In order to assist the reader of the financial statements, the comparisons of both 2004 with 2003 and 2003 with 2002 include tables which present the exchange, disposal, acquisition and organic components of the year on year movement for each of turnover, net sales (after deducting excise duties) and operating profit before exceptional items.

Calculation of organic movement Where a business, brand, brand distribution right or agency agreement was disposed of, or terminated, in the current year, the group, in organic movement calculations, adjusts the results for the prior year to exclude the amount the group earned in that period that it could not have earned in the current period (i.e. the period between the date in the prior period, equivalent to the date of the disposal in the current period, and the end of the prior period). As a result, the organic movement numbers reflect only comparable trading performance. Similarly, if a business was disposed of part way through the equivalent prior period, then its contribution would also be completely excluded from that prior period's performance in the organic movement calculation, since the group recognised no contribution from that business in the current year.

For acquisitions, a similar adjustment is made in the organic movement calculations. For acquisitions in the current period, the post acquisition results are excluded from the organic movement calculations. For acquisitions in the prior period, post acquisition results are included in full in the prior period, but are only included from the anniversary of the acquisition date in the current period.

A further adjustment in organic movement is made to exclude the effect of exchange rate movements by recalculating the prior year's results as if they had been generated at the current year's exchange rates.

Organic movement percentages are calculated as the organic movement amount in £ million, expressed as the percentage of the prior period results at current year exchange rates and after adjusting for disposals. The basis of calculation means that the results used to measure organic growth for a given year will be adjusted when used to measure organic growth in the subsequent year.

Operating results — 2004 compared with 2003

Summary consolidated profit and loss account

	Year ended 30 June 2004			Year ended 30 June 2003		
	Before exceptional items £ million	Exceptional items £ million	Total £ million	Before exceptional items (restated) £ million	Exceptional items (restated) £ million	Total (restated) £ million
Turnover	8,891	–	8,891	9,281	–	9,281
Operating costs	(6,980)	(40)	(7,020)	(7,326)	(168)	(7,494)
Operating profit	1,911	(40)	1,871	1,955	(168)	1,787
Share of associates' profits	451	(13)	438	478	(21)	457
Disposal of fixed assets		(35)	(35)		(43)	(43)
Disposal of businesses		(10)	(10)		(1,254)	(1,254)
Finance charges	(295)	–	(295)	(315)	–	(315)
Profit before taxation	2,067	(98)	1,969	2,118	(1,486)	632
Taxation	(517)	30	(487)	(543)	52	(491)
Profit after taxation	1,550	(68)	1,482	1,575	(1,434)	141
Minority interests	(90)	–	(90)	(91)	–	(91)
Profit for the year	1,460	(68)	1,392	1,484	(1,434)	50

Note: Exceptional items under UK GAAP represent items which, in management's judgement, are material items that arise from events or transactions that fall within the ordinary activities of the group but, by virtue of their size or incidence, should be separately disclosed if the consolidated financial statements are to properly reflect the results for the period. Exceptional items under UK GAAP do not represent extraordinary items under US GAAP.

Turnover On a reported basis, turnover decreased by £390 million (4%) from £9,281 million (of which Burger King contributed £479 million) in the year ended 30 June 2003 to £8,891 million in the year ended 30 June 2004. For premium drinks, turnover increased by £89 million (1%). Turnover was adversely impacted by exchange rate movements of £271 million, principally arising from weakening of the US dollar. The effect of disposals and the termination of certain distribution rights, principally Bass Ale in North America and the Brown-Forman agency brands in Great Britain, reduced premium drinks turnover by £105 million.

Operating costs On a reported basis, operating costs decreased by £474 million (6%) from £7,494 million (of which Burger King costs were £426 million) in the year ended 30 June 2003 to £7,020 million in the year ended 30 June 2004. Exceptional operating costs declined from £168 million to £40 million in the year ended 30 June 2004, and exchange benefited premium drinks operating costs in the year ended 30 June 2004, before exceptional items, by £166 million. Before the impact of exchange, operating costs before exceptional items for premium drinks increased by £246 million of which excise duties accounted for £73 million and increased marketing expenditure accounted for £41 million. On a reported basis, marketing investment for premium drinks increased 1% from £1,026 million to £1,039 million. Marketing investment on global priority brands (excluding ready to drink) grew 10% to £569 million, while marketing spend on ready to drink brands declined by £28 million (14%) to £166 million.

Operating profit Reported operating profit increased by £84 million from £1,787 million (of which Burger King contributed £53 million) to £1,871 million. Exceptional items charged to operating profit were £40 million in the year ended 30 June 2004 compared with £168 million in the year ended 30 June 2003. Exchange rate movements reduced operating profit before exceptional items for the year ended 30 June 2004 by £105 million (US dollar reduction of £107 million, euro benefit of £29 million, other currencies reduction of £27 million). Disposals and the termination of certain distribution rights contributed an incremental £13 million to operating profit before exceptional items in the year ended 30 June 2003 compared to the year ended 30 June 2004.

Exceptional operating costs Operating profit for the year is after £40 million of exceptional costs in respect of the integration of the Seagram spirits and wine businesses, acquired in December 2001 (2003 — £177 million; 2002 — £164 million). Approximately £8 million of these costs were employee related, £8 million in respect of putting in place new distribution and broker agreements as part of the Next Generation Growth programme, £4 million in respect of write-downs of assets, and the balance of £20 million included legal and professional and systems costs. The majority of these costs were incurred in North America.

Post employment plans Post employment charges calculated under FRS 17 resulted in a charge to operating profit of £101 million (2003 — £110 million) and other finance charges of £18 million (2003 — income of £36 million). The figures for the year ended 30 June 2003 have been restated onto an FRS 17 basis.

At 30 June 2004, the deficit before taxation for Diageo's post employment plans amounted to £1,044 million (30 June 2003 — £1,447 million). This reduction has largely arisen from actuarial gains recognisable in the statement of recognised gains and losses of £586 million, principally due to the actual return on the assets in the funds being higher than the expected return and changes in assumptions underlying the present value of the plan liabilities. In addition, at 30 June 2004, a deferred tax asset has been recognised on the post employment deficit in the United Kingdom of £245 million. The post employment deficit after taxation has therefore decreased from £1,369 million to £750 million.

Associates The group's share of profits of associates before exceptional items was £451 million for the year compared to £478 million last year. The 21% equity interest in General Mills contributed £258 million in the year ended 30 June 2004 compared with £287 million last year. The weakness of the US dollar accounted for £25 million of this decrease. On 23 June 2004, Paul Walsh, CEO of Diageo plc, and John M. Keenan, a Diageo plc designated representative, resigned from the General Mills board. As a result, Diageo ceased to equity account for its share of the results of General Mills from that date. Diageo's 34% equity interest in Moët Hennessy contributed £176 million to share of profits of associates before exceptional items (2003 — £177 million).

Share of associates' exceptional items comprises a £7 million charge for Diageo's share of General Mills' exceptional costs and £6 million in respect of restructuring within Moët Hennessy.

Finance charges Finance charges decreased from £315 million to £295 million in the year ended 30 June 2004.

The net interest charge decreased by £74 million (21%) from £345 million in the comparable prior period to £271 million in the year ended 30 June 2004, including £59 million for General Mills (2003 — £73 million). Benefits of £26 million from the effect of reducing interest rates, £12 million from the disposal of businesses, £16 million from the effect of exchange rates (excluding associates), and £13 million from cash flow were partly offset by an increased interest charge arising from the funding of the share repurchases of £15 million.

Other finance charges have increased by £54 million, as a result of a charge of £18 million in respect of the group's post employment plans in the year ended 30 June 2004 compared with income of £36 million in the year ended 30 June 2003. This adverse movement principally reflects the decline in the values of the assets held by the post employment plans between 30 June 2002 and 30 June 2003.

Non-operating exceptional items Non-operating exceptional items before taxation were a charge of £45 million in the year ended 30 June 2004 compared with a charge of £1,297 million (including £1,441 million in respect of Burger King) in the year ended 30 June 2003. These charges comprise £41 million (2003 — £41 million) in respect of the dilution of the investment in General Mills, following the issue of additional shares by General Mills, and a £10 million cost in respect of disposed businesses, offset by a £6 million gain arising on the disposal of fixed assets. The £10 million cost in respect of disposed businesses represents a £13 million loss on the sale of premium drinks brands, and a £26 million charge on the reassessment of the provisions required following the disposal of Burger King, offset by a credit of £29 million arising on the review of the provision held against the guarantee given by Diageo in connection with the sale of Pillsbury.

Profit before taxation After exceptional items, the profit before taxation and minority interests increased by £1,337 million from £632 million to £1,969 million in the year ended 30 June 2004.

Exchange rates Based on current exchange rates, the impact of adverse exchange rate movements on profit before exceptional items and taxation for the financial year ending 30 June 2005 is estimated to be £100 million (excluding transaction exchange on share of profits of associates).

The group currently has net transaction hedges for US dollars in place which settle in the year ending 30 June 2005 to sell £541 million of US dollars. Where these hedges are against sterling they are at an average rate of £1 = $1.63. The group currently has net transaction hedges for euros in place which settle in the year ending 30 June 2005 to sell £59 million of euros. Where these hedges are against sterling they are at an average rate of £1 = €1.41.

Taxation The effective rate of taxation on profit before exceptional items for the year was 25%, compared with 25.6% for the year ended 30 June 2003, restated from the originally reported 25% following compliance with the new accounting pronouncements for post employment plans and share trusts.