DIRECTORS' REPORT

The directors have pleasure in submitting their report, together with the audited financial statements, for the nine months ended 30 June 1998.

On 17 December 1997 Grand Metropolitan PLC ("GrandMet") merged with Guinness PLC to form Diageo plc, which as a result became the ultimate parent undertaking of the company.

Activities

The company did not trade during the period or the preceding financial year. The loss incurred related to the payments of interest on a loan. The directors foresee no changes in the company's activities.

Year 2000

The Diageo group 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 their 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 Diageo group 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 Diageo group may also be adversely affected by the inability of third parties to manage the Year 2000 problem.

DIRECTORS' REPORT (continued)

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") commenced on 1 January 1999. At that time, a single currency, the 'euro', was introduced. The Diageo group's euro-readiness is being managed as a discrete business project, the group has systems and procedures in place which will enable it to conduct euro transactions appropriate to local market requirements.

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

Looking forward, key commercial risks, such as pricing transparency, 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.

Financial

The financial year end of the company has been changed to 30 June from 30 September and the results for the period shown on page 7 are for the nine months from 1 October 1997 to 30 June 1998.

The directors do not recommend the payment of a dividend (1997 - £nil).

The loss transferred from reserves is £1,833 (1997 - loss of £1,938).

Directors

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

S M Bunn (appointed 27 March 1998)
R H Myddelton
M D Peters (appointed 27 March 1998)
D E Tagg
B E Wickham (resigned 27 March 1998)

Subsequent to the period end D E Tagg resigned as a director on 31 July 1998.

DIRECTORS' REPORT (continued)

Directors' interests

No directors had any interest, beneficial or non-beneficial, in the share capital of the company or had a material interest during the period in any significant contract with the company.

On 2 February 1998 the company's ultimate parent company, Diageo plc, made a capital repayment to shareholders equivalent to 70 pence per Diageo plc ordinary share, which took the form of the issue of redeemable B shares of 514 $^{12}/_{17}$ pence and the consolidation of existing shares from 25 pence ordinary shares to 28 $^{101}/_{108}$ pence ordinary shares. For every 1,000 existing ordinary shares shareholders received 864 consolidated ordinary shares and 136 B shares.

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:-

Shares and awards over ordinary shares

	Ordinary shares of 25p or 28 $^{101}/_{108}$p 1.10.97 or as at date of appointment	Ordinary shares Of 28 $^{101}/_{108}$p 30.6.98	B Shares 30.6.98	MTEP Awards* 30.6.98	RSP Awards* 30.6.98
S M Bunn	-	-	-	-	-
R H Myddelton	21,368	20,049	-	-	18,081
M D Peters	5,943	2,733	224	1,434	-
D E Tagg	25,140	36,720	-	-	75,669

Options

	1.10.97 or as at date of appointment	Granted during period	Exercised during period	30.6.98
S M Bunn	14,672	-	-	14,672
R H Myddelton	313,260	-	105,738	207,522
M D Peters	13,348	-	-	13,348
D E Tagg	656,905	-	652,932	3,973

The directors held the above options under Grand Metropolitan PLC, Guinness PLC and Diageo plc share option schemes at prices between 313p and 494p per share exercisable by 2007.

The mid-market share price of Grand Metropolitan PLC/Diageo plc shares fluctuated between 535p and 762.5p per share during the period. The mid-market share price on 30 June 1998 was 711p.

R H Myddelton 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.

DIRECTORS' REPORT (continued)

Directors' interests (continued)

* Notes

(i) **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 were made only to B grade executives and below world-wide. Performance conditions were tailored to the particular division within which the relevant executive works and could be adjusted when they moved 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.

(ii) **The 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 Total Shareholder Return ("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, 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 50th percentile, no shares will be released. Releases between these points are on a sliding scale.

Secretary

On 1 June 1998 S M Bunn resigned as secretary of the company and V A Lynch was appointed in her place.

By order of the Board

Valerie Lynch

V A Lynch
Secretary
8 Henrietta Place
London
W1M 9AG

19 April 1999

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the report of the auditor set out on page 6, 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 or loss for the financial period.

The directors, in preparing the financial statements on pages 7 to 11, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards that they consider to be applicable have been followed, and that it is appropriate to prepare the financial statements on a 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.

REPORT OF THE AUDITOR TO THE MEMBERS OF GRANDMET LIMITED

We have audited the financial statements on pages 7 to 11.

Respective responsibilities of the directors and the auditor

As described on page 5, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 1998 and of its loss for the nine 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

19 April 1999

PROFIT AND LOSS ACCOUNT

NINE MONTHS ENDED 30 JUNE 1998

	Notes	9 months ended 30 June 1998 £	12 months ended 30 September 1997 £
Interest payable and similar charges	3	(2,657)	(2,850)
Loss on ordinary activities before taxation		(2,657)	(2,850)
Tax credit on loss on ordinary activities	4	824	912
Loss for the financial period		(1,833)	(1,938)
Movement in reserves			
At beginning of financial period		3,740,082	3,742,020
Loss for the financial period		(1,833)	(1,938)
At end of financial period		3,738,249	3,740,082

All of the above relates to continuing operations.

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

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

BALANCE SHEET

AS AT 30 JUNE 1998

	Notes	30 June 1998 £	30 September 1997 £
Current assets			
Debtors - amounts due from group undertaking		13,688,553	13,688,553
Creditors - amounts falling due within one year			
Amounts due to group undertaking		(40,504)	(38,671)
		13,648,049	13,649,882
Capital and reserves			
Called up share capital	5	9,909,800	9,909,800
Profit and loss account		3,738,249	3,740,082
		13,648,049	13,649,882

The financial statements on pages 7 to 11 were approved by the Board of Directors on 19 April 1999 and were signed on its behalf by:

R H Myddelton
Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	30 June 1998 £	30 September 1997 £
Loss for the financial period	(1,833)	(1,938)
Shareholders' funds at beginning of period	13,649,882	13,651,820
Shareholders' funds at end of period	13,648,049	13,649,882

NOTES (forming part of the financial statements)

1. Accounting policies

Basis of preparation

The financial statements of the company are prepared under the historical cost convention and comply with applicable UK accounting standards. The bases used are consistent with those used in the previous period.

The company is 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.

Under Financial Reporting Standard No 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Deferred Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of short term timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

2. Profit and loss account

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

Auditor's remuneration was paid on behalf of the company by a group undertaking.

3. Interest payable and similar charges

	9 months ended 30 June 1998 £	12 months ended 30 September 1997 £
On loan with fellow subsidiary undertaking	2,657	2,850

NOTES (continued)

4. Tax on loss on ordinary activities

	9 months ended 30 June 1998 £	12 months ended 30 September 1997 £
UK corporation tax credit at 31% (1997 - 32%)	824	912

5. Share capital

	30 June 1998 £	30 September 1997 £
Authorised, allotted, called up and fully paid		
9,909,800 unclassified shares of £1 each	9,909,800	9,909,800

The shares are entitled to one vote per share.

6. Immediate and ultimate parent undertaking

The immediate parent undertaking is Grand Metropolitan Investments Limited, a company registered in England.

The ultimate parent undertaking of the company as at 30 June 1998 was Diageo plc, a company registered in England. Diageo plc's accounting period end is 30 June. The first 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.