

DIRECTORS

J B McGrath, Chairman
Sir George Bull
P K Bentley
J N Grover
J S Heslop
J M J Keenan
N C Rose
D C Stainton
P S Walsh

Diageo Finance plc (formerly Grand Metropolitan Finance PLC)

Secretary and Registered Office

B E Wickham

8 Henrietta Place, London W1M 9AG

Telephone: (0171) 927 5200

Company Registration No. 213393



DIRECTORS' REPORT

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

Activities

The company acts as a financing vehicle for the Diageo Group. The results of the company and the development of its business are, therefore, influenced to a considerable extent by Group financing requirements.

Dividend and profit

The directors do not recommend the payment of an ordinary dividend (1996: *£nil*). The deficit transferred to reserves was £2.6m (1996: *£4.7m deficit*), after preference share dividends of £165.4m (1996: *£87.8m*).

Directors

The directors who served during the year were as follows:

Sir George Bull
P K Bentley
P E B Cawdron (resigned 28 March 1997)
G M N Corbett (resigned 8 July 1997)
J N Grover (appointed 29 September 1997)
J S Heslop (appointed 29 September 1997 and resigned 16 February 1998)
R J Joy (appointed 20 November 1996 and resigned 1 September 1997)
J M J Keenan
J B McGrath
D B Rickard*
N C Rose*
D C Stainton
P S Walsh

*Mr D B Rickard was appointed as an alternate director to Mr J M J Keenan on 8 May 1996 and was replaced by Mr N C Rose on 20 November 1996.

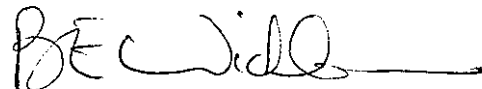
Name Change

The company changed its name to Diageo Finance plc on 16 December 1997.

Supplier payment policies

The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

By Order of the Board



B E Wickham

Secretary

18 March 1998

DIRECTORS' RESPONSIBILITIES IN RELATION TO 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, in preparing the financial statements on pages 5 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 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 DIAGEO FINANCE PLC**

We have audited the financial statements on pages 5 to 13.

Respective responsibilities of directors and auditor

As described on page 3 the company's directors are responsible for the preparation of the 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 its 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, 18 March 1998

ACCOUNTING POLICIES

Accounting convention

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities in foreign currencies are translated into sterling at the financial year end exchange rates, or if hedged forward, at the rate of exchange under the related forward currency contract. Exchange gains and losses are taken to the profit and loss account.

Interest rate management

The company participates in the Diageo Group's interest rate management and uses interest rate swaps to manage the proportion of fixed to variable debt within limits set by the Board of Directors. Hedge accounting is applied to swaps and other hedging instruments with interest recognised on an accruals basis with no adjustments made to reflect fluctuations in market values.

Current asset investments

Current asset investments are stated at cost plus, where appropriate, accrued interest.

Taxation

The charge for taxation is based on the profit 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 deferred taxation if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

PROFIT AND LOSS ACCOUNT
for the year ended 30 September 1997

	Notes	1997 £m	1996 £m
Interest receivable	1	1,406.8	1,635.2
Interest payable	2	(1,180.9)	(1,526.0)
Net interest receivable		225.9	109.2
Other operating income		14.1	15.3
Operating costs	4	(0.4)	(0.5)
Profit on ordinary activities before taxation		239.6	124.0
Taxation on profit on ordinary activities	6	(76.8)	(40.9)
Profit for the financial year		162.8	83.1
Non-equity dividends paid and proposed	7	(165.4)	(87.8)
Transferred to reserves		(2.6)	(4.7)

The results in the above profit and loss account relate entirely to continuing operations.

There are no recognised gains or losses other than those presented in the above profit and loss account. Accordingly no statement of recognised gains and losses is presented.

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 year has been presented.

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

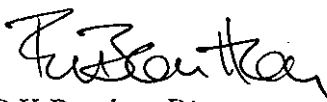
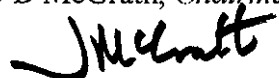
	Notes	1997 £m	1996 £m
Profit for the financial year		162.8	83.1
Dividends paid and proposed	7	(165.4)	(87.8)
New share capital issued: Redeemable preference shares	13	2,005.0	3,005.0
Ordinary shares	13	-	400.0
Preference shares redeemed	13	(2,005.0)	-
Shareholders' funds at beginning of year		3,784.9	384.6
Shareholders' funds at end of year		3,782.3	3,784.9

BALANCE SHEET
at 30 September 1997

	Notes	1997 £m	1996 £m
Current assets			
Debtors (see note below)	8	13,270.5	9,860.6
Investments	9	639.8	640.3
Cash at bank		1.4	183.5
		<u>13,911.7</u>	<u>10,684.4</u>
Creditors - amounts falling due within one year			
Borrowings	10	(132.4)	(162.3)
Other creditors	11	(4,835.4)	(3,320.4)
		<u>(4,967.8)</u>	<u>(3,482.7)</u>
Net current assets (see note below)		<u>8,943.9</u>	<u>7,201.7</u>
Creditors - amounts falling due after more than one year			
Borrowings	10	(275.4)	(269.4)
Other creditors	12	(4,886.2)	(3,147.4)
		<u>(5,161.6)</u>	<u>(3,416.8)</u>
		<u>3,782.3</u>	<u>3,784.9</u>
Capital and reserves			
Called up share capital - equity	13	655.0	655.0
Called up share capital - non-equity	13	3,005.0	3,005.0
		<u>3,660.0</u>	<u>3,660.0</u>
Profit and loss account	14	122.3	124.9
		<u>3,782.3</u>	<u>3,784.9</u>

Debtors and net current assets include debtors recoverable after more than one year of £3,936m (1996: £4,141m).

The financial statements on pages 5 to 13 were approved by the Board of Directors on 18 March 1998 and were signed on its behalf by:


 P K Bentley, *Director*
 J B McGrath, *Chairman*


NOTES

1 Interest receivable	1997	1996
	£m	£m
Loans to Group undertakings	1,334.1	1,422.9
Income from currency swaps	12.2	15.8
Other deposits	60.5	196.5
	1,406.8	1,635.2

2 Interest payable	1997	1996
	£m	£m
Bank loans and overdrafts	6.4	41.4
Other loans	1,174.5	1,484.6
	1,180.9	1,526.0

Included in the above is interest payable to Group undertakings of £1,145.0m (1996:£1,426.8m).

3 Operations

During the financial year the company was engaged in treasury management for Grand Metropolitan PLC and its subsidiary undertakings. The business and geographical segments that it lent to are as disclosed in the consolidated statutory accounts of Grand Metropolitan PLC. The company's operations are based in the United Kingdom. It raises the external funds it requires principally using the London and New York financial markets.

4 Operating costs

The company has no employees. The auditor's remuneration was borne by the company.

5 Directors

Emoluments

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

NOTES

5 Directors (continued)

Shareholdings

The directors who held office at the end of the financial year had the following interests in the share capital of Grand Metropolitan PLC, the ultimate holding company at 30 September 1997:

	Ordinary Shares		+RSP award		Options		
	1997	1996 or date of appointment	1997	1996 or date of appointment	Granted in year	Exercised in year	1997
P K Bentley	-	-	15,625	66,959	2,138	-	69,097
J N Grover	5,245	5,245	33,482	232,026	-	-	232,026
J S Heslop	1,729	1,729	-	109,156	-	-	109,156
N C Rose	4,135	4,005	19,550	251,320	-	75,000	176,320
D C Stainton	-	-	15,290	205,689	-	-	205,689

+ Restricted Share Plan award granted 1 January 1997.

The directors held the above options under Grand Metropolitan PLC share option schemes at prices between 353p and 474p per share exercisable by 2006.

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

As potential beneficiaries of the Grand Metropolitan PLC Number 2 Employee Share Trust, J N Grover, N C Rose and D C Stainton each 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.

Sir George Bull, J M J Keenan, J B McGrath and P S Walsh are directors of the Company's holding company, Grand Metropolitan PLC, and details of their interests are dealt with in the annual report of that company.

6 Taxation

	1997	1996
	£m	£m
UK corporation tax at 32% (1996 - 33%)	76.8	40.9
	76.8	40.9

The charge for taxation includes amounts which may be paid to other companies in the Grand Metropolitan Group in return for the surrender of tax losses.

NOTES

7 Dividends

	Paid £m	Accrued £m	1997 Total £m	Paid £m	Accrued £m	1996 Total £m
<i>Non-Equity:</i>						
4.75% "A" Cumulative Redeemable Preference Shares of £1 each	0.1	-	0.1	1.9	-	1.9
4.75% "B" Cumulative Redeemable Preference Shares of £1 each	2.6	-	2.6	39.1	-	39.1
5% "C" Cumulative Redeemable Preference Shares of £1 each	45.9	4.1	50.0	21.2	8.5	29.7
4.55% "D" Cumulative Redeemable Preference Shares of £1 each	2.1	-	2.1	17.1	-	17.1
5.8% "E" Cumulative Redeemable Preference Shares of £1 each	106.8	3.8	110.6	-	-	-
	<u>157.5</u>	<u>7.9</u>	<u>165.4</u>	<u>79.3</u>	<u>8.5</u>	<u>87.8</u>

8 Debtors

	1997 £m	1996 £m
Amounts owed by parent company and fellow subsidiary undertakings	13,147.7	9,779.5
Accrued income and prepayments	122.6	80.8
Other debtors	0.2	0.3
	<u>13,270.5</u>	<u>9,860.6</u>

Amounts owed by parent company and fellow subsidiary undertakings include £3,936m due after more than one year (1996: £4,141m).

9 Investments

	1997 £m	1996 £m
Externally managed funds	624.7	640.3
Term deposits	15.1	-
	<u>639.8</u>	<u>640.3</u>

10 Borrowings

	Bank loans and overdrafts £m	Other loans £m	1997 Total £m	Bank loans and overdrafts £m	Other loans £m	1996 Total £m
<i>Analysis by year of repayment</i>						
Greater than 5 years: by instalment	7.7	-	7.7	-	14.0	14.0
: other	-	198.9	198.9	-	198.8	198.8
From one to five years	14.5	54.3	68.8	40.5	16.1	56.6
Due after more than one year	22.2	253.2	275.4	40.5	228.9	269.4
Due within one year	123.4	9.0	132.4	117.0	45.3	162.3
	<u>145.6</u>	<u>262.2</u>	<u>407.8</u>	<u>157.5</u>	<u>274.2</u>	<u>431.7</u>

NOTES

10 Borrowings (continued)

Other loans comprise:	Currency	Year end interest rates	1997 £m	1996 £m
Guaranteed bonds 2005	Sterling	9%	198.9	198.8
Others	Various	Various	63.3	75.4
			262.2	274.2

None of the borrowings of the company is secured.

The company, together with other Group companies, has access to a number of committed bank facilities totalling £1,235 million of which none was used at 30 September 1997.

The company has arranged interest rate swaps and forward rate agreements to manage the Grand Metropolitan Group's interest rate exposure. The interest rates shown above are those contracted on the underlying borrowings before taking into account any interest rate protection.

11 Other creditors - amounts falling due within one year	1997 £m	1996 £m
Amounts owed to fellow subsidiary undertakings	4,732.3	3,231.8
Accrued expenses	28.1	48.8
Corporation tax	75.0	39.8
	4,835.4	3,320.4

12 Other creditors - amounts falling due after more than one year	1997 £m	1996 £m
Amounts owed to fellow subsidiary undertakings	4,880.1	3,141.0
Deferred income	6.1	6.4
	4,886.2	3,147.4

13 Called up share capital

	Authorised		Allotted, called up and fully paid			
	1997 Number (million)	1996 Number (million)	1997 Number (million)	1997 £m	1996 Number (million)	1996 £m
Ordinary shares 5p each	13,100	13,100	13,100	655.0	13,100	655.0
Cumulative Redeemable Preference Shares of £1 each	5,010	3,005	3,005	3,005.0	3,005	3,005.0

NOTES

13 Called up share capital (continued)

On 18 October 1996, the authorised and issued share capital increased from £3,660 million to £5,665 million by the creation of 2,005 million 5.8% "E" Cumulative Redeemable Preference Shares. On the same date 50 million 4.75% "A", 1,055 million 4.75% "B" and 900 million 4.55% "D" Cumulative Redeemable Preference Shares were redeemed.

All the shares authorised during the year were issued for a cash consideration at par in order to finance the company's activities.

The holders of the "C" and "E" Cumulative Redeemable Preference Shares are entitled, in priority to the payment of dividends to the holders of any other class of shares, to be paid a cumulative preferential dividend, in respect of each dividend period at the dividend rate on the nominal value.

The "C" Cumulative Redeemable Preference Shares can either be redeemed by the company on 20 February 1998 or on the giving of not less than two business days notice in writing to the holder, or by the holder giving not less than thirty days notice in writing to the company.

The "E" Cumulative Redeemable Preference Shares can either be redeemed by the company on 31 October 2001 or on the giving of not less than two business days notice in writing to the holder, or by the holder giving not less than thirty days notice in writing to the company.

On redemption, the amount paid up on the "C" and "E" Cumulative Redeemable Preference Shares, together with a sum equal to all arrears and accruals (if any) of the preferential dividend, is payable.

On a winding up, the holders of the "C" and "E" Cumulative Redeemable Preference Shares shall rank pari passu to receive an amount in respect of each Cumulative Redeemable Preference Share, equal to the nominal amount paid up, together with all arrears and accruals (if any) of the dividend payable thereon, whether or not such dividend has become due and payable.

The rights attached to the "C" and "E" Cumulative Redeemable Preference Shares may only be varied with consent in writing of the holder or holders of the preference shares.

14 Reconciliation of movement in reserves

	1997	1996
	£m	£m
<i>Profit and loss account:</i>		
Profit for the financial year	162.8	83.1
Dividends paid and accrued	(165.4)	(87.8)
Reserves at 30 September 1996	124.9	129.6
Reserves at 30 September 1997	122.3	124.9

NOTES

15 Contingent liabilities

The company enters into various forward dated transactions to manage the Grand Metropolitan Group's interest and exchange rate exposures. It is not anticipated that any material losses will arise from these transactions.

16 Cash flow statement

A cash flow statement is not presented as the company was a wholly owned subsidiary undertaking of Grand Metropolitan PLC at 30 September 1997. A cash flow statement for the Grand Metropolitan Group is included in the financial statements of Grand Metropolitan PLC.

17 Related party transactions

The company was controlled by Grand Metropolitan PLC 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.

18 Ultimate holding and parent undertaking

The ultimate parent undertaking of the company as at 30 September 1997 was Grand Metropolitan PLC, a company registered in England and Wales. Copies of the group accounts of Grand Metropolitan PLC can be obtained from 8 Henrietta Place, London, W1M 9AG.

On 17 December 1997, Grand Metropolitan PLC merged with Guinness PLC to form Diageo plc, which as a result became the ultimate parent undertaking of the company. Diageo plc's accounting period end will be 30 June and the first consolidated accounts of Diageo plc will be for the eighteen month period ended 30 June 1998, which will be obtainable from the same address.