(2) The exchange adjustments for turnover, net sales and operating profit before goodwill amortisation and exceptional items are principally in respect of the US dollar.

(3) Disposal adjustments for turnover, net sales and operating profit before goodwill amortisation and exceptional items were in relation to the termination of the distribution rights for Stolichnaya vodka in the United States (£94 million, £81 million and £32 million, respectively); the sale of Croft and Delaforce port and sherry brands (£18 million, £14 million and £7 million, respectively); the disposal of Malibu rum (£12 million, £11 million and £6 million, respectively); the sale of Glen Ellen wines (£15 million, £14 million and £2 million, respectively); the disposal of Guinness World Records (£22 million, £22 million and £4 million, respectively); the sale of Dreher brands in Brazil (£24 million, £16 million and £6 million, respectively); and other disposals (£11 million, £10 million and £1 million, respectively).

(4) Acquisition adjustments for turnover, net sales and operating profit before goodwill amortisation and exceptional items were in relation to the purchase of the Seagram spirits and wine businesses (£573 million, £451 million and £130 million, respectively); the acquisition of further equity interests in former associated companies (£120 million, £72 million and £18 million, respectively); and the purchase of quick service restaurants in the Netherlands (£12 million, £12 million and £1 million, respectively).

(5) Organic growth percentages are calculated as the organic growth amount in £ million, expressed as a percentage of the 2001 restated figures.

Diageo group

The results of the group for the two years ended 30 June 2002 are summarised below.

	Year ended 30 June	
	2002	**2001**
	£ million	**£ million**
Operating profit before goodwill amortisation and exceptional items	2,118	2,127
Goodwill amortisation	(12)	(26)
Operating exceptional items	(453)	(228)
Operating profit	1,653	1,873
Share of profits of associates	324	203
Other exceptional items	758	(4)
Interest payable (net)	(399)	(350)
Profit before taxation	2,336	1,722
Taxation	(632)	(435)
Minority interests	(87)	(80)
Profit for the year	1,617	1,207

The group uses a weighted average exchange rate to translate the results of its US subsidiaries in its consolidated financial statements. For the year ended 30 June 2002, this rate was £1 = $1.44 (2001 — £1 = $1.45).

On a reported basis, turnover decreased by £1,539 million (12%) from £12,821 million in the year ended 30 June 2001 to £11,282 million in the year ended 30 June 2002, following the disposal of Pillsbury in October 2001. For continuing operations, turnover increased by £1,205 million (14%) from £8,622 million in the year ended 30 June 2001 to £9,827 million in the year ended 30 June 2002. On an organic basis, turnover grew 8%. The Seagram acquisition contributed £573 million to turnover during the year.

Reported operating profit, before goodwill amortisation and exceptional items, decreased £9 million from £2,127 million to £2,118 million. Reported operating profit, before goodwill amortisation and exceptional items, for continuing operations increased by £319 million (20%) from £1,609 million to £1,928 million. Excluding the favourable effects of currency, operating profit before goodwill amortisation and exceptional items for continuing operations increased 14% and on an organic basis increased 9%. The results of Pillsbury, the packaged food business, are included for the four months to its disposal on 31 October 2001. The Seagram spirits and wine businesses, which were acquired on 21 December 2001, contributed £130 million to operating profit before goodwill amortisation and exceptional items.

Operating profit before goodwill amortisation and exceptional items, expressed as a percentage of turnover, was 18.8% in the year ended 30 June 2002 (2001 — 16.6%).

On a reported basis, marketing expenditure for continuing operations increased 16% from £1,031 million to £1,193 million. Organically, marketing expenditure increased by 10%.

Reported profit before goodwill amortisation, exceptional items, taxation and minority interests increased by £63 million (3%) from £1,980 million in the year ended 30 June 2001 to £2,043 million in the year ended 30 June 2002. In local currency terms this was a decrease of 1%. The net interest charge increased by £49 million (14%) from £350 million to £399 million in the year ended 30 June 2002.

Exceptional items before taxation were a gain of £305 million in the year ended 30 June 2002. After exceptional items, profit before taxation and minority interests increased by £614 million from £1,722 million to £2,336 million in the year ended 30 June 2002, and profit for the year increased by £410 million from £1,207 million to £1,617 million.

Premium drinks

Strong organic top line growth was achieved with turnover up 8%.

Reported turnover increased by £1,124 million (15%) from £7,580 million in the year ended 30 June 2001 to £8,704 million in the year ended 30 June 2002. Reported operating profit before exceptional items increased by £336 million (23%) from £1,432 million to £1,768 million. On an organic basis, turnover increased 8% and operating profit increased 13%.

Reported volume increased by 8% as a result of organic volume growth of 8% in global priority brands, 2% in local priority brands, a decline of 4% in category management brands (all brands other than global priority brands and local priority brands) and the addition of the Seagram brands, which had volume of 7.5 million equivalent cases. Volume growth of the global priority brands excluding RTD was 4%, in line with first half growth. Net sales of the global priority brands excluding RTD increased by 6% year on year against 5% growth in the first half.

Reported net sales increased by 15% to £6,585 million, driven by the 8% increase in volume and a combination of price increases, mix improvement and the continued growth of the RTD portfolio where net sales increased from £470 million to £814 million.

Reported marketing investment increased by 16% to £1,153 million. Marketing spend on the global priority brands grew by 10% to £774 million, particularly behind Smirnoff Ice in North America, the “Keep Walking” campaign for Johnnie Walker, and continued investment behind the successful “Let Your Senses Guide You” campaign for Baileys. Marketing investment as a percentage of net sales increased by 0.1 percentage points.

The acquisition of the Seagram brands, which include Captain Morgan, Crown Royal, Seagram’s 7, Seagram’s VO, Cacique, Windsor Premier, Myers’s Rum and Sterling Vineyards, completed on 21 December 2001. The results for the year ended 30 June 2002 include the trading performance of that business for the six months ended 30 June 2002. During the period, volume of these businesses was 7.5 million equivalent cases, net sales were £451 million and operating profit was £130 million. Sales of Captain Morgan Gold have not met original expectations and therefore the total Seagram operating profit of £130 million earned in the period is after a provision of £24 million to follow up for the potential diminution in the value of product stock. Captain Morgan Gold was launched in May 2002 and in the period volume was 245,000 equivalent cases, net sales were £27 million and marketing costs were £16 million. See ‘Trend Information’ below for an update.

Volume and net sales growth by brand classification

	Equivalent cases	Volume growth	Net sales growth
	millions	%	%
Johnnie Walker	10.6	1	4
Guinness	11.1	—	5
Smirnoff	21.8	21	42
J&B	6.3	2	3
Baileys	5.7	10	9
Cuervo	4.2	(2)	2
Tanqueray	1.9	—	1
Malibu*	2.2	7	6
Total global priority brands	63.8	8	13
Local priority brands	13.8	2	10
Category management brands	26.6	(4)	(1)
	104.2	4	9
Acquisitions			
Seagram brands	7.5		
Other	2.0		
Total	113.7		

* Sold 22 May 2002

	Global priority brands	Local priority brands	Category management brands	Total
	%	%	%	%
Volume growth by market				
Major markets				
North America	14	—	(5)	7
Great Britain	9	14	12	11
Ireland	(1)	—	7	—
Spain	6	6	(6)	4
Total major markets	10	5	(3)	7
Key markets	4	(1)	(5)	—
Venture markets	5	(16)	(5)	—
Total	8	2	(4)	4
Net sales growth by market				
Major markets				
North America	22	(3)	(7)	13
Great Britain	9	28	18	14
Ireland	—	5	(10)	(1)
Spain	9	10	1	8
Total major markets	15	9	(3)	10
Key markets	10	10	1	7
Venture markets	10	16	—	7
Total	13	10	(1)	9

Review by market

North America

Volume up 7%

Turnover up 12%
Net sales up 13%
Marketing up 15%
Operating profit up 17%

Key drivers:

- Volume of global priority brands up 14%

- Growth of new products and improvements in product mix

The North American market continued its strong momentum. Reported turnover was up 28% from £2,092 million to £2,669 million in the year ended 30 June 2002. On an organic basis, this represented growth of 12%. Volume was up 7% and net sales grew 13%. During the year, organic operating profit growth was 17% and the Seagram spirits and wine businesses contributed £95 million to the total reported operating profit of £550 million.

Global priority brands posted strong growth, with volume up 14% over last year. The growth principally comprised strong performances by Smirnoff, Baileys and Johnnie Walker Black Label. Volume of J&B, Tanqueray, Johnnie Walker Red Label and Guinness declined.

Marketing spend increased over the prior year, by 15%, driven by investment in Smirnoff Ice as well as increases in Johnnie Walker Black Label, Malibu and Tanqueray.

Smirnoff continued to lead the global priority brand growth with strong performance in the core brand, where volume was up 9%, and strong growth in Smirnoff Flavours and Smirnoff Ice. Total net sales growth was therefore 68%. Smirnoff Ice has continued to show strong growth since its launch in January 2001 and volume grew from 1.1 million equivalent cases last year to 2.8 million equivalent cases.

Guinness net sales grew 9% despite a 1% volume decline, due to price increases and a favourable product mix. In its first nine months in the market, Guinness Draught in Bottles represented more than 10% of total Guinness volume in the North American market.

Johnnie Walker total volume grew 1%, whilst net sales grew 6% during the year due to a favourable mix between Johnnie Walker Black Label, which grew net sales 11%, and Johnnie Walker Red Label, where net sales declined 1%.

Baileys volume grew by 7% during the year, however net sales growth was impacted by the introduction of trial packaging formats and grew 4%.

Volume of J&B declined 10% in the year and net sales were down 7% as a result of price increases. Contribution after marketing improved, mainly as a result of reduction in marketing spend.

Tanqueray volume declined by 2% while net sales declined only 1% as a result of a change in product mix to more profitable product sizes and growing on-premise sales.

Cuervo volume was level for the year with net sales up 3% following last year’s price increases to cover the rising agave prices. Towards the end of the year, volume performance improved, following selective price reductions.

Volume of Captain Morgan, a former Seagram brand, was level in the six months ended 30 June 2002 versus the six months ended 30 June 2001, as a result of substantial de-stocking of the brand. On a depletions basis, against the six months ended 30 June 2001, volume was up 9%. Captain Morgan gained 0.4 market share percentage points in the growing US rum category. The brand is responding well to renewed distributor focus and increased marketing exposure from the Captain Morgan Gold launch.

Volume of Crown Royal, another former Seagram brand, declined 2% in the six months ended 30 June 2002, again as a result of de-stocking and depletions were up 1%.

Some of the local priority brands showed weak performance with volume declines in Gordon’s gin and Goldschlager. Overall, volume was level and net sales declined 3% during the year. Category management brands such as Popov and Gordon’s vodka also declined during the year, with volume down 5% and net sales down 7%.

Innovation continued to impact the North American performance positively. During the year, Smirnoff Ice volume showed strong growth, with the brand achieving a market share of approximately 1% of the US beer market and maintaining its number one position in the RTD market. Smirnoff Ice now represents nearly one third of the sector after just 18 months in the market. New product formats such as the 24-ounce format performed very well, as did the 16-ounce PET format that can be sold in sites where glass bottles are forbidden, such as sports arenas. The Smirnoff Ice six-pack is now number one in terms of dollar sales in the premium beer category of the grocery channel. Launched in September 2001, Guinness Draught in Bottles has exceeded initial targets for the brand with volume of over 100,000 equivalent cases. Smirnoff Twist volume more than doubled to over 700,000 equivalent cases.

The former Seagram wines business was transitioned into a new business, Diageo Chateau & Estates Wines, combining the Seagram and existing Diageo wine businesses in North America.

Diageo’s North American business has achieved substantial progress on its strategic agenda over the year. Most notably, the Next Generation Growth (NGG) strategy was launched in the year. See ‘Item 4. Information on the Company — Business Overview — Marketing and distribution — North America’ for further information.

Great Britain

Volume up 11%

Turnover up 14%
Net sales up 14%
Marketing up 12%
Operating profit up 30%

Key drivers:

- Growth of global priority brands with volume up 9%

- 14% volume growth of the local priority brands

- Favourable product mix

Great Britain showed a very strong performance in the year ended 30 June 2002. Organic turnover growth was 14%. On a reported basis, turnover was up 13% from £1,304 million to £1,467 million in the year ended 30 June 2002. Operating profit was up 30% to £204 million. Key growth drivers were an increase in marketing spend, up 12% during the year and successful innovation. Three global priority brands, Smirnoff Red, Baileys and Johnnie Walker, continued to improve on the prior year’s strong performance.

Smirnoff Red is the number one spirit in the GB market and volume was up 15% with net sales up 15%. Market share in the vodka category increased to 34%.

Baileys showed net sales growth of 18%, increasing its leading share of the creams category and suggesting that the brand is beginning to benefit from marketing aimed at reducing the seasonality of the product.

Johnnie Walker, which now sells over 50,000 equivalent cases in Great Britain, had net sales growth of 16% during the year following an increase in marketing spend.

Other brands also performed well. While Guinness volume was level due to weakness in the overall beer category, market share increased in the on-trade beer sector. Bell’s volume grew 4% and Gordon’s grew 7%. Pimm’s, another local priority brand, showed strong growth, with volume up 18%, as innovation such as Pimm’s Draught broadened the reach of the brand. In addition, the Diageo wine portfolio had an excellent year, with Blossom Hill volume growing 45%.

Innovation was an important element of the overall growth. There were new Smirnoff Ice offerings, including new pack formats such as multi-packs and a larger 70cl bottle. Gordon’s Edge and Archers Aqua Raspberry were also launched in the year. Great Britain has shown great success in the RTD category. Smirnoff Ice volume was up 19% year on year, significantly outpacing the growing RTD category and market share grew to 28%. Archers Aqua volume grew 179,000 equivalent cases, up from 41,000 last year. In April 2002, the duty rate for RTDs was increased and was passed through into an increase in retail prices. Subsequent market data suggests a negative impact on rate of sale in the on-trade across the category as a consequence. Diageo has already responded to this new challenge with the launch in August of Smirnoff Black Ice, a new vodka-based RTD designed to appeal to male consumers, and increased marketing support behind Archers Aqua and Smirnoff Ice.

Ireland

Volume level

Turnover down 1%
Net sales down 1%
Marketing up 3%
Operating profit up 3%

Key drivers:

- Guinness volume down 3% however performance improved in the second half

- Market share increases for priority brands

In Ireland, Diageo’s overall share of the beverage alcohol market has been maintained, with market share increases for most priority brands in their respective categories. Turnover was down 1% on both an organic and reported basis, from £942 million in the year ended 30 June 2001 to £937 million this year. However, as a result of margin improvements, operating profit was up 3% to £152 million.

The declining beer market and a continuing trend away from stout impacted Guinness sales, which account for 37% of Diageo’s volume in the market. Although Guinness volume decreased during the year, increased advertising and marketing slowed the decline, from 4% in the first half of the year to 2% in the second half. For the year, the brand had a 3% volume decline and net sales were level.

Volume of Smirnoff increased by 3% overall and gained share. Smirnoff Red delivered strong performance with volume up 6% while volume of Smirnoff Ice declined by 14% against a decline in the first half of 17%. Smirnoff Ice achieved virtually full distribution at launch and after the high initial level of consumer trial, sales have settled to more normal levels. The rate of consumption in the on-trade was also impacted by aggressive trade price increases behind the brand’s number one market share and brand strength. Smirnoff Ice has a market share of over 40% and from this base a trial of Smirnoff Ice on Draught began in over 400 outlets which has been met with a very positive response.

Baileys strong growth continued with volume up 7% with success in both the on and off-trade.

Budweiser and Carlsberg, which are agency brands, and which are, respectively, the number one and number three lagers in Ireland, each grew volume by 2% and made further market share gains in the sector.

Spain

Volume up 4%

Turnover up 7%
Net sales up 8%
Marketing up 7%
Operating profit up 5%

Key drivers:

- Volume and profit growth of priority brands

- Marketing spend on J&B up over 25%

Spain reported turnover of £380 million in the year ended 30 June 2002, up 13% against the £335 million reported in the prior year. On an organic basis, this was growth of 7%. Volume was up 4% and net sales up 8% as a result of improved brand performance, substantial price increases and increased marketing spend. Operating profit was up 5% to £94 million despite higher marketing on J&B, the costs associated with preparation for the launch in June 2002 of J&B Twist and a year on year change in the basis of recharge of J&B production costs to Spain.

Global priority brands showed strong performance with net sales growth of 9% and with many of the brands achieving market share gains. Performance in the six months ended 30 June 2002 was somewhat softer than that achieved in the first half as a result of the retailer buy-in during December in anticipation of an 8% duty increase in January.

J&B, which represents nearly half of Diageo’s volume in Spain, has been the only exception to the aggressive pricing policy pursued in Spain. The brand continues to build on its number one market position. Marketing spend increased 27%. As a result, volume grew by 5%, net sales grew by 6% and market share increased slightly to 26%.

Johnnie Walker Black Label continued its positive trend with a 32% volume increase and a similar net sales increase. However, Johnnie Walker Red Label declined by 8% in volume and by 3% in net sales during the year after a price increase.

Following a 10% price increase, Smirnoff Red volume was down 3% although net sales increased by 6%.

Baileys volume grew 11% and net sales grew by 13%, supported by the “Let Your Senses Guide You” campaign and off-premise marketing.

Guinness, though still a relatively small proportion of Diageo’s business in Spain, showed a 33% increase in volume over the year. Similarly, Cuervo, another relatively small brand in Spain, had very strong growth, with volume up 37% and net sales up 44%.

Cardhu, a local priority brand, increased volume 6% and net sales 10%. In addition, volume of Cacique, a former Seagram brand, which will be a local priority brand, increased 13% in the six months ended 30 June 2002 in the growing rum category. Cacique is the leader in this category by a clear margin and is making further share gains. Pampero showed continued strong growth, with volume up 22% and net sales up 34%.

Diageo launched its first RTD products across Spain in the year. J&B Twist was test marketed during the year and launched in June 2002. Smirnoff Ice, targeted to tourist locations, delivered a very strong performance in the year contributing to a 14% increase in net sales of the Smirnoff brand overall.

Key markets

Volume level

Turnover up 6%
Net sales up 7%
Marketing up 4%
Operating profit up 10%

Key drivers:

- Global priority brand volume up 4%
- Strong volume and profit growth in Africa, Australia and Taiwan
- Volume weakness in Latin America

Reported turnover in the year ended 30 June 2002 was £2,078 million, up 15% on the prior year figure of £1,807 million. Organically, this was growth of 6%. Overall growth in key markets, with operating profit up 10% to £524 million, was the result of very strong performance by several markets, most notably Africa, Australia, Greece and Taiwan. The performance of individual markets varied in the face of a challenging global economy and turbulent political situations particularly in Latin America. During the year, Seagram brands purchased by Diageo contributed £107 million to turnover and £23 million to operating profit.

Volume was level whilst net sales grew 7% over last year. This is a result of price and mix improvement. Marketing investment increased by 4%.

Global priority brands accounted for more than half of key market volume and showed volume growth of 4% and net sales growth of 10% during the year. All of the global priority brands, with the exception of Cuervo, grew net sales with Guinness, Smirnoff, Baileys and Johnnie Walker Black Label performing particularly well as a result of both volume growth and price increases. RTDs, including, but not limited to, Smirnoff Ice, also showed strong performance.

Africa, representing nearly 40% of the key market volume, grew 7% in volume and 19% in net sales over last year. Guinness, which accounts for approximately a quarter of African volume, continued to perform well with volume up 6% and net sales up 23% due to price increases implemented to counter capacity constraints. Smirnoff, which accounts for 14% of the volume, grew 6% in volume terms and 25% in net sales. RTDs showed strong growth, with volume up 71%. Cameroon and Nigeria were impacted by capacity constraints and production was directed away from category management brands, towards the supply of higher margin Guinness. These capacity constraints have been addressed with the commissioning of two new production lines.

In Australia, volume grew 7% as a result of robust priority brand performance. Volume of priority brands increased with Johnnie Walker volume up 11% and Baileys volume up 20%. Baileys market share grew by 4 percentage points as a result of successful marketing programmes such as consumer sampling and Baileys ‘Perfect Pour’. Bundaberg Rum, a local priority brand, increased its volume by more than 10% and net sales by more than 25%. Smirnoff Red volume was up 29% in the year. Innovation, particularly around RTDs, is still a major factor in Australia’s growth. Diageo’s RTD products grew volume 40%. Volume of Johnnie Walker Red Label & Cola and Bundaberg & Cola was up significantly. Volume of Smirnoff Baltik, however, was down 37% in the year as a result of reduction in marketing spend. Volume of Stoli Ruski was up 12%, with the launch of a new flavour range. New products such as Archers Aqua and UDL Fusion were launched towards the end of the year.

Despite volatile economic and political conditions in Latin America, including economic crises in Brazil and Venezuela, operating profit increased year on year primarily as a result of growth in the first half. While overall volume declined across the region, Buchanan’s volume grew 31% during the year, driven by a focus on effective marketing spend and a new advertising campaign. In Venezuela, Johnnie Walker volume was up 17% and Buchanan’s was up 58% despite the challenging conditions. However, Johnnie Walker volume was down 12% across the region. One of the major factors in the volume decline was the performance of VAT 69 in Venezuela, with volume down 37%. During the year the price of VAT 69 was increased. In certain Latin American markets, Diageo mitigated risk by reducing stock levels and tightening credit terms. These actions, which substantially reduced exposure to debt risk and the possibility of stock write-offs, did impact volume performance. Additionally, Diageo reduced promotional spending in certain Latin American countries while maintaining media spend.

Korea is now Diageo’s most profitable Asian market. Windsor Premier, previously owned by Seagram, continued to grow strongly with volume up 13% in the six months ended June 2002. However, Dimple, a local priority brand that is currently distributed by a third party, declined by 22%. From January 2003, Dimple will be distributed through Diageo’s own in-market company.

In Taiwan, the continued success of the “Keep Walking” campaign, together with the innovations in route to market, resulted in 40% volume growth in Johnnie Walker. Overall volume growth in the market was 33% and contribution after marketing was also up 33%.

In Thailand, continued weakness in the economy led to volume decline of 8% although net sales were up 2%. Johnnie Walker, which represents nearly half of Diageo’s volume in Thailand, and other global priority brands, continued to perform well, whilst Spey Royal, a local priority brand, suffered, with volume down 24%. Following test marketing during the year, Johnnie Walker One, a new RTD, was launched and supported by an advertising campaign that was implemented in July 2002.

In Greece, volume grew 8%. Johnnie Walker volume increased with both Johnnie Walker Red Label and Johnnie Walker Black Label showing strong off-trade performance. Smirnoff delivered 15% volume growth due to increased marketing effectiveness, with marketing spend up 7%, and overall category growth. Baileys also showed a marked increase, driven by on-trade sales. Smirnoff Ice volume nearly trebled, moving to the number two position in the Greek RTD market, behind Diageo’s Gordon’s Space, to bring Diageo’s total share of the RTD market to 64%.

The Global Duty Free market, which accounts for 8% of key market volume, was heavily impacted by the decrease in international travel following the September 11 attacks. Against this background, however, volume was down only 5% for the year which represents a strong relative performance, and contribution after marketing was in line with last year as a result of price and mix improvements.

Venture markets

Volume level

Turnover up 7%
Net sales up 7%
Marketing up 9%
Operating profit up 12%

Key drivers:

- Volume of global priority brands up 5%

- Strong growth in the Caribbean markets

- Latin American markets negatively impacted by poor economic conditions

In Diageo’s venture markets, turnover growth was 7% on both a reported and organic basis. Reported turnover was £1,173 million in the year ended 30 June 2002, and £1,100 million in the previous year. Operating profit was up 12% to £244 million, led by top line growth in Asia, the Caribbean, the Middle East and across much of Europe. A reduction in travel retail business and tough economic conditions in Latin America and Germany partially offset this growth.

Volume was level during the year, though net sales increased by 7% as a result of higher value growth in global priority brands, price increases in Germany and other European markets, as well as price re-alignment across the Caribbean markets.

Across the venture markets, Diageo’s global priority brands, which account for more than half of the volume, performed well, with volume growth of 5% and net sales growth of 10%. Johnnie Walker Black Label volume increased 5% with strong performances in Asia and the Caribbean as a result of sharper focus on marketing and improved route to market. Baileys also continued its growth, with volume up 7% and net sales up 9% across the venture markets despite a decline in Germany. During the year, local priority brands showed a decline of 16% in volume but an increase of 16% in net sales. There were only two local priority brands in the venture markets, Red Stripe in Jamaica and Gilbey’s whiskey in India. While Red Stripe volume was up 6% and net sales up 8%, Gilbey’s volume was down 28%. Category management brands showed a decline in volume of 5%, largely driven by declines in Gilbey’s Gin in the Philippines and secondary whisky brands in Latin America. However, as a result of strong performance by Pampero in Italy, Buchanan’s Deluxe in the Caribbean and Tiger in Malaysia, net sales was level for category management brands.

Marketing expenditure increased by 9% over last year, driven by heavy investment behind Smirnoff Ice in Switzerland, the Netherlands and Germany. Increases also occurred in Italy for Baileys and in the Caribbean market for Johnnie Walker Black Label.

In Latin America, especially in Argentina in the face of the economic crisis there, prices were increased on early signs of currency devaluation, and overall volume declined over 25%.

In Germany, volume of Johnnie Walker Red Label, Baileys and Cuervo were all adversely impacted by price increases, resulting in an overall volume decline of 5% in that market. Smirnoff Ice was launched in the second half of the year and has performed well.

In India, the global priority brands performed very well, with volume up 21%. Diageo is in the process of selling Gilbey's Green Label and White Label whiskies, a local priority brand.

The Philippines market showed weakness, with overall volume down approximately 20%, led by the 22% volume decline in Gilbey's gin.

Quick service restaurants

System sales up 1%

Total restaurants up 83 compared with 30 June 2001 to 11,455
Worldwide comparable restaurant sales flat
North America comparable restaurant sales up 0.1%
Operating profit down 18% to £160 million
Reported operating margin down 2.8 percentage points to 14.2%

System sales were up 1% against a decline last year. Turnover was up 7% driven primarily by revenue generated by the increase in the number of Burger King owned restaurants.

The improvement in operational performance in Burger King, which began in the six months ended 31 December 2001, continued in the second half. In the second half, operating profit was down 5% compared with the six months ended 30 June 2001. Worldwide comparable restaurant sales were flat for the year against a 4% decline in the prior year. Net restaurant numbers have increased by 83 against an increase of 211 in the prior year.

In North America, system sales grew 0.6% partly as a result of a 0.1% growth in comparable restaurant sales. In the six months ended 30 June 2002 operating profit margins improved. The new management team continued to impose high standards for site quality. There was a net reduction of 135 in restaurant numbers compared with 30 June 2001.

Performance outside North America also improved in the second half. Full year comparable restaurant sales were level in Europe, down 4% in Asia Pacific and were level in Latin America. Operating profit improved in the second half and, in the full year, operating profit from the international operations was up.

On 25 July 2002, Diageo entered into an agreement to dispose of quick service restaurants.

Packaged food

The disposal of Diageo's worldwide packaged food business to General Mills was completed on 31 October 2001. Diageo now has a 22% equity interest in General Mills, which has been accounted for as an associated company. In the four months ended 31 October 2001, the Pillsbury company contributed turnover of £1,455 million and operating profit before goodwill amortisation and exceptional items of £190 million, compared with £4,199 million and £518 million respectively, in the year ended 30 June 2001.

Associates

The group's share of profits of associates before interest and exceptional items was £324 million for the year ended 30 June 2002 compared with £203 million for the year ended 30 June 2001. The group's 22% equity interest in General Mills is estimated to have contributed £143 million to operating profit before exceptional items in the eight months ended 30 June 2002.

Exchange

Exchange rate movements for the year ended 30 June 2002, including the effect of the currency option cylinders, favourably impacted profit before goodwill, exceptional items and tax by £84 million. The beneficial impact of exchange rate movements on the translation of overseas group trading profit was £92 million, £90 million at operating profit level and £2 million on the share of profits from associates. This added to a favourable impact on transactions in the year of £27 million, giving a net favourable impact on trading profit of £119 million. The favourable impact on premium drinks' operating profit before goodwill amortisation and exceptional items was