

Cellarers (Wines) Limited

**Directors' report and financial
statements**

Registered number 1083023

30 June 1999



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Directors' report

The directors have pleasure in submitting their annual report, together with the audited financial statements, for the year ended 30 June 1999.

Activities

The company provides for the storage of stocks of wines and spirits owned by the customers of fellow group companies. The directors foresee no changes in the company's activities.

Year 2000

The Year 2000 problem refers to the inability of some information systems and computerised equipment to handle four-digit years, causing them to generate inaccurate information and potentially to fail. The Diageo group established a compliance programme in each of its main business units (UDV, Pillsbury, Guinness, Burger King) and subsidiaries to investigate and manage potential impacts. The programmes were co-ordinated at Group level with regular status reports to the Diageo board.

All critical systems and processes were declared Year 2000 ready in September 1999, and to date no major issues have been identified. Procedures are in place to monitor developments and will continue for as long as the Year 2000 risk remains.

The full cost of managing the Year 2000 problem for Cellarers (Wines) Limited has not been identified separately, but is included within the overall programme cost shown in the annual report of the ultimate parent company, Diageo plc.

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. The Diageo Group's euro-readiness is being managed as a discrete business project. The Group expects to have 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 addition, monetary union may have a significant impact on macroeconomic factors, including interest and foreign exchange rates.

Key commercial risks, such as pricing transparency, have been analysed, with a view to reducing any impact through active management over the 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 United Kingdom) is being similarly analysed.

The cost associated with the euro-readiness project for Cellarers (Wines) Limited has not been identified separately but is included within the overall project cost in the annual report of the ultimate parent company, Diageo plc.

Financial

The results for the period shown on page 6 are for the twelve months from 1 July 1998 to 30 June 1999.

The directors do not recommend the payment of a dividend (1998: £Nil).

The profit for the period retained in the company is £Nil (1998: £Nil).

Directors' report (continued)

Directors

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

JJ Corbett	
PJ Radcliff	(appointed 29 June 1999)
NC Rose	
PR Somers	(resigned 29 June 1999)
G Williams	(resigned 1 February 1999)

Subsequent to the period end Mr NC Rose resigned as a director and Mr PK Bentley was appointed in his place on 1 July 1999.

Emoluments

None of the directors received any remuneration during the period in respect of their services as directors of the company (1998: £Nil).

Directors' interests

No directors 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.

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:-

Shares and Awards over ordinary shares

Name of director	Ordinary shares of 28 101/108p (1)	Ordinary Shares of 28 101/108p (1)	RSP Awards (2)	Guinness LTIP (2)	Diageo LTIP (3)	Diageo LTIP (3)
	1.7.98 or date of appointment	30.6.99	30.6.99	30.6.99	Performance cycle commencing 1.1.98 1.1.99	
JJ Corbett	1,380	3,859	5,000	-	2,250	-
PJ Radcliff	6,400	6,400	-	-	15,000	14,193
NC Rose	3,572	3,572	19,550	-	36,021	32,752

Options

Name of director	1.7.98 or date of appointment	Granted during period	Exercised during period	30.6.99
JJ Corbett	64,803	-	5,000	59,803
PJ Radcliff	101,098	-	-	101,098
NC Rose	176,320	-	-	176,320

The directors held the above options under Grand Metropolitan PLC and Diageo plc share option schemes at prices between 314p and 533.5p per share exercisable by 2006.

The mid-market share price of Diageo plc shares fluctuated between 480.5p and 778.5p per share during the year. The mid-market share price on 30 June 1999 was 662.5p.

At 30 June 1999 the directors had an interest in 22,169,328 shares and 9,096,653 shares subject to call options held by trusts to satisfy grants made under ex-Grand Metropolitan incentive plans, ex-Guinness incentive plans and Diageo incentive plans and savings-related share option schemes.

Directors' report *(continued)*

* Notes

(1) Ordinary shares

Interests in ordinary shares at 1 July 1998, or date of appointment where applicable, include B shares converted at a rate of 70.993915 ordinary shares to every 100 B shares, although the conversion actually occurred on 1 August 1998.

(2) The Guinness LTIP and The Grand Metropolitan Restricted Share Plan (RSP)

Awards over shares were granted to senior executives, with eventual transfer dependent on the performance of total shareholder return (TSR) against a comparator group of companies at the end of three years after the date of grant. Following the merger, performance targets attached to the Guinness awards granted in 1996 were waived. The 1997 awards granted by Grand metropolitan and Guinness are now dependent upon the performance of Diageo's TSR against comparator groups of companies.

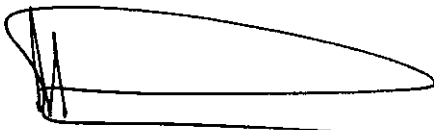
(3) The Diageo LTIP (LTIP)

Under the Diageo LTIP, approved in August 1998, eligible senior executives are granted a conditional right to receive shares or, exceptionally, a cash sum. The rights vest after the end of a three year period following the date of grant (the "performance cycle") provided a performance test is achieved and subject to the discretion of the trustees who operate the LTIP. The performance test is a comparison of the annualised percentage growth in Diageo's share price (assuming all dividends and capital distributions are re-invested) known as total shareholder return (TSR) with the TSRs of a defined peer group of 20 companies over a three year period. The remuneration committee will not recommend the release of awards if there has not been an underlying improvement in the financial performance of Diageo. The first LTIP performance cycle runs from 1 January 1998 to 31 December 2000 and the second from 1 January 1999 to 31 December 2001. Awards of shares will be released, subject to the performance test and the discretion of the trustees, in March 2001 and March 2002 respectively. The number of awards shown will only be released if Diageo reaches position five within the peer group (upper quartile). At position four 125% of the original awards will vest and, at position three or above, 150%. At position ten (median position), 50% of the awards will vest. Between median and upper quartile, vesting will be calculated on a straight line basis. Awards will lapse if Diageo does not reach position ten.

Secretary

Subsequent to the period end, CJ Taylor resigned as Secretary of the Company on 1 July 1999 and MD Peters was appointed in his place.

By Order of the Board



MD Peters
Secretary

8 Henrietta Place
London
W1M 9AG

20 April 2000

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the report of the auditors set on page 5, 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 year which give a true and fair view of the state of affairs of the company and the group at the end of the financial year and of the profit or loss for the financial year.

The directors, in preparing these financial statements, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

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 group and to prevent and detect fraud and other irregularities.

kpmg

KPMG Audit Plc

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Glasgow

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United Kingdom

Report of the auditors to the members of Cellarers (Wines) Limited

We have audited the financial statements on pages 6 to 9.

Respective responsibilities of directors and auditor

As described on page 4 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 1999 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor



Profit and loss account
for the year ended 30 June 1999

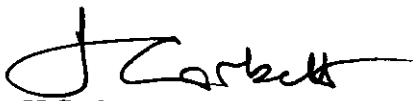
	<i>Note</i>	Year ended 30 June 1999 £	Nine months ended 30 June 1998 £
Turnover	<i>1</i>	173,543	151,514
Other operating charges	<i>2</i>	(173,543)	(151,514)
		<hr/>	<hr/>
Result for the financial period		-	-
		<hr/> <hr/>	<hr/> <hr/>

There are no recognised gains or losses other than as shown above for the financial period. The profit and loss account relates wholly to continuing operations.

Balance sheet
at 30 June 1999

	<i>Note</i>	30 June 1999 £	30 June 1998 £
Current assets			
Debtors:			
Amounts owed by group undertakings	3	2	2
Creditors:			
Amounts falling due within one year			
Accruals and deferred income		-	-
		<hr/>	<hr/>
		2	2
		<hr/>	<hr/>
Capital and reserves	4		
Share capital		2	2
		<hr/>	<hr/>

These financial statements were approved by the Board of Directors on 20 April 2000 and were signed on its behalf by:


JJ Corbett
Director

Notes

(forming part of the financial statements)

1 Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention. They have been drawn up to comply in all material respects with applicable UK accounting standards. The bases used are consistent with those used in the previous year.

Turnover

Turnover represents the amount of rent receivable, net of value added tax and credit notes.

2 Other operating charges

	Year ended 30 June 1999 £	Nine months ended 30 June 1998 £
Management charge payable to fellow group company	173,543	151,514

The audit fee has been borne by a fellow group company, Justerini & Brooks Limited.

The Directors received no emoluments in respect of their services to the company (*year ended 30 June 1998: £Nil*).

The company employed no staff during the year (*year ended 30 June 1998: Nil*).

3 Debtors

Rental income falls due on 1 July and consequently there are no debtors as at the period end with the exception of £2 due in respect of the issue of shares. This amount is due when called.

4 Capital and reserves

	30 June 1999 £	30 June 1998 £
Authorised 100 ordinary shares of £1 each	100	100
Allotted but not called 2 ordinary shares of £1 each	2	2

Ordinary shares are entitled to one vote each.

Notes *(continued)*

5 Related party disclosures

As the company is a wholly owned subsidiary of United Distillers & Vintners (HP) Limited and its ultimate holding company is Diageo plc, the company has taken advantage of the exemption contained in FRS 8 not to disclose transactions or balances with entities which form part of the group (or trustees of the group qualifying as related parties).

6 Cash flow statement

A cash flow statement is not presented as the company is a member of a group, whose ultimate holding company Diageo plc, includes a group cash flow statement in its financial statements.

7 Ultimate holding company

The company is a wholly owned subsidiary of United Distillers & Vintners (HP) Limited and its ultimate holding company as at 30 June 1999 was Diageo plc. Both companies are incorporated and registered in England.

Diageo plc's accounting period end is 30 June and its consolidated accounts for the year ended 30 June 1999 can be obtained from the Registered Office at 8 Henrietta Place, London, W1M 9AG.