets	2,704

The investment of LVMH in Guinness, which amounted to 23.9% of the issued ordinary share capital of Guinness at 31 December 1993, is included under fixed asset investments at £1,231m including brands. Goodwill includes £354m in respect of LVMH's investment in Guinness.

17. OTHER LONG TERM INVESTMENTS

	Other associated undertakings £m	Other investments £m	Total £m
At 1 January 1994	106	51	157
Additions	15	6	21
Disposals	(2)	(8)	(10)
Retained profits for the year	17	-	17
Attributable reserve movements	(28)	-	(28)
Exchange adjustments	(2)	(6)	(8)
At 31 December 1994	106	43	149

The retained profits of other associated undertakings are stated after deducting dividends received of £25m (1993 - £21m). Other associated undertakings and investments include investments listed on overseas stock exchanges at carrying value of £7m (market value - £11m).

18. STOCKS

	1994 £m	1993 £m
Raw materials and consumables	144	164
Work in progress	25	18
Stocks of maturing whisky and other spirits	1,505	1,470
Finished goods and goods for resale	184	170
	1,858	1,822

Stocks of maturing whisky and other spirits include financing costs amounting to £563m (1993 - £546m). A net adjustment to stocks of £17m (1993 - £17m) has been credited to the profit and loss account within net trading costs comprising £122m (1993 - £121m) of interest incurred during the year less £105m (1993 - £104m) in respect of sales during the year.

19. DEBTORS

	1994	1993
	£m	£m
Trade debtors	914	953
Amounts owed by associated undertakings	12	10
Pension prepayments	34	35
Other debtors	234	151
Prepayments and accrued income	78	90
	1,272	1,239

Other debtors include a loan of £1.4m (1993 – £1.6m) to the Group's employee share trust and a loan of £1.9m (1993 – £Nil) to the Guinness Employee Incentive Trust 1994.

Amounts recoverable after more than one year and included within other debtors and pension prepayments above total £113m (1993 – £31m). In 1994, this amount includes £65m relating to the right to acquire £75m of the Group's sterling Eurobonds issued in 1991 maturing in 1997 at a pre-determined price.

20. BORROWINGS

	1994	1993
	£m	£m
Repayable within one year		
Bank overdrafts	67	94
Commercial paper	356	360
Bank loans	111	250
Other loans (Note (C))	244	203
	778	907

Repayable after more than one year

Bank loans (wholly repayable within 5 years)	24	43
Other loans (Note (C))	1,089	1,323
	1,113	1,366
	1,891	2,273

(A) Repayment of borrowings

The repayments of borrowings fall due as follows:

Within one year	778	907
Between 1-2 years	476	281
Between 2-5 years	637	1,085
	1,891	2,273

All borrowings are classified according to their contractual maturity date.

(B) Interest rates

The interest rates payable on the Group's borrowings range from 3% to 12%, dependent mainly on the currency and term of the borrowing.

(C) Other loans

Other loans of £1,333m (1993 – £1,526m) include Eurobonds which are listed on stock exchanges in London and other European cities of £1,243m (1993 – £1,371m), together with unlisted private placements.

Notes to the Group accounts

21. OTHER CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)

	1994 £m	1993 £m
Trade creditors	365	369
Other creditors	251	310
Dividends	200	184
Corporation tax	192	174
Social security and other taxes	154	137
Accruals and deferred income	279	281
	1,441	1,455

22. OTHER CREDITORS (AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR)

	1994 £m	1993 £m
Corporation tax	117	119
Deferred purchase consideration	28	27
Other creditors and accruals	42	25
	187	171

23. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation (Note (A)) £m	Pensions and other post- retirement benefits £m	Reorganisation and other provisions £m	Total £m
At 1 January 1994	14	170	98	282
Provided in the year				
Profit and loss account	14	6	–	20
Utilised in the year	–	(14)	(38)	(52)
Transfer	–	8	(8)	–
Exchange adjustments	(3)	6	3	6
At 31 December 1994	25	176	55	256

Provisions for pensions and other post-retirement benefits include £25m (1993 – £27m) in respect of post-retirement medical benefits granted to retirees in North America.

(A) Deferred taxation

	1994 £m	1993 £m
Excess of capital allowances over accumulated depreciation	63	50
Short term timing differences	(9)	(9)
Deferred taxation asset	(29)	(27)
	25	14

Short term timing differences have been accounted for in full. On a full potential liability basis, the unprovided amount in respect of the excess of capital allowances over accumulated depreciation, interest capitalised into whisky stocks and other items is £232m (1993 – £247m). The deferred taxation asset is recognised to take account of the effect on future tax liabilities of acquisition fair value adjustments and provisions for pensions and other post-retirement benefits.

It is anticipated that revalued properties will be retained for use within the business and accordingly no deferred tax has been recognised in respect of the capital gain or loss which might arise on disposal of these properties at the revalued amount.

Where there is no intention to distribute the profits of overseas subsidiary and associated undertakings, no deferred tax is provided in respect of liabilities which might arise on distributions by these companies.

24. CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

(A) Authorised and issued share capital

	1994 £m	1993 £m
Authorised		
2,655m Ordinary Shares of 25p each	664	664
291m 5 ³ / ₄ % Convertible Cumulative Redeemable Preference Shares of £1 each	291	291
	955	955
Issued and fully paid		
2,018m (1993 – 2,010m) Ordinary Shares of 25p each	505	503

(B) Movement in called up share capital and share premium account

	Ordinary Shares £m	Share premium account £m	Total £m
At 1 January 1994	503	522	1,025
Issue of shares	2	22	24
At 31 December 1994	505	544	1,049

During the year the Company issued 8m Ordinary Shares under employee share schemes (1993 – 9m).

(C) Employee share schemes

At 31 December 1994, options granted and outstanding under employee share schemes amounted to 40m Ordinary Shares. These options are exercisable at varying dates up to 2004 at prices ranging from 127p to 548.5p per share.

The Group's employee share trust held 426,893 shares (1993 – 288,919 shares) in the Company at 31 December 1994, from which the trustees have discretion to make grants to employees in future years.

The Guinness Employee Incentive Trust 1994 held 395,049 shares (1993 – Nil) in the Company at 31 December 1994, placed under option pursuant to its rules. The Guinness Employee Incentive Trust 1994 is a discretionary trust established for the benefit of Directors and employees of the Company and its subsidiaries. Directors' interests under this Trust are disclosed in Note 7.

25. OTHER RESERVES AND GOODWILL

(A) Other reserves and profit and loss account

	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Associated undertakings £m	Total other reserves £m	Profit and loss account £m
At 1 January 1994	177	49	1,781	339	2,346	1,587
Retained earnings	–	–	–	63	63	299
Other	(4)	–	–	(27)	(31)	4
Disposal of investment in LVMH	–	–	–	(381)	(381)	381
Exchange adjustments	(1)	–	–	41	40	(89)
At 31 December 1994	172	49	1,781	35	2,037	2,182

Exchange adjustments include a charge of £39m arising on the translation of foreign currency borrowings which is matched against the gain arising on the translation of the related net investment in overseas subsidiary and associated undertakings.

Notes to the Group accounts

25. OTHER RESERVES AND GOODWILL continued

(B) Goodwill

	Year of acquisition	1 January 1994 £m	Additions £m	Disposals £m	31 December 1994 £m
Distillers	1986	284	–	–	284
Schenley	1987	92	–	–	92
LVMH	1988-90	187	–	(187)	–
Provision against LVMH goodwill made in 1993		(146)	–	146	–
Asbach	1991-92	112	–	–	112
Cruzcampo Group	1991	325	–	–	325
Glenmore	1991	47	–	–	47
MH	1994	–	104	–	104
Other		328	29	–	357
		1,229	133	(41)	1,321

26. GROUP CASH FLOW STATEMENT

(A) Net cash inflow from operating activities

	1994 £m	1993 £m Restated
Profit before interest and taxation (excluding MH and LVMH) – Note 1	956	938
Share of profits of associated undertakings (other than MH and LVMH)	(62)	(44)
Depreciation	141	138
	1,035	1,032
Increase in working capital:		
Stocks	(31)	(26)
Debtors	(3)	(23)
Trade and other creditors and provisions	(31)	(26)
	(65)	(75)
Net cash inflow from operating activities	970	957

Dividends paid to minority shareholders of subsidiary undertakings are separately disclosed this year and accordingly the increase in working capital in 1993 has been restated from £(92)m to £(75)m.

Changes in working capital are stated after excluding movements due to acquisitions, disposals and exchange.

(B) Purchase of tangible fixed assets

	1994 £m	1993 £m
Spirits	81	79
Brewing	140	135
	221	214

26. GROUP CASH FLOW STATEMENT continued

(C) Investment in MH and disposal of investment in LVMH

The cash outflow on the investment in MH was £945m, as set out in Note 29. The cash inflow from the disposal of the investment in LVMH comprises the disposal proceeds as set out in Note 5 of £1,354m less £10m of costs incurred in the period relating to the early close out of fixed rate debt hedging the investment in LVMH.

(D) Purchase of subsidiary undertakings and other investments

The cash outflow on the purchase of subsidiary undertakings comprises £10m on minor investments (giving rise to goodwill of £7m) and £7m deferred purchase consideration on the acquisition of Desnoes & Geddes (provision for which was made in 1993).

The cash outflow on other investments comprises £62m relating to the right to acquire £75m of the Group's sterling Eurobonds issued in 1991 maturing in 1997 (held within debtors on the balance sheet) and £44m in respect of minor investments (giving rise to goodwill of £22m).

(E) Analysis of changes in financing and cash and cash equivalents

	Share capital and share premium £m	Bank and other borrowings £m	Total financing £m	Cash and cash equivalents £m
At 1 January 1994	1,025	1,685	2,710	(189)
Net cash flow	24	(319)	(295)	179
Effect of foreign exchange rate changes	-	6	6	(33)
At 31 December 1994	1,049	1,372	2,421	(43)

Analysis of bank and other borrowings and cash and cash equivalents:

	1994 £m	1993 £m
Bank and other borrowings		
Total borrowings (Note 20)	1,891	2,273
Amounts reclassified as cash and cash equivalents:		
Overdrafts	(67)	(94)
Other short term borrowings with an original maturity of less than 90 days	(452)	(494)
	1,372	1,685
Cash and cash equivalents		
Cash deposits	476	399
Amounts reclassified from borrowings	(519)	(588)
	(43)	(189)
Net borrowings	1,415	1,874

(F) Free cash flow (before dividends)

The Group's free cash flow before dividends comprises the net cash inflow from operating activities and dividends received from associated undertakings less net interest payments, dividends paid to minority shareholders in subsidiary undertakings, net tax payments and net purchases of tangible fixed assets.

Notes to the Group accounts

27. FUTURE CAPITAL EXPENDITURE

	1994	1993
	£m	£m
Contracted for but not provided	23	51
Authorised but not contracted for	74	85
	97	136

28. CONTINGENT LIABILITIES

Guarantees to third parties and other contingent liabilities amount to £5m (1993 – £8m).

29. ACQUISITION OF 34% INTEREST IN MH

On 29 April 1994, the Group acquired 34% of the share capital of MH which comprises all the material wines and spirits interests of the LVMH Group. The effect of the acquisition is set out below:

	Balance sheet at acquisition	Fair value adjustments	Fair value balance sheet
	£m	£m	£m
Brands	161	1,063	1,224
Other intangible assets	218	(218)	–
Tangible assets	568	30	598
Investments	36	–	36
Net operating assets	1,316	(195)	1,121
Net debt	(489)	–	(489)
Minority interests	(17)	–	(17)
	1,793	680	2,473
Attributable share of MH's net assets			841
Goodwill on acquisition			104
Consideration			945

Fair value adjustments comprise adjustments of £898m relating to the revaluation of brands, tangible assets, stocks and other creditors less £218m relating to the application of the Group's accounting policies. These final adjustments differ from the preliminary amounts disclosed in the 1994 interim financial statements and goodwill has been revised upwards from £97m to £104m. The Group has not capitalised financing costs in respect of stocks of maturing cognac and champagne.

Principal subsidiary and associated undertakings and joint ventures

SUBSIDIARY UNDERTAKINGS

	Effective % of issued share capital held by the Group	Country of operation
Spirits (United Distillers)		
United Distillers plc	100	Scotland
United Distillers (Aust) Ltd	100	Australia
John Cawsey and Company Pty Ltd	100	Australia
Asbach Austria Gesellschaft MbH	100	Austria
NV United Distillers Belgium SA	100	Belgium
United Distillers do Brasil Limitada	100	Brazil
United Distillers Canada Inc	100	Canada
United Distillers Canarias SA	99	Canary Islands
United Distillers Denmark AS	100	Denmark
United Distillers France SA	100	France
Asbach GmbH & Co (Partnership)	100	Germany
United Distillers (Europe) GmbH	100	Germany
Vedima International Getränke – Vertriebs GmbH	51	Germany
United Distillers Boutari SA	100	Greece
United Distillers Kanellakis SA	60	Greece
United Distillers Italia SpA	100	Italy
United Distillers Japan Ltd	100	Japan
United Distillers de Mexico SA De CV	80	Mexico
United Distillers Nederland BV	100	Netherlands
United Distillers (NZ) Ltd	100	New Zealand
United Distillers Companhia Velha Limitada	80	Portugal
United Distillers UK plc	100	Scotland
United Malt and Grain Distillers Ltd	100	Scotland
Udic SA	100	Spain
Codisa Import SA	70	Spain
Siegenthaler & Cie SA	100	Switzerland
United Distillers Glenmore Inc	100	USA
Industrias Pampero CA	97	Venezuela
United Distillers Curiel SA	100	Venezuela
Brewing (Guinness Brewing Worldwide)		
Guinness Brewing Worldwide Ltd	100	England
Guinness Australasia Pty Ltd	100	Australia
Guinness Cameroun SA	100	Cameroun
Guinness Canada Ltd	51	Canada
The Harp Lager Company Ltd	100	England
Guinness GmbH	100	Germany
Guinness Ghana Ltd	55	Ghana
Grenada Breweries Ltd	56	Grenada
Guinness (Hong Kong) Ltd	100	Hong Kong
Guinness Italia Srl	98	Italy
Desnoes & Geddes Ltd	51	Jamaica
Arthur Guinness Son & Company (Northern Ireland) Ltd	100	Northern Ireland
Irish Bonding Company Ltd	100	Northern Ireland
Croft Inns Ltd	100	Northern Ireland
Guinness Ireland Ltd	100	Republic of Ireland
Arthur Guinness Son & Company (Dublin) Ltd	100	Republic of Ireland

Principal subsidiary and associated undertakings and joint ventures

SUBSIDIARY UNDERTAKINGS continued

	Effective % of issued share capital held by the Group	Country of operation
Brewing (Guinness Brewing Worldwide) continued		
Harp Ireland Ltd	100	Republic of Ireland
Macardle Moore & Co Ltd	100	Republic of Ireland
E Smithwick & Sons Ltd	100	Republic of Ireland
Seychelles Breweries Ltd	54	Seychelles
Guinness South Africa Pty Ltd	100	South Africa
Grupo Cruzcampo SA	88	Spain
Guinness (Caribbean) Ltd	100	Trinidad
Guinness Import Company Inc	100	USA
Enterprises		
Guinness Publishing Ltd	100	England
Gleneagles Hotels PLC	100	Scotland
Other		
Guinness Enterprises (an unlimited company)	100	Republic of Ireland
Guinness Finance Australia Ltd	100	Australia
Guinness Finance PLC	100	England
Guinness Finance BV	100	Netherlands

ASSOCIATED UNDERTAKINGS AND JOINT VENTURES

Champagne, cognac and other wines and spirits

Moët Hennessy SA	34.0	France
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Spirits

Bundaberg Rum Company (Partnership)	50.0	Australia
Riche Monde Ltd	37.5	Hong Kong
Jardine Wines and Spirits KK	33.3	Japan
Riche Monde Sdn Bhd	25.0	Malaysia
Edward Dillon & Co Ltd	33.3	Republic of Ireland
Riche Monde Pte Ltd	50.0	Singapore
Riche Monde (Bangkok) Ltd	40.0	Thailand
Caldbeck Macgregor (Thailand) Ltd	20.0	Thailand
Schieffelin & Somerset Co (Partnership)	50.0	USA

Brewing and related activities

Compania Cervecera de Canarias SA	19.9	Canary Islands
Guinness Anchor Berhad	25.5	Malaysia
Guinness Nigeria PLC	40.0	Nigeria
Cantrell & Cochrane Group Ltd	49.6	Republic of Ireland
United Beverages Holdings Ltd	30.8	Republic of Ireland
GAPL Pte Ltd	50.0	Singapore
St. Vincent Brewery Ltd	30.0	St. Vincent

Notes

1. The figures following the names of principal subsidiary undertakings (all of which are consolidated) denote the percentage of share capital held by the Group, which is equivalent to the percentage of voting rights held by the Group, except for United Distillers Kanellakis SA where the percentage of voting rights held by the Group is 71% but the effective interest is 60%. Where the percentage is 100%, the Group holds the whole of all classes of issued share capital. Where the percentage is less than 100%, it applies to ordinary share capital only and there are no other classes of share in issue, except for the subsidiaries listed below. In the case of undertakings which are partnerships, the percentage indicates the Group's share in the partnership.

Subsidiary undertaking	Description of each class of issued share capital	Percentage of class held by parent	Percentage of class held by Group
Grenada Breweries Limited	10% preference shares of EC \$10 each	—	—
	Ordinary shares of EC \$1 each	56	56
Industrias Pampero CA	CDI class shares of VEB 500 each	100	100
	Ordinary shares of VEB 500 each	96	96
United Distillers Curiel SA	A class shares of VEB 1,000 each	100	100
	B class shares of VEB 1,000 each	—	—
United Distillers Kanellakis SA	Ordinary shares of Drachma 10,000 each	71	71
	Non-voting preference shares of Drachma 10,000 each	—	—

2. The following companies are direct subsidiaries of Guinness PLC:

United Distillers plc

Guinness Brewing Worldwide Ltd

Arthur Guinness Son & Company (Northern Ireland) Ltd

Irish Bonding Company Ltd

Croft Inns Ltd

Gleneagles Hotels PLC

Guinness Publishing Ltd

3. For all companies the country of incorporation or registration is the same as the country of operation. Moët Hennessy SA is incorporated in France but has operations in all geographical sectors.

Principal subsidiary and associated undertakings and joint ventures

4. The following table summarises the issued share capital of the principal associated undertakings and joint ventures:

Company	Issued share capital	Effective % of each class held by parent company	Effective % of each class held by Group
Moët Hennessy SA	34,648,386 A class shares of FF 50 each 17,849,169 B class shares of FF 50 each	– 100.0	– 100.0
Bundaberg Rum Company	Partnership	50.0	50.0
Riche Monde Ltd	100,000 ordinary shares of HK \$10 each	100.0	37.5
Jardine Wines and Spirits KK	3,000 ordinary shares of Yen 50,000 each	66.6	33.3
Riche Monde Sdn Bhd	5,600,000 ordinary shares of MYR 1 each	50.0	25.0
Edward Dillon & Co Ltd	281,256 ordinary shares of IR £1 each	33.3	33.3
Riche Monde Pte Ltd	500,000 "A" management shares of Sing \$1 each 500,000 "B" management shares of Sing \$1 each 3,000,000 "C" management shares of Sing \$1 each	100.0 100.0 100.0	50.0 50.0 50.0
Riche Monde (Bangkok) Ltd	240,000 ordinary shares of 100 Baht each 60,000 preference shares of 100 Baht each	100.0 –	40.0 –
Caldbeck Macgregor (Thailand) Ltd	200 ordinary shares of 1,000 Baht each	40.0	20.0
Schieffelin & Somerset Co	Partnership	50.0	50.0
Compania Cervecera de Canarias SA	1,099,578 ordinary shares of Ptas 1,000 each	71.0	19.9
Guinness Anchor Berhad	302,098,000 ordinary shares of Sen 50 each	51.0	25.5
Guinness Nigeria PLC	360,000,000 ordinary shares of 50k each	40.0	40.0
Cantrell & Cochrane Group Ltd	3,000,000 ordinary shares of IR £1 each	49.6	49.6
United Beverages Holdings Ltd	8,630,412 ordinary shares of IR £1 each	30.8	30.8
GAPL Pte Ltd	66,700,000 ordinary shares of Sing \$1 each	50.0	50.0
St. Vincent Brewery Ltd	135,000 ordinary shares of EC \$100 each	30.0	30.0

The effective percentage held by the Group as shown above excludes the percentage held through the investment in Moët Hennessy SA.

5. Schieffelin & Somerset Co is a joint venture partnership in which the Group has a 50% interest. The Group's interest in the results of the partnership is determined on the basis of the contribution to those results from the sale of the Group's products.

6. The registered addresses of partnerships in which the Group has an interest are:

Schieffelin & Somerset Co	2 Park Avenue, 17th Floor, New York, NY10016, USA.
Asbach GmbH & Co.	AM Rottland 2-10, 65385 Rudesheim am Rhein, Germany.
Bundaberg Rum Company	Whittred Street, Bundaberg, Queensland 4670, Australia.

7. The Group's interests in the joint venture companies within the Spirits sector which operate in the Far East are held through joint venture companies in which the Group's interest is 50%. GAPL Pte Ltd is a joint venture within the Brewing sector in which the Group owns 50% of the issued capital; it is consolidated in accordance with Section 258(2)(b) of the Companies Act 1985. GAPL Pte Ltd owns 51% of Guinness Anchor Berhad.

Company balance sheet

At 31 December 1994	Notes	1994 £m	1994 £m	1993 £m	1993 £m
NET ASSETS					
Fixed assets					
Tangible assets	2		28		29
Investments	2		4,363		4,396
			4,391		4,425
Current assets					
Amounts owed by Group undertakings		2,612		2,190	
Other debtors	3	101		121	
Cash at bank and in hand		109		59	
		2,822		2,370	
Creditors (amounts falling due within one year)					
Bank overdrafts		(13)		(6)	
Bank loans		(382)		(492)	
Other creditors	4	(263)		(271)	
		(658)		(769)	
Net current assets			2,164		1,601
Total assets less current liabilities			6,555		6,026
Creditors (amounts falling due after more than one year)					
Bank and other loans	5	(347)		(377)	
Loans from Group undertakings		(4,144)		(3,584)	
			(4,491)	(3,961)	
Total net assets			2,064		2,065
SHAREHOLDERS' FUNDS					
Capital and Reserves					
Called up share capital (Note 24 to the Group accounts)	1		505		503
Share premium account			544		522
Capital redemption reserve			71		71
Profit and loss account			944		969
Total shareholders' funds			2,064		2,065

Approved by the Board on 22 March 1995.

A A Greener, Chairman
P E Yea, Finance Director

Notes to the Company balance sheet

1. SHAREHOLDERS' FUNDS

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total shareholders' funds £m
At 1 January 1994	503	522	71	969	2,065
Profit for the financial year	—	—	—	254	254
Issue of shares	2	22	—	—	24
Dividends	—	—	—	(279)	(279)
At 31 December 1994	505	544	71	944	2,064

The Company has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The profit for the financial year attributable to ordinary shareholders, which is stated on an historical cost basis, was £254m (1993 – £527m); there were no other recognised gains or losses.

2. FIXED ASSETS

	Tangible assets £m	Investments in Group undertakings Shares £m	Loans £m	Total £m
At 1 January 1994	29	4,363	33	4,396
Additions	2	—	—	—
Depreciation	(2)	—	—	—
Disposals and repayments	(1)	—	(33)	(33)
At 31 December 1994	28	4,363	—	4,363

3. OTHER DEBTORS

	1994 £m	1993 £m
Other debtors	101	45
Corporation tax	—	76
	101	121

Amounts recoverable after more than one year in 1994 total £65m (1993 – £Nil) relating to the right to acquire £75m of the Group's sterling Eurobonds issued in 1991 maturing in 1997 at a pre-determined price.

4. OTHER CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)

	1994 £m	1993 £m
Dividends	200	184
Other creditors and accruals	63	87
	263	271

5. BANK AND OTHER LOANS (REPAYABLE AFTER MORE THAN ONE YEAR)

Bank and other loans of £347m (1993 – £377m) include bank loans of £Nil (1993 – £34m) and Eurobonds and other loans of £347m (1993 – £343m). The Eurobonds comprise £150m 10⁵/₈% Notes, £150m 7³/₈% Notes and IR £45m 2¹/₂% Convertible Notes, all due in 1997 and listed on the International Stock Exchange in London and Dublin. The Convertible Notes may in certain circumstances be converted into other debt instruments of, but not shares in, the Company.

6. GUARANTEES

The Company has guaranteed loans including listed Eurobonds and private placements of certain subsidiary undertakings in the aggregate sum of £990m (1993 – £1,171m), which are included in other loans in Note 20 to the Group accounts.

Half year results

	First half 1994 £m	First half 1994 £m	First half 1993 £m Restated	Second half 1994 £m	Second half 1993 £m
For the year ended 31 December 1994					
Turnover					
Spirits		1,047	1,110	1,650	1,663
Brewing		916	867	1,077	1,023
		1,963	1,977	2,727	2,686
Trading profit					
Spirits		258	270	442	431
Brewing		108	99	148	138
Profit before interest and taxation (excluding MH and LVMH)		366	369	590	569
Share of profit before taxation of MH		23	–	66	–
Share of profit before taxation of LVMH		–	34	–	91
Loss on disposal of investment in LVMH	(173)				
Provision against investment in LVMH made in 1993	173				
		–	–	–	(173)
Profit before interest and taxation		389	403	656	487
Net interest charge		(69)	(98)	(61)	(90)
Profit on ordinary activities before taxation		320	305	595	397
Taxation on profit on ordinary activities		(85)	(90)	(158)	(157)
Profit on ordinary activities after taxation		235	215	437	240

In 1993, an increase in pension costs of £30m was recognised in respect of the funding of the UK pension scheme to which the Group recommenced contributions in 1994. The increased annual pension costs related to 1993 as a whole and have been reflected equally in the two halves of 1993 accordingly. The 1993 first half results have been restated from a profit before taxation of £320m to £305m (profit after taxation from £227m to £215m).

	First half 1994	First half 1993 Restated	Second half 1994	Second half 1993
Earnings per share				
Basic earnings per share	11.2p	11.0p	20.6p	11.9p
Diluted – before exceptional items	11.1p	11.0p	20.5p	20.7p
Diluted earnings per share	11.1p	11.0p	20.5p	11.9p
Percentage of full year				
Turnover	42%	42%	58%	58%
Trading profit	38%	39%	62%	61%
Profit before taxation*	35%	35%	65%	65%
Earnings per share – diluted*	35%	35%	65%	65%

* Before exceptional items

Five year financial summary

(A) PROFIT AND LOSS ACCOUNT

For the years ended 31 December	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m
Turnover	4,690	4,663	4,363	4,067	3,511
Trading profit	956	938	1,023	995	837
Other items	—	—	(125)	(56)	—
Share of profit before taxation of MH	89	—	—	—	—
Share of profit before taxation of LVMH	—	125	101	123	128
Loss on disposal of investment in LVMH	(173)	—	—	—	—
Provision against investment in LVMH made in 1993	173	(173)	—	—	—
Profit before interest and taxation	1,045	890	999	1,062	965
Net interest charge	(130)	(188)	(204)	(162)	(118)
Profit on ordinary activities before taxation	915	702	795	900	847
Taxation on profit on ordinary activities	(243)	(247)	(242)	(272)	(269)
Profit on ordinary activities after taxation	672	455	553	628	578
Minority interests	(31)	(22)	(28)	(33)	(21)
Preference dividends	—	—	(1)	(8)	(16)
Profit for the financial year	641	433	524	587	541
Dividends	(279)	(258)	(237)	(210)	(169)
Retained earnings	362	175	287	377	372

Trading profit in the years 1990 to 1992 benefited from the suspension of funding of the UK pension scheme. From 1993 onwards an increase in pension costs of approximately £30m per year was recognised in respect of this scheme to which the Group recommenced contributions in 1994.

For the years ended 31 December	1994	1993	1992	1991	1990
Earnings per share					
Basic earnings per share	31.8p	22.9p	28.1p	33.0p	31.8p
Diluted earnings per share	31.6p	22.9p	27.8p	31.4p	29.2p
Diluted – before exceptional items	31.6p	31.7p	33.0p	33.6p	29.2p
Dividends per share					
Net dividend	13.80p	12.80p	11.85p	10.80p	9.37p
Gross dividend	17.25p	16.00p	15.09p	14.40p	12.50p
Interest cover (times)	8.0	4.7	4.9	6.6	8.2
Dividend cover (times)	2.3	1.8	2.3	2.9	3.1

The sterling/US dollar exchange rate at the end of 1994 was approximately £1 = \$1.56. If the results for 1994 were translated at this illustrative exchange rate, turnover would amount to \$7,316m, profit before taxation to \$1,427m, and diluted earnings per share to \$0.49.

(B) CASH FLOW STATEMENT

For the years ended 31 December	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m
Net cash inflow from operating activities	970	957	901	843	788
Interest paid (net)	(148)	(191)	(178)	(154)	(96)
Dividends received from associated undertakings	25	51	58	32	24
Dividends paid to minority shareholders in subsidiary undertakings	(20)	(17)	(10)	(10)	(7)
Dividends paid to ordinary and preference shareholders	(263)	(244)	(221)	(193)	(162)
Net cash outflow from returns on investments and servicing of finance	(406)	(401)	(351)	(325)	(241)
Total tax paid	(162)	(186)	(145)	(185)	(160)
Net cash inflow before investing activities	402	370	405	333	387
Net cash investment in tangible fixed assets	(205)	(173)	(200)	(210)	(135)
Free cash flow (after dividends)	197	197	205	123	252
Free cash flow (before dividends)	460	441	426	316	414

(C) BALANCE SHEET

At 31 December	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m
Acquired brands at cost	1,395	1,395	1,395	1,395	1,375
Tangible assets	1,784	1,725	1,719	1,721	1,283
Investments (including investment in MH and LVMH)	1,049	1,439	1,436	1,232	1,156
Total fixed assets	4,228	4,559	4,550	4,348	3,814
Net current operating assets	1,689	1,606	1,614	1,457	1,214
Long term creditors and provisions	(443)	(453)	(483)	(402)	(224)
Net borrowings	5,474 (1,415)	5,712 (1,874)	5,681 (2,029)	5,403 (1,797)	4,804 (1,106)
Total equity	4,059	3,838	3,652	3,606	3,698
Gearing					
– including cost of acquired brands	35%	49%	56%	50%	30%
– excluding cost of acquired brands	63%	111%	140%	119%	68%

(D) ORDINARY SHARES OUTSTANDING

	1994	1993	1992	1991	1990
Basic:					
weighted average	2,014m	1,889m	1,865m	1,778m	1,698m
year-end	2,018m	2,010m	2,001m	1,952m	1,802m
Diluted:					
weighted average	2,052m	1,924m	1,917m	1,912m	1,928m
year-end	2,058m	2,047m	2,036m	2,026m	2,016m
Cross-shareholding adjustment*	–	116m	115m	110m	84m

*Deducted in arriving at weighted average number of shares shown above in order to reflect the impact on earnings per share of the cross-shareholding arrangements with LVMH which existed up to 1993.

Other information

(A) GLOSSARY OF TERMS

Earnings The profit for the financial year after taxation, minority interests and preference dividends.

Earnings per share Basic earnings per share is calculated as earnings divided by the weighted average number of shares in issue during the period, adjusted to take account of the cross-shareholding arrangements with LVMH which existed up to 1993. For diluted earnings per share, both earnings and the weighted average number of shares are adjusted to reflect, as at the start of the year, the issue of Ordinary Shares to satisfy options outstanding under employee share schemes.

Free cash flow The free cash flow for the year before dividends comprises the net cash inflow from operating activities and dividends received from associated undertakings less net interest payments, dividends paid to minority shareholders in subsidiary undertakings, net tax payments and net purchases of tangible fixed assets. It represents the net cash generated during the year which is available for payment of dividends to shareholders, for investment in new businesses or for repayment of borrowings.

Interest cover The number of times the net interest charge is covered by profit before interest and taxation.

Dividend cover The number of times the dividend per share is covered by diluted earnings per share.

Gearing Net borrowings (after deducting cash deposits) divided by total equity (share capital, reserves and minority interests), expressed as a percentage. A secondary gearing percentage, based on equity adjusted to exclude acquired Guinness, MH and LVMH brands, is also presented.

(B) MH

A summary of the 1994 results of MH is set out in Note 3(B) to the Group accounts and a summary of its balance sheet is set out in Note 15(B). This information has been extracted from the consolidated accounts of LVMH, which may be obtained from the address set out in (C) below.

(C) LVMH

A summary of the 1993 results of LVMH is set out in Note 4(B) to the Group accounts and a summary of its balance sheet is set out in Note 16(B). The effect of the disposal of the Group's investment in LVMH in 1994 is set out in Note 5. Other information, including analyses by business and geographical sector of results and gross assets, is set out in the consolidated accounts of LVMH, which may be obtained from Direction de la Communication Economique et Financière, LVMH Moët Hennessy Louis Vuitton SA, 30 avenue Hoche, 75008 Paris, France.

(D) CAPITAL GAINS TAX

For the purpose of UK capital gains tax the market value of the Company's Ordinary Shares on 6 April 1965 was 25.25p after adjustment for the one for one capitalisation share issues on 7 February 1980 and 17 October 1991; the market value of the Company's Ordinary Shares on 31 March 1982 was 38.25p after adjustment for the one for one capitalisation share issue on 17 October 1991.

The market value of the Ordinary Shares of 50p each of The Distillers Company plc on 31 March 1982 was 175p.

The market value on 31 March 1982 of the Arthur Bell & Sons plc Ordinary Shares of 50p each prior to adjustment for the 3 for 5 scrip issue in 1983 was 186.75p (equivalent to 116.71875p after adjustment for the 3 for 5 scrip issue in 1983).

For the purpose of Republic of Ireland capital gains tax the market value of the Company's Ordinary Shares on 6 April 1974 was 23.25p after adjustment for the one for one capitalisation share issues on 7 February 1980 and 17 October 1991.

(E) PERSONAL EQUITY PLANS

The Company has two Personal Equity Plans (PEPs) managed independently by Bank of Scotland, providing a method of investing up to £9,000 in Guinness shares in each tax year. If you wish to receive further information concerning the PEPs, please telephone Bank of Scotland on 0131 243 8053.

(F) LOW COST SHARE DEALING SERVICE

Cazenove & Co operates a low cost share dealing service for private investors who wish to buy or sell Guinness shares in a simple, low cost manner. The commission on purchases or sales is 1% (with no minimum charge) on the first £5,000, 0.5% on the next £145,000 and 0.3% on the remaining amount. Purchases incur stamp duty of 0.5% and a Stock Exchange levy of £1 is incurred on all transactions exceeding £10,000. For further details please telephone Cazenove & Co on 0171 606 1768.

(G) PROSHARE

The Company is a founder member of ProShare, the independent organisation which supports and promotes the interests of private investors, and provides its members with a self-help investment guide, monthly newsletters and a range of other products and services. If you are interested in receiving more information, please telephone ProShare on 0171 971 0061.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Guinness PLC will be held in the Nine Kings Suite, Royal Lancaster Hotel, Lancaster Terrace, London W2, on Thursday 18 May 1995 at 3.00 p.m. for the following purposes:

Accounts

To receive and adopt the accounts for the year ended 31 December 1994 and the reports of the Directors and Auditors thereon (RESOLUTION 1)

Dividend

To declare a final dividend on the Ordinary Shares (RESOLUTION 2)

Election of Directors

To propose the following Directors for election:

Professor F A Maljers (RESOLUTION 3)

Mr F Johnsson (RESOLUTION 4)

Mr J D de Leeuw (RESOLUTION 5)

To propose the following Directors for re-election:

Mr B J Arnault (RESOLUTION 6)

Mr N D Cadbury (RESOLUTION 7)

Mr M F Julien (RESOLUTION 8)

Auditors

To re-appoint the Auditors and to authorise the Directors to fix their remuneration (RESOLUTION 9)

Special resolutions

To consider and, if thought fit, to pass the following resolutions, to which reference is made in the Explanatory Notes following this Notice on page 76.

Partial exclusion of pre-emption rights

(RESOLUTION 10)

THAT the Directors are hereby empowered (in substitution for any previous power) in accordance with Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (and to make any offer or agreement to allot equity securities within the currency of the power which would or might require equity securities to be allotted after expiry of the power) within the terms of their existing general authority under Section 80 of the Act as if Section 89(1) of the Act did not apply to any such allotment subject to the following restrictions and provisions:

(a) this power shall be limited

(i) to the allotment of equity securities in connection with a rights issue in favour of holders of Ordinary Shares of 25p each and/or other securities where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares of 25p each held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas shareholders, fractional entitlements or otherwise;

(ii) to the allotment of equity securities pursuant to options granted under the Company's share option schemes for employees of joint ventures in which the Group participates; and
(iii) to the allotment (except under sub-paragraph (i) or (ii) above) of equity securities up to an aggregate nominal value of £25 million;

(b) unless previously revoked or varied, this power shall expire on 17 August 1996 or at the conclusion of the Annual General Meeting in 1996, whichever is the sooner; and

(c) the expression "equity securities" has the same meaning in this resolution as in Section 94 of the Act.

Special business

Purchase of its own Ordinary Shares by the Company

(RESOLUTION 11)

THAT the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163 of the Act) of its Ordinary Shares of 25p each subject to the following restrictions and provisions:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased is 200 million;

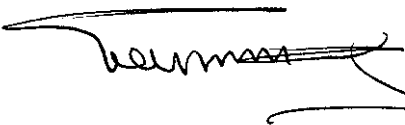
(b) the minimum price which may be paid for an Ordinary Share is 25 pence;

(c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105% of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the 10 business days immediately preceding the day on which the Ordinary Share is purchased;

(d) unless previously revoked or varied, this authority shall expire on 17 November 1996 or at the conclusion of the Annual General Meeting in 1996, whichever is the sooner; and

(e) the Company may make a contract to purchase Ordinary Shares under this authority before the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares pursuant to any such contract.

By Order of the Board
G W King, Group Secretary
18 April 1995



Registered Office: 39 Portman Square, London W1H 0EE
Registered in England and Wales, company number 23307

Notice of Annual General Meeting

Notes

1. Only the holders of Ordinary Shares are entitled to attend and vote at this meeting.
2. Any member may appoint a proxy or proxies and a form is enclosed for the use of members unable to attend the meeting. A proxy need not be a member of the Company. Authorised representatives of corporate members have full voting powers. Completed forms of proxy must be lodged at the address shown on the form not later than 48 hours before the meeting. Members who have lodged proxy forms are not hereby prevented from attending the meeting and voting in person if they so wish.
3. Information relating to base values of the Company's shares for Capital Gains Tax purposes is given on page 74 of this Report.

Documents available for inspection

Copies of Directors' service contracts (or a memorandum of the terms of such contracts) with the Company or with any of its subsidiaries (unless expiring, or terminable by the employing company without compensation, within one year) will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the Registered Office of the Company and at its office at 33 Pinkhill, Edinburgh EH12 7BA, at Lazard Brothers & Co. Limited, 21 Moorfields, London EC2P 2HT, and at McCann Fitzgerald, 2 Harbourmaster Place, Custom House Dock, Dublin 1, up to and including 18 May 1995 and at the Annual General Meeting from 2.15 p.m. until the conclusion of the meeting.

Explanatory notes on certain business of the Annual General Meeting

Routine business

Partial exclusion of pre-emption rights

(RESOLUTION 10)

Section 89 of the Companies Act 1985 requires that a company issuing shares for cash must first offer them to existing shareholders following a statutory procedure which is both costly and cumbersome.

This resolution excludes that statutory procedure as far as rights issues are concerned and where shares are issued on the exercise of share options in favour of employees of joint ventures in which the Group participates. It also enables the Directors to allot shares up to the aggregate nominal value of £25 million, which is approximately 5% of the issued ordinary share capital at 31 December 1994, in line with the Association of British Insurers' guidelines. It replaces similar resolutions passed previously.

The Directors believe that the limited powers provided by this resolution will maintain a desirable degree of flexibility. Unless previously revoked or varied the disapplication will expire on 17 August 1996 or at the conclusion of the next Annual General Meeting of the Company, whichever is the sooner.

Special business

Purchase of its own Ordinary Shares by the Company

(RESOLUTION 11)

At the Annual General Meeting in 1994 members gave authority for the Company to buy its own Ordinary Shares in the market up to a maximum of 200 million Ordinary Shares. As at 22 March 1995 (being the date on which the Board approved the accounts for the year ended 31 December 1994) the Company has made no purchases under the terms of this authority.

In order to maintain flexibility the Company now wishes to obtain your consent to renew this authority. As previously stated, the Directors would make use of this authority only after the most careful consideration provided that an increase in expected earnings per Ordinary Share would result, and after taking account of other investment opportunities, appropriate gearing levels and the overall financial position of the Group.

You are asked to consent to the purchase and cancellation by the Company of up to a maximum of 200 million Ordinary Shares, which represents less than 10% of the issued ordinary share capital at 31 December 1994. This authority will expire on 17 November 1996 or at the conclusion of the next Annual General Meeting, whichever is the sooner.

Financial diary

1995

23 March	Preliminary announcement of results for the year ended 31 December 1994
3 April	Shares go 'ex dividend'
24 April	Record date for final dividend
18 May	Annual General Meeting
23 May	Payment of final dividend
28 September*	Preliminary announcement of results for the six months ended 30 June 1995
9 October*	Shares go 'ex dividend'
19 October*	Record date for interim dividend
9 November*	Payment of interim dividend
31 December	Financial year end

1996

21 March*	Preliminary announcement of results for the year ended 31 December 1995
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* Subject to confirmation

Analysis of ordinary shareholders

At 31 December 1994	Holdings number	Holdings %	Shares number in millions	Shares %
Category:				
Individuals	82,733	80	231	11
Insurance companies and pension funds	780	1	319	16
Banks and bank nominees	3,552	3	195	10
Non-bank nominees	14,202	14	901	45
Other corporate holders	2,204	2	372	18
	103,471	100	2,018	100
Size of holdings:				
Up to 1,000 shares	43,502	42	25	1
1,001 – 10,000 shares	54,931	53	159	8
10,001 – 50,000 shares	3,640	4	68	3
Over 50,000 shares	1,398	1	1,766	88
	103,471	100	2,018	100