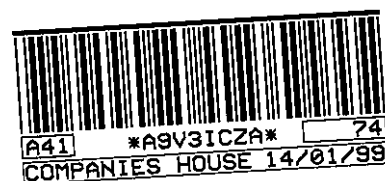


GRAND METROPOLITAN CAPITAL COMPANY LIMITED

FINANCIAL STATEMENTS

9 Month Period Ended 30 June 1998

Company Registration No.3249862



GRAND METROPOLITAN CAPITAL COMPANY LIMITED
9 Month Period Ended 30 June 1998

DIRECTORS' REPORT

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

Activities

The company is an investment holding company. The directors foresee no material changes in the nature of the company's activities. Details of changes in investments during the 9 month period are set out in note 6 of the financial statements.

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) commenced on 1 January 1999. At that time, a single currency, the 'euro', was introduced. The company's euro-readiness is being managed as a discrete business project; the company has 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 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 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.

GRAND METROPOLITAN CAPITAL COMPANY LIMITED
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 7 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 recommend that an ordinary dividend of £3,575,000 (1997:£nil) be paid for the period.

The profit for the period retained in the company is £95,304,000 (1997:£142,706,000).

Directors

The directors who served during the period were as follows:

P K Bentley
S M Bunn (appointed 27 March 1998)
R H Myddelton
M D Peters (appointed 27 March 1998)
D C Stainton
D E Tagg (resigned 31 July 1998)
B E Wickham (resigned 27 March 1998)

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).

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.

GRAND METROPOLITAN CAPITAL COMPANY LIMITED
9 Month Period Ended 30 June 1998

DIRECTORS' REPORT (continued)

The directors who held office at the end of the financial period had the following 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 28101/108 p each		B shares of 514 ^{12/17} p each*		Options			
	At 1.10.97 (or date of appointment)	At 30.6.98	At 1.10.97 (or date of appointment)	At 30.6.98	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
S M Bunn	-	-	-	-	14,672	-	-	14,672
R H Myddelton	21,368	20,049	-	-	313,260	-	105,738	207,522
M D Peters	2,733	2,733	345	224	13,348	-	-	13,348
D C Stainton	-	-	-	-	205,689	-	200,165	5,524
D E Tagg	25,140	36,720	-	-	656,905	-	652,932	3,973

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

	Ordinary shares of 28101/108 p each Restricted Share Plan/Medium Term Executive 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
S M Bunn	-	-	-	-
R H Myddelton	18,081	-	-	18,081
M D Peters	1,434	-	-	1,434
D C Stainton	15,290	-	-	15,290
D E Tagg	75,669	-	-	75,669

The directors held the above options under ex Grand Metropolitan PLC and Diageo plc share option schemes at prices between 314p and 474p per share exercisable by 2007. No options lapsed and no awards 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.

R H Myddelton, D C Stainton and D E Tagg 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.

Notes

- * The B shares were created on 28 January 1998 and allotted on 2 February 1998 as part of a share capital reorganisation effected by Diageo plc. 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.

GRAND METROPOLITAN CAPITAL COMPANY LIMITED
9 Month Period Ended 30 June 1998

DIRECTORS' REPORT (continued)

- ** (i)** 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 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 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 50th percentile, no shares will be released. Releases between these points are on a sliding scale basis.
- (ii)** The Guinness Medium Term Executive Plan (MTEP) was established in 1997. The plan is 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.
- (iii)** The Guinness Long Term Incentive Plan (LTIP). 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 number of shares will be transferred; if it is ranked below the 60th 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.

By order of the Board



S M Bunn
Secretary

8 Henrietta Place
London
W1M 9AG
11 January 1999

GRAND METROPOLITAN CAPITAL COMPANY LIMITED
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 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 12 consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements 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.

GRAND METROPOLITAN CAPITAL COMPANY LIMITED
9 Month Period Ended 30 June 1998

**REPORT OF THE AUDITOR, KPMG AUDIT PLC,
TO THE MEMBERS OF GRAND METROPOLITAN CAPITAL COMPANY
LIMITED**

We have audited the financial statements on pages 7 to 12.

Respective responsibilities of directors and 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 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
11 January 1999

GRAND METROPOLITAN CAPITAL COMPANY LIMITED
9 Month Period Ended 30 June 1998

PROFIT AND LOSS ACCOUNT

for the 9 month period ended 30 June 1998

	Notes	1998 £'000	1997 £'000
Income from group undertakings	2	<u>108,344</u>	<u>40,838</u>
Other interest receivable and similar income	3	<u>-</u>	<u>103,108</u>
Profit on ordinary activities before taxation	4	<u>108,344</u>	<u>143,946</u>
Taxation on profit on ordinary activities	5	<u>(9,465)</u>	<u>(1,240)</u>
Profit for the financial period after taxation		<u>98,879</u>	<u>142,706</u>
Equity dividends paid		<u>(3,575)</u>	<u>-</u>
Profit for the period transferred to reserves	10	<u>95,304</u>	<u>142,706</u>

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 MOVEMENT IN SHAREHOLDERS' FUNDS

for the 9 month period ended 30 June 1998

	1998 £'000	1997 £'000
Retained profit for the financial period	<u>95,304</u>	<u>142,706</u>
New share capital issued: Ordinary shares	<u>-</u>	<u>3,005,000</u>
Shareholders' funds at beginning of period	<u>3,147,706</u>	<u>-</u>
Shareholders' funds at end of period	<u>3,243,010</u>	<u>3,147,706</u>

GRAND METROPOLITAN CAPITAL COMPANY LIMITED
9 Month Period Ended 30 June 1998

BALANCE SHEET
at 30 June 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Investments in group undertakings	6	<u>2,561,500</u>	<u>2,561,500</u>
Current assets			
Debtors – due within one year	7	<u>692,215</u>	<u>587,446</u>
Creditors: due within one year			
Other creditors	8	<u>(10,705)</u>	<u>(1,240)</u>
Net current assets		<u>681,510</u>	<u>586,206</u>
		<u>3,243,010</u>	<u>3,147,706</u>
Capital and reserves			
Called up share capital - equity	9	<u>3,005,000</u>	<u>3,005,000</u>
Profit and loss account	10	<u>238,010</u>	<u>142,706</u>
		<u>3,243,010</u>	<u>3,147,706</u>

The financial statements on pages 7 to 12 were approved by the Board of Directors on 11 January 1999 and were signed on its behalf by:



R. H. Myddelton, Director

GRAND METROPOLITAN CAPITAL COMPANY LIMITED
9 Month Period Ended 30 June 1998

NOTES TO THE FINANCIAL STATEMENTS

1. 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.

Preference dividends receivable and payable

The preference share dividends receivable and payable are accounted for on an accruals basis, since the entitlement to those dividends is calculated by reference to time.

Taxation

The charge for taxation is based on the profit for the 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.

Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

2. Income from group undertakings

	1998 £'000	1997 £'000
Dividends from shares in group undertakings	77,810	36,964
Interest from loans to group undertakings	30,534	3,874
	108,344	40,838

3. Other interest receivable and similar income

	1998 £'000	1997 £'000
Amortisation of option premia	-	103,108

GRAND METROPOLITAN CAPITAL COMPANY LIMITED
9 Month Period Ended 30 June 1998

NOTES TO THE FINANCIAL STATEMENTS

4. Operating costs

The company has no employees. The auditor's remuneration was borne by a group company.

5. Taxation

	1998 £'000	1997 £'000
UK corporation tax at 31% (1997:32%)	<u>9,465</u>	<u>1,240</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.

6. Investments

	1998 £'000	1997 £'000
<i>Cost and net book value</i>		
At beginning of period	<u>2,561,500</u>	-
Additions	-	5,961,500
Disposals	-	(3,400,000)
At end of period	<u>2,561,500</u>	<u>2,561,500</u>

The company's principal subsidiaries and other investments are:

	Class of capital	Total issued capital £'000	Consideration £'000	Proportion held
Grand Metropolitan (Cayman Islands) Limited	Ordinary Shares	10,000	11,500	100%
Grand Metropolitan (Cayman Islands) Limited	'A' Cumulative Redeemable Preference Shares	850,000	850,000	100%
Grand Metropolitan (Cayman Islands) Limited	'B' Cumulative Redeemable Preference Shares	800,000	800,000	100%
Grand Metropolitan (Cayman Islands) Limited	'C' Cumulative Redeemable Preference Shares	400,000	400,000	100%
Grand Metropolitan (Cayman Islands) Limited	'D' Cumulative Redeemable Preference Shares	500,000	500,000	100%
		<u>2,560,000</u>	<u>2,561,500</u>	

GRAND METROPOLITAN CAPITAL COMPANY LIMITED
9 Month Period Ended 30 June 1998

NOTES TO THE FINANCIAL STATEMENTS

7. Debtors – due within one year	1998 £'000	1997 £'000
Amounts owed by group undertakings	<u>692,215</u>	<u>587,446</u>
8. Other creditors - due within one year	1998 £'000	1997 £'000
Corporation tax at 31% (1997: 32%)	<u>10,705</u>	<u>1,240</u>
9. Share capital	1998 £'000	1997 £'000
Equity:		
<i>Authorised:</i>		
Ordinary shares of £1 each	<u>3,500,000</u>	<u>3,500,000</u>
<i>Allotted, called up and fully paid:</i>		
Ordinary shares of £1 each	<u>3,005,000</u>	<u>3,005,000</u>
Ordinary shares are entitled to one vote each.		
10. Reconciliation of movements in reserves		£'000
As at 30 September 1997		<u>142,706</u>
Retained profit for the period		<u>95,304</u>
As at 30 June 1998		<u>238,010</u>

GRAND METROPOLITAN CAPITAL COMPANY LIMITED
9 Month Period Ended 30 June 1998

NOTES TO THE FINANCIAL STATEMENTS

11. Group accounts

The company is exempt from preparing group accounts under Section 228 of the Companies Act 1989, being a wholly owned subsidiary undertaking of Diageo plc at 30 June 1998. These financial statements present information about the company as an individual undertaking and not about its group.

12. Ultimate holding company

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 financial statements 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.