

GRANDMET LIMITED

Registered in England No. 1002487

FINANCIAL STATEMENTS

30 JUNE 1999



The directors have pleasure in submitting their annual report, together with the audited financial statements, for the year ended 30 June 1999.

Activities

The company did not trade during the year. The directors foresee no changes in the company's activities.

Year 2000 and euro

The directors do not anticipate that there will be any implications on the activities of the company from the Year 2000 or the introduction of the euro. No issues have arisen since 1 January 2000.

The cost of managing the Year 2000 problem and the introduction of the euro for GrandMet Limited has not been identified separately, but is included within the overall programme cost shown in the annual report of the ultimate parent undertaking, Diageo plc.

Financial

The results for the year are on page 6.

The directors do not recommend the payment of a dividend (1998 - £nil).

The loss transferred to reserves is £3,267 (1998 - £1,833).

Directors

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

S M Bunn
R H Myddelton
M D Peters
D E Tagg (Resigned 31 July 1998)

Emoluments

None of the directors received any remuneration during the year in respect of their services as directors of the company (1998:£nil).

Directors' interests

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

The directors who held office at the end of the financial year had the following beneficial interests in the shares of the ultimate parent company, Diageo plc:-

Shares and awards over ordinary shares

	Ordinary shares of 28 101/108p (1)	Ordinary shares of 28 101/108p (1)	Diageo LTIP (2)	Diageo LTIP (2)	RSP awards (3)
	1.7.98 or date of appointment	30.6.99	Performance cycle commencing		
			1.1.98	1.1.99	30.6.99
S M Bunn	-	2,061	2,250	2,400	-
R H Myddelton	20,049	19,519	18,524	16,844	18,081
M D Peters	3,693	4,744	2,250	2,400	-

Options

	1.7.98 or date of appointment	Granted during year	Exercised during year	30.6.99
S M Bunn	14,672	433	11,084	4,021
R H Myddelton	207,522	-	3,168	204,354
M D Peters	13,348	433	1,051	12,730

The directors held the above options under Grand Metropolitan PLC and Diageo plc share option schemes at prices between 314p and 494p per share exercisable by 2007. No options lapsed and no awards vested during the year.

The mid-market share price of Diageo plc shares fluctuated between 480.5p and 778.5p per share during the year. The mid-market share price on 30 June 1999 was 662.5p.

At 30 June 1999 the directors had an interest in 21,897,568 shares and 3,123,181 shares subject to call options held by trusts to satisfy grants made under ex-Grand Metropolitan incentive plans, ex-Guinness incentive plans and Diageo incentive plans and savings-related share option schemes.

Notes:

(1) Ordinary shares

Interests in ordinary shares at 1 July 1998, or date of appointment where applicable, include B shares converted at a rate of 70.993915 ordinary shares to every 100 B shares, although the conversion actually occurred on 1 August 1998.

(2) The Diageo LTIP (LTIP)

Under the Diageo LTIP, approved in August 1998, eligible senior executives are granted a conditional right to receive shares or, exceptionally, a cash sum. The rights vest after the end of a three year period following the date of grant (the "performance cycle") provided a performance test is achieved and subject to the discretion of the trustees who operate the LTIP. The performance test is a comparison of the annualised percentage growth in Diageo's share price (assuming all dividends and capital distributions are re-invested) known as total shareholder return (TSR) with the TSRs of a defined peer group of 20 companies over a three year period. The remuneration committee will not recommend the release of awards if there has not been an underlying improvement in the financial performance of Diageo. The first LTIP performance cycle runs from 1 January 1998 to 31 December 2000 and the second from 1 January 1999 to 31 December 2001. Awards of shares will be released, subject to the performance test and the discretion of the trustees, in March 2001 and March 2002 respectively. The number of awards shown will only be released if Diageo reaches position five within the peer group (upper quartile). At position four 125% of the original awards will vest and, at position three or above, 150%. At position ten (median position), 50% of the awards will vest. Between median and upper quartile, vesting will be calculated on a straight line basis. Awards will lapse if Diageo does not reach position ten.

(3) The Grand Metropolitan Restricted Share Plan (RSP)

Awards over shares were granted to senior executives, with eventual transfer dependent on the performance of total shareholder return (TSR) against a comparator group of companies at the end of three years after the date of grant. The 1997 awards granted by Grand Metropolitan are now dependent upon the performance of Diageo's TSR against comparator groups of companies.

Secretary

On 17 August 1999 V A Lynch resigned as Secretary of the Company and S M Bunn was appointed in her place.

By order of the board



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S M Bunn
Secretary

8 Henrietta Place, London W1M 9AG
20 April 2000

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

The following statement, which should be read in conjunction with the report of the auditor set out on page 5, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

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

The directors, in preparing the financial statements on pages 6 to 10, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all applicable accounting standards have been followed, and that it is appropriate to prepare the financial statements on 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 6 to 10.

Respective responsibilities of the directors and the auditor

As described on page 4, 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 1999 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

20th April 2000

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 JUNE 1999		Year ended 30 June 1999 £	9 months ended 30 June 1998 £
	Notes		
Interest payable and similar charges	3	(4,718)	(2,657)
Loss on ordinary activities before taxation		(4,718)	(2,657)
Tax credit on loss on ordinary activities	4	<u>1,451</u>	<u>824</u>
Loss for the financial year		<u>(3,267)</u>	<u>(1,833)</u>
Movement in reserves			
At beginning of financial year		3,738,249	3,740,082
Loss for the financial year		<u>(3,267)</u>	<u>(1,833)</u>
At end of financial year		<u>3,734,982</u>	<u>3,738,249</u>

All of the above relates to continuing operations.

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

The notes on pages 9 and 10 form part of the financial statements.

BALANCE SHEET

AS AT 30 JUNE 1999

	Notes	30 June 1999 £	30 June 1998 £
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		(43,771)	(40,504)
		<u>13,644,782</u>	<u>13,648,049</u>
Capital and reserves			
Called up share capital	5	9,909,800	9,909,800
Profit and loss account		<u>3,734,982</u>	<u>3,738,249</u>
		<u>13,644,782</u>	<u>13,648,049</u>

The financial statements on pages 6 to 10 were approved by the board of directors on 20 April 2000 and were signed on its behalf by:



R H Myddelton
Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	30 June 1999 £	30 June 1998 £
Loss for the financial year	(3,267)	(1,833)
Shareholders' funds at beginning of year	<u>13,648,049</u>	<u>13,649,882</u>
Shareholders' funds at end of year	<u>13,644,782</u>	<u>13,648,049</u>

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.

2. Profit and loss account

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

3. Interest payable and similar charges

	Year ended 30 June 1999 £	9 months ended 30 June 1998 £
On loan with fellow subsidiary undertaking	<u>4,718</u>	<u>2,657</u>

4. Tax on loss on ordinary activities

	Year ended 30 June 1999 £	9 months ended 30 June 1998 £
UK corporation tax credit at 30.75% (1998 - 31%)	<u>1,451</u>	<u>824</u>

NOTES (continued)

5. Share capital

	30 June 1999 £	30 June 1998 £
Authorised, allotted, called up and fully paid		
9,909,800 unclassified shares of £1 each	<u>9,909,800</u>	<u>9,909,800</u>

The shares are entitled to one vote per share.

6. Immediate and ultimate parent undertaking

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

The ultimate parent undertaking of the company as at 30 June 1999 is Diageo plc, a company registered in England. Diageo plc's accounting period end is 30 June. The consolidated financial statements of Diageo plc can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.