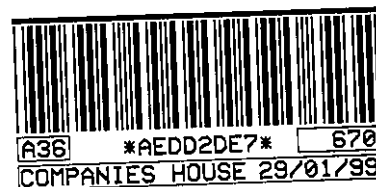


Kork-N-Seal Limited
FINANCIAL STATEMENTS
Eighteen Month Period Ended 30 June 1998

Company Registration Number: 192723



DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998

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

Activities

The company acted as a property management company during the period. The directors foresee no material changes in the nature of 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, with the majority of operating units having completed their impact assessment and project plans. The correction and testing phase is well advanced in most significant units and has started in others. 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 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 Diageo group's euro-readiness is being managed as a discrete business project, the company expects to have systems and procedures in place, which will enable it to conduct euro transactions appropriate to local market requirements.

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998
(continued)**The euro (continued)**

The Diageo group 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, 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 31 December, and the results for the period shown on page 8 are for the eighteen months from 1 January 1997 to 30 June 1998.

The loss on ordinary activities before taxation was £2,000 (1996: £56,000 loss).

The amount transferred from reserves in the period was £2,000 (1996: £56,000 from reserves). The directors do not recommend the payment of a dividend (1996: £nil).

Directors

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

S M Bunn (appointed 31 March 1998)
N J Cornick (resigned 9 June 1997)
G W King (resigned 31 March 1998)
R H Myddelton (appointed 31 March 1998)
M D Peters

Secretary

Mrs. B K O'Connor resigned as secretary of the company on 31 March 1998 and Mrs. S M Bunn was appointed in her place on the same date.

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:-

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998 (continued)

Directors' Interests (continued)

Ordinary shares and options over ordinary shares

Ordinary shares of 28 ¹⁰¹/₁₀₈p per share

	Ordinary Shares		B Shares*		MTEP** Awards 1997	RSP*** Awards	
	1.1.97 or date of appointment	30.6.98	1.1.97 or date of appointment	30.6.98		1.1.97 or date of appointment	30.6.98
S M Bunn	-	-	-	-	-	-	-
R H Myddelton	20,049	20,049	-	-	-	18,081	18,081
M D Peters	5,470	2,733	0	224	1,434	-	-

Options

	1.1.97. or date of appointment	Granted during period	Exercised during period	30.6.98
S M Bunn	14,672	-	-	14,672
R H Myddelton	207,522	-	-	207,522
M D Peters	26,906	3,133	16,691	13,348

The directors held the above options under Diageo plc share option schemes at prices between 314p and 494p per share exercisable by 2007.

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

R H Myddelton, amongst other directors in the Diageo group, 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

* 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 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 worldwide. 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.

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998
(continued)

Directors' Interests (continued)

*** 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 the 50th percentile, no shares will be released. Releases between these points are on a sliding scale.

Political and Charitable Contributions

The company made no political or charitable contributions during the period.

By Order of the Board



S M Bunn
Company Secretary

8 Henrietta Place
London
W1M 9AG

17 December 1998

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

The following statement, which should be read in conjunction with the report of the auditors, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors 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 at the end of the financial period and of the profit of the company for the financial period.

The directors, in preparing the financial statements on pages 7 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 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 that are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**REPORT OF THE AUDITORS
TO THE MEMBERS OF KORK-N-SEAL LIMITED**

We have audited the financial statements on pages 7 to 13 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of Directors and Auditors

As described on page 5 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 its loss for the eighteen month period then ended and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse
Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge Street
London SE1 9SY

17 December 1998

ACCOUNTING POLICIES**Basis of preparation**

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain land and buildings, and comply with applicable UK accounting standards.

The financial period end has been changed to 30 June 1998. Accordingly the current accounting period runs from 1 January 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.

Tangible Fixed assets

Freehold land and buildings are stated at valuation. No depreciation is provided on the freehold land and buildings (1996: £nil).

PROFIT AND LOSS ACCOUNT**For the 18 month period ended 30 June 1998**

	Notes	18 months ended 30 June 1998 £'000	12 months ended 31 December 1996 £'000
Operating costs	1	(2)	(56)
Loss on ordinary activities before taxation		(2)	(56)
Tax on profit on ordinary activities		-	-
Transferred from reserves	7	(2)	(56)

The notes on pages 11 to 13 form part of these accounts.

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

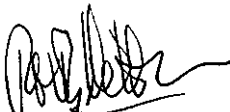
There is no material difference between the loss for the period and the historical loss for the period.

BALANCE SHEET

	Notes	<u>30 June 1998</u> £'000	<u>31 December 1996</u> £'000
Fixed assets			
Tangible assets	3	447	447
Current assets			
Debtors - due within one year	4	1,403	1,403
Creditors - due within one year	5	(8,574)	(8,572)
Net current liabilities		(7,171)	(7,169)
Total assets less current liabilities		<u>(6,724)</u>	<u>(6,722)</u>
Capital and reserves			
Called up share capital	6	158	158
Reserves			
Profit and loss account	7	(6,882)	(6,880)
Equity shareholders' funds		<u>(6,724)</u>	<u>(6,722)</u>

The notes on pages 11 to 13 form part of these accounts.

The financial statements on pages 7 to 13 were approved by the board of directors on 17 December 1998 and signed on its behalf by:


R H Myddelton
 Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**For the 18 month period ended 30 June 1998**

	18 months ended 30 June 1998 £'000	12 months ended 31 December 1996 £'000
Loss for the period	(2)	(56)
Net decrease in shareholders' funds	(2)	(56)
Shareholders' funds at beginning of the period	(6,722)	(6,666)
Shareholders' funds at end of the period	<u>(6,724)</u>	<u>(6,722)</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Operating Costs

	<u>1998</u> £'000	<u>1996</u> £'000
Administrative expenses	(2)	(56)
	<u> </u>	<u> </u>

2. Directors and Employees

None of the directors received any emoluments in respect of their services to the company (1996: £nil). There are no employees of the company.

3. Fixed tangible assets - Freehold land and buildings

(i) The total at cost or valuation for land and buildings comprises:

	<u>1998</u> £'000
Valuation	
At 1 January 1997	447
Disposals	-
At 30 June 1998	<u>447</u>
Depreciation	
At 1 January 1997	-
Disposals	-
At 30 June 1998	<u>-</u>
Net Book Value	
At 30 June 1998	<u>447</u>
At 30 June 1998	<u>447</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. Fixed tangible assets - Freehold land and buildings (continued)**

- (iii) Historical cost figures for land and buildings i.e. the original cost to the company of all land and buildings and the related depreciation were:

	<u>1998</u> £'000	<u>1996</u> £'000
Historical cost	1,278	1,278
Aggregate depreciation based on historical cost	-	-
Histoical cost and net book value	<u>1,278</u>	<u>1,278</u>

4. Debtors

	<u>1998</u> £'000	<u>1996</u> £'000
Amounts recoverable within one year:		
Amounts owed by group undertakings	1,403	1,403
	<u> </u>	<u> </u>

5. Creditors

	<u>1998</u> £'000	<u>1996</u> £'000
Amounts payable within one year:		
Amounts owed to group undertakings	8,566	8,543
Accruals and deferred income	8	29
	<u>8,574</u>	<u>8,572</u>

6. Called up share capital

	<u>1998</u> £'000	<u>1996</u> £'000
Authorised		
Equity - 1,000,000 Ordinary shares of 25p each	250	250
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
Equity - 632,232 Ordinary shares of 25p each	158	158
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**7. Reserves**

	Profit and loss <u>account</u> £'000
At 31 December 1996	(6,880)
Retained loss for the period	(2)
	<hr/>
At 30 June 1998	<u>(6,882)</u>

8. Ultimate and immediate parent undertaking

The company's immediate parent company is United Glass Holdings Ltd, a company incorporated and registers in England. The company's ultimate parent is Diageo plc (formerly Guinness PLC), a company incorporated and registered in England.

On the 17 December 1997 Guinness PLC merged with Grand Metropolitan Public Limited Company to form Diageo plc, as a result Diageo plc remains the ultimate parent company.

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.

9. Financial Support

The company's ultimate parent company has indicated its willingness to continue to support the company financially.