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

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 Public Limited Company ("Grand Met") merged with Guinness PLC to form Diageo plc, as a result of which, Diageo plc, became the ultimate parent of the company.

Activities

The principal activity of the company was the holding and management of property interests for the Diageo group. 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, 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 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 Diageo group'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 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.

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

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 10 are for the nine months from 1 October 1997 to 30 June 1998.

The directors do not recommend the payment of a dividend £nil (1997 - £100,000).

After deducting the total ordinary dividends of £nil (1997 - £100,000) the profit for the period retained in the company is £34,120,000 (1997 - £35,038,000).

Directors

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

S M Bunn (appointed 27 March 1998)
D C Carter
J J Corbett
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.

Emoluments

The emoluments of the directors are detailed in note 4 of these financial statements.

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.

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 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.

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

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 and awards over ordinary shares

	Ordinary Shares of 25p each	Ordinary Shares of $28^{101}/_{108}$p each	B Shares	RSP* Awards	MTEP** Awards
	1.10.97 or date of appointment	30.6.98	30.6.98	30.6.98	30.6.98
S M Bunn	-	-	-	-	-
D C Carter	-	-	-	5,100	-
J J Corbett	1,367	1,380	-	5,000	-
R H Myddelton	21,368	20,049	-	18,081	-
M D Peters	5,973	2,733	-	-	1,434
D E Tagg	25,140	36,720	-	75,669	-

Options

	1.10.97 or date of appointment	Granted during period	Exercised during period	30.6.98
S M Bunn	14,672	-	-	14,672
D C Carter	179,446	-	119,946	59,500
J J Corbett	88,800	-	23,997	64,803
R H Myddelton	313,260	-	105,738	207,522
M D Peters	13,348	-	-	13,348
D E Tagg	656,905	-	652,832	3,973

The directors held the above options under Diageo plc share option schemes at prices between 313p 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 and D E Tagg had an interest in 4,975,416 shares subject to call options held by trusts to satisfy grants made under various GrandMet share option schemes existing prior to the merger.

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

Directors interests (continued)

Notes

* The Grand Metropolitan Restricted Share Plan (RSP). In 1997, GrandMet ordinary shares 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, 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.

** 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 are tailored to the particular division within which the relevant executive works and may have been 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 1 June 1998 S M Bunn resigned as secretary of the company and C J Taylor was appointed in her place.

By order of the board

C Taylor

C J Taylor
Company Secretary

Date: 26 April 99

8 Henrietta Place
London
W1M 9AG

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, 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 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 20 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 AUDITOR
TO THE MEMBERS OF GRAND METROPOLITAN ESTATES LIMITED

We have audited the financial statements on pages 7 to 20.

Respective responsibilities of directors and auditor

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 profit 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

Date: 28 April 1999

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 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 exception 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

Fixed assets are stated at cost or at professional valuation less depreciation and provisions.

The profit or loss on sale of a property is the difference between the disposal proceeds and the net book value, including any revaluation of the asset. Any amount in the revaluation reserve relating to such an asset is transferred directly to the profit and loss account reserve and is not included in the profit for the financial period.

No depreciation is provided on freehold land. Leaseholds are depreciated over the unexpired period of the lease. Other tangible fixed assets are depreciated to residual values over their estimated useful lives within the following ranges:

Fixtures and fittings	8 years
Plant and machinery	2 years
Computer software	2 years

ACCOUNTING POLICIES (continued)

Leases

Operating lease payments and receipts are taken to the profit and loss account on a straight line basis over the life of the lease.

Fixed asset investments

Income from fixed asset investments, is credited to the profit and loss account when it is declared by the paying company. Investments are stated individually at cost less, where appropriate, provision for diminution in values where such diminution is expected by the directors to be permanent.

Turnover

Turnover represents the net invoice value of goods and services to third parties. It comprises rents but excludes value added tax.

Post employment benefits

The majority of employees of the company are members of a group pension scheme operated by Diageo plc. The scheme is of the defined benefit type funded by payments to trustee administered funds. The cost of providing pensions and other post employment benefits is charged against profits on a systematic basis, with pension surpluses and deficits allocated on a straight line basis over the expected remaining service lives of current employees.

Differences between the amounts charged in the profit and loss account and payments made to the plans are treated as assets or liabilities in the balance sheet. Particulars of the valuations of the group schemes are contained in the financial statements of Diageo plc.

ACCOUNTING POLICIES (continued)

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.

No provision is made for taxation deferred by accelerated taxation allowances on UK capital expenditure. The company is a member of a group which provides for any deferred tax payable in the foreseeable future on a group basis.

The deferred taxation provision therefore relates to those other material taxation liabilities which are deferred because items of expense or income are allowed or assessed for tax purposes in periods different from those in which they enter the profit and loss account.

PROFIT AND LOSS ACCOUNT

For the 9 month period ended 30 June 1998

	Notes	9 months ended 30 June 1998 £000	12 months ended 30 September 1997 £000
Turnover	1	4,995	12,289
Operating costs	2-4	(8,591)	(17,484)
Operating loss		**(3,596)**	**(5,195)**
Profit on disposal of fixed assets	5	124	53
Provision for costs relating to disposal of a subsidiary		-	(150)
Income from associated undertakings		-	100
Interest receivable	6	53,432	59,038
Profit on ordinary activities before taxation		**49,960**	**53,846**
Tax on profit on ordinary activities	7	(15,840)	(18,708)
Profit on ordinary activities after taxation		34,120	35,138
Dividends		-	(100)
Transferred to reserves	15	34,120	35,038

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 profit for the period and consequently no note of historical cost profits has been presented as part of the financial statements.

BALANCE SHEET

	Notes	30 June 1998 £000	30 June 1998 £000	30 September 1997 £000	30 September 1997 £000
Fixed assets					
Tangible assets	8		7,931		7,962
Investments	9		680		680
			8,611		8,642
Current assets					
Debtors - due within one year	10	1,015,014		951,575	
Debtors - due after more than one year	10	4,638		4,638	
Cash at bank and in hand	11	-		7,014	
		1,019,652		963,227	
Creditors - due within one year					
Bank loans and overdrafts	11	(248)		-	
Other creditors	12	(870,699)		(848,272)	
		(870,947)		(848,272)	
Net current assets			148,705		114,955
Total assets less current liabilities			157,316		123,597
Provisions for liabilities and charges	13		(10,089)		(10,490)
			147,227		113,107
Capital and reserves					
Called up share capital	14		2		2
Reserves	15				
Revaluation reserve		-		1,035	
Other reserve		41		41	
Profit and loss account		147,184		112,029	
Reserves attributable to equity shareholders			147,225		113,105
Shareholders funds			147,227		113,107

The financial statements on pages 7 to 20 were approved by the board of directors on 26 April 99 and signed on its behalf by:

RH Myddelton
Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the 9 month period ended 30 June 1998

	9 months ended 30 June 1998 £000	12 months ended 30 September 1997 £000
Profit for the period	34,120	35,138
Ordinary dividends	-	(100)
Net additions to shareholders' funds	34,120	35,038
Shareholders' funds at beginning of the period	113,107	78,069
Shareholders' funds at end of the period	147,227	113,107

NOTES TO THE FINANCIAL STATEMENTS

1. Analysis of turnover and profit before taxation

The turnover and profit before taxation are attributable to the one activity, that of property management, all of which is carried out in the United Kingdom.

2. Operating costs

	9 months ended 30 June 1998 £000	12 months ended 30 September 1997 £000
Operating lease rentals	7,410	15,225
Staff costs	298	354
Depreciation of tangible fixed assets	31	42
Other operating costs	852	1,863
	8,591	17,484

Total operating costs include irrecoverable VAT of £38,000 (1997 - £107,000). Fees in respect of services provided by the auditors were: statutory audit £12,500 (1997- £16,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Staff costs

The average number of employees, including directors, during the period was:

	9 months ended 30 June 1998	12 months ended 30 September 1997
Full time	9	10

The aggregate remuneration of all employees comprised:

	9 months ended 30 June 1998 £000	12 months ended 30 September 1997 £000
Wages and salaries	271	314
Employer's social security costs	27	40
	298	354

4. Directors' emoluments

	9 months ended 30 June 1998 £000	12 months ended 30 September 1997 £000
Emoluments (including pension contributions)	151	134

Only one director received emoluments for their services to the company over the period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Directors' emoluments (continued)

All of the directors are members of the UK Diageo Group Pension Funds which are defined benefit schemes. The Funds have a substantial surplus and during the period no company contributions were made to it.

	9 months ended 30 June 1998	12 months ended 30 September 1997
Number of directors who exercised share options	4	5
Number of directors who were granted share options	-	-
Number of directors in respect of whose services shares were received or receivable under long term incentive schemes	-	-

Further information on share interests is included in the Directors' Report on page 3.

5. Disposal of fixed assets

	9 months ended 30 June 1998 £000	12 months ended 30 September 1997 £000
Profit on sale of properties	124	53

The tax charge on property profits amounted to £38,000 (1997 - £17,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Interest receivable

	9 months ended 30 June 1998 £000	12 months ended 30 September 1997 £000
On cash at bank	306	517
Loans to group undertakings	53,126	58,521
	53,432	59,038

7. Tax on profit on ordinary activities

	9 months ended 30 June 1998 £000	12 months ended 30 September 1997 £000
UK corporation tax payable at 31% (1997 - 32%) on the profits of the period	16,071	17,768
Deferred taxation	44	1,492
Adjustment to prior years tax	(275)	(552)
	15,840	18,708

The charge for UK corporation tax includes amounts which may be paid to other companies in the Diageo plc group in return for the surrender of tax losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Fixed tangible assets

	Land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost or valuation:				
At 30 September 1997 and 30 June 1998	8,429	40	10	8,479
Depreciation:				
At 30 September 1997	467	40	10	517
Provided during the period	31	-	-	31
At 30 June 1998	498	40	10	548
Net book value:				
At 30 June 1998	7,931	-	-	7,931
At 30 September 1997	7,962	-	-	7,962

The valuations were made on an open market existing use basis except for specialised properties which were valued on a depreciated replacement cost basis.

(ii) The net book value of land and buildings comprises:

	1998 £000	1997 £000
Freehold	6,333	6,333
Long leasehold	1,156	1,156
Short leasehold	442	473
	7,931	7,962

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Fixed assets - investments

The (principal) subsidiary and associated undertakings and the percentage of equity owned are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
Grand Metropolitan Estates Holdings Limited	England & Wales	Investment holding company	100 % ordinary shares
Grand Metropolitan Estates (Developments) Limited	England & Wales	Property development	100 % ordinary shares
Grand Metropolitan Gibraltar Limited	England & Wales	Investment holding company	100 % ordinary shares
GMEI Property Management Limited	England & Wales	Dormant	100 % ordinary shares
Grand Metropolitan Estates Property Management Services Limited	England & Wales	Dormant	100 % ordinary shares
Associated undertakings			
Trafalgar Metropolitan Homes Limited	England & Wales	Property development	50 % ordinary shares
Phoenix Inns Management Ltd Limited	England & Wales	Property management	50 % ordinary shares

The investments in subsidiary and associated undertakings are held at cost. In the opinion of the directors, the investment in and amounts due from the company's subsidiary undertakings are worth at least the amount at which they are stated in the financial statements.

In accordance with Financial Reporting Standard No 8 'Related Party Transactions' the company is exempt from disclosing details of arrangements with other companies in the Diageo group.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Debtors

	1998		1997	
	Due within one year £000	Due after one year £000	Due within one year £000	Due after one year £000
Trade debtors	522	-	1,250	-
Amounts owed by holding and fellow subsidiary undertakings	998,763	-	934,742	-
Amounts owed by subsidiary undertakings	12,248	-	12,247	-
Other debtors	47	-	130	-
Pension prepayments	-	4,638	-	4,638
Other prepayments and accrued income	3,434	-	3,206	-
	1,015,014	4,638	951,575	4,638

11. Cash at bank and in hand and bank loans and overdrafts

The company has entered into a joint and several guarantee with certain other Diageo plc UK subsidiary undertakings such that any balance on the company's bank accounts within the cashpool may be offset against the bank balances or overdrafts of those companies included in the cashpool.

12. Other creditors – due within one year

	1998 £000	1997 £000
Amounts owed to fellow subsidiary undertakings	839,366	832,278
Amounts owed to subsidiary undertakings	10,882	10,882
Corporate taxation	13,178	-
Deferred taxation	500	731
Other creditors	3,418	1,527
Accruals and deferred income	3,355	2,854
	870,699	848,272

NOTES TO THE FINANCIAL STATEMENTS **(continued)**

13. Provisions for liabilities and charges

	Disposal provisions £000	Other provisions £000	Total provisions £000
At 30 September 1997	2,848	7,642	10,490
Utilised	(401)	-	(401)
At 30 June 1998	2,447	7,642	10,089

Other provisions include the provision for operating lease rental payments on vacant group properties.

In view of the substantial number of properties involved and the law relating to rollover relief, the likelihood of any material taxation liability arising from the disposal of revalued properties is remote. Accordingly, no provision is made for any tax on capital gains which might arise on the disposal of such properties.

14. Share capital

	1998 £	1997 £
Authorised, allotted, called up and fully paid		
Equity - Ordinary shares of £1 each	1,200	1,200
Non-equity - 7 % cumulative preference shares of £1 each	1,200	1,200
	2,400	2,400

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Reserves

	Revaluation reserve £000	Other reserves £000	Profit and loss account £000	Total £000
At 30 September 1997	1,035	41	112,029	113,105
Retained profit for period	-	-	34,120	34,120
Transfers	(1,035)	-	1,035	-
At 30 June 1998	-	41	147,184	147,225

16. Commitments

At 30 June 1998, the company had minimum annual commitments under non-cancellable operating leases as follows:

	1998 Land and buildings £000	1997 Land and buildings £000
Operating leases which expire:		
After five years	12,609	8,552
From one to five years	675	2,956
Within one year	584	-
	13,868	11,508

17. Contingent liabilities

The company has provided formal confirmation that it will provide such financial support as is necessary to Grand Metropolitan Estates (Developments) Limited to enable it to meet its obligations as they fall due and to maintain the company as a going concern until at least 30 June 1999.

18. Ultimate parent undertaking

The company's immediate holding company is Grand Metropolitan Public Limited Company, a company incorporated and registered in England. The company's ultimate parent company is Diageo plc, a company incorporated and registered in England.

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.