

Grand Metropolitan Investments Limited
Company No. 1732518

Financial Statements
Year ended 30 September 1997



DIRECTORS' REPORT

The directors have pleasure in submitting their annual report and financial statements for the year ended 30 September 1997.

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 year are set out in note 7 of the financial statements.

Dividends and Profit

The profit for the financial year amounted to £175,965,000 (1996: £125,580,000).

The directors paid interim dividends on the unclassified shares amounting to £nil (1996: £400,000,000). They do not recommend the payment of a final dividend (1996: £nil). The retained surplus for the year of £116,377,000 (1996: £314,024,000 deficit) after preference share dividends of £59,588,000 (1996: £39,604,000) was transferred to reserves.

Directors

The directors who held office during the year were as follows:

P K Bentley
P E B Cawdron (resigned 28 March 1997)
G M N Corbett (resigned 8 July 1997)
R H Myddelton
B E Wickham (appointed 8 July 1997, resigned 27 March 1998)

S M Bunn and M D Peters were appointed directors of the Company on 27 March 1998.

None of the directors who held office at the end of the financial year had any interest in the shares of the company.

None of the directors received any remuneration during the year in respect of their services as directors of the company (1996 - £nil).

The directors had the following interests in the share capital of Grand Metropolitan Public Limited Company, which at the year end was the ultimate holding company (see note 16 to the financial statements):

	Ordinary Shares		RSP awards †	Options			30/9/97
	1/10/96 or date of appointment	30/9/97	1997	1/10/96 or date of appointment	Granted in year	Exercised in year	
P K Bentley	—	—	15,625	66,959	2,138	—	69,097
R H Myddelton	27,952	21,368	18,081	311,747	1,513	—	313,260
B E Wickham	26,396	28,124	5,000	109,802	—	4,124	105,678

† Restricted Share Plan award granted 1 January 1997. Details of performance targets relating to these shares are shown in the financial statements of Grand Metropolitan Public Limited Company.

DIRECTORS' REPORT (continued)

Directors - continued

The above options were held under Grand Metropolitan Public Limited Company share option schemes at prices between 314p and 474p per share exercisable by 2006.

The mid-market price of Grand Metropolitan Public Limited Company shares fluctuated between 428.5p and 625.5p during the year. The mid-market share price on 30 September 1997 was 592p.

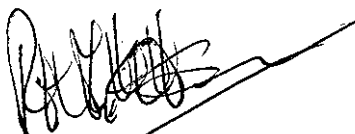
As a potential beneficiary of the Grand Metropolitan Public Limited Company Number 2 Employee Share Trust, R H Myddelton had an interest at 30 September 1997 in 263,794 shares registered in the name of Greenwood Nominees Limited and 7,949,884 shares which were the subject of call options purchased by the trustees, Hill Street Trustees Limited, from SBC Warburg Dillon Read and National Westminster Bank Plc.

As a potential beneficiary of the Grand Metropolitan Public Limited Company Number 1 Employee Share Trust, B E Wickham had an interest at 30 September 1997 in 251,818 shares registered in the name of Greenwood Nominees Limited and 33,256,768 shares which were the subject of call options purchased by the trustees, Mourant and Co Trustees Limited, from SBC Warburg Dillon Read and National Westminster Bank Plc.

Auditor

The Company has taken advantage of Section 386(1) of the Companies Act 1985, as amended, to dispense with the obligation to appoint an auditor annually. The auditor, KPMG Audit Plc, is willing to continue in office and will be deemed to be re-appointed on the expiry of their term in respect of the year ended 30 September 1997.

By Order of the Board



R H Myddelton

Director

23 July 1998

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 4, 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 consider that in preparing the financial statements on pages 5 to 14, 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 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.

The directors, having prepared the financial statements, have requested the auditor to take whatever steps and undertake whatever inspections it considers to be appropriate for the purpose of enabling it to give an audit report.

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

We have audited the financial statements on pages 5 to 14.

Respective responsibilities of directors and auditor

As described on page 3, 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 September 1997 and of the profit 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, 23 July 1998

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 1997 and 1996 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 year 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 charge/credit for taxation is based on the taxable profit/loss for the year 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 taxation deferred if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

Reclassifications

The company has made certain reclassifications to the prior year financial statements to conform with the financial statement presentation of the current year.

PROFIT AND LOSS ACCOUNT
for the year ended 30 September 1997

	Notes	1997 £000's	1996 £000's
Interest receivable	1	228,730	195,368
Dividends receivable	2	311,457	303,457
Interest payable	3	(427,983)	(482,214)
Profit on ordinary activities before taxation	4	112,204	16,611
Taxation on profit on ordinary activities	5	63,761	108,969
Profit for the financial year		175,965	125,580
Dividends (equity and non equity)	6	(59,588)	(439,604)
Retained surplus/(deficit) for the year transferred to reserves	12	116,377	(314,024)

The results for the current and preceding years 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.

BALANCE SHEET
at 30 September 1997

	Notes	1997 £000's	1996 £000's
Fixed assets			
Investments	7	3,567,781	3,567,781
Current assets			
Debtors	8	3,846,801	3,769,093
Creditors - amounts due within one year	9	(1,278,450)	(185,666)
Net current assets		2,568,351	3,583,427
Total assets less current liabilities		6,136,132	7,151,208
Creditors - amounts due after more than one year	10	(4,728,408)	(6,254,861)
		1,407,724	896,347
Capital and Reserves			
Called up share capital - non equity	11	1,095,000	700,000
- equity	11	-	-
Profit and loss account	12	312,724	196,347
		1,407,724	896,347

Debtors and net current assets include amounts recoverable after more than one year of £3,692 million (1996: £2,816 million).

The attached notes form part of these financial statements.

The financial statements on pages 5 to 14 were approved by the Board of Directors on 23 July 1998 and signed on its behalf by:


P K Bentley, Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 30 September 1997

	1997 £000's	1996 £000's
Profit for the financial year	175,965	125,580
Total recognised gains and losses for the financial year	175,965	125,580

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS
for the year ended 30 September 1997

	1997 £000's	1996 £000's
Profit for the financial year	175,965	125,580
Dividends (equity and non equity)	(59,588)	(439,604)
	116,377	(314,024)
New share capital issued	395,000	-
Net movement in shareholders' funds	511,377	(314,024)
Shareholders' funds at beginning of year	896,347	1,210,371
Shareholders' funds at end of year	1,407,724	896,347

NOTES

1 Interest receivable

	1997 £000's	1996 £000's
On loans to parent and fellow subsidiaries	175,393	147,433
On loans to subsidiary undertakings	53,337	47,932
Listed investments	-	3
	<u>228,730</u>	<u>195,368</u>

2 Dividends receivable

	1997 £000's	1996 £000's
From subsidiary undertakings	310,000	302,000
From other investments	1,457	1,457
	<u>311,457</u>	<u>303,457</u>

3 Interest payable

	1997 £000's	1996 £000's
On loans from parent and fellow subsidiaries	341,943	397,993
Other interest	47	31
Foreign exchange losses	85,993	84,190
	<u>427,983</u>	<u>482,214</u>

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

	1997 £000's	1996 £000's
UK Corporation tax credit at 32% (1996: 33%)	63,761	108,942
Adjustment in respect of prior years	-	27
	<u>63,761</u>	<u>108,969</u>

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

NOTES

6 Dividends

	1997 £000's	1996 £000's
Unclassified shares of £1 each - equity		
- Paid	-	400,000
- Proposed	-	-
5.65% Cumulative Redeemable 'A' Preference shares of £1 each - non equity	-	19,802
5.65% Cumulative Redeemable 'B' Preference shares of £1 each - non equity	1,950	19,802
5.9% Cumulative Redeemable 'C' Preference shares of £1 each - non equity	39,377	-
5.9% Cumulative Redeemable 'D' Preference shares of £1 each - non equity	18,261	-
	59,588	439,604

7 Fixed assets - investments

	Shares in subsidiary undertakings £000's	Other Investments £000's	Total £000's
Cost/valuation at end and beginning of year	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

	1997 £000's	1996 £000's
Due from parent and fellow subsidiary undertakings	2,225,436	2,013,713
Due from subsidiary undertakings	992,344	991,006
Group relief receivable	63,780	108,961
Other debtors	565,241	655,413
	<u>3,846,801</u>	<u>3,769,093</u>

Amounts due from parent and fellow subsidiary undertakings and due from subsidiary undertakings respectively include £2,225 million (1996: £1,574 million) and £992 million (1996: £677 million) due after more than one year. Other debtors include £475 million (1996: £565 million) due after more than one year.

9 Creditors - amounts falling due within one year

	1997 £000's	1996 £000's
Due to parent and fellow subsidiary undertakings	1,278,450	185,666

10 Creditors - amounts falling due after more than one year

	1997 £000's	1996 £000's
Due to parent and fellow subsidiary undertakings	4,728,408	6,178,811
Due to subsidiary undertakings	-	76,050
	<u>4,728,408</u>	<u>6,254,861</u>

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

NOTES

11 Called up share capital

	1997 £	1996 £
<i>Authorised:</i>		
Equity		
305,000,000 (1996: 100) unclassified shares of £1 each	305,000,000	100
4,300,000,000 ordinary shares of £1 each	4,300,000,000	4,299,999,900
	<u>4,605,000,000</u>	<u>4,300,000,000</u>
Non-Equity		
350,000,000 5.65% cumulative redeemable 'A' preference shares of £1 each	-	350,000,000
350,000,000 5.65% cumulative redeemable 'B' preference shares of £1 each	-	350,000,000
700,000,000 5.9% cumulative redeemable 'C' preference shares of £1 each	700,000,000	-
395,000,000 5.9% cumulative redeemable 'D' preference shares of £1 each	395,000,000	-
	<u>1,095,000,000</u>	<u>700,000,000</u>
<i>Allotted and called up:</i>		
Equity		
2 unclassified shares of £1 each	2	2
Non-Equity		
350,000,000 5.65% cumulative redeemable 'A' preference shares of £1 each	-	350,000,000
350,000,000 5.65% cumulative redeemable 'B' preference shares of £1 each	-	350,000,000
700,000,000 5.9% cumulative redeemable 'C' preference shares of £1 each	700,000,000	-
395,000,000 5.9% cumulative redeemable 'D' preference shares of £1 each	395,000,000	-
	<u>1,095,000,000</u>	<u>700,000,000</u>

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 authorised ordinary share capital of the company was increased by 700,000,000 shares of £1 each on 18 October 1996. On the same date, 700,000,000 ordinary shares of £1 each were reclassified as 700,000,000 5.90% "C" cumulative redeemable preference shares of £1 each and issued at par. 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. The proceeds of the "C" preference share issue were immediately applied in redeeming the entire issued "A" and "B" preference share capital.

NOTES

11 Called up share capital *(continued)*

On 18 December 1996, 395,000,000 unclassified shares of £1 each (which were formerly "A" and "B" cumulative redeemable preference shares of £1 each) were reclassified as 395,000,000 5.90% "D" cumulative redeemable preference shares of £1 each and issued at par. 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

	1997 £000's	1996 £000's
At beginning of year	196,347	510,371
Retained gain/loss for the year	116,377	(314,024)
At end of year	312,724	196,347

13 Cash flow statement

A cash-flow statement is not presented as the Company is a wholly owned subsidiary undertaking of Grand Metropolitan Public Limited Company. A cash flow statement of the Grand Metropolitan Group is included in the financial statements of the holding company.

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 Grand Metropolitan Public Limited Company.

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 Grand Metropolitan Public Limited Company at 30 September 1997 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 Grand Metropolitan Public Limited Company ('Grand Metropolitan'). Grand Metropolitan is incorporated and registered in England. A copy of the financial statements of Grand Metropolitan can be obtained from 8 Henrietta Place, London W1M 9AG.

On 17 December 1997 Grand Metropolitan merged with Guinness PLC to form Diageo plc, which as a result, became the ultimate parent undertaking of the company. The merger was effected by a Scheme of Arrangement under the terms of which for each ordinary share of 25 pence held in Grand Metropolitan, shareholders received one ordinary share of 25 pence in Guinness PLC (which was renamed Diageo plc) and each Grand Metropolitan ordinary share was cancelled.

Diageo plc is a company incorporated and registered in England and its accounting period end will be 30 June. The first consolidated accounts of Diageo plc will be for the eighteen month period ending 30 June 1998, and will be obtainable from the address shown above.