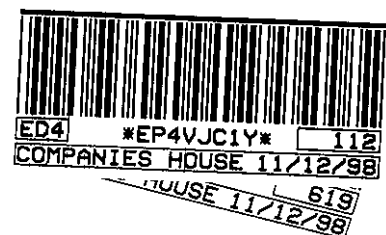


**Diageo Finance plc (formerly Grand Metropolitan Finance PLC)**

**FINANCIAL STATEMENTS**

**9 Month Period Ended 30 June 1998**

Company Registration No. 213393



**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**

**DIRECTORS' REPORT**

The directors have pleasure in submitting their annual report together with the audited financial statements for the 9 month period ended 30 June 1998. On 17 December 1997 Grand Metropolitan PLC merged with Guinness PLC to form Diageo plc as a result of which, Diageo plc became the ultimate parent of the company. On 16 December 1997 the company changed its name to Diageo Finance plc.

***Activities***

The company acts as a financing vehicle for the Diageo Group. The results of the company and the development of its business are, therefore, influenced to a considerable extent by Group financing requirements.

***Year 2000***

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

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

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

***The Euro***

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

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

Looking forward, key commercial risks have been analysed, with a view to minimising the impact through active management in these areas over the EMU transition period and beyond. However, there can be no assurance that the euro will not have a negative impact. The impact of future entry to EMU of other European countries (particularly the UK) has been similarly analysed.

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**

**DIRECTORS' REPORT** (continued)

***Financial***

The year end of the company has been changed to 30 June from 30 September, and the results shown on page 6 are for the 9 month period from 1 October 1997 to 30 June 1998, with comparatives for the year ended 30 September 1997.

The directors do not recommend the payment of an ordinary dividend (1997: *£nil*).

After deducting the total preference dividends of £124.7m (1997: *£165.4m*) the deficit for the period transferred to reserves is £13.5m (1997: *£2.6m deficit*).

***Directors***

The directors who served during the period were as follows:

Sir George Bull (resigned 19 June 1998)

P K Bentley

D Crowley (resigned 19 June 1998)

J N Grover (resigned 19 June 1998)

J S Heslop (resigned 16 February 1998)

J M J Keenan (resigned 19 June 1998)

R King (appointed 19 June 1998)

J B McGrath (resigned 19 June 1998)

M D Peters (appointed 19 June 1998)

N C Rose (resigned 19 June 1998)

D C Stainton

P S Walsh (resigned 19 June 1998)

***Secretary***

Mr B E Wickham resigned as Secretary of the company on 27 March 1998 and Mrs S M Bunn was appointed in his place on the same date.

***Supplier payment policies***

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

***Auditor***

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

By Order of the Board



**S M Bunn**

*Secretary*

8 Henrietta Place  
London, W1M 9AG  
**3 December 1998**

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**  
**DIRECTORS' RESPONSIBILITIES**  
**IN RELATION TO FINANCIAL STATEMENTS**

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

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

The directors, in preparing the financial statements on pages 5 to 15, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, that all accounting standards which they consider to be applicable have been followed, and that it is appropriate to prepare the financial statements on the going concern basis.

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

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

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**  
**REPORT OF THE AUDITOR, KPMG AUDIT PLC,**  
**TO THE MEMBERS OF DIAGEO FINANCE PLC**

We have audited the financial statements on pages 5 to 15.

**Respective responsibilities of directors and auditor**

As described on page 3 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

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

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

**Opinion**

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

*KPMG Audit Plc*

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

**London**  
**3 December 1998**

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**  
**ACCOUNTING POLICIES**

**Basis of preparation**

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

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

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

**Foreign currencies**

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

**Interest rate management**

The company participates in the Diageo Group's interest rate management and uses interest rate swaps to manage the proportion of fixed to variable debt within limits set by the Board of Directors. Hedge accounting is applied to swaps and other hedging instruments with interest recognised on an accruals basis with no adjustments made to reflect fluctuations in market values.

**Current asset investments**

Current asset investments are stated at cost plus, where appropriate, accrued interest.

**Taxation**

The charge for taxation is based on the profit for the 9 month period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**  
**PROFIT AND LOSS ACCOUNT**  
for the 9 month period ended 30 June 1998

	Notes	1998 £m	1997 £m
Interest receivable	1	1,275.4	1,406.8
Interest payable	2	(1,119.0)	(1,180.9)
Net interest receivable		156.4	225.9
Other operating income		6.2	14.1
Operating costs	4	(0.6)	(0.4)
<b>Profit on ordinary activities before taxation</b>		<b>162.0</b>	<b>239.6</b>
Taxation on profit on ordinary activities	6	(50.8)	(76.8)
<b>Profit for the financial period after taxation</b>		<b>111.2</b>	<b>162.8</b>
Non-equity dividends paid and accrued	7	(124.7)	(165.4)
<b>Deficit transferred to reserves</b>		<b>(13.5)</b>	<b>(2.6)</b>

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

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

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

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

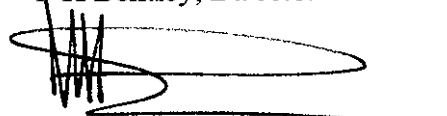
	Notes	1998 £m	1997 £m
Profit for the financial period		111.2	162.8
Non-equity dividends paid and accrued	7	(124.7)	(165.4)
New share capital issued: Redeemable preference shares	14	1,000.0	2,005.0
Preference shares redeemed	14	(1,000.0)	(2,005.0)
Shareholders' funds at beginning of period		3,782.3	3,784.9
Shareholders' funds at end of period		3,768.8	3,782.3

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**  
**BALANCE SHEET**  
at 30 June 1998

	Notes	1998 £m	1997 £m
<b>Current assets</b>			
Debtors - due within one year	8	7,188.0	9,334.5
Debtors - due after more than one year	8	4,103.5	3,936.0
Investments	10	487.1	639.8
Cash at bank		28.1	1.4
		<b>11,806.7</b>	<b>13,911.7</b>
 <b>Creditors - due within one year</b>			
Borrowings	11	(195.7)	(132.4)
Other creditors	12	(3,626.4)	(4,835.4)
		<b>(3,822.1)</b>	<b>(4,967.8)</b>
<b>Net current assets</b>		<b>7,984.6</b>	<b>8,943.9</b>
 <b>Creditors - due after more than one year</b>			
Borrowings	11	(266.6)	(275.4)
Other creditors	13	(3,949.2)	(4,886.2)
		<b>(4,215.8)</b>	<b>(5,161.6)</b>
		<b>3,768.8</b>	<b>3,782.3</b>
 <b>Capital and reserves</b>			
Called up share capital - equity	14	655.0	655.0
Called up share capital - non-equity	14	3,005.0	3,005.0
		<b>3,660.0</b>	<b>3,660.0</b>
Profit and loss account	15	108.8	122.3
		<b>3,768.8</b>	<b>3,782.3</b>

The financial statements on pages 5 to 15 were approved by the Board of Directors on 3 December 1998 and signed on its behalf by:

  
P K Bentley, *Director*

  
M D Peters, *Director*



**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**  
**NOTES**

**1 Interest receivable**

	1998 £m	1997 £m
Loans to Group undertakings	1,230.0	1,334.1
Income from currency swaps	-	12.2
Other deposits	44.2	60.5
Option premia	1.2	-
	<u>1,275.4</u>	<u>1,406.8</u>

**2 Interest payable**

	1998 £m	1997 £m
Bank loans and overdrafts	9.2	6.4
Loans from Group undertakings	1,018.7	1,145.0
Expense on currency swaps	5.4	-
Other loans	85.7	29.5
	<u>1,119.0</u>	<u>1,180.9</u>

Included in interest payable on other loans is an exceptional interest charge of £58 million in respect of certain long dated financial instruments which have been closed out as a result of the group having established a new interest rate management policy. A deferred tax asset has arisen as a result (see note 9).

**3 Operations**

During the financial period the company was engaged in treasury management for Diageo plc and its subsidiary undertakings. The business and geographical segments that it lent to are as disclosed in the consolidated statutory accounts of Diageo plc. The company's operations are based in the United Kingdom. It raises the external funds it requires principally using the London and New York financial markets.

**4 Operating costs**

The company has no employees. Fees in respect of services provided by the auditors were: statutory audit £35,000 (1997: £42,000) and other non-audit work £nil (1997: £nil).

**5 Directors**

*Emoluments*

None of the directors received any remuneration during the 9 month period in respect of their services as director of the company (1997: £nil).

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**  
**NOTES**

**5 Directors (continued)**

*Share Interests*

No director had any interest, beneficial or non-beneficial, in the share capital of the company or had a material interest during the period in any significant contract with the company. The directors who held office at the end of the financial period had the following beneficial interests in the shares of the ultimate parent company Diageo plc, at 30 June 1998:

(i) Ordinary shares and options over ordinary shares

	Ordinary shares of 28 <sup>101/108</sup> p each		B shares of 514 <sup>12/17</sup> p each*	
	At 1.10.97 (or date of appointment)	At 30.6.98	At 1.10.97 (or date of appointment)	At 30.6.98
P K Bentley	-	-	-	-
R King	1,422	1,422	50	50
M D Peters	2,733	2,733	345	224
D C Stainton	-	-	-	-

	Options			
	At 1.10.97 (or date of appointment)	Granted during the period	Exercised during the period	At 30.6.98
P K Bentley	69,097	-	41,959	27,138
R King	28,762	-	-	28,762
M D Peters	13,348	-	-	13,348
D C Stainton	205,689	-	200,165	5,524

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

	Ordinary shares of 28 <sup>101/108</sup> p each Restricted Share Plan/Medium Term Equity Plan/Long Term Incentive Plan			
	At 1.10.97 (or date of appointment)	Granted during the period	Exercised during the period	At 30.6.98
P K Bentley	15,625	-	-	15,625
R King	10,700	-	-	10,700
M D Peters	1,434	-	-	1,434
D C Stainton	15,290	-	-	15,290

(iii) Notes:

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

- The directors held the above options under Grand Metropolitan PLC and Diageo plc share option schemes at prices between 328p and 494p per share exercisable by 2007. No options lapsed and no awards were vested during the period. The mid-market price of Grand Metropolitan PLC/Diageo plc shares fluctuated between 535p and 762.5p during the period. The mid-market share price on 30 June 1998 was 711p.
- D C Stainton had an interest in 4,975,416 shares subject to call options held by trusts to satisfy grants made under the various GrandMet share option schemes existing prior to the merger. R King had an interest in 1,376,531 shares held by the Guinness Employee Trusts to satisfy grants made under the Guinness Executive Share Option Scheme 1994 and the Guinness Long Term Incentive Plan.

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**  
**NOTES**

**5 Directors (continued)**

3. Grand Metropolitan Restricted Share Plan (RSP): In 1997, GrandMet shares or ADSs were conditionally awarded to executives, with eventual release dependent on the performance of GrandMet's TSR compared with the TSR of the other FTSE 100 companies, over a minimum of three years. The allocation for UK directors was 100% of base salary, and for US directors 130% of base salary, using the average share price for the calendar year prior to the date of the award. Following the merger, these awards have been converted to Diageo shares, and their release to participants will depend on the ranking of Diageo's TSR at the end of three years after the date of grant. If the company is ranked in the top 20% of selected companies, the maximum number of shares will be released; if it is ranked below the 50<sup>th</sup> percentile, no shares will be released. Releases between these points are on a sliding scale basis.
4. The Guinness Medium Term Executive Plan (MTEP): was established in 1997. The plan was operated by the trustees of the Diageo plc Employee Incentive Trust 1997. Awards are made only to B grade executives and below world-wide. Performance conditions are tailored to the particular division within which the relevant executive works and may be adjusted when they move within the group. The plan was wound up in June 1998 with cash payments made to participants in September 1998 in lieu of shares. Proportionate payments were made based on the time elapsed since the plan was first established.
5. Guinness Long Term Incentive Plan (LITP): Under a plan approved by shareholders in 1996, awards over shares were conditionally granted to executives in 1996, with eventual transfer dependent on the performance of Guinness' TSR against a comparator group of companies selected by the Guinness non-executive committee. Following the merger, performance targets attached to awards granted in 1996 were waived. The awards granted in 1997 are now dependent upon the performance of Diageo's TSR against the same comparator group of companies. Transfer of shares to executives will depend on the ranking of Diageo's TSR at the end of three years after the date of grant. If the company is ranked in the top 25% of selected companies, the maximum 100% number of shares will be transferred; if it is ranked below the 60<sup>th</sup> percentile, no shares will be transferred. Transfers between these points are on a sliding scale. The last grants of awards under this plan were made in April 1997, and will lapse (at the latest) at the end of three years from the date of grant.

**6 Taxation**

	1998	1997
	£m	£m
UK corporation tax payable at 31% (1997: 32%)	70.3	76.8
Deferred tax on close-out of long dated financial instruments	(19.5)	-
	<u>50.8</u>	<u>76.8</u>

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

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**  
**NOTES**

**7 Dividends**

	Paid £m	Accrued £m	1998 Total £m	Paid £m	Accrued £m	1997 Total £m
<i>Non-Equity:</i>						
4.75% "A" Cumulative Redeemable Preference Shares of £1 each	-	-	-	0.1	-	0.1
4.75% "B" Cumulative Redeemable Preference Shares of £1 each	-	-	-	2.6	-	2.6
5.00% "C" Cumulative Redeemable Preference Shares of £1 each	19.6	-	19.6	45.9	4.1	50.0
4.55% "D" Cumulative Redeemable Preference Shares of £1 each	-	-	-	2.1	-	2.1
5.80% "E" Cumulative Redeemable Preference Shares of £1 each	83.2	4.1	87.3	106.8	3.8	110.6
5.00% "F" Cumulative Redeemable Preference Shares of £1 each	16.2	1.6	17.8	-	-	-
	<b>119.0</b>	<b>5.7</b>	<b>124.7</b>	<b>157.5</b>	<b>7.9</b>	<b>165.4</b>

**8 Debtors**

	1998		1997	
	Due within one year £m	Due after one year £m	Due within one year £m	Due after one year £m
Amounts owed by Group undertakings	7,132.6	4,099.6	9,211.7	3,936.0
Prepayments and accrued income	30.1	-	122.6	-
Other debtors	25.3	3.9	0.2	-
	<b>7,188.0</b>	<b>4,103.5</b>	<b>9,334.5</b>	<b>3,936.0</b>

Included in other debtors is deferred tax of £19.5 million (see note 9).

**9 Deferred tax asset**

	£m
At 1 October 1997	-
Profit and loss account credit	19.5
At 30 June 1998	<b>19.5</b>

There is no deferred tax not provided for.

**10 Investments**

	1998 £m	1997 £m
Externally managed funds	483.8	624.7
Term deposits	3.3	15.1
	<b>487.1</b>	<b>639.8</b>

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**  
**NOTES**

**11 Borrowings**

	Bank loans and overdrafts £m	Other loans £m	1998 Total £m	Bank loans and overdrafts £m	Other loans £m	1997 Total £m
<i>Analysis by year of repayment</i>						
After 5 years	3.5	199.1	202.6	7.7	198.9	206.6
From two to five years	11.4	20.3	31.7	11.2	49.0	60.2
From one to two years	3.3	29.0	32.3	3.3	5.3	8.6
<b>Due after more than one year</b>	<b>18.2</b>	<b>248.4</b>	<b>266.6</b>	<b>22.2</b>	<b>253.2</b>	<b>275.4</b>
<b>Due within one year</b>	<b>185.9</b>	<b>9.8</b>	<b>195.7</b>	<b>123.4</b>	<b>9.0</b>	<b>132.4</b>
	<b>204.1</b>	<b>258.2</b>	<b>462.3</b>	<b>145.6</b>	<b>262.2</b>	<b>407.8</b>

Other loans comprise:

	Currency	Year end interest rates	1998 £m	1997 £m
Guaranteed bond 2005	Sterling	9%	199.1	198.9
Others	Various	Various	59.1	63.3
			<b>258.2</b>	<b>262.2</b>

None of the borrowings of the company is secured.

The company, together with other Group companies, has access to a number of committed bank facilities totalling £2,551m of which none was used at 30 June 1998.

The company has arranged interest rate swaps and forward rate agreements to manage the Diageo Group's interest rate exposure. The interest rates shown above are those contracted on the underlying borrowings before taking into account any interest rate protection.

**12 Other creditors - due within one year**

	1998 £m	1997 £m
Amounts owed to Group undertakings	3,399.0	4,732.3
Corporation tax	145.3	75.0
Accruals and deferred income	82.1	28.1
	<b>3,626.4</b>	<b>4,835.4</b>

**13 Other creditors - due after more than one year**

	1998 £m	1997 £m
Amounts owed to Group undertakings	3,949.2	4,880.1
Accruals and deferred income	-	6.1
	<b>3,949.2</b>	<b>4,886.2</b>

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**  
**NOTES**

**14 Share capital**

	1998 £'000	1997 £'000
<i>Authorised:</i>		
<b>Equity</b>		
13,100,000,000 Ordinary shares of 5p each	655,000	655,000
<b>Non-Equity</b>		
50,000,000 4.75% "A" Cumulative Redeemable Preference shares of £1 each	-	50,000
1,055,000,000 4.75% "B" Cumulative Redeemable Preference shares of £1 each	-	1,055,000
1,000,000,000 5.0% "C" Cumulative Redeemable Preference shares of £1 each	-	1,000,000
900,000,000 4.55% "D" Cumulative Redeemable Preference shares of £1 each	-	900,000
2,005,000,000 5.8% "E" Cumulative Redeemable Preference shares of £1 each	2,005,000	2,005,000
1,055,000,000 5.0% "F" Cumulative Redeemable Preference shares of £1 each	1,055,000	-
Unclassified	1,950,000	-
	<u>5,665,000</u>	<u>5,665,000</u>
	1998 £'000	1997 £'000
<i>Allotted, Called Up and Fully Paid:</i>		
<b>Equity</b>		
13,100,000,000 Ordinary shares of 5p each	655,000	655,000
<b>Non-Equity</b>		
1,000,000,000 5.0% "C" Cumulative Redeemable Preference shares of £1 each	-	1,000,000
2,005,000,000 5.8% "E" Cumulative Redeemable Preference shares of £1 each	2,005,000	2,005,000
1,055,000,000 5.0% "F" Cumulative Redeemable Preference shares of £1 each	1,000,000	-
	<u>3,660,000</u>	<u>3,660,000</u>

On 20 February 1998, 1,055 million unissued preference shares were converted into 1,055 million 5.0% "F" Cumulative Redeemable Preference Shares. On the same date, 1,000 million "F" shares were issued and 1,000 million 5.0% "C" Cumulative Redeemable Preference Shares were redeemed.

All the shares authorised during the 9 month period were issued for a cash consideration at par in order to finance the company's activities.

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**

**NOTES**

**14 Share capital (continued)**

The holders of the "E" and "F" Cumulative Redeemable Preference Shares are entitled, in priority to the payment of dividends to the holders of any other class of shares, to be paid a cumulative preferential dividend, in respect of each dividend period at the dividend rate on the nominal value.

The "E" and "F" Cumulative Redeemable Preference Shares can either be redeemed by the company on 31 October 2001 or on the giving of not less than two business days notice in writing to the holder, or by the holder giving not less than thirty days notice in writing to the company.

On redemption, the amount paid up on the "E" and "F" Cumulative Redeemable Preference Shares, together with a sum equal to all arrears and accruals (if any) of the preferential dividend, is payable.

On a winding up, the holders of the "E" and "F" Cumulative Redeemable Preference Shares shall rank *pari passu* to receive an amount in respect of each Cumulative Redeemable Preference Share, equal to the nominal amount paid up, together with all arrears and accruals (if any) of the dividend payable thereon, whether or not such dividend has become due and payable.

The rights attached to the "E" and "F" Cumulative Redeemable Preference Shares may only be varied with consent in writing of the holder or holders of the preference shares.

None of the "E" and "F" preference shares carry voting rights.

Ordinary shares are entitled to one vote each.

**15 Reconciliation of movements in reserves**

	1998 £m	1997 £m
<i>Profit and loss account:</i>		
Brought forward	122.3	124.9
Profit for the financial period	111.2	162.8
Dividends paid and accrued	(124.7)	(165.4)
Carried forward	108.8	122.3

**16 Contingent liabilities**

The company enters into various forward dated transactions to manage the Diageo Group's interest and exchange rate exposures. It is not anticipated that any material losses will arise from these transactions.

**Diageo Finance plc**  
**9 Month Period Ended 30 June 1998**  
**NOTES**

**17 Ultimate parent undertaking**

The company is a wholly owned subsidiary of Grand Metropolitan PLC and its ultimate holding company as at 30 June 1998 was Diageo plc. Both companies are incorporated and registered in England and have an accounting period end of 30 June.

The consolidated accounts of Diageo plc for the eighteen month period ended 30 June 1998 can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.