Grand Metropolitan Investments Limited
Company No. 1732518

Financial Statements
Nine month period ended 30 June 1998

DIRECTORS' REPORT

The directors have pleasure in submitting their report, together with the audited financial statements, for the nine 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 change in the nature of the company's activities. Details of changes in investments during the period are set out in note 7 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.

Financial

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

The profit for the period amounted to £69,769,000 (1997: £175,965,000).

No interim dividends on the unclassified shares were paid (1997 £nil). The directors do not recommend the payment of a final dividend (1997: £nil). The retained surplus for the period of £21,448,000 (1997: £116,377,000) after preference share dividends of £48,321,000 (1997: £59,588,000) was transferred to reserves.

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)
B E Wickham (resigned 27 March 1998)

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

Directors' 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 or any subsidiary.

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:

	Ordinary Shares of $28^{101/108}$ p		**B shares***		**RSP/MTEP awards ****	
	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)	At 30.6.98
P K Bentley	-	-	-	-	15,625	**15,625**
S M Bunn	-	-	-	-	-	-
R H Myddelton	21,368	**20,049**	-	-	18,081	**18,081**
M D Peters	2,733	**2,733**	855	**224**	1,434	**1,434**

	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**
S M Bunn	14,672	-	-	**14,672**
R H Myddelton	313,260	-	105,738	**207,522**
M D Peters	13,348	-	-	**13,348**

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 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 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.

** (i) The Grand Metropolitan Restricted Share Plan (RSP) In 1997, GrandMet shares or ADS's 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 then 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.

(ii) 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 may 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.

Secretary

On 27 March 1998 Mrs S M Bunn resigned as Secretary of the Company and Mrs V A Lynch was appointed in her place.

By Order of the Board

V Lynch

V A Lynch
Secretary
1 February 1999

8 Henrietta Place
London
W1M 9AG

DIRECTORS' RESPONSIBILITIES IN RELATION TO THE 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 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 6 to 13, 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 use 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 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, KPMG AUDIT PLC TO THE MEMBERS OF GRAND METROPOLITAN INVESTMENTS LIMITED

We have audited the financial statements on pages 6 to 13.

Respective responsibilities of directors and auditor

As described on page 4, 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 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 the profit for the 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, 1 February 1999

ACCOUNTING POLICIES

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

Investments
Fixed asset investments are stated individually at cost less, where appropriate, provision for diminution in value where such diminution is expected by the directors to be permanent.

Foreign currencies
The functional currency of the company is determined as the currency to which predominately all of its transactions and balances are effectively exposed. In 1998 and 1997 the functional currency was sterling.

Transactions in foreign currencies, other than the functional currency, are translated into the functional currency at the rate of exchange on the date of the transaction. Assets and liabilities in foreign currencies are translated into the functional currency at the financial period end exchange rates or, if hedged forward, at the rate of exchange derived from the related forward currency contracts. Any resulting net foreign exchange gains or losses are recognised in the profit and loss account.

Taxation
The credit for taxation is based on the taxable 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.

PROFIT AND LOSS ACCOUNT

	Notes	9 months ended 30 June 1998 £000's	12 months ended 30 Sept 1997 £000's
Interest receivable	1	**206,618**	228,730
Dividends receivable	2	**151,093**	311,457
Interest payable and similar items	3	**(324,479)**	(427,983)
Profit on ordinary activities before taxation	4	**33,232**	112,204
Taxation on profit on ordinary activities	5	**36,537**	63,761
Profit for the financial period		**69,769**	175,965
Dividends - non equity	6	**(48,321)**	(59,588)
Retained surplus for the period transferred to reserves	12	**21,448**	116,377

The results for the current period and preceding year relate entirely to continuing operations.

There is no material difference between the Company's profit and loss account and the historical cost profits and losses. Accordingly, no note of the historical cost profits and losses for the period has been presented.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1998 £000's	1997 £000's
Profit for the period	**69,769**	175,965
Total recognised gains and losses for the period	**69,769**	175,965

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £000's	1997 £000's
Profit for the period	**69,769**	175,965
Dividends - non equity	**(48,321)**	(59,588)
	21,448	116,377
New share capital issued	-	395,000
Net movement in shareholders' funds	**21,448**	511,377
Shareholders' funds at beginning of the period	**1,407,724**	896,347
Shareholders' funds at end of the period	**1,429,172**	1,407,724

BALANCE SHEET
at 30 June 1998

	Notes	1998 £000's	1997 £000's
Fixed assets			
Investments	7	**3,567,781**	3,567,781
Current assets			
Debtors	8	**2,955,050**	3,846,801
Creditors - amounts due within one year	9	**(92,426)**	(1,278,450)
Net current assets		**2,862,624**	2,568,351
Total assets less current liabilities		**6,430,405**	6,136,132
Creditors - amounts due after more than one year	10	**(5,001,233)**	(4,728,408)
		1,429,172	1,407,724
Capital and Reserves			
Called up share capital - non equity	11	**1,095,000**	1,095,000
- equity	11	-	-
Profit and loss account	12	**334,172**	312,724
		1,429,172	1,407,724

Debtors and net current assets include amounts recoverable after more than one year of £2,764 million (1997: £3,692 million).

The attached notes form part of these financial statements.

The financial statements on pages 6 to 13 were approved by the Board of Directors on 1 February 1999 and signed on its behalf by:

P K Bentley, *Director*

NOTES

1 Interest receivable

	1998 £000's	1997 £000's
On loans to parent and fellow subsidiaries	**141,933**	175,393
On loans to subsidiary undertakings	**64,685**	53,337
	206,618	228,730

2 Dividends receivable

	1998 £000's	1997 £000's
From subsidiary undertakings	**150,000**	310,000
From other investments	**1,093**	1,457
	151,093	311,457

3 Interest payable and similar items

	1998 £000's	1997 £000's
On loans from parent and fellow subsidiaries	**258,052**	341,943
Other interest	**35**	47
Foreign exchange losses	**66,392**	85,993
	324,479	427,983

4 Profit on ordinary activities before taxation

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

5 Taxation on profit on ordinary activities

	1998 £000's	1997 £000's
UK Corporation tax credit at 31% (1997: 32%)	**36,537**	63,761
	36,537	63,761

The credit for UK corporation tax includes amounts which may be received from other companies in the Diageo group in return for the surrender of tax losses. The taxation credit for the period is affected by the tax treatment of dividends receivable from group companies which are not subject to taxation.

NOTES

6 Dividends

	1998 £000's	1997 £000's
5.65% Cumulative Redeemable 'B' Preference shares of £1 each - non equity	-	1,950
5.9% Cumulative Redeemable 'C' Preference shares of £1 each - non equity	30,890	39,377
5.9% Cumulative Redeemable 'D' Preference shares of £1 each - non equity	17,431	18,261
	48,321	59,588

7 Fixed assets - investments

	Shares in subsidiary undertakings £000's	Other Investments £000's	Total £000's
Cost/valuation at end and beginning of period	**3,547,681**	**20,100**	**3,567,781**

(i) Shares in subsidiary undertakings:

In the opinion of the directors, the value of the Company's investment in its subsidiary undertakings is in aggregate not less than the amount stated in the balance sheet.

The Company's subsidiary undertakings and their activities, all of which are wholly owned and registered in England, are set out below:

Grand Metropolitan Second Investments Limited - an investment holding company.

Grand Metropolitan Third Investments Limited - an investment holding company.

GrandMet Limited - a dormant company.

NOTES

(ii) *Other investments:*

The Company owns the entire issued cumulative participating redeemable preference share capital of Minneapolis (Holdings) Limited, an investment holding company, which is registered in England.

8 Debtors

	1998 £000's	1997 £000's
Amount owed by parent and fellow subsidiary undertakings	**2,356,937**	3,217,780
Group relief receivable	**100,312**	63,780
Other debtors	**497,801**	565,241
	2,955,050	3,846,801

Amounts due from parent and fellow subsidiary undertakings include £2,357 million (1997: £3,217 million due after more than one year. Other debtors include £407 million (1997: £475 million) due after more than one year.

9 Creditors - amounts falling due within one year

	1998 £000's	1997 £000's
Amount owed to parent and fellow subsidiary undertakings	**92,426**	1,278,450

10 Creditors - amounts falling due after more than one year

	1998 £000's	1997 £000's
Amount owed to parent and fellow subsidiary undertakings	**5,001,233**	4,728,408

The amounts due to the parent and fellow subsidiary undertakings are scheduled for repayment between 2003 and 2004.

11 Called up share capital

	1998 £	1997 £
Authorised:		
Equity		
305,000,000 unclassified shares of £1 each	**305,000,000**	305,000,000
4,300,000,000 ordinary shares of £1 each	**4,300,000,000**	4,300,000,000
	4,605,000,000	4,605,000,000
Non-Equity		
700,000,000 5.9% cumulative redeemable 'C' preference shares of £1 each	**700,000,000**	700,000,000
395,000,000 5.9% cumulative redeemable 'D' preference shares of £1 each	**395,000,000**	395,000,000
	1,095,000,000	1,095,000,000
Allotted and called up:		
Equity		
2 unclassified shares of £1 each	**2**	2
Non-Equity		
700,000,000 5.9% cumulative redeemable 'C' preference shares of £1 each	**700,000,000**	700,000,000
395,000,000 5.9% cumulative redeemable 'D' preference shares of £1 each	**395,000,000**	395,000,000
	1,095,000,000	1,095,000,000

The unclassified and ordinary shares are entitled to one vote each. Preference shares carry no voting rights other than at a class meeting of preference shareholders.

The "C" preference shares are redeemable at the shareholders' option, by giving written notice to the Company, up to 29 October 2001. They will be redeemed by the Company on 29 October 2001 unless the Company exercises its option to redeem them at an earlier date. The "C" preference shares are redeemable at par.

11 Called up share capital *(continued)*

The "D" preference shares are redeemable at the shareholders' option, by giving written notice to the Company, up to 29 October 2001. They will be redeemed by the Company on 29 October 2001 unless the Company exercises its option to redeem them at an earlier date. The "D" preference shares are redeemable at par. The "D" preference shares rank pari passu with the "C" preference shares.

12 Reserves attributable to equity shareholders

	1998 £000's	1997 £000's
At beginning of period	**312,724**	196,347
Retained profit for the period	**21,448**	116,377
At end of period	**334,172**	312,724

13 Cash flow statement

A cash flow statement is not presented as the Company is a wholly owned subsidiary undertaking of Diageo plc. A cash flow statement of the Diageo Group is included in the financial statements of the ultimate parent undertaking.

14 Group accounts

The Company is exempt from the requirement to prepare group accounts under Section 228 of the Companies Act 1985, being a wholly owned subsidiary undertaking of Diageo plc.

These financial statements present information about Grand Metropolitan Investments Limited as an individual undertaking and not about its group.

15 Related party transactions

The company was controlled by Diageo plc at 30 June 1998 and is exempt from disclosing transactions with it and other Group undertakings under Financial Reporting Standard 8 since it is a wholly owned subsidiary undertaking included in the consolidated accounts.

16 Ultimate holding and parent undertaking

The company is a wholly owned subsidiary of Diageo plc, a company incorporated and registered in England. The company has an accounting period end of 30 June. The consolidated accounts of Diageo plc for the eighteen month period ending 30 June 1998, can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.