

Grand Metropolitan Public Limited Company

Financial statements 30 June 2004

Registered number: 291848



Grand Metropolitan Public Limited Company
Year ended 30 June 2004

Directors' report

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 30 June 2004.

Activities

The principal activity of the company is that of an investment holding company owning subsidiaries which hold assets in the global alcoholic drink sector. The directors foresee no changes in the nature of the company's activities.

Financial

The results for the year ended 30 June 2004 are shown on page 7. The directors do not recommend the payment of a dividend for the year (2003 - £nil). The profit for the year transferred to reserves was £86m (2003 - £112m).

Directors

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

P S Binning (resigned 3 October 2003)
M J Lester
R Rajagopal (appointed 3 October 2003)
N C Rose
P S Walsh
J W Walters (resigned 14 June 2004)

Directors' emoluments

None of the directors received any remuneration during the year in respect of their services as directors of the company (2003 - £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 year in any significant contract with the company or any subsidiary.

At 30 June 2004, N C Rose and P S Walsh were directors of the ultimate parent company, Diageo plc. Details of their beneficial interests in the ordinary shares of Diageo plc are shown in the Diageo plc Annual Report 2004, copies of which are available from 8 Henrietta Place, London W1G 0NB.

Grand Metropolitan Public Limited Company
Year ended 30 June 2004

Directors' report (continued)

Directors' interests (continued)

The other directors who held office at the end of the financial year had the following beneficial interests in the ordinary shares of 28^{101/108} pence each in the ultimate parent company, Diageo plc:

(i) Ordinary shares and conditional rights to ordinary shares

	Ordinary shares		Conditional rights to ordinary shares				
	At beginning of year (or date of appointment)	At end of year	At beginning of year (or date of appointment)	Granted in year	Vested in year	Lapsed in year	At end of year
M J Lester	15,803	20,658	10,563	27,269	(3,521)	-	34,311
R Rajagopal	912	3,810	-	-	-	-	-

The directors were granted conditional rights to receive ordinary shares or, exceptionally, a cash sum under certain long term incentive plans. The conditional rights to ordinary shares are subject to share performance criteria of Diageo plc ordinary shares. The numbers disclosed in the above table represent the maximum number of conditional rights. Full details of the performance criteria are disclosed in the annual report of the ultimate holding company, Diageo plc.

(ii) Options

	Options over ordinary shares			
	At beginning of year (or date of appointment)	Granted in year	Exercised during year	At end of year
M J Lester	116,587	34,259	-	150,846
R Rajagopal	97,459	28,011	(4,754)	120,716

The directors held the above options under Diageo plc share option schemes at prices between 518 pence and 863 pence per ordinary share exercisable between 2004 and 2013. The options are granted at market value on the date the option is granted and the option price is payable when the option is exercised.

The mid-market share price of Diageo plc shares fluctuated between 625 pence and 780 pence per share during the year. The mid-market share price on 30 June 2004 was 744 pence.

At 30 June 2004, M J Lester and R Rajagopal each had an interest in 21,109,889 shares and 7,710,285 shares subject to call options held by trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes.

Grand Metropolitan Public Limited Company
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Directors' report (continued)

Supplier payment policy

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.

Credit days have not been calculated for the company, as the company had no trade creditors at 30 June 2004. The company's invoices for goods and services are settled by fellow subsidiary undertakings acting as agents for the company.

Auditor

The auditor, KPMG Audit Plc, is willing to continue in office and a resolution for its re-appointment as auditor of the company will be submitted to the Annual General Meeting.

By order of the board



S M Bunn
Secretary
8 Henrietta Place
London
W1G 0NB

27 January 2005

Grand Metropolitan Public Limited Company
Year ended 30 June 2004

Statement of directors' responsibilities in relation to the financial statements

The following statement, which should be read in conjunction with the independent auditor's report set out on page 6, 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 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, that all applicable accounting standards have been followed and that it is appropriate to prepare the financial statements on 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 that are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Grand Metropolitan Public Limited Company

We have audited the financial statements on pages 7 to 19.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit 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 affairs of the company as at 30 June 2004 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

28 January 2005

Grand Metropolitan Public Limited Company
Year ended 30 June 2004

Profit and loss account

	<i>Notes</i>	Year ended 30 June 2004 £m	Year ended 30 June 2003 £m
Operating costs	3,4	<u>(17)</u>	<u>(15)</u>
Operating loss		(17)	(15)
Interest receivable	5	201	185
Interest payable to subsidiary undertaking (Grand Metropolitan Holdings Limited)		<u>(61)</u>	<u>(57)</u>
Profit on ordinary activities before taxation		123	113
Taxation on profit on ordinary activities	6	<u>(37)</u>	<u>(1)</u>
Profit for the year transferred to reserves	15	<u>86</u>	<u>112</u>

Statement of total recognised gains and losses

	Year ended 30 June 2004 £m	Year ended 30 June 2003 £m
Profit for the year	<u>86</u>	<u>112</u>
Total recognised gains for the year	86	<u>112</u>
Prior year adjustments		
- Adoption of FRS 17	<u>(9)</u>	
Total recognised gains and losses since the last financial statements	<u>77</u>	

There is no difference between the results for the years shown in the profit and loss account and the results for the relevant years restated on an historical cost basis.

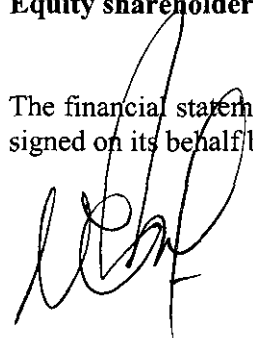
All results arise from continuing operations.

Grand Metropolitan Public Limited Company
Year ended 30 June 2004

Balance sheet

		30 June 2004		30 June 2003 (restated)	
	Notes	£m	£m	£m	£m
Fixed assets					
Tangible assets	7	6		9	
Investments	8	<u>10,877</u>	10,883	<u>10,877</u>	10,886
Current assets					
Debtors – due within one year	9	4,577		4,418	
Cash at bank and in hand	10	<u>2</u>		<u>2</u>	
		4,579		4,420	
Current liabilities					
Creditors – due within one year	12	<u>(4,372)</u>		<u>(4,303)</u>	
Net current assets			<u>207</u>		<u>117</u>
Total assets less current liabilities			11,090		11,003
Provisions for liabilities and charges	13		<u>(17)</u>		<u>(15)</u>
Net assets before post employment liabilities			11,073		10,988
Post employment liabilities	4		<u>(1)</u>		<u>(2)</u>
Net assets			<u>11,072</u>		<u>10,986</u>
Capital and reserves					
Capital					
Called up share capital	14		690		690
Reserves					
Share premium account		9,070		9,070	
Other reserves		530		530	
Profit and loss account		<u>782</u>		<u>696</u>	
Reserves attributable to equity shareholders	15		<u>10,382</u>		<u>10,296</u>
Equity shareholders' funds	16		<u>11,072</u>		<u>10,986</u>

The financial statements on pages 7 to 19 were approved by the board of directors on 27 January 2005 and signed on its behalf by:



N C Rose,
Director

Grand Metropolitan Public Limited Company
Year ended 30 June 2004

Notes to the financial statements

1. New UK GAAP accounting policies

The company has adopted the reporting requirements of *FRS 17 - Retirement benefits* in its financial statements from 1 July 2003. The financial information included in these statements also complies, from 1 July 2003, with the following requirements issued by the UK's Accounting Standards Board: *UITS abstract 38 - Accounting for ESOP trusts*.

In the primary financial statements and all relevant notes to the financial statements the comparative information has been restated as appropriate.

FRS 17 - Retirement benefits. This standard replaces the use of the actuarial values for assessing pension costs in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the standard requires that the profit and loss account shows the relatively stable ongoing service cost, the expected return on assets and the interest on the liabilities. Differences between expected and actual returns on assets, and the impact on the liabilities of changes in the assumptions, are reflected in the statement of total recognised gains and losses.

The adoption of FRS 17 had no effect on the reported operating profit for the year ended 30 June 2003. In addition, the adoption of the standard reduced debtors by £13m, provisions by £6m and created a net post employment liability of £2m at 30 June 2003. In aggregate the adoption of FRS 17 has reduced shareholders' funds at 30 June 2003 by £9m.

UITS abstract 38 - Accounting for ESOP trusts. This abstract changes the presentation of an entity's own shares held in an employee share trust from requiring them to be recognised as assets to requiring them to be deducted in arriving at shareholders' funds. It also has consequential changes to UITS 17 requiring that the expense to the profit and loss account should be the difference between the fair value of the shares at the date of award and the amount that an employee is required to pay for the shares (i.e. the 'intrinsic value' of the award).

The reclassification of shares acquired by the share trust (own shares) from fixed asset investments to equity has reduced shareholders' funds by £1 million at 30 June 2003.

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements of the company are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

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).

Grand Metropolitan Public Limited Company
Year ended 30 June 2004

Notes to the financial statements (continued)

2. Accounting policies (continued)

Basis of preparation (continued)

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 ("group undertakings") or investees of the Diageo plc group.

The company is exempt from the requirement to prepare group accounts under section 228 of the Companies Act 1985 as its results are included in the consolidated accounts of Diageo plc.

Tangible fixed assets

Fixed assets are depreciated on a straight-line basis to estimated residual values over their expected useful lives within the following ranges:

Fixtures and fittings 5 to 10 years

Reviews are carried out if there is some indication that impairment may have occurred, to ensure that fixed assets are not carried at above their recoverable amounts.

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 impairment in value where such impairment is expected by the directors to be permanent.

Pensions and other post employment benefits

The former employees of the company are members of the Diageo UK pension plan. With effect from 1 July 2003, the Diageo group has adopted FRS 17 - *Retirement benefits* in its consolidated financial statements.

FRS 17 replaces the use of actuarial values for assessing pension costs in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the standard requires that the profit and loss account shows the relatively stable ongoing service cost, the expected return on assets and the interest on the liabilities. Differences between expected and actual return on assets, and the impact on the liabilities of changes in assumptions, are reflected in the statement of total recognised gains and losses.

It is not possible to allocate the assets and liabilities of the pension plan between individual companies and therefore the company accounts for it as a defined contribution scheme. The assets and liabilities of the Diageo UK pension plan are recognised in the Diageo plc consolidated financial statements.

Grand Metropolitan Public Limited Company
Year ended 30 June 2004

Notes to the financial statements (continued)

2. 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.

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 foreign 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 foreign currency contract.

All exchange gains and losses are taken to the profit and loss account.

Deferred taxation

Full provision for deferred tax is made for timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation, using current tax rates. The company does not discount these balances.

3. Operating costs

	Year ended 30 June 2004	Year ended 30 June 2003
	£m	£m
Other external charges	12	15
Foreign exchange loss	4	6
Depreciation	2	1
Other operating income	<u>(1)</u>	<u>(7)</u>
	<u>17</u>	<u>15</u>

Other external charges include operating lease rentals of £3m (2003 - £2m).

The auditor's remuneration was paid on behalf of the company by a fellow group undertaking. There were no fees payable to the auditor in respect of non-audit services (2003 - £nil).

4. Directors and employees

The company did not employ any staff during either the current or prior year.

None of the directors received any remuneration during the financial year in respect of their services as directors of the company (2003 - £nil).

Grand Metropolitan Public Limited Company
Year ended 30 June 2004

Notes to the financial statements (continued)

4. Directors and employees (continued)

Details of the directors' share interests and any share options exercised during the year are included within the directors' report on pages 2 and 3.

Retirement benefits

The company has complied fully in its primary statements with the requirements of *FRS 17 – Retirement benefits* for the year ended 30 June 2004 and all comparatives have been restated.

The company operates the GrandMet brewing medical plan which provides former employees with post employment benefits in respect of medical costs. The plan is unfunded. The most recent full valuation was carried out on 31 March 2003. The measurement dates used to calculate the disclosures in the financial statements are the respective balance sheet dates.

- (a) The following weighted average assumptions were used to determine the company's deficit in the post retirement medical plan at 30 June in the relevant year:

	Year ended 30 June 2004	Year ended 30 June 2003
	%	%
Rate of medical inflation	5.0	5.0
Discount rate for plan liabilities	<u>5.7</u>	<u>5.2</u>

- (b) The present values of the Grandmet brewing medical plan were as follows:

	30 June 2004 £m	30 June 2003 £m
Present value of plan liabilities	<u>(2)</u>	<u>(2)</u>
Deficit in the GrandMet brewing medical plan	(2)	(2)
Related deferred tax assets	<u>1</u>	<u>-</u>
Net post retirement medical benefit plan liabilities	<u>(1)</u>	<u>(2)</u>

Grand Metropolitan Public Limited Company
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Notes to the financial statements (continued)

5. Interest receivable

	Year ended 30 June 2004 £m	Year ended 30 June 2003 £m
Interest receivable from subsidiary undertakings:		
Diageo Great Britain Limited	34	33
Interest receivable from other group undertakings:		
Diageo plc	9	5
Diageo Finance plc	60	11
Grand Metropolitan Estate Holdings Limited	4	3
Diageo Investment Corporation	35	37
Grand Metropolitan International Holdings Limited	57	57
Diageo Holdings Netherlands B.V.	<u>2</u>	<u>37</u>
	201	183
External interest receivable	<u>-</u>	<u>2</u>
	<u>201</u>	<u>185</u>

6. Taxation

	Year ended 30 June 2004 £m	Year ended 30 June 2003 £m
(i) Analysis of taxation charge in the year		
Current tax		
Payment for group relief received	(37)	-
Deferred tax		
Released to profit and loss account in the year	-	-
Adjustment in respect of prior periods	<u>-</u>	<u>(1)</u>
Taxation on profit on ordinary activities	<u>(37)</u>	<u>(1)</u>
(ii) Factors affecting current tax charge for the year		
Profit on ordinary activities before taxation	<u>123</u>	<u>113</u>
Notional charge at UK corporation tax rate of 30% (2003 – 30%)	(37)	(34)
Expenses not deductible for tax purposes	-	(1)
Group relief for nil consideration	<u>-</u>	<u>35</u>
Current ordinary tax charge for the year	<u>(37)</u>	<u>-</u>

Grand Metropolitan Public Limited Company
Year ended 30 June 2004

Notes to the financial statements (continued)

7. Tangible assets

	Fixtures and fittings £m
Cost:	
At beginning of the year	22
Disposals	<u>(1)</u>
At end of the year	<u>21</u>
Depreciation:	
At beginning of the year	(13)
Depreciation charge for the year	<u>(2)</u>
At end of the year	<u>(15)</u>
Net book value:	
At beginning of the year	<u>9</u>
At end of the year	<u>6</u>

8. Fixed assets – investments

	Shares in Diageo plc £m	Subsidiary undertakings £m	Other investments £m	Total £m
Cost:				
At beginning of the year (as originally reported)	1	10,921	3	10,925
Prior year adjustment (note 1)	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>(1)</u>
At beginning of the year (as restated) and at end of the year	<u>-</u>	<u>10,921</u>	<u>3</u>	<u>10,924</u>
Provision:				
At beginning and end of the year	<u>-</u>	<u>(46)</u>	<u>(1)</u>	<u>(47)</u>
Net book value:				
At beginning of the year (as originally reported)	<u>1</u>	<u>10,875</u>	<u>2</u>	<u>10,878</u>
At beginning of the year (as restated) and at end of the year	<u>-</u>	<u>10,875</u>	<u>2</u>	<u>10,877</u>

Grand Metropolitan Public Limited Company
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Notes to the financial statements (continued)

8. Fixed asset – investments (continued)

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

Subsidiary undertakings*	Country of incorporation	Principal activity	Percentage of ordinary shares held
Diageo Ireland	Ireland	Production, marketing and distribution of premium drinks.	100
Diageo Scotland Limited	Scotland	Production, marketing and distribution of premium drinks.	100
Diageo Great Britain Limited	England	Production, marketing and distribution of premium drinks.	100
Diageo Brands B.V. (formerly Guinness United Distillers & Vintners B.V.)	Netherlands	Production, marketing and distribution of premium drinks.	100
Guinness United Distillers & Vintners Amsterdam B.V. (merged into Diageo Brands B.V. on 28 January 2004)	Netherlands	Production, marketing and distribution of premium drinks.	100
Diageo North America, Inc.	United States	Production, importing and marketing of premium drinks.	100
Diageo Investment Corporation	United States	Financing company for US group companies.	100
Grand Metropolitan Capital Company Limited	England	Investment holding company.	83
Grand Metropolitan Holdings Limited	England	Investment holding company.	100
Grand Metropolitan Investments Limited	England	Investment holding company.	100

Grand Metropolitan Public Limited Company
Year ended 30 June 2004

Notes to the financial statements (continued)

8. Fixed asset – investments (continued)

Associated undertakings*

Moët Hennessy, SNC	France	Production and distribution of premium drinks.	34
General Mills, Inc.	United States	Manufacture and marketing of consumer food products.	21

* None of the subsidiary or associated undertakings are directly owned by Grand Metropolitan Public Limited Company with the exception of Diageo Great Britain Limited.

All percentages relate to holdings of ordinary share capital.

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

Certain undertakings have been omitted from the lists above as they are either dormant or not material. A full list of subsidiary and associated undertakings will be annexed to the company's annual return.

9. Debtors – due within on year

	30 June 2004	30 June 2003
	£m	(restated)
Amounts owed by subsidiary undertakings	314	316
Amounts owed by other group undertakings	4,261	4,100
Other debtors	1	2
Deferred taxation (note 11)	<u>1</u>	<u>-</u>
	<u>4,577</u>	<u>4,418</u>

10. Cash at bank and in hand

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.

Grand Metropolitan Public Limited Company
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Notes to the financial statements (continued)

11. Deferred taxation

	Other timing differences £m
At 30 June 2003 as previously reported (see note 13)	(2)
Prior year adjustment (see note 1)	<u>3</u>
At 30 June 2003 as restated (see note 13)	1
Profit and loss account	<u>-</u>
At 30 June 2004 (see note 9)	<u><u>1</u></u>

12. Creditors – due within one year

	30 June 2004 £m	30 June 2003 £m
Amounts owed to subsidiary undertakings	1,763	1,665
Amounts owed to other group undertakings	2,607	2,636
Other creditors	<u>2</u>	<u>2</u>
	<u><u>4,372</u></u>	<u><u>4,303</u></u>

13. Provisions for liabilities and charges

	Post employment medical plan £m	Deferred taxation (note 9) £m	Vacant property £m	Total £m
At 30 June 2003 as previously reported	3	2	16	21
Prior year adjustment (see note 1)	<u>(3)</u>	<u>(3)</u>	<u>-</u>	<u>(6)</u>
At 30 June 2003 as restated	-	(1)	16	15
Profit and loss movement	-	-	1	1
Reclass to debtors	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>
At 30 June 2004	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>17</u></u>	<u><u>17</u></u>

The vacant property provision of £17m (2003 - £16m) represents the estimated discounted rental shortfall in respect of vacant properties. This provision is based on the estimated discounted rental shortfall over the terms of the leases.

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Notes to the financial statements (continued)

14. Called up share capital

	30 June 2004 £m	30 June 2003 £m
Authorised:		
Equity - 3,000,000,000 ordinary shares of 25p each	<u>750</u>	<u>750</u>
Allotted, called up and fully paid:		
Equity - 2,759,144,946 ordinary shares of 25p each	<u>690</u>	<u>690</u>

15. Reserves

	Share premium £m	Other reserves £m	Profit and loss account		Total £m
	£m	£m	Own shares £m	Other £m	£m
At 30 June 2003	9,070	530	-	706	10,306
Prior year adjustments:					
Adoption of FRS17	-	-	-	(9)	(9)
Adoption of UITF 38	-	-	(1)	-	(1)
At 30 June 2003 (as restated)	9,070	530	(1)	697	10,296
Profit for the year	-	-	-	86	86
At 30 June 2004	<u>9,070</u>	<u>530</u>	<u>(1)</u>	<u>783</u>	<u>10,382</u>

'Other reserves' comprise a merger reserve of £62m, a special reserve of £426m, a preference share redemption reserve of £12m, and an other reserve of £30m. The merger reserve of £62m arose in 1992 on the issue of shares at a premium in connection with an acquisition. The special reserve was created, with shareholder and court approval, in 1988 by a transfer from the share premium account. The other reserve of £30m was created in 1998, with shareholder and court approval, following the cancellation and reissue of the company's shares to Diageo plc. This reserve is distributable on agreement from all of the creditors of the company which were existing at the date of the scheme of agreement, or until such time that these creditors cease to exist.

'Own shares' is the company's interest of 200,139 (2003 - 160,626) ordinary shares in Diageo plc, a company incorporated in the United Kingdom and listed on the London Stock Exchange. These shares are held by share trusts to satisfy grants made under Diageo incentive plans and savings related share option schemes. At 30 June 2004 Diageo plc's mid-market share price was 744 pence valuing the company's interest at £1m (2003 - £1m).

Grand Metropolitan Public Limited Company
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Notes to the financial statements (continued)

16. Reconciliation of movement in shareholders' funds

	2004	2003
	£m	£m
Opening shareholders' funds as previously reported	10,986	10,884
Prior year adjustments (as explained in note 1):		
Adoption of FRS17	-	(9)
Adoption of UITF38	-	(1)
As restated	10,986	10,874
Profit for the year	86	112
Shareholders' funds at end of year	<u>11,072</u>	<u>10,986</u>

17. Commitments

At 30 June 2004, the company had minimum annual commitments under non-cancellable operating leases as follows:

	30 June 2004	30 June 2003
	£m	£m
Operating leases which expire:		
Within one to five years	-	-
After five years	<u>11</u>	<u>10</u>
	<u>11</u>	<u>10</u>

18. Contingent liabilities

The company has guaranteed certain borrowings and liabilities of subsidiaries which amounted to £859m and £1m respectively (2003: £1,638m and £9m respectively).

19. Immediate and ultimate parent undertaking

The immediate parent undertaking of the company is Diageo Holdings Limited, a company incorporated and registered in England. The ultimate parent undertaking of the company is Diageo plc, a company incorporated and registered in England. The consolidated financial statements of Diageo plc can be obtained from the Registered Office at 8 Henrietta Place, London W1G 0NB.