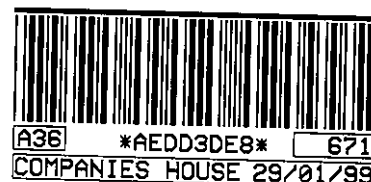


**Guinness Brewing (UK) 1996 Profit Sharing Scheme Limited**

**FINANCIAL STATEMENTS**

**Eighteen Month Period Ended 30 June 1998**

Company Registration Number: 2634629



**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 acts as a trustee and nominee for the purpose of administering a profit sharing share scheme. 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 Company did not receive any income or incur any expenditure during the period (1996: £nil), and there were no other recognised gains or losses.

The amount transferred from reserves in the period was £nil (1996: £nil). 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)  
G W King (resigned 31 March 1998)  
R H Myddelton (appointed 31 March 1998)  
M D Peters

**Secretary**

Mrs. A P McCarthy resigned as secretary of the company on 6 October 1997 and Mr. C J Taylor 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 <sup>101</sup>/<sub>108</sub>p 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 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)

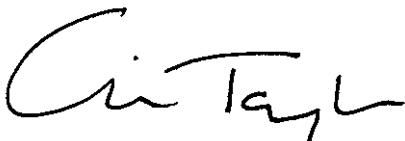
**Directors' Interests (continued)**

\*\*\* 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



C J Taylor  
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 result of the company for the financial period.

The directors, in preparing the financial statements on pages 7 to 10, 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 GUINNESS BREWING (UK) 1996 PROFIT SHARING SCHEME  
LIMITED**

We have audited the financial statements on pages 7 to 10 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.

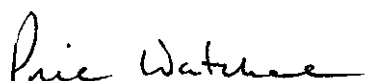
*Basis of opinion*

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 result 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 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.



**PROFIT AND LOSS ACCOUNT**

**For the eighteen month period ended 30 June 1998**

During the financial period and the preceding financial period, the company did not trade and received no income and incurred no expenditure. Consequently, during those periods, the company made neither a profit nor a loss.


The notes on page 10 form part of these accounts.

BALANCE SHEET

	Notes	<u>30 June 1998</u> £	<u>31 December 1996</u> £
<b>Current assets</b>			
Debtors - due within one year due from parent undertaking		100	100
<b>Net assets</b>		<u>100</u>	<u>100</u>
<b>Capital and reserves</b>			
Called up share capital	2	100	100
<b>Equity shareholders' funds</b>		<u>100</u>	<u>100</u>

The notes on page 10 form part of these accounts.

The financial statements on pages 7 to 10 were approved by the board of directors on 17 December 1998 and signed on its behalf by:



**M D Peters**  
Director

NOTES TO THE FINANCIAL STATEMENTS**1. 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.

**2. Called up share capital**

	<u>1998</u> £	<u>1996</u> £
<b>Authorised</b>		
Equity - 100 Ordinary shares of £1 each	100	100
<b>Allotted, called up and fully paid</b>	<hr/>	<hr/>
Equity - 100 Ordinary shares of £1 each	100	100
	<hr/>	<hr/>

**3. Ultimate parent undertaking**

The company is a wholly owned subsidiary of 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.